

**Learning Tree International, Inc.**  
**Fiscal 2006 Fourth Quarter Conference Call**

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

**May 1, 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.

I will begin today's presentation with a discussion of our previously announced financial restatement. I will then discuss our performance in our fourth quarter of fiscal 2006 and our full fiscal year, which ended September 29, 2006. I will then present some forward-looking information for our first and second quarters of fiscal 2007. 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>.

**Financial Restatement and Sarbanes-Oxley Compliance Program**

Fiscal 2006 was our second year for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. We have continued to evaluate and strengthen our finance, accounting, and information technology processes and practices—particularly those related to our financial reporting. During fiscal 2006 we have changed our organizational structure and hired qualified staff to significantly increase the expertise and capability of the

department. However, as a result of the tightness in labor market for those professionals, the process of locating, hiring and integrating our new staff took us most of the year.

Partly as a result of our additional staff and improved procedures, during the closing process for fiscal 2006 we found that in fiscal 2005 and the first three quarters of fiscal 2006 we had incorrectly accounted for loss sublease provisions and ceased-use space related to the subleased space in our Education Center in the United Kingdom. We therefore determined that we needed to restate our previously reported quarterly and annual results for fiscal 2005 and the first three quarters of fiscal 2006, with the net effect of reducing net income from previously reported results by approximately \$0.06 per share in fiscal 2005, and approximately \$0.03 per share for the first three quarters of fiscal 2006. The numbers we will discuss during the remainder of this call reflect the effects of that restatement.

We have reviewed all aspects of our leasing and subleasing transactions in great detail and believe that we have now correctly accounted for those transactions, and that we have established procedures for continued correct accounting for any similar transactions in future periods.

Our results for the fourth quarter of fiscal 2006 are also affected by a significant increase in our income tax provision related to two discrete items. First, we increased our tax provision for the quarter by approximately \$800,000 related to transfer pricing issues.

Second, we have established a deferred tax asset valuation allowance in the amount of approximately \$3.3 million based on our cumulative 3-year pre-tax loss positions in certain of our operating units. However, if our recent efforts to improve profitability lead to increases in pre-tax income, we may be able to release some or all of that valuation allowance in future periods. If that occurs, we will see corresponding reductions in our income tax provision for those periods, and this could cause additional significant fluctuation in our effective tax rate. In order to minimize any confusion in our future reporting, we will try to highlight any effects of the valuation allowance and deferred tax assets to the best of our ability.

We have noted in prior conference calls that when our pre-tax income is low, as in fiscal 2005 and 2006, the effect of our permanent tax differences can create an effective tax rate that is extraordinarily high, and which results in a tax provision that varies significantly from quarter to quarter. When we include the effects of significant one-time entries in our 2005 and 2006 tax provisions, the resulting quarterly net income bears little relation to our actual business results. Therefore, we do not believe that our quarterly net income is particularly meaningful as a basis for comparisons; instead, we will focus on operating income and pre-tax income, which we believe are much more representative measurements for the quarterly periods of fiscal 2005 and 2006.

Based on our restatement, we determined that as of September 29, 2006 we had material weaknesses in our internal controls over financial close and financial reporting processes—related to our overall entity-level monitoring controls, our accounting for

leases and subleases, and our accounting for income taxes. While these areas do not directly relate to our core business, we still need to improve our current level of performance in our financial close and reporting processes. We are committed to continuing to strengthen our finance and accounting staffing, systems, and processes to ensure that going forward we will be able to report complete and accurate financial results in a timely fashion.

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

We are pleased to report that we believe we have begun to see some results from our efforts to improve profitability and increase revenues. Although it is too early to be sure of this trend, our revenues and gross profit percentage for both our fourth quarter of fiscal 2006 and our full fiscal year exceeded those of the same periods a year ago. We expect to achieve a greater impact from these initiatives in future quarters.

