

Learning Tree International, Inc.
Fiscal 2006 Third Quarter Conference Call

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

August 8, 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 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.

I will begin today's presentation by covering our performance in our third quarter and first nine months of fiscal 2006, which ended June 30, 2006. I will then provide some forward-looking information about our upcoming fourth quarter. After my presentation, we will open the floor for questions and discussion. LeMoyne Zacherl, 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>.

Overall Results and Business Overview

Our revenues in our third quarter of fiscal 2006 were \$41.2 million compared to revenues of \$40.5 million for the same quarter last year. We recorded a loss from operations of \$0.3 million in our third quarter compared to income from operations of \$0.5 million for the same quarter of fiscal 2005. We reported net income for our third quarter of \$0.6 million, or 4 cents per share, compared to a net loss of \$0.8 million, or 5 cents per share, for the same quarter last year. The disparity in net income relates primarily to the

substantial difference in the annual effective tax rates for fiscal 2006 and fiscal 2005. The effective tax rate in fiscal 2005 was unusually high as a result of the impact of a \$1.1 million one-time tax expense related to the expiration of the statute of limitations on a prior year tax deduction, as well as the effect of permanent differences, which had a large percentage impact in 2005 when pre-tax income for the year was low.

For the first nine months ended June 30, 2006, our revenues were \$115.3 million, compared to \$115.1 million last year. During the first nine months of fiscal 2006, we reported a loss from operations of \$1.2 million compared to a loss of \$0.6 million for the same period in fiscal 2005. Net income was \$1.0 million compared to a net loss of \$0.7 million for the same period last year. And net income per diluted share for the first nine months of fiscal 2006 was 6 cents per share versus a net loss of 4 cents per share in the same period of our prior year.

We are pleased that our overall revenues for our third quarter were slightly above the guidance we provided in our last conference call, and that our results included improved gross margin from our day-to-day operations for both the most recent quarter and nine months, compared with the equivalent prior-year periods. On the other hand, as we will explain further, our increased investment in course development and other operating expenses increased our total operating expenses compared to the prior year, and this adversely affected our operating results. We remain committed to improving our profitability, growing our revenues and expanding our business. While investing more in course development to stimulate growth, we are continuing to take steps to improve profitability both in the short and long term, and are examining every aspect of our business to identify opportunities for cost savings and increased efficiency. Some of these opportunities—such as our move to a new Education Center in New York—will begin reducing our operating costs in the remainder of this fiscal year. Others will take effect in fiscal 2007.

Historically we have reported the number of participants at our courses as one measure of our performance. However, as we have increased the number of shorter courses in recent years, the use of participant numbers as an analytic metric has become more complicated, because the revenue per participant varies substantially based on the length of a course event.

Therefore, beginning this quarter, in addition to reporting the total number of participants, we will also begin reporting on the number of attendee-days of training provided by Learning Tree in each reporting period. An “attendee-day” measures one participant in one course for one day, and should provide a more comparable perspective on Learning Tree performance. For example, one participant in a four-day course is measured as four attendee-days; similarly 15 participants in the same four-day course is measured as 60 attendee-days. For purposes of historical comparison, we will also provide the equivalent numbers for the same periods in our prior year.

We will also begin separate reporting on attendance at our management courses and at our IT courses. As we have noted in prior conference calls, attendance at our

management courses has been growing in recent periods. We believe this growth continues to demonstrate the importance our customers place on developing the management, leadership, and communication skills of individuals at all levels in their organizations, and accordingly provides a substantial market opportunity for Learning Tree.

Third Quarter Revenue

Overall, during our third quarter of fiscal 2006, we trained 24,091 course participants, a 1% increase from the 23,947 participants we trained in the same quarter last year.

During our third quarter of fiscal 2006, we provided a total of 92,284 attendee-days of training, a 3% decrease from 94,714 attendee-days in our third quarter of fiscal 2005. In management courses, we provided 23,419 attendee-days of training during the quarter, a 6% increase compared to 22,166 attendee-days in the same quarter of the prior year. In IT courses, we provided 68,865 attendee-days of training during the quarter, a 5% decrease from 72,548 attendee-days in our third quarter of fiscal 2005.

For the first nine months of fiscal 2006, we provided a total of 263,314 attendee-days of training, a 1% increase from 260,221 attendee-days in the same period in fiscal 2005. In management courses during the first nine months of fiscal 2006, we provided 66,860 attendee-days of training, an 18% increase over 56,527 attendee-days provided in the corresponding period in fiscal 2005. In IT courses during the first nine months of fiscal 2006, we provided 196,454 attendee-days of training, a 4% decrease from 203,694 attendee-days in the first nine months of fiscal 2005.

While attendance at our IT courses decreased somewhat from last year, we are encouraged by the much-reduced rate of decline from prior years. We believe that the IT training market appears to be stabilizing, and we intend to continue to develop and deliver courses that help our customers improve their productivity by making the most of their investment in IT products, services, and people. As a result, we have invested in increasing the number of IT course titles we offer as well as the number of course titles in our management curriculum.

