

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

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

February 6, 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 Item 1A 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.

I am pleased to present our results for our first quarter of fiscal 2008, which ended December 28, 2007. During the quarter, we saw further improvement in both our revenues and our profitability, as we continued to realize gains from the initiatives we've undertaken over the past two years. As we have discussed in previous conference calls, we believe that our infrastructure is now at a size where we can handle a significant additional volume of business without proportionate increases in our expenses and, accordingly, we are focusing substantial attention on initiatives to increase revenues and take advantage of the leverage of our fixed cost infrastructure.

I will begin today's presentation by covering our performance in our first quarter of fiscal 2008, after which I will describe some of our revenue growth initiatives and provide some forward-looking information about our second quarter of fiscal 2008. After my presentation, we will open the floor for questions and discussion. Bob Waldron, our Chief Financial Officer, has joined me for this conference call, and will participate in the Q&A session.

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>.

Here are some highlights of our first quarter operating results:

- Revenues increased to \$50.9 million from \$42.7 million, an improvement of 19% from the results for the first quarter of our fiscal year 2007;
- Gross Profit increased to 60.0% of revenues from 57.0% for the same quarter of our prior fiscal year;
- Operating Expenses were 43.3% of revenues compared to 42.7% for the same quarter of our prior fiscal year;
- As a result of these factors, Income from Operations reached \$8.5 million, or 16.7% of revenues—a 39% increase over the same quarter of our prior fiscal year;
- Net income increased to \$5.9 million, an improvement of \$1.6 million, or 37% from the first quarter of fiscal 2007;
- Earnings per share on a diluted basis were \$0.35 compared to \$0.26 in the first quarter of fiscal 2007; and
- Net working capital increased by \$5.3 million compared to our net working capital balance on September 28, 2007.

First Quarter Participants

During our first quarter of fiscal 2008, we trained a total of 26,551 course participants, a 13% increase from the 23,538 participants we trained in the same quarter last year. In our management courses, we provided 30,742 attendee-days of training during our first quarter of fiscal 2008, an 11% increase compared to 27,725 attendee-days in the same quarter of the prior year. In our IT courses, we provided 66,813 attendee-days of training during the quarter, an 8% increase from 61,732 attendee-days in our first quarter of fiscal 2007. Overall, we provided a total of 97,555 attendee-days of training, a 9% increase from 89,457 attendee-days in our first quarter of fiscal 2007.

In our first quarter of fiscal 2008, average revenue per participant was 5% higher than in the same quarter of the prior fiscal year, due to a 6.4% positive effect of changes in foreign exchange rates and approximately 1% due to the effect of price increases, partly offset by an increase in the proportion of participants at courses held at customer sites. Typically, courses held at customer sites have a lower revenue per participant than courses held in our own education centers.

First Quarter Results from Operations

I will now discuss our results from operations in our first quarter of fiscal 2008 and how they compare with the same quarter of our prior fiscal year.

Cost of Revenues. Cost of revenues decreased to 40.0% of revenues in our first quarter of fiscal 2008 compared to 43.0% in our first quarter of fiscal 2007, and our gross profit percentage accordingly increased to 60.0%, compared to 57.0% 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 2008 reflects a 14% increase in average revenue per event, partly offset by a 6% increase in average cost per event. The increase in average revenue per event is the combined result of an 8% increase in average participants per event and the increase in average revenue per participant I discussed a moment ago. The increase in average cost per event for our first quarter of fiscal 2008 compared with the same period of the prior year was due principally to the effect of changes in foreign exchange rates, slightly offset by various cost reduction initiatives.

During our first quarter of fiscal 2008, we presented 1,969 events, compared to the 1,886 events we conducted during the same period in fiscal 2007.

Course Development Expense. Course development expense was 4.0% of revenues in our first quarter of fiscal 2008 compared to 4.3% during the same quarter of our prior year. The reduced percentage is attributable to our increased revenues, as we have been increasing our expenditures on course development this year. During our first quarter of fiscal 2008, we spent \$2.1 million on course development, an 11% increase over the \$1.9 million we spent in the same quarter last year. Our higher course development spending this year reflects the beginning phases of one of our growth initiatives—to develop significantly more new titles over the course of this year than in any prior year. I will provide more information about this initiative later in this presentation.

