

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

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

September 24, 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 third quarter and first nine months of fiscal 2007, which ended June 29, 2007. 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. 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, 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.

Now for some highlights of our third quarter and nine-month operating results. For our third quarter of fiscal 2007,

- Revenues increased by \$1.4 million, or 3.5%, from revenues in the same quarter of fiscal 2006;
- Gross profit increased to 57.1% of revenues from 50.8% for the same quarter of fiscal 2006;
- Operating expenses decreased to 45.3% of revenues from 51.6% for the same quarter of fiscal 2006;
- As a result of these factors, income from operations increased by \$5.4 million over the same quarter of fiscal 2006; and
- Net income increased by \$3.2 million from our third quarter of fiscal 2006.

And, for our first nine months of fiscal 2007,

- Revenues increased by \$7.7 million, or 6.7%, from revenues in the same period of fiscal 2006;
- Gross profit increased to 56.2% of revenues from 50.1% for the first nine months of fiscal 2006;
- Operating expenses decreased to 46.3% of revenues from 51.9% for the first nine months of fiscal 2006;
- As a result of these factors, income from operations increased by \$14.2 million over the same period of fiscal 2006; and
- Net income increased by \$8.8 million from our first nine months of fiscal 2006.

We are pleased with the 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 and productivity of our operations.

Overall Results and Business Overview

Our revenues in the third quarter of fiscal 2007 increased by 3.5% to \$42.7 million compared to revenues of \$41.2 million for the same quarter last year. We recorded income from operations of \$5.0 million in our third quarter compared to a loss from operations of \$0.4 million for the same quarter of fiscal 2006. Net income for the third quarter was \$3.7 million, or \$0.22 per share, compared to net income of \$0.5 million or \$0.03 per share for the same quarter last year.

For the nine months ended June 29, 2007, our revenues were \$123.0 million, compared to \$115.3 million last year. During the first nine months of fiscal 2007, income from operations was \$12.2 million compared to a loss from operations of \$2.0 million for the same period in fiscal 2006. Net income was \$9.2 million compared to net income of \$0.4 million for the same period last year. And net income per share for the first nine months of fiscal 2007 was \$0.56 versus \$0.03 in the same period of our prior year.

Third Quarter Revenue

Overall, during our third quarter of fiscal 2007, we trained 22,820 course participants, a 5% decrease from the 24,091 participants we trained in the same quarter last year.

In our management courses, we provided 25,112 attendee-days of training during the third quarter of fiscal 2007, a 7% increase compared to 23,515 attendee-days in the same

quarter of the prior year. In our IT courses, we provided 61,226 attendee-days of training during the quarter, an 11% decrease from the 68,744 attendee-days in our third quarter of fiscal 2006. Overall, we provided a total of 86,338 attendee-days of training, a 6% decrease from the 92,259 attendee-days in our third quarter of fiscal 2006. We believe that some of this attrition is a transitional result arising from our reduction in the scheduled frequency of our public course events, primarily beginning with events in March 2007. This has meant that some of the attendees who might otherwise have taken courses in our third quarter instead attended events in our fourth quarter. As we have discussed in earlier conference calls, we undertook that rescheduling to increase the average number of attendees per event, and thereby increase our gross margins, and that effort has been successful as we will discuss in a moment.

In our third quarter of fiscal 2007, average revenue per participant was 9% higher than in the same quarter of the prior 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.

Third Quarter Operations

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

Cost of Revenues. Cost of revenues decreased to 42.9% of revenues in our third quarter of fiscal 2007 compared to 49.2% in our third 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 third quarter of fiscal 2007 reflects a 16% 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 as well as 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 third quarter of fiscal 2007, we presented 1,762 events, an 11% decrease from the 1,980 events conducted during the same period in fiscal 2006. As I just mentioned, 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 third quarter results

reflect the partial impact of those efforts. We expect to realize further positive impacts from this re-scheduling in our fourth quarter of fiscal 2007 and beyond.

