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**For Immediate Release**

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## **PLATO Learning, Inc. Reports Record Fourth Quarter and Fiscal Year 2003 Results**

### **Fourth Quarter Revenues Grow 16.8 Percent**

**MINNEAPOLIS, MN – December 4, 2003** – PLATO Learning, Inc. (NASDAQ: TUTR), a leading provider of K-Adult computer-based and e-learning solutions, today announced revenues for its fourth quarter ended October 31, 2003, totaling \$27.5 million, a \$4.0 million or a 16.8 percent increase versus the \$23.5 million reported for the comparable period of fiscal 2002. The net earnings for the fourth quarter of 2003 were \$3.3 million, or \$0.20 per diluted share, as compared to \$119,000 or \$0.01 per diluted share, for the same period of 2002.

Revenues for the fiscal year ended October 31, 2003, totaled \$82.2 million, a \$7.8 million or a 10.5 percent increase over the fiscal year 2002. The company's 2002 acquisitions contributed approximately \$2.9 million of total revenue in 2003. Of this amount, \$1.8 million was acquired growth (2003 revenue not reflected in the comparable 2002 period due to purchase accounting) and \$1.1 million was organic growth from these acquisitions. Overall, the company had organic growth of \$6.0 million over 2002, 18% of this originating from these strategic acquisitions. The net loss for the fiscal year 2003 was \$1.7 million, or \$0.10 per diluted share, compared to a loss of \$1.1 million, or \$0.07 per diluted share, for the fiscal year 2002. The fiscal year 2003 results include \$802,000 of restructuring charges and the fiscal year 2002 results included \$360,000 of purchased in-process research and development charges. The operating results of NetSchools are included for all of fiscal 2003, but only the second half of fiscal 2002 following its strategic acquisition in May 2002 and, as planned, had a dilutive effect during these periods.

John Murray, President and Chief Executive Officer, said, "Our improved profitability in the fourth quarter again shows the power of our business model. We achieved solid double-digit revenue growth for the second consecutive quarter while holding our operating expenses to an increase of less than 3 percent as compared to the fourth quarter of last year." Mr. Murray added, "Our fourth quarter results also reflect the strength of our diverse offering of products and services, as well as the benefit of a slowly improving funding environment. We ended the fiscal year with two strong quarters, a trend that provides us growing optimism."

Mr. Murray continued, "We enter our fiscal 2004 with great momentum. On November 17, 2003, we completed our merger with Lightspan. Since then we have aggressively and successfully begun to integrate operations. The transition activities to date have closely followed the detailed plan we previously established. The results have been encouraging and validate the strategic wisdom of this combination. We look forward to another year of revenue growth and improved operating results."

Mr. Murray highlighted additional key financial information:

- Subscription-based orders in Q4 2003 totaled \$2.4 million as compared to \$1.9 million in the fourth quarter of last fiscal year.
- Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), calculated as operating income (loss) before depreciation and amortization, was \$7.9 million in Q4 2003 as compared to \$3.7 million for the fourth quarter of last fiscal year. In fiscal 2003, the Company generated \$7.9 million of EBITDA versus \$6.1 million of EBITDA in fiscal 2002.
- Cash flow from operations in Q4 2003 totaled \$3.3 million as compared to \$4.7 million in the fourth quarter of last fiscal year. In fiscal 2003, the Company generated \$8.6 million cash flow from operations versus \$4.8 million in fiscal 2002.

The Company's balance sheet remains strong:

- Cash and marketable securities were \$27.7 million at October 31, 2003, with no bank borrowings outstanding.
- Deferred revenue was \$26.6 million at October 31, 2003, excluding another \$3 million of revenue that the company expects to earn in fiscal 2004 from a contract with the Navy, versus \$18.8 million at October 31, 2002.
- Stockholders' equity was \$109.9 million at October 31, 2003.

### **Quarterly Conference Call**

A conference call to discuss this announcement is scheduled for today at 3:45 PM (CST). The dial-in number for this call is 1-877-775-1746. Please call ten minutes prior to the start of the call and inform the operator you are participating in PLATO Learning's call. Should you be unable to attend the live conference call, a recording will be available to you from 6:00 p.m. on December 4, 2003, through midnight December 11, 2003. To access the recording call: 1-800-642-1687. At the prompt, enter pass code number 3490393.

### **About PLATO Learning**

PLATO Learning, Inc. is a leading provider of computer-based and e-learning instruction for Kindergarten through adult learners, offering curricula in reading, writing, math, science, social studies, and life and job skills. The company also offers innovative online assessment and accountability solutions and standards-based professional development services. With over 4,000 hours of objective-based, problem-solving courseware, plus assessment, alignment and curriculum management tools, we create standards-based curricula that facilitate learning and school improvement.

With trailing 12-month revenues of about \$82 million, PLATO Learning, Inc. is a publicly held company traded as TUTOR on the NASDAQ-NMS. PLATO<sup>®</sup> Learning educational software is marketed to K-12 schools, colleges, job training programs, correctional institutions, military education programs, corporations and individuals and delivered via networks, CD-ROM, the Internet and private intranets. It is available for immediate purchase and electronic download on the Company's Web site.

PLATO Learning is headquartered at 10801 Nesbitt Avenue South, Bloomington, Minnesota 55437, (952) 832-1000 or (800) 869-2000. The Company has domestic offices throughout the United States and international offices in the United Kingdom and Canada. International distributors are located in Puerto Rico, Singapore, South Africa and the United Arab Emirates. The Company's Web address is <http://www.plato.com>.

