

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

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

**January 4, 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.

**Introduction and Overview**

Over the past 32 years, Learning Tree International has grown to become one of the world's largest vendor-independent providers of IT training and management education. Fiscal year 2006 was a year of continued adjustment to the changing corporate training market—and resulted in some clear signs of progress. We expect to report modest increases in revenues and gross profit percentage, and we are optimistic that these are only the first results of the adjustments we have made to the business. We are committed to continuing to improve our operating performance.

We continue to rely on our core strengths, which are responsible for the excellent reputation and brand identity we enjoy—and we are adding new strengths in innovative learning programs that we believe will advance the state of the art for instructor-led training and education. In 2006 we introduced our RealityPlus™ management education programs, which are based on industry-leading instructional design techniques that significantly improve learner retention and the application of new knowledge and skills. We also continued to develop and introduce new IT course titles and in fiscal year 2006,

for the first time in several years, we introduced as many new IT course titles as we retired during the year.

I will begin today's presentation with a brief discussion of our previously announced financial restatement. I will then summarize our expected performance in our fourth quarter of fiscal 2006 and our full fiscal year, which ended September 29, 2006. I will follow with some forward-looking information about our upcoming first quarter 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, and our fiscal 2006 Annual Report on Form 10-K will include our report on our internal control over financial reporting and our independent auditors' related attestation report.

Building on the results of our first year of implementation, we have continued to evaluate our finance, accounting, and information technology processes and practices—particularly those related to our financial reporting. We continued to strengthen our internal controls and for the most part we found few significant issues, most of which we remediated during the course of the year. We have taken significant steps toward remediating the material weaknesses we identified a year ago, especially in the area of improving the staffing in our finance and accounting organization, although we have concluded that we still have material weaknesses in our processes and in our internal controls over financial reporting. Our fiscal 2006 Form 10-K will include a detailed discussion of our findings and conclusions.

Partly as a result of new staff and procedures which were in place by the end of the fourth quarter of fiscal 2006, in the closing process for that quarter we found that during fiscal year 2005 and the first three quarters of fiscal year 2006 we had incorrectly accounted for lease termination costs associated with portions of our Education Center and our office facilities in the United Kingdom, which we had ceased using. When we file our fiscal year 2006 Form 10-K, we will restate the results for those periods. We anticipate that the restatement will adversely affect our previously reported operating loss for fiscal year 2005 by approximately \$0.5 million, and will adversely affect our previously reported operating loss for the first three quarters of fiscal year 2006 by approximately \$0.9 million. The numbers we will discuss during the remainder of this call reflect those anticipated effects

We are still in the process of working on our consolidated tax provision for fiscal year 2006. We expect it to include two items of note in the fourth quarter. First, we expect to record in the tax provision a valuation allowance of approximately \$1.8 million to \$2.0

million based on a review of our deferred tax assets. Second, we expect our fourth quarter income tax provision to include an additional reserve of approximately \$900,000, based on an audit of prior years in Canada and various other tax exposure items.

We are presently finalizing our tax provision and related disclosures, after which our financial statements will go through the customary internal reviews and external audit process. We will file our fiscal 2006 Form 10-K upon completion of that process.

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

Because we are still finalizing certain matters required to complete our fiscal 2006 audit, all amounts presented in the following discussion of our expected financial results are unaudited.

We are pleased to report that we believe we have begun to see some of the results of our efforts to improve profitability and increase revenues. Although it is too early to declare the trend certain, we expect that our revenues and gross profit percentage for both our fourth quarter of fiscal year 2006 and our full fiscal year will exceed those of the same periods a year ago, and in the fourth quarter we also expect to report a substantial improvement in our income from operations. We are particularly pleased that we have been able to achieve these gains while simultaneously investing greater amounts in product development than in our prior year and also increasing the number and capability of our sales staff. We expect our fourth-quarter results to reflect some improvement from our recent focus on reducing cost and improving profitability; however, we expect to achieve the full impact of these initiatives over the next several quarters.