In our third quarter of fiscal 2006, average revenue per attendee-day was 5% higher than in the same quarter of the prior fiscal year, largely as a result of price increases, as well as a slight increase in the percentage of attendee-days provided at our own education centers compared to those provided at customer locations, and a decrease in the percentage of lower-price passport participants and a corresponding increase in the percentage of higher-price voucher participants. These effects were partly offset by a 0.5% adverse effect of changes in foreign exchange rates.

Third Quarter Results from Operations

I will now discuss our results from operations in our third quarter of fiscal 2006 and how they compare with the same quarter last year.

Cost of Revenues. Cost of revenues declined to 49.3% of revenues in our third quarter of fiscal 2006 compared to 50.6% in our third quarter of fiscal 2005. Changes in foreign exchange rates did not materially affect our gross profit percentage, since exchange rate changes decreased our cost of revenues by approximately the same percentage as they decreased our revenues in the quarter.

Excluding the effect of exchange rates, the improvement in cost of revenues as a percentage of revenues in our third quarter of fiscal 2006 compared to the same period in the prior year reflects a 2% increase in average revenue per event, and no change in average cost per event. The increase in average revenue per event, excluding the effect of exchange rates, results principally from the increase in average revenue per attendee-day discussed earlier and to a lesser extent an increase of 1% in average participants per event, partly offset by an increase in the proportion of events held at customer locations, which typically have a lower average revenue per event than events held in our own education centers. The unchanged average cost per event, excluding the effect of exchange rates, primarily reflects a slight increase due to one-time costs associated with our move to our new Education Center in New York, offset by the increase in the proportion of course events held at customer locations during the quarter compared to the prior year.

During our third quarter of fiscal 2006, we presented 1,980 events, virtually the same as the 1,982 events we conducted during the same period in fiscal 2005.

Course Development Expense. Beginning in our second quarter of fiscal 2006, we have significantly increased our investment in course development. During our third quarter of fiscal 2006, we increased our spending on course development by 45% to \$2.9 million compared with \$2.0 million in the same quarter last year. This resulted in course development expense of 6.9% of revenues in our third quarter this year compared to 5.0% during the same quarter of our prior year.

As we have described previously, based on our customers' reception to our management curriculum, we believe we have a significant opportunity to continue growing the number of participants at our management courses by offering customers a product that is better and different from anything available in the market today. Accordingly, we are continuing an intensive project to revise our management courses using proprietary, innovative instructional methods which we are developing internally. Based on strong positive feedback from participants in our pilot testing of this approach, we believe our new proprietary methodology significantly advances the state of the art in instructor-led management training.

Additionally, during our third quarter we continued to develop a number of new IT and management course titles which we believe can be successful, based on our market research. As noted in our previous conference call, during the past several quarters we have been introducing new titles at a significantly higher rate than in past periods. In our third quarter of fiscal 2006, we introduced eight new titles, including four new technology courses and four new management courses. We also retired seven course titles during the quarter. As a result, our library of instructor-led courses numbered 154

titles at the end of our third quarter of fiscal 2006 compared with 139 titles at the same point a year earlier. At the end of our third quarter this year we had 40 management titles in our course library, compared with 30 management titles at the end of our third quarter in fiscal 2005. Our library of IT titles increased to 114 at the end of our third quarter, compared to 109 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our third quarter was 27.9% of revenues, compared with 28.2% for the same quarter in the prior year. Sales and marketing expense remained at \$11.5 million, approximately the same as during our third quarter of fiscal 2005.

Our sales and marketing expense—and, in particular, our expenditure on course catalogs—is one of our largest expenditures. We have carefully adjusted the market segments to which we mail our catalogs, and are presently evaluating a number of additional ways to increase the efficiency of our marketing expenditures by spending less without materially affecting the response to that marketing. At the same time, we have been increasing our sales staff in certain operating units with appropriately trained and managed personnel. Based on our experience to date in those operating units, we intend to continue expanding our sales staffing in order to implement this strategy in all operating units.

General and Administrative Expense. G&A expense in our third quarter increased to 16.6% of revenues compared with 15.0% in the same quarter of our prior year. G&A expense in our third quarter was \$6.8 million compared to \$6.1 million in our third quarter last year. This increase primarily consists of increased compensation cost related to our adoption of FAS 123R, increases in depreciation and amortization costs associated with certain new facilities, and increases in general professional fees, as well as the effect of timing differences of other expenses.

Our third quarter results include expenses associated with stock option compensation in accordance with FAS 123R. Total FAS 123R expense for our third quarter was \$0.3 million, the majority of which is recorded as general and administrative expense, as noted above. The remainder of our FAS 123R expense is apportioned among our other expense categories, based on where we record the labor costs for the individuals with whom the stock option compensation expense is associated. We do not expect the distribution of FAS 123R expense among expense categories to differ significantly from one quarter to the next. Because we adopted FAS 123R effective October 1, 2005, we did not report stock option compensation expense in any quarter of fiscal 2005.

