

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

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

December 11, 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 Item 1A of our Form 10-K. Please read those risk factors carefully. Some of the factors discussed in our Form 10-K 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 fourth quarter and full year of fiscal 2007, which ended September 28, 2007. I will then provide some forward-looking information about our upcoming first quarter of fiscal year 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>.

We are proud of the results we achieved in our fiscal year 2007, and are pleased to report them to you. This has been a year in which we have made many changes and realized significant improvements both in our operating results and in our financial accounting and reporting processes. We have significantly improved both our gross profit and operating margins. We expanded our course library, so that we are now offering our largest number of course titles in six years. We have strengthened our financial reporting processes and staffing, and have successfully corrected the material weaknesses in our internal controls over financial reporting that we reported in prior years. Perhaps most

importantly, we have achieved these results while continuing to set new standards for the quality of our services to our customers, who in fiscal 2007 gave us the highest ratings ever for our classes.

Here are some highlights of our operating results from our fourth quarter and our full fiscal year. For our fourth quarter of fiscal 2007,

- Revenues increased to \$44.2 million, an improvement of \$5.4 million, or 14.0%, from revenues in the same quarter of fiscal 2006;
- Gross profit increased to 56.9% of revenues from 51.8% for the same quarter of fiscal 2006;
- Operating expenses decreased to 51.6% of revenues from 53.4% for the same quarter of fiscal 2006;
- As a result of these factors, income from operations increased by \$2.9 million over the same quarter of fiscal 2006; and
- Because of the improvement in income from operations, and also the reversal of a valuation allowance on deferred tax assets and other unusual elements of our income tax provision, our net income increased to \$7.8 million, or \$0.48 per share, an improvement of \$11.4 million from our fourth quarter of fiscal 2006. I will discuss the unusual elements of our income tax provision later in this presentation.

For our full fiscal year 2007,

- Revenues increased to \$167.2 million, an improvement of \$13.1 million, or 8.5%, from revenues in fiscal 2006;
- Gross profit increased to 56.4% of revenues, from 50.6% for fiscal 2006;
- Operating expenses decreased to 47.7% of revenues from 52.3% for fiscal 2006;
- As a result of these factors, income from operations increased to \$14.5 million, a \$17.2 million improvement over fiscal 2006; and
- Net income increased to \$17.0 million, or \$1.03 per share, an improvement of \$20.1 million from fiscal 2006.

Fourth Quarter Participants

Overall, during our fourth quarter of fiscal 2007, we trained 23,078 course participants, a 6% increase from the 21,810 participants we trained in the same quarter last year. In our management courses, we provided 25,247 attendee-days of training during the fourth quarter of fiscal 2007, an 8% increase compared to 23,304 attendee-days in the same quarter of the prior year. In our IT courses, we provided 61,217 attendee-days of training during the quarter, which represented a 2% increase from the 59,831 attendee-days in our fourth quarter of fiscal 2006. Overall, we provided a total of 86,464 attendee-days of training, a 4% increase from the 83,135 attendee-days in our fourth quarter of fiscal 2006.

In our fourth quarter of fiscal 2007, average revenue per participant was 7% 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.

Fourth Quarter Operations

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

Cost of Revenues. Cost of revenues decreased to 43.1% of revenues in our fourth quarter of fiscal 2007 compared to 48.2% in our fourth 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.

The decrease in cost of revenues as a percentage of revenues in our fourth quarter of fiscal 2007 reflects a 15% increase in average revenue per event partially offset by a 3% increase in average cost per event. The increase in our average revenue per event is the result of an 8% 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 and a one-time \$0.5 million write-off of leasehold improvements resulting from the termination of the lease for one of our two Education Centers in Paris, France. These increases were partially offset by reduced costs at our other Learning Tree Education Centers and other initiatives to reduce our cost of sales.

During our fourth quarter of fiscal 2007, we presented 1,742 events, a 2% decrease from the 1,770 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 fourth quarter results reflect continued improvements as a result of those efforts. We continue working to maximize the positive impact from this re-scheduling in future time periods.