Our revenues in our fourth quarter of fiscal 2006 increased 6% to \$38.7 million, compared to revenues of \$36.5 million for the same quarter in fiscal 2005. We recorded a loss from operations of \$0.6 million in our fourth quarter compared to a restated loss from operations of \$1.0 million for the same quarter of fiscal 2005. Largely as a result of the \$3.3 million valuation allowance related to our deferred tax assets that we took in the fourth quarter, we reported a net loss of approximately \$3.6 million, compared to restated net profit of \$15.6 million for the same quarter in the prior year. Exclusive of this valuation allowance, our net loss in the fourth quarter of fiscal 2006 would have been approximately \$300,000, or \$0.02 per share.

For the year ended September 29, 2006, our revenues were \$154.0 million compared to \$151.6 million in fiscal 2005. During fiscal 2006, we reported a loss from operations of \$2.6 million compared to a restated loss of \$2.2 million for fiscal 2005. And again, largely as a result of the \$3.3 million tax valuation allowance, we had a net loss for fiscal 2006 of approximately \$3.1 million compared to a restated net loss of \$1.7 million for the prior year. As a result, net loss per diluted share for fiscal 2006 was 19 cents per share versus a restated net loss of 10 cents per share for our prior year. Exclusive of that valuation allowance, net income for the full fiscal year would have been approximately \$100,000, or \$0.01 per share.

As we have stated in previous conference calls, we are committed to improving our profitability by reducing our expenses where we believed we would not significantly impair our revenues or the quality of service we provide our customers. During the fourth quarter we continued to implement further cost reductions across our operations, including such areas as lease costs, staffing levels, and further optimization of our direct marketing. In particular, we made significant changes to certain key facilities that will reduce our long-term facility costs. We further reduced our direct marketing in market segments which have not provided a profitable return. We carefully reviewed our staffing and organization, and have made reductions where appropriate. Although some of these adjustments affected the results for our fourth quarter, the positive effects of others should be realized increasingly over the first three quarters of fiscal 2007. Moreover, we continued this focus during the first quarter of fiscal 2007, in particular

working to revise our course scheduling frequency in order to increase our gross profit, which would primarily affect the final three quarters of fiscal 2007. We will discuss this further in the Future Outlook section later in this presentation. While we have chosen to re-invest some of our savings in certain key initiatives, we believe the majority of the costs we have eliminated will contribute to improved profitability.

#### **Fourth Quarter Revenue**

Overall, during our fourth quarter of fiscal 2006, we trained 21,810 course participants, a 2% decrease from the 22,363 participants we trained in the same quarter last year.

During our fourth quarter of fiscal 2006, we provided a total of 83,135 attendee-days of training, a 3% decrease from 85,876 attendee-days in our fourth quarter of fiscal 2005. In management courses, we provided 23,304 attendee-days of training during the quarter, a 12% increase compared to 20,754 attendee-days in the same quarter of the prior year. In IT courses, we provided 59,831 attendee-days of training during the quarter, an 8% decrease from 65,122 attendee-days in our fourth quarter of fiscal 2005.

In our full 2006 fiscal year, we provided a total of 346,616 attendee-days of training, a slight increase from 346,097 attendee-days in fiscal 2005. In management courses, we provided 90,592 attendee-days of training in fiscal 2006, a 17% increase over 77,281 attendee-days in fiscal 2005. In our IT courses, we provided 256,024 attendee-days of training in fiscal 2006, a 5% decrease from 268,816 attendee-days in fiscal 2005.

We continue to believe in the inherent strength of the IT training market. IT staffing levels continue to be robust and IT products and services continue to be key drivers of corporate competitiveness. Although the number of attendee-days of our IT training continued to decline in fiscal 2006, the decline was at a lower rate than in prior years, and we have seen strong customer demand in certain technology areas. As a result, we have increased our investment in the development of new IT course titles as well as increasing the number of course titles we offer in our management curriculum.