Results from Operations. As a result of these factors, we reported a loss from operations of 0.7% of revenues compared to income from operations of 1.2% of revenues in the same quarter of our prior year.

Other Income and Expense. In our third quarter of fiscal 2006, we recorded foreign exchange gains of \$102,000 compared to losses of \$43,000 in the same quarter of the prior year. In our third quarter of fiscal 2006 we had interest income of \$880,000

compared to \$674,000 in the same period of the prior year. The increase in interest income reflects higher interest rates compared to those in the prior year, partly offset by slightly lower cash balances.

Income Taxes. For our third quarter of fiscal 2006, our effective tax rate is 14%, which is considerably lower than our projected 35% annual effective tax rate for our full fiscal year. The lower third quarter rate is attributable to the net tax benefit of certain adjustments that have been accounted for within the quarter, consistent with generally accepted accounting principles. By comparison, in our third quarter of fiscal 2005 our annual effective tax rate was 167%. The effective tax rate in fiscal 2005 was unusually high as a result of both the \$1.1 million one-time tax expense related to a lost tax deduction from an earlier year and the effect of permanent differences, which had a larger percentage impact in 2005 when annual pre-tax income for the year was low. Overall, in fiscal 2006 we are using a lower effective tax rate than in fiscal 2005 based on higher projected pre-tax income in fiscal 2006 than in the prior year.

Net Income. In summary, our net income for our third quarter of fiscal 2006 was 1.5% of revenues compared to a net loss of 1.9% in our third quarter of fiscal 2005.

Liquidity and Capital Resources

During the first nine months ended June 30, 2006, the total of cash and available for sale securities decreased to \$70.7 million from \$75.3 million at September 30, 2005. This decrease primarily reflects fixed asset purchases of \$7.8 million, the establishment of a long-term interest-bearing lease deposit of \$1.5 million related to the lease for our new education center in New York City, and the purchase of our Common Stock in the amount of \$1.9 million, partly offset by cash generated from operations of \$5.4 million.

During our third quarter, we made a significant cash outlay related to our new education center in New York. Those costs have been capitalized and will be depreciated over the anticipated ten-year life of that facility and, as we noted earlier, we expect to begin to see substantial savings in rent expense for this facility beginning in our fourth quarter of fiscal 2006.

In our third quarter of fiscal 2006 we repurchased 105,600 shares of our common stock at an average price of \$11.40. In prior periods we have from time to time made purchases of our stock in the open market. Our Board of Directors has recently noted potential negative impacts from reducing Learning Tree's public float below current levels, and accordingly we currently intend to suspend such purchases. However, we may again begin to make additional open market purchases of our common stock in any amount at any time.

Future Outlook

As we have for the past 32 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 all of our top 100 customers from the year 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, 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 the exchange rates of July 28, 2006 remain stable through the remainder of fiscal 2006, our revenues would be unfavorably affected by approximately 3% in our fourth quarter of fiscal 2006, and unfavorably affected by approximately 1% 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.

Fourth Quarter 2006 Revenues

We currently project that our revenues in our fourth quarter of fiscal 2006 will be between \$37.5 million and \$39.5 million, compared to \$36.5 million in the same quarter of the prior year.

Fourth Quarter Gross Profit. We expect our gross profit percentage in our fourth quarter of fiscal 2006 to be between 49.0% and 50.5% compared to 49.5% in our fourth quarter of fiscal 2005. As we discussed earlier, we are working to identify cost-saving actions which we expect will have a beneficial effect on our gross profit percentage in the future; however we would expect minimal impact from those actions in our fourth quarter of fiscal 2006.

Fourth Quarter Operating Expenses. We expect our overall operating expenses for our fourth quarter of fiscal 2006 to be approximately \$19.5 million, compared to \$18.6 million in the same quarter a year earlier. Compared to our fourth quarter of fiscal 2005, this increase primarily reflects our increased spending on course development, increased sales personnel costs, compensation expense related to our adoption of FAS 123R, increased depreciation and amortization, and an increase in general and administrative staffing, partially offset by reductions in professional fees and marketing expenses.

As we alluded to earlier, we expect to spend approximately \$0.8 million more on product development in our fourth quarter of fiscal 2006 than in the same quarter last year. These increased expenditures relate to the project to enhance our management course offerings that I discussed earlier as well as the development of a larger number of new course titles compared to the same quarter last year, and which will be introduced in the fourth quarter of fiscal 2006 and the first quarter of fiscal 2007.

Fourth Quarter Interest Income. We expect our fourth quarter interest income to be approximately \$0.9 million.

2006 Tax Rate. We estimate that our effective tax rate in our fourth quarter of fiscal 2006 will be approximately 46%, compared to an effective tax rate of approximately 73% for our fourth quarter of the prior year.

Summary. In summary, we are looking forward to the results of our initiatives directed toward increasing revenues in both our management and IT product lines and reducing our costs. We are excited about the opportunities we see for significantly expanding our use of innovative instructional technology in our management curriculum, adding new courses at an increased rate in both IT and management training, refining our marketing expenditures, and improving our gross margins.

Summary following discussion

Over the last 32 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.