In our first quarter of fiscal 2008, we introduced four new IT course titles while also retiring four IT course titles. We also retired two management course titles during the quarter. As a result, our library of instructor-led courses numbered 160 titles at the end of our first quarter of fiscal 2008 compared with 153 titles at the same point a year earlier, including 45 management titles compared with 43 management titles a year ago, and 115 IT titles today compared with 110 IT titles at the end of our first quarter of fiscal 2007.

Sales and Marketing Expense. Sales and marketing expense in our first quarter of fiscal 2008 declined to 20.7% of revenues, compared with 21.8% for the same quarter in the prior year, reflecting a greater return on our sales and marketing expenditures. Sales and marketing expense increased \$1.2 million to \$10.5 million, as a result of the effect of changes in foreign exchange rates, one-time consulting fees, and increased sales compensation largely driven by higher commissions on higher revenues. 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.

General and Administrative Expense. G&A expense in our first quarter increased to 18.6% of revenues compared with 16.6% in the same quarter of our prior year. G&A expense in our first quarter was \$9.5 million compared to \$7.1 million in our first quarter last year. Approximately \$1.3 million of this increase related to one-time expenditures, including approximately \$0.8 million for professional services fees (partially for our implementation of FIN 48) and \$0.5 million in employee compensation related to expired

stock options and severance. The remaining approximately \$1.1 million increase in G&A for the current period included approximately \$0.4 million due to the effect of changes in foreign exchange rates, \$0.4 million due to increased personnel compensation costs and a \$0.3 million increase in stock option compensation expense.

Results from Operations. As a result of these factors, we achieved income from operations of \$8.5 million, or 16.7% of revenues, in the first quarter of fiscal 2008 compared to income from operations of \$6.1 million, or 14.3% of revenues, in the same quarter of our prior year.

Other Income (Expense), Net. In our first quarter of fiscal 2008, we recorded foreign exchange losses of \$330,000 compared to gains of \$61,000 in the same quarter of the prior year. In our first quarter of fiscal 2008, we had interest income of \$1.2 million compared to \$0.9 million in the same period of the prior year. The increase in our interest income primarily reflects higher outstanding cash balances compared to those in the prior year and the effect of changes in foreign exchange rates. Additionally, in our first quarter of fiscal 2008 we recorded a gain of approximately \$0.1 million related to the sale of stock in Rasmussen College, compared to a gain of \$0.4 million from the sale of Rasmussen College stock during the first quarter of our prior year. As a result of the above factors, other income (expense), net totaled \$0.9 million in our first quarter of fiscal 2008 compared to \$1.2 million in the same quarter of the prior year.

Pre-Tax Income. As a result of the preceding factors, our pre-tax income in our first quarter of fiscal 2008 was \$9.4 million, compared to pre-tax income of \$7.3 million in the first quarter of fiscal 2007.

Income Taxes. For our first quarter of fiscal 2008, our effective tax rate is 37.3%, which is the same as our projected effective tax rate for our full fiscal year. By comparison, in our first quarter of fiscal 2007 our effective tax rate was 41%.

Net Income. In summary, our net income for our first quarter of fiscal 2008 was \$5.9 million, or 11.6% of revenues, compared to net income of \$4.3 million, or 10.1%, in our first quarter of fiscal 2007.

Liquidity and Capital Resources

During the three months ended December 28, 2007, the total of cash and available for sale securities decreased by \$4.1 million to \$84.4 million from \$88.5 million at September 28, 2007. However, during the most recent quarter our net working capital increased by \$5.3 million to \$49.2 million, compared to \$43.9 million at September 28, 2007. Although net income increased by \$1.6 million from \$4.3 million in the first quarter of fiscal 2007 to \$5.9 million in our most recent quarter, cash from operations declined from \$3.9 million in the first quarter of fiscal 2007 to -\$0.1 million in the first quarter of fiscal 2008. Non-cash items such as depreciation, share-based compensation and deferred income taxes totaled \$2.6 million for the first quarter of fiscal 2008. However, changes in working capital accounts reduced cash by \$8.7 million during that quarter. Cash used in investing activities during the first quarter of fiscal 2008 was \$8.5

million. During the quarter, we purchased a net of \$4.7 million in available for sale securities and spent \$3.8 million for purchases of equipment and other capital assets.

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

Revenue Growth Initiatives.

