

**Learning Tree International, Inc.**  
**Fiscal 2007 Second Quarter Conference Call**

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

**August 29, 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 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; and
- Attracting and retaining qualified personnel.

I will begin today's presentation by covering our performance in our second quarter and first six months of fiscal 2007, which ended March 30, 2007. I will then provide some forward-looking information about our forthcoming third and fourth quarters, and our priorities for fiscal 2008. After 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>.

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.

I'd like to start by announcing that Bob Waldron, who has served as our Chief Financial Officer on an interim basis since the beginning of May, has accepted our CFO position on

a full-time basis. Bob has been largely responsible for the progress we have made in engaging a new independent public accounting firm and in completing our 10-Q filings for the first and second quarters of fiscal 2007. Bob has extensive experience in managing finance and accounting operations for public and global companies, and has already brought his experience to bear on improving Learning Tree's finance and accounting operation. I am very pleased at the prospect of continuing to work with Bob as a key member of my leadership team.

Now for some highlights of our second quarter and first six months operating results. For our second quarter of fiscal 2007,

- Revenues increased by \$3.3 million, or 9.8% from revenues in the same quarter of our prior fiscal year;
- Gross profit increased to 54.2% of revenues from 46.8% for the same quarter of our prior fiscal year;
- Operating expenses decreased to 51.4% of revenues from 58.9% for the same quarter of our prior fiscal year;
- As a result of these factors, income from operations increased by \$5.2 million over the same quarter of our prior fiscal year; and
- Net income increased by \$3.1 million from our second quarter of fiscal 2006.

And, for our first six months of fiscal 2007,

- Revenues increased by \$6.3 million, or 8.4% from revenues in the same period of our prior fiscal year;
- Gross profit increased to 55.7% of revenues from 49.8% for the first six months of our prior fiscal year;
- Operating expenses decreased to 46.8% of revenues from 52.0% for the first six months of our prior fiscal year;
- As a result of these factors, income from operations increased by \$8.8 million over the same period of our prior fiscal year; and
- Net income increased by \$5.5 million from our first six months of fiscal 2006.

We are pleased with the continued improvement in our results compared with fiscal 2006. As we have noted in previous calls, these improvements are the result of a number of efforts aimed at reducing cost and improving the efficiency of our operations, which have continued to increase their effects quarter by quarter. We expect to feel further positive impacts of these improvements in the final two quarters of this fiscal year.

### **Overall Results and Business Overview**

Our revenues in the second quarter of fiscal 2007 increased by 10% to \$37.6 million compared to revenues of \$34.3 million for the same quarter last year. We recorded income from operations of \$1.0 million in our second quarter compared to a loss from operations of \$4.2 million for the same quarter of fiscal 2006. Net income for the second quarter was \$1.1 million, or \$0.07 per share, compared to a net loss of \$2.0 million or \$0.12 per share for the same quarter last year.

For the six months ended March 30, 2007, our revenues were \$80.3 million, compared to \$74.1 million last year. During the first six months of fiscal 2007, income from operations was \$7.1 million compared to a loss from operations of \$1.7 million for the same period in fiscal 2006. Net income was \$5.5 million compared to a net loss of \$0.1 million for the same period last year. And net income per diluted share for the first six months of fiscal 2007 was \$0.33 versus \$0.00 in the same period of our prior year.

### **Second Quarter Revenue**

Overall, during our second quarter of fiscal 2007, we trained 20,484 course participants, a 1% decrease from the 20,686 participants we trained in the same quarter last year.

During our second quarter of fiscal 2007, in management courses, we provided 23,892 attendee-days of training during the quarter, a 19% increase compared to 20,092 attendee-days in the same quarter of the prior year. In IT courses, we provided 53,529 attendee-days of training during the quarter, an 8% decrease from the 58,456 attendee-days in our second quarter of fiscal 2006. Overall, we provided a total of 77,421 attendee-days of training, a 1% decrease from the 78,548 attendee-days in our second quarter of fiscal 2006.

In our second quarter of fiscal 2007, average revenue per participant was 11% higher than in the same quarter of the prior fiscal year, due to:

- Changes in foreign exchange rates;
- Price increases; and
- Shifts in participant mix between courses conducted on-site at client facilities and those held at our own education centers, between our management courses and our IT courses, and in the usage of our passport, voucher, and single-seat programs for attendance at our public courses.

### **Second Quarter Operations**

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

**Cost of Revenues.** Cost of revenues decreased to 45.8% of revenues in our second quarter of fiscal 2007 compared to 53.2% in our second quarter of fiscal 2006.