In our fourth quarter of fiscal 2006, average revenue per attendee-day was 9% higher than in the same quarter of the prior fiscal year, largely as a result of a 3% positive effect of changes in foreign exchange rates, the effect of price increases, a decrease in the percentage of passport participants and an increase in the percentage of voucher participants. Passport participants in our courses generally receive a greater discount than do voucher participants.

#### **Fourth Quarter Results from Operations**

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

**Cost of Revenues.** Cost of revenues declined to 48.2% of revenues in our fourth quarter of fiscal 2006 compared to 50.4% in our fourth 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 fourth quarter of fiscal 2006 compared to the same period in the prior year reflects a 6% increase in average revenue per event, partially offset by a 3% increase in average cost per event. The increase in average revenue per event results principally from the increase in average revenue per attendee-day discussed above, as well as a 1% increase in participants per event. The increase in average cost per event, after the effect of changes in foreign exchange rates, is largely due to non-recurring costs associated with our move to a new Education Center in New York City. We expect this facility relocation will reduce our cost of sales beginning in our first quarter of fiscal 2007. To a lesser extent, average cost per event increased because we conducted somewhat fewer events in the fourth quarter of fiscal 2006 than in the same period of the prior year. By conducting fewer events, the fixed costs allocated to each event increase slightly.

During our fourth quarter of fiscal 2006, we presented 1,770 events, a 3% decrease from the 1,828 events we conducted during the same period in fiscal 2005.

**Course Development Expense.** In fiscal 2006, we developed significantly more new course titles than in the prior year, and we also undertook the conversion of a significant portion of our management course titles to our new RealityPlus™ format. Accordingly, our investment in course development increased significantly compared with fiscal year 2005. During our fourth quarter of fiscal 2006, we increased our spending on course development by 18% to \$2.5 million compared with \$2.1 million in the same quarter last year. This resulted in course development expense of 6.4% of revenues in our fourth quarter this year compared to 5.8% 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 an 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. In our fourth quarter of fiscal 2006 we released RealityPlus™, unveiling 13 management course titles that we have rebuilt to feature this innovative, proprietary instructional design, intended to advance the state of the art in management education. RealityPlus™ courses implement the principles of performance-based learning through extensive simulation, which emphasizes active learner involvement in applying new knowledge and skills. These course-length simulations frequently apply technology to simulate the challenges, communication patterns, and information flows of the modern workplace.

Compared to traditional lecture-based programs, our data show that RealityPlus™ significantly improves learning and increases the actual use of the new knowledge and skills in the workplace. As a result learners in RealityPlus™ courses are better equipped when they return to their jobs. Our results also show measurably higher satisfaction

levels for participants in RealityPlus™ courses compared to the traditional programs they have replaced.

In addition to introducing our RealityPlus™ courses, in our fourth quarter of fiscal 2006 we also introduced four new course titles, including two new technology courses and two new management courses. We also retired six course titles during the quarter. As a result, our library of instructor-led courses numbered 152 titles at the end of our fourth quarter of fiscal 2006 compared with 141 titles at the same point a year earlier. At the end of our fourth quarter this year we had 43 management titles in our course library, compared with 32 management titles at the end of our fourth quarter in fiscal 2005. We had 109 IT course titles at the end of our fourth quarter, the same as we offered a year earlier.

**Sales and Marketing Expense.** Sales and marketing expense in our fourth quarter was \$10.3 million, or 26.5% of revenues, compared with \$9.7 million, or 26.7% of revenues for the same quarter in the prior year. This increase was principally due to increased investment in sales staffing and the effect of changes in foreign exchange rates, slightly offset by reductions in marketing costs.

**General and Administrative Expense.** G&A expense in our fourth quarter was 20.5% of revenues compared with 19.9% in the same quarter of our prior year. G&A expense in our fourth quarter was \$7.9 million, compared to \$7.3 million in our fourth quarter last year. The increase primarily reflects increased fees for professional services, the effect of changes in foreign exchange rates, and expenses associated with stock option compensation, partially offset by reduced personnel costs.