Course Development Expense. During our fourth quarter of fiscal 2007, our spending on course development was \$2.5 million, about the same as in the same quarter of our prior year. This resulted in course development expense being 5.6% of revenues in our fourth quarter of this fiscal year compared to 6.4% during the same quarter of our prior year. Our spending on course development in our fourth quarter of fiscal 2007 reflected an increase in the number of titles developed during the quarter compared to the same quarter of the prior year and the effect of changes in foreign exchange rates. This was offset by reduced spending on the conversion of existing management titles to our proprietary RealityPlus™ platform, which had been a major endeavor in the fourth quarter of our prior year.

In our fourth quarter of fiscal 2007, we introduced six new IT course titles while also retiring six IT course titles. We introduced five new management course titles and retired two management course titles. At the end of our fourth quarter of fiscal 2007, our library of instructor-led courses numbered 162 titles compared with 152 titles at the same point a year earlier, including 47 management titles compared with 43 management titles at the end of fiscal 2006, and 115 IT titles compared to 109 a year earlier.

Sales and Marketing Expense. Sales and marketing expense in our fourth quarter was \$12.4 million, or 28.0% of revenues, compared with \$10.3 million, or 26.5% of revenues, for the same quarter of the prior year. The increase in sales and marketing expense in the most recent quarter does not reflect a change in our underlying operating model. The increase largely resulted from changes in exchange rates as well as two factors which we do not expect to have the same impact in future quarters:

- First, in the fourth quarter we recorded approximately \$0.5 million in marketing expense that related to our third quarter.
- Second, as a result of an audit of sales and use taxes related to our catalog mailings, we recorded a provision of approximately \$0.6 million in the quarter.

General and Administrative Expense. G&A expense in our fourth quarter decreased to 18.0% of revenues compared with 20.5% in the same quarter of our prior year. G&A expense in our fourth quarter was \$7.9 million, about the same as in our fourth quarter last year. Compared to our fourth quarter in fiscal 2006, G&A expense in our most recent quarter reflected the effects of higher management incentive compensation as a result of over-target performance for fiscal year 2007, changes in foreign exchange rates, and one-time personnel costs, offset by lower fees for professional services.

Results from Operations. As a result of these factors, in our fourth quarter of fiscal 2007 we achieved income from operations of \$2.3 million, or 5.3% of revenues, compared to a loss from operations of \$0.6 million, or 1.6% of revenues, in the same quarter of our prior year.

Other Income and Expense. In our fourth quarter of fiscal 2007, we recorded foreign exchange transaction gains of \$207,000 compared to foreign exchange losses of \$18,000 in the same quarter of the prior year. In our fourth quarter of fiscal 2007, we had net interest income of \$1,005,000 compared to \$891,000 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 fourth quarter of fiscal 2007 was \$3.5 million, compared to pre-tax income of \$0.3 million in the fourth quarter of fiscal 2006.

Income Taxes. As we indicated in our prior reporting, our income tax provision in recent periods has been significantly affected by valuation allowances and other events

not tied to our current operations. In our fourth quarter of fiscal 2007, we recorded a tax benefit of \$4.3 million, compared to tax expense of \$3.8 million in our fourth quarter of fiscal 2006. Our income tax provision for our fourth quarter of fiscal 2007 was significantly affected by two factors unrelated to the increase in our current period income:

- First, in our fourth quarter of fiscal 2006, we had recorded a valuation allowance against certain deferred tax assets. In our fourth quarter of fiscal 2007 we reversed most of that valuation allowance because the significant increase in our profitability has made it more likely than not that we will use those deferred tax assets. The reversal of the valuation allowance decreased our income tax provision in the quarter by approximately \$2.8 million.
- Second, in our fourth quarter of fiscal 2007, we received a final notice of assessment from the Canada Revenue Agency regarding a transfer pricing examination which resulted in a tax credit of approximately \$3.2 million, primarily related to tax years 2000 and 2001.

Net Income. In summary, net income for our fourth quarter of fiscal 2007 was \$7.8 million, or 17.8% of revenues, compared to a net loss of \$3.5 million, or 9.1%, in our fourth quarter of fiscal 2006.

Liquidity and Capital Resources

During fiscal 2007, our total of cash and cash equivalents and available for sale securities increased to \$88.5 million from \$72.2 million at September 29, 2006. This increase is the result of \$17.0 million in net income for the year, \$2.6 million due to the effect of changes in foreign exchange rates, and \$2.0 million generated from changes in current assets and liabilities and non-cash items, partially offset by \$5.5 million used for the purchase of equipment and leasehold improvements. Depreciation and amortization expense for fiscal 2007 was \$6.5 million.