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.

Excluding the effect of exchange rates, the decrease in cost of revenues as a percentage of revenues in our second quarter of fiscal year 2007 reflects a 17% increase in average revenue per event slightly offset by a 1% increase in average cost per event. The increase in our average revenue per event is the result of a 6% increase in average participants per event and the increase in average revenue per participant discussed earlier. The increase in average cost per event results from the effect of changes in foreign exchange rates,

partially offset by reduced costs associated with our Learning Tree Education Centers and other cost reduction initiatives.

During our second quarter of fiscal 2007, we presented 1,633 events, a 7% decrease from the 1,749 events 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. Our second quarter results reflect a growing impact of those efforts. We expect to realize further positive impacts from this re-scheduling in our third quarter of fiscal 2007 and beyond.

**Course Development Expense.** During our second quarter of fiscal 2007, our spending on course development was \$1.9 million compared with \$2.4 million in the same quarter of our prior year. This resulted in course development expense being 5.1% of revenues in our second quarter of this fiscal year compared to 7.1% during the same quarter of our prior year. Our higher spending in fiscal 2006 was due to our intensive program to convert a number 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 the RealityPlus conversion of that group of course titles in our fourth quarter of fiscal 2006.

In our second quarter of fiscal 2007, we retired 1 IT course title and introduced 4 new IT course titles and 3 new management course titles. As a result, our library of instructor-led courses numbered 159 titles at the end of our second quarter of fiscal 2007 compared with 153 titles at the same point a year earlier. At the end of our second quarter this year we had 46 management titles in our course library, compared with 36 management titles at the end of our second quarter in fiscal 2006. Our library of IT titles numbered 113 at the end of our second quarter, compared to 117 a year earlier.

**Sales and Marketing Expense.** Sales and marketing expense in our second quarter was 26.5% of revenues, compared with 33.2% for the same quarter in the prior year. Sales and marketing expense was \$10.0 million, compared to \$11.4 million during our second quarter of fiscal 2006.

Sales and marketing—and, in particular, our direct mail activity—is one of our largest expenditures. We have been carefully adjusting 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 second quarter increased to 19.8% of revenues compared with 18.6% in the same quarter of our prior year. G&A expense in our second quarter was \$7.5 million compared to \$6.4 million in our second

quarter last year. The increase in expenditure was principally due to personnel-related expenses, the one-time effect of costs associated with subleasing and facilities arrangements in our United Kingdom Education Center, and changes in foreign exchange rates.

**Results from Operations.** As a result of these factors, in the second quarter of fiscal 2007 we achieved income from operations of \$1.0 million, or 2.8% of revenues, compared to a loss from operations of \$4.2 million, or 12.1% of revenues, in the same quarter of our prior year.

**Other Income and Expense.** In our second quarter of fiscal 2007, we recorded foreign exchange losses of \$8,000 compared to losses of \$36,000 in the same quarter of the prior year. In our second quarter of fiscal 2007, we had interest income of \$944,000 compared to \$852,000 in the same period of the prior year. The increase in our interest income primarily reflects higher cash balances and higher interest rates compared to those in the prior year, and the effect of changes in foreign exchange rates.

**Pre-Tax Income.** As a result of the preceding factors, our pre-tax income in our second quarter of fiscal 2007 was \$1.9 million, compared to a pre-tax loss of \$3.3 million in the second quarter of fiscal 2006.

**Income Taxes.** For our second quarter of fiscal 2007, our effective tax rate was 41%, the same as our projected effective tax rate for our full fiscal year, and the same as in our second quarter of fiscal 2006. As we noted in our last conference call, our effective tax rate may fluctuate significantly from quarter to quarter 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 second 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 second quarter of fiscal 2007 was \$1.1 million, or 3.1% of revenues, compared to a net loss of \$2.0 million, or 5.6%, in our second quarter of fiscal 2006.

### **Liquidity and Capital Resources**

During the six months ended March 30, 2007, our total cash and available for sale securities increased to \$77.3 million from \$72.2 million at September 29, 2006. This increase primarily reflects cash generated from operations as a result of higher net income and a reduction in accounts receivable, partially offset by a reduction in accounts payable due to the timing of payments to vendors. Uses of cash during the first six months of fiscal 2007 included purchases of equipment and leasehold improvements.

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 focusing on 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 U.S. 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 third quarter of fiscal 2007 and for the full fiscal year, which will have the effect of increasing both our revenue and our expenses in those periods compared to the corresponding periods in fiscal 2006.