Course Development Expense. During our third quarter of fiscal 2007, our spending on course development was \$2.3 million compared with \$2.9 million in the same quarter of our prior year. This resulted in course development expense being 5.5% of revenues in our third quarter of this fiscal year compared to 6.9% 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 third quarter of fiscal 2007, we introduced two new IT course titles and retired two IT course titles. At the end of our third quarter of fiscal 2007, our library of instructor-led courses numbered 159 titles compared with 154 titles at the same point a year earlier. At the end of our third quarter of fiscal 2007 we had 46 management titles in our course library, compared with 40 management titles at the end of our third quarter in fiscal 2006. Our library of IT titles numbered 113 at the end of our third quarter, compared to 114 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our third quarter was 22.1% of revenues, compared with 27.9% for the same quarter of the prior year. Sales and marketing expense was \$9.4 million, compared to \$11.5 million during our third 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 recipients and frequency of our catalog mailings. 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 third quarter increased to 17.7% of revenues compared with 16.8% in the same quarter of our prior year. G&A expense in our third quarter was \$7.5 million compared to \$6.9 million in our third quarter last year. The increase in expenditures was principally due to the effect of changes in foreign exchange rates, as well as one-time personnel costs and one-time costs associated with subleasing and facilities arrangements in our United Kingdom Education Center.

Results from Operations. As a result of these factors, in our third quarter of fiscal 2007 we achieved income from operations of \$5.0 million, or 11.8% of revenues, compared to a loss from operations of \$0.4 million, or 0.9% of revenues, in the same quarter of our prior year.

Other Income and Expense. In our third quarter of fiscal 2007, we recorded foreign exchange losses of \$64,000 compared to foreign exchange gains of \$102,000 in the same quarter of the prior year. In our third quarter of fiscal 2007, we had interest income of \$1,062,000 compared to \$880,000 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 third quarter of fiscal 2007 was \$6.0 million, compared to pre-tax income of \$0.6 million in the third quarter of fiscal 2006.

Income Taxes. For our third quarter of fiscal 2007, tax expense was \$2.3 million compared to \$0.2 million in the third quarter of fiscal 2006. Our expected annual effective tax rate for fiscal 2007 is 39.4%. 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 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 third quarter of fiscal 2007 was \$3.7 million, or 8.7% of revenues, compared to net income of \$0.5 million, or 1.2%, in our third quarter of fiscal 2006.

Liquidity and Capital Resources

During the nine months ended June 29, 2007, our total cash and cash equivalents and available for sale securities increased to \$83.5 million from \$72.2 million at September 29, 2006. This increase is the result of \$9.2 million in net income for the nine-month period, \$3.9 million generated from changes in current assets and liabilities and non-cash items, and \$1.3 million due to the effect of changes in foreign exchange rates, partially offset by \$3.1 million used for the purchase of equipment and leasehold improvements. Depreciation and amortization expense for the first nine months of fiscal 2007 was \$4.8 million.

Today we are also filing amended 10-Q reports for both our first and second quarters of fiscal 2007. We have amended our previous reports to correct a misclassification between Effect of Exchange Rate Changes on Cash and Cash Equivalents and Cash Flows from Operating Activities appearing only on the cash flow statements we previously filed. These corrections do not affect our income statements or balance sheets, our earnings, our cash balances, or our working capital balances.

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 our fiscal year 2002, all 100 of them continue to be Learning Tree customers in fiscal 2007. 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 fourth 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.

Fourth Quarter 2007 Revenues

For our fourth fiscal quarter ending September 28, 2007, we currently expect revenues to be between \$43.0 million and \$44.0 million, compared to revenues of \$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 56.5% and 57.5% 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 \$4.3 million and \$5.8 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 \$5.3 million and \$6.8 million, compared with pre-tax income of approximately \$0.3 million in the fourth quarter of the prior year.

Effective Tax Rate. Our projected effective tax rate for our fourth quarter and full 2007 fiscal year is approximately 39.4%. 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 \$166.0 million and \$167.0 million compared with \$154.0 million for fiscal 2006, and we expect to report pre-tax income of between \$20.5 million and \$22.0 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. As we stated in our last conference call, 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.

As discussed in our previous conference call on August 29, 2007, 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.

I have one other significant note regarding our upcoming fiscal year 2008. As you know, Learning Tree conducts accounting on the basis of a 52/53-week fiscal year cycle. Fiscal 2008 will be a 53-week year, and the extra week will occur in the fourth quarter of that year. Due to this factor and the timing of various holidays in our countries of operation,

we anticipate that in fiscal 2008 we will have approximately one additional half-week in which to conduct classes compared to fiscal 2007. While we are not providing any fiscal 2008 guidance at this time, this information will be important for those who model potential future results. We will ensure that we continue to clearly identify the anomalous length of the fourth quarter and the fiscal year as necessary in future conference calls and SEC filings.

In summary, this has been an exciting year in which we have 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.