As I mentioned earlier, we are placing a substantial emphasis on a number of growth initiatives aimed at increasing our revenues while at the same time leveraging our fixed cost infrastructure with the objective of further increasing our profitability. We began some of these initiatives late in fiscal 2007, and are continuing to introduce and test other ideas. Here is a brief overview of some of the initiatives we have underway:

1. *Increasing the size of our course library.* We believe that the market for training managers and IT professionals continues to be robust and that sufficient demand exists to support a broader and deeper library of Learning Tree courses. Accordingly, we expect to develop a significantly greater number of new course titles in fiscal 2008 than in preceding years. Over the past two fiscal years, we have introduced on average about 27 new course titles per year. In fiscal 2008, we plan to develop and begin marketing close to 60 new titles, most of which will be introduced in our third and fourth quarters of this fiscal year, as well as during our first quarter of fiscal 2009. These new titles will span a wide range of key IT and management subject areas, including Microsoft Windows Server 2008, Sharepoint, ITIL, and project management.
2. *Increasing the return from our direct marketing expenditures.* As we have discussed in past conference calls, we have been applying sophisticated business intelligence techniques to the selection and evaluation of the market segments we target. While in past quarters we have primarily realized the benefit of these efforts in terms of eliminating unprofitable direct mail segments and thereby reducing our catalog quantities and expenses, we have now also begun using these techniques to define and test new marketing approaches aimed at increasing our sales from both existing and new customers.
3. *Increasing the productivity of our salespeople.* To improve the productivity of our sales efforts, we have also begun applying the same business intelligence techniques that have proven successful in our direct marketing programs to the processes by which we select and prioritize sales leads for our telesales staff.
4. *Introducing blended learning programs.* This fiscal year, we launched a research and development program to experiment with various blended learning formats. We believe such approaches may be successful in providing our customers the proven benefits of classroom-based, instructor-led learning while adding the flexibility and potential time savings available through today's on-line learning technologies. We have successfully completed the delivery of our first blended-learning management course event in which our attendees experienced both virtual and real classroom environments while covering the standard content of a Learning Tree management course. In addition, we have begun offering Webinars on various topics, including the on-line delivery of our RealityPlus™ management course scenarios.

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. If recent exchange rates remain constant, we expect to report a favorable effect of approximately 4% due to changes in foreign exchange rates in our second quarter of fiscal 2008, which will have the effect of increasing both our revenues and our expenses by that amount compared to the same period in fiscal 2007.

Second Quarter 2008 Revenues

We currently expect to report revenues in our second fiscal quarter ending March 28, 2008 of between \$39.5 million and \$41.5 million, compared to \$37.6 million in the same quarter of the prior year.

The timing of holidays will affect our second quarter revenues when compared with revenues in the second quarter of fiscal 2007:

- First, because New Years Day fell on a Tuesday this year, we did not hold any course events in the first week of January unlike fiscal 2007, when New Years Day was on a Monday.
- Second, this year Easter occurs in our second fiscal quarter where last year Easter occurred in our third fiscal quarter and we therefore expect somewhat lower revenues in March when compared to last year.

Our past experience is that together these two holiday effects will adversely affect our second quarter revenues in fiscal 2008 by about 4%, when compared to the same quarter in fiscal 2007.

Second Quarter Gross Profit. We expect to report a gross profit percentage in our second quarter of fiscal 2008 of between 54.5% and 56.0% compared to 54.2% in our second quarter of fiscal 2007.

Second Quarter Operating Expenses. We expect to report overall operating expenses for our second quarter of fiscal 2008 of between \$21 million and \$22 million, compared to \$19.4 million in the same quarter a year earlier. This primarily reflects the effect of changes in foreign exchange rates, increased sales expense, increased spending on new

marketing initiatives, increased spending on course development, and increased compensation expense compared to the same quarter of fiscal 2007.

Second Quarter Operating Income. As a result of the above factors, we expect to report operating income for our second quarter of fiscal 2008 of between \$0.3 million and \$1.8 million, compared with operating income of \$1.0 million in the second quarter of our prior year.

Second Quarter Interest Income. We expect to report second quarter interest income of approximately \$1.2 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 2008 of between \$1.5 million and \$3.0 million, compared with pre-tax income of \$1.9 million in the second quarter of our prior year.

Effective Tax Rate. We estimate that our effective tax rate in our second quarter of fiscal 2008 will be approximately 37%.

And now, I'd like to open the floor for questions.

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.