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 our clients' tremendous loyalty. It is worth noting that all of our top 100 customers in our fiscal year 2002 were still Learning Tree customers five years later, 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. If the exchange rates of November 30, 2007 remain constant for the remainder of the first quarter and full fiscal year 2008, we would expect to report a favorable effect of approximately 7% on our revenues during

those periods. Of course, we would also see a similar unfavorable effect on our expenses during those periods.

First Quarter 2008 Revenues

For our first fiscal quarter ending December 28, 2007, we currently expect revenues to be between \$49.0 million and \$51.0 million, compared to revenues of \$42.7 million in our first quarter of fiscal 2007.

First Quarter Gross Profit. We expect a gross profit percentage in our first quarter of fiscal 2008 of between 57.2% and 58.2% compared to 57.0% in our first quarter of fiscal 2007.

First Quarter Operating Expenses. We expect overall operating expenses for our first quarter of fiscal 2008 to be between \$20.0 million and \$21.0 million, compared to \$18.3 million in the same quarter a year earlier.

First Quarter Operating Income. As a result of the above factors, we expect first quarter operating income to be between \$7.0 million and \$9.5 million, compared to \$6.1 million in the same quarter of fiscal 2007.

First Quarter Interest Income. We expect first quarter interest income of approximately \$1.0 million.

First Quarter Pre-Tax Income. Overall, we expect to report pre-tax income for our first quarter of fiscal 2008 of between \$8.0 million and \$10.5 million, compared with pre-tax income of approximately \$7.3 million in the first quarter of the prior year.

Effective Tax Rate. Our projected effective tax rate for our first quarter and full 2008 fiscal year is approximately 37.0%.

Fiscal Year 2008 and Beyond. As we have stated in prior conference calls, during fiscal 2007 we concentrated on achieving a sustainable increase in our level of profitability, with a secondary focus on revenue growth. We are proud of the progress we have made toward both of these goals. Even with the reductions in our expenses, we believe that our infrastructure remains capable of handling a significantly greater volume of business activity without a proportionate increase in operating expense. Thus, we are focusing our future efforts on increasing revenues in order to take advantage of this leverage in our fixed costs.

With respect to revenue, throughout fiscal 2007 we achieved year-on-year revenue growth in each quarter as a result of favorable exchange rates and increased revenue per participant. Additionally, in our fourth quarter of fiscal 2007, as discussed above, our increased revenues reflected a 6% increase in the number of participants and a 4% increase in the number of attendee-days of training compared to the same quarter of fiscal 2006.

During the coming year and beyond we intend to focus on sustaining that participant and revenue growth, which, as just mentioned, should also lead to somewhat higher levels of profitability because of leverage on our fixed costs. We are currently projecting an increase in participants during our first quarter of fiscal 2008 compared to the prior year. That said, our order rate over the past two months has been about the same as it was in the same period of the prior year, and this trend will partly influence attendance in course events in our second quarter, between January and March. On the other hand, because of the holiday season, attendance in our second quarter is typically more heavily influenced by orders taken after the start of that quarter, and somewhat less influenced by orders from the prior quarter, than are the other three quarters of the year.

To achieve our goal of sustainable increases in our participants, we have begun to implement a number of growth strategies as discussed in previous conference calls:

- *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 expect to see the impact of these new priorities phase in over the course of fiscal 2008 and beyond.

There is one additional piece of information you should keep in mind regarding our fiscal year 2008 – Learning Tree does its accounting on the basis of a 52/53-week fiscal year cycle. Fiscal 2008 is one of those 53-week years, and the extra week will occur in our fourth quarter of fiscal 2008, which will end on October 3, 2008. Due to this factor as well as 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 guidance for the full year of fiscal 2008 at this time, this information may 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.

Summary following discussion

We are pleased with the progress we have made toward our goals of improved profitability and increased revenue in fiscal 2007. We look forward to the future as we undertake new initiatives to increase our service to existing customers and attract new

ones, increase the breadth and depth of the products and services we offer those customers, and increase our rate of growth.

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 IT 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.