We expect to report that 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 last year. We expect to report cost of revenues of approximately 48.6% in our fourth quarter of fiscal 2006 compared to a cost of revenues of approximately 50.5% in the fourth quarter of fiscal 2005. We expect to report operating expenses of approximately \$19.7 million in the fourth quarter of fiscal 2006, compared to restated operating expenses of \$18.8 million for the fourth quarter of fiscal 2005. And we expect to record income from operations of \$0.2 million in our fourth quarter compared to a restated loss from operations of \$0.8 million for the same quarter of fiscal 2005. We expect that our revenues in our fourth quarter of fiscal 2006 will be favorably affected by approximately 3% as a result of changes in foreign exchange rates, compared to the same period a year earlier. Conversely, we expect our expenses in the fourth quarter of fiscal 2006 will be unfavorably affected to the same degree.

For the year ended September 29, 2006, we expect to report revenues of \$154.0 million compared to \$151.6 million last year. For fiscal 2006, we expect to report cost of revenues of approximately 49.6% compared to 50.3% for fiscal 2005. We expect to report operating expenses of approximately \$79.6 million for fiscal 2006, compared with a restated \$76.9 million for fiscal 2005. And we expect to report a loss from operations of \$1.9 million for fiscal 2006 compared to a restated loss from operations of \$1.6 million for fiscal 2005.

Following the submission of our fiscal 2006 Form 10-K, we will provide a detailed discussion of our fiscal 2006 fourth quarter results. In this session, however, I will comment on some aspects of our performance for the quarter and for our full fiscal year.

In our conference call for the third quarter of fiscal 2006, we confirmed our commitment 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 completed our review and began implementing substantial cost reductions across our operations. In particular, we made significant progress in reducing 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. While we have chosen to re-invest some of our savings in certain key initiatives, we believe the majority of the expenses we have eliminated will contribute to improved profitability.

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. We provided 23,304 attendee-days of management 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. We provided 90,592 attendee-days of management 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 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 continuing to develop IT course titles as well as increasing the number of course titles we offer in our management curriculum.

### **Introduction of RealityPlus™**

As we have mentioned 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. In our fourth quarter of fiscal 2006 we released RealityPlus™, unveiling 13 management course titles that we have

rebuilt to feature 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, RealityPlus™ significantly improves learning and increases the actual use of new knowledge and skills in the workplace. As a result, learners in RealityPlus™ courses are better equipped when they return to their jobs. Early results 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.

### **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 our customers' tremendous loyalty. It is worth noting that virtually all 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.

**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 December 8, 2006 remain stable through the remainder of the first quarter of fiscal 2007, our revenues would be favorably affected by approximately 4% in our first quarter of fiscal 2007. Conversely, our expenses would be unfavorably affected by similar percentages in these periods.

### **First Quarter 2007 Revenues**

We currently expect to report revenues in our first quarter of fiscal 2007 of between \$41.5 million and \$42.5 million, compared to \$39.8 million in the same quarter of the prior year.

**First Quarter Gross Profit.** We expect to report a gross profit percentage in our first quarter of fiscal 2007 of between 55% and 56% compared to 52% 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 modest increases in revenue per participant and participants per event during our first quarter of fiscal year 2007.

**First Quarter Operating Expenses.** We expect to report overall operating expenses for our first quarter of fiscal 2007 at approximately to the same level or slightly higher than the \$18.3 million in the same quarter a year earlier. This primarily reflects the effect of increased sales personnel costs and changes in foreign exchange rates, largely or entirely offset by reductions in marketing expenses and reduced staffing levels.

**First Quarter Interest Income.** We expect to report first quarter interest income of approximately \$0.9 million.

**2007 Tax Rate.** We estimate that our effective tax rate in our first quarter of fiscal 2007 will be approximately 35% to 37%.

**Net Income.** As a result of the preceding factors, we expect to report net income in the first quarter of fiscal 2007 of between \$0.20 and \$0.24 per share.

**Remainder of Fiscal 2007.** We have continued to adjust our future course scheduling with the intent of achieving further increases in our gross profit margins in our second and third quarters of fiscal year 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.

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.