Our fourth quarter and full-year results include expenses associated with stock option compensation in accordance with FAS 123R. Total FAS 123R expense for our fourth quarter was approximately \$0.2 million, and our total FAS 123R expense for the full fiscal year was approximately \$1.0 million. The majority of this expense is recorded as general and administrative expense. In comparison, we did not report any stock option compensation expense in any quarter of fiscal 2005 because we adopted FAS 123R effective with our first quarter of fiscal 2006.

**Results from Operations.** As a result of these factors, we reported a loss from operations of 1.6% of revenues compared to a loss from operations of 2.8% of revenues in the same quarter of our prior year.

**Other Income and Expense.** In our fourth quarter of fiscal 2006, we recorded foreign exchange losses of \$20,000 compared to losses of \$115,000 in the same quarter of the prior year. In our fourth quarter of fiscal 2006 we had interest income of \$890,000 compared to \$739,000 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.

**Pre-Tax Income.** Our pre-tax income for the fourth quarter of fiscal 2006 was \$256,000, or 0.7% of revenues, compared with a pre-tax loss of \$415,000, or 1.1% of revenues for the same period of the prior year.

**Income Taxes.** For our fourth quarter of fiscal 2006, our tax provision was many times our pre-tax income, making our effective tax rate not particularly meaningful. This resulted from the effect of operating near break-even, combined with the total of \$4.1 million we included in our tax provision both for transfer pricing and the valuation allowance we discussed earlier.

**Net Income.** In summary, our net loss for the fourth quarter of fiscal 2006 was approximately \$3.5 million, compared to restated net income of \$15.6 million in our fourth quarter of fiscal 2005. As we noted earlier, we do not believe that a comparison of net income results from the fourth quarter of fiscal 2006 to the fourth quarter of fiscal 2005 is particularly useful, because of the unusual elements included in the fiscal 2006 tax provision that we discussed earlier, and even more due to the disproportionate effect of the extraordinary fiscal 2005 effective tax rate that resulted from permanent differences and near-breakeven pre-tax income.

#### **Liquidity and Capital Resources**

At the end of fiscal 2006, the total of cash and available for sale securities was \$72.2 million, compared to \$75.3 million a year earlier. This decrease primarily reflects leasehold improvement costs and fixed asset purchases of \$9.9 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 \$8.4 million.

We did not make any open market purchases of our common stock in the fourth quarter of fiscal 2006.

#### **Expected Results for First and Second Quarters of Fiscal 2007**

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 our customers' tremendous loyalty. It is worth noting that 99 of our top 100 customers from the year 2000 remain Learning Tree customers today. In 2006, we continued our emphasis on excellence by improving our core strengths: our expert instructors, proprietary content library, state-of-the-art classrooms, innovative application of technology in the classroom, and our patented course delivery systems.

Although our first quarter of fiscal 2007 ended on December 29, 2006, we have been unable to close that quarter until we completed our financial statements for fiscal 2006. As we have now filed our fiscal 2006 Form 10-K, we currently expect to file the Form 10-Q for the first quarter of fiscal 2007 before May 31, 2007, and to file the Form 10-Q for the second quarter of fiscal 2007 as soon as possible thereafter.

**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. For our first quarter of fiscal 2007, changes in foreign exchange rates favorably affected our revenues by approximately 4% compared to our first quarter of fiscal 2006. For our second quarter of fiscal 2007, changes in foreign exchange rates favorably affected our revenues by approximately 5% compared to our second quarter of fiscal 2006. If the exchange rates of March 30, 2007 remain stable through the remainder of fiscal 2007, our revenues for the full fiscal year would be favorably affected by approximately 5% compared to the prior year. Conversely, our expenses would be unfavorably affected by similar percentages in these periods.

### **First Quarter 2007 Revenues**

We currently expect to report revenues for our first quarter of fiscal 2007 of between \$42.5 and \$43.0 million, compared to \$39.8 million in the same quarter of the prior year.