## **Third Quarter 2007 Revenues**

We currently expect to report revenues in our third fiscal quarter, ended June 29, 2007, of between \$42.5 million and \$43.0 million, compared to \$41.2 million in the same quarter of the prior year.

**Third Quarter Gross Profit.** We expect to report a gross profit percentage in our third quarter of fiscal 2007 of between 56.8% and 57.3% compared to 50.8% in our third 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.

**Third Quarter Operating Expenses.** We expect to report overall operating expenses for our third quarter of fiscal 2007 of between \$19.0 and \$19.5 million, compared to \$21.3 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.

**Third Quarter Operating Income.** As a result of the above factors, we expect to report third quarter operating income of between \$4.6 million and \$5.6 million.

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

**Third Quarter Pre-Tax Income.** Overall, we expect to report pre-tax income for our third quarter of fiscal 2007 of between \$5.6 million and \$6.6 million, compared with pre-tax income of approximately \$0.6 million in the third quarter of the prior year.

**Fourth Quarter 2007 Revenues**

Turning now to our fourth fiscal quarter ending September 28, 2007, we currently expect revenues to be between \$42.5 million and \$44.5 million, compared to \$38.7 million in our fourth quarter of fiscal 2006.

**Fourth Quarter Gross Profit.** We expect a gross profit percentage in our fourth quarter of fiscal 2007 of between 56.0% and 57.0% compared to 51.8% in our fourth quarter of fiscal 2006.

**Fourth Quarter Operating Expenses.** We expect overall operating expenses for our fourth quarter of fiscal 2007 to be between \$19.5 million and \$20.0 million, compared to \$20.7 million in the same quarter a year earlier.

**Fourth Quarter Operating Income.** As a result of the above factors, we expect fourth quarter operating income to be between \$3.8 million and \$5.9 million.

**Fourth Quarter Interest Income.** We expect fourth quarter interest income of approximately \$1.0 million.

**Fourth Quarter Pre-Tax Income.** Overall, we expect to report pre-tax income for our fourth quarter of fiscal 2007 of between \$4.8 million and \$6.9 million, compared with pre-tax income of approximately \$0.3 million in the fourth quarter of the prior year.

**Effective Tax Rate.** Our current estimated effective tax rate for both our third and fourth quarters of fiscal 2007 is approximately 41%. However, we remain mindful of the substantial expected improvement in our pre-tax income compared to the prior year, and thus we continue to monitor the valuation allowance we established in our fourth quarter of fiscal 2006. Should our cumulative financial performance trends continue, we would expect to reverse that valuation allowance in some future quarter, and we would expect a highly anomalous credit to our tax provision, and hence to net income, in the quarter in which the reversal occurs. However, any decision to reverse the valuation allowance remains subject to future events.

**Summary.** For our full fiscal year 2007, we expect to report revenues of between \$165.3 million and \$167.8 million compared with \$154.0 million for fiscal 2006, and we expect to report pre-tax income of between \$19.7 million and \$22.7 million compared with \$0.7 million for 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.

**Fiscal Year 2008 and Beyond.** During this year, we have concentrated on achieving a sustainable increase in our level of profitability, with a secondary objective of beginning to increase the rate of our revenue growth. We are proud of the progress we have made toward both of these goals. Even with the reductions in our expenses in recent quarters, we believe that our infrastructure remains capable of handling a significantly greater volume of business activity without a proportionate increase in operating expense. Based on this belief, we are now increasing our focus on developing sustainable higher revenue growth rates, while continuing to further increase our level of profitability.

To this end, we have already begun to implement a number of growth strategies:

- Sales and marketing initiatives. We continue to focus on the productivity of our sales teams and the effectiveness of our marketing programs. We are developing and implementing new initiatives aimed at increasing our level of business with our current customers and attracting new course participants.
- Product development initiatives. We plan to increase our investment in course development over the coming year, which should result in an increased rate of new course introductions toward the end of fiscal 2008. Additionally, we continue to be excited about extending our proprietary RealityPlus instructional technology within our management curriculum. We have also initiated a research program to explore adapting our existing courses to a blended-learning format that would combine classroom instruction and on-line learning.

We will continue to investigate other ways to increase revenues by leveraging our core strengths: our instructors, our marketing and sales infrastructure, our proprietary content and course development processes, our classroom facilities and our worldwide course delivery systems. We expect to see the impact of these new priorities phase in over the course of fiscal 2008 and beyond.

In summary, this has been an exciting year in which we've made substantial progress toward our goal of increased profitability while making initial progress toward revenue growth. We look forward to making continued progress in the year to come.

### **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.