### **First Quarter Attendee-Days**

For our first quarter of fiscal 2007, we expect to report a total of 89,457 attendee-days of training, a 3% decrease from 92,674 attendee-days in our first quarter of fiscal 2006. For management courses, we expect to report 27,725 attendee-days of training during the quarter, a 17% increase compared to 23,681 attendee-days in the same quarter of the prior year. For IT courses, we expect to report 61,732 attendee-days of training during the quarter, an 11% decrease from 68,993 attendee-days in our first quarter of fiscal 2006.

**First Quarter Gross Profit.** We expect to report a gross profit percentage in our first quarter of fiscal 2007 of between 56.5% and 57% compared to 52.4% in our first quarter of fiscal 2006. As we discussed earlier, this improvement reflects a number of actions we took in recent quarters that we expect to result in increased revenue per participant and modestly increased participants per event during our first quarter of fiscal 2007.

**First Quarter Operating Expenses.** We expect to report overall operating expenses for our first quarter of fiscal 2007 of between \$18.5 and \$19.0 million, compared with a restated \$18.4 million in the same quarter a year earlier. Our operating expenses in the first quarter of fiscal 2007 will include a provision for lease termination expenses related to two floors we have vacated and will be subleasing in our United Kingdom Education Center.

**First Quarter Other Income.** We expect to report first quarter interest income of approximately \$1.0 million. We also expect to report a one-time gain of approximately \$0.4 million due to the partial sale of our ownership in Collegis, Inc.

**First Quarter Pre-Tax Income.** As a result, we expect to report pre-tax income of between \$6.4 and \$7.4 million for the first quarter of fiscal 2007, compared with \$3.2 million for the same quarter in fiscal 2006.

**2007 Tax Rate.** Our quarterly effective tax rates have varied widely in past years due to factors discussed earlier in this presentation. As a result, we believe that quarterly pre-tax income analysis is more meaningful than quarterly net income comparisons, and we thus are not providing quarterly guidance on our estimated effective tax rates, which could continue to vary widely from quarter to quarter.

**Second Quarter 2007 Revenues**

Our second quarter of fiscal 2007 ended March 30, 2007. We expect to report revenues for our second quarter of fiscal 2007 of between \$37 million and \$38 million, compared to \$34.3 million in the same quarter of the prior year.

**Second Quarter Attendee-Days**

For our second quarter of fiscal 2007, we expect to report a total of 77,424 attendee-days of training, a 1% decrease from 78,548 attendee-days in our second quarter of fiscal 2006. For management courses, we expect to report 23,900 attendee-days of training during the quarter, a 19% increase compared to 20,092 attendee-days in the same quarter of the prior year. For IT courses, we expect to report 53,524 attendee-days of training during the quarter, an 8% decrease from 58,456 attendee-days in our first quarter of fiscal 2006.

**Second Quarter Gross Profit.** We expect to report a gross profit percentage for our second quarter of fiscal 2007 of between 52.5% and 53.5%, compared to 46.7% in our second quarter of fiscal 2006.

**Second Quarter Operating Expenses.** We expect to report overall operating expenses for our second quarter of fiscal 2007 of between \$19.7 and \$20.7 million, compared with \$20.2 million in our second quarter of fiscal 2006.

**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, we expect to report pre-tax results of between a loss of \$0.3 million and income of \$1.6 million for the second quarter of fiscal 2007, compared with a pre-tax loss of \$3.3 million for the second quarter of fiscal 2006.

**Remainder of Fiscal 2007.** As I mentioned earlier in this presentation, we have continued to adjust our future course scheduling with the intent of achieving sustained increases in our gross profit margins in the remaining quarters of fiscal 2007. There is some risk that these actions might have a marginal adverse effect on our revenues. We also expect that our future gross profit percentages will continue to reflect the normal seasonal patterns which we have experienced in prior years.

**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.