*This announcement includes forward-looking statements. PLATO Learning has based these forward-looking statements on its current expectations and projections about future events. Although PLATO Learning believes that its assumptions made in connection with the forward-looking statements are reasonable, no assurances can be given that its assumptions and expectations will prove to have been correct. These forward-looking statements are subject to various risks, uncertainties and assumptions. PLATO Learning undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward looking statements made are subject to the risks and uncertainties as those described in the Company's Annual Report on Form 10-K for the year ended October 31, 2002. Actual results may differ materially from anticipated results.*

**PLATO Learning, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
(Unaudited, in thousands, except per share amounts)

	Three Months Ended		Year Ended	
	October 31,		October 31,	
	2003	2002	2003	2002
Revenues:				
License fees	\$ 20,896	\$ 18,182	\$ 59,590	\$ 57,691
Services	5,141	3,713	16,738	11,780
Other	1,438	1,631	5,864	4,920
Total revenues	<u>27,475</u>	<u>23,526</u>	<u>82,192</u>	<u>74,391</u>
Cost of revenues:				
License fees	1,134	1,513	3,737	4,150
Services	515	550	2,423	1,608
Other	1,517	1,011	5,468	3,728
Total cost of revenues	<u>3,166</u>	<u>3,074</u>	<u>11,628</u>	<u>9,486</u>
Gross profit	<u>24,309</u>	<u>20,452</u>	<u>70,564</u>	<u>64,905</u>
Operating expenses:				
Sales and marketing	11,745	11,180	44,753	40,355
General and administrative	3,419	3,962	12,173	11,635
Product development and customer support	3,449	3,342	13,162	12,599
Amortization of intangibles	669	348	1,939	1,053
Restructuring charge	-	-	802	-
Purchased in-process research and development	-	-	-	360
Total operating expenses	<u>19,282</u>	<u>18,832</u>	<u>72,829</u>	<u>66,002</u>
Operating earnings (loss)	5,027	1,620	(2,265)	(1,097)
Interest income	22	123	317	851
Interest expense	(16)	(24)	(104)	(131)
Other expense, net	(13)	(25)	(56)	(164)
Earnings (loss) before income taxes	5,020	1,694	(2,108)	(541)
Income tax expense (benefit)	1,744	1,575	(441)	600
Net earnings (loss)	<u>\$ 3,276</u>	<u>\$ 119</u>	<u>\$ (1,667)</u>	<u>\$ (1,141)</u>
Earnings (loss) per share:				
Basic	<u>\$ 0.20</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.07)</u>
Diluted	<u>\$ 0.20</u>	<u>\$ 0.01</u>	<u>\$ (0.10)</u>	<u>\$ (0.07)</u>
Weighted average common shares outstanding:				
Basic	<u>16,366</u>	<u>16,778</u>	<u>16,510</u>	<u>16,600</u>
Diluted	<u>16,618</u>	<u>16,920</u>	<u>16,510</u>	<u>16,600</u>

**PLATO Learning, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**(Unaudited, in thousands, except per share amounts)**

	<b>October 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,834	\$ 30,390
Accounts receivable, net	39,176	33,034
Prepaid expenses and other current assets	4,819	4,870
Deferred income taxes	2,218	1,777
Total current assets	70,047	70,071
Long-term marketable securities	3,862	-
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$7,536 and \$5,437, respectively	5,024	5,210
Product development costs, net of accumulated amortization of \$11,838 and \$6,083, respectively	14,738	13,545
Goodwill	39,609	38,739
Identified intangible assets, net	14,707	16,946
Other assets	1,975	1,144
Total assets	\$ 149,962	\$ 145,655
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,876	\$ 888
Accrued employee salaries and benefits	6,678	6,979
Accrued liabilities	3,600	4,786
Deferred revenue	22,192	14,891
Total current liabilities	35,346	27,544
Deferred revenue	4,372	3,946
Other liabilities	312	582
Total liabilities	40,030	32,072
Stockholders' equity:		
Common stock, \$.01 par value, 50,000 shares authorized; 17,671 shares issued and 16,370 shares outstanding at October 31, 2003; 17,656 shares issued and 16,812 shares outstanding at October 31, 2002	164	168
Paid in capital	123,135	123,053
Treasury stock at cost, 1,301 and 844 shares, respectively	(11,652)	(9,495)
Retained earnings (accumulated deficit)	(1,022)	645
Accumulated other comprehensive loss	(693)	(788)
Total stockholders' equity	109,932	113,583
Total liabilities and stockholders' equity	\$ 149,962	\$ 145,655

**PLATO Learning, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited, in thousands)

	<b>Year Ended October 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Operating activities:</b>		
Net loss	\$ (1,667)	\$ (1,141)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income taxes	(441)	600
Amortization of capitalized product development costs	5,720	4,177
Amortization of identified intangible assets	2,239	1,353
Depreciation of equipment and leasehold improvements	2,227	1,665
Provision for doubtful accounts	2,476	2,547
Loss on disposal of equipment	61	137
Purchased in-process research and development	-	360
Stock-based compensation	-	55
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(8,442)	(5,753)
Prepaid expenses and other current and noncurrent assets	(956)	(2,598)
Accounts payable	1,988	(3,876)
Accrued liabilities, accrued employee salaries and benefits and other liabilities	(1,492)	556
Deferred revenue	6,850	6,686
Total adjustments	10,230	5,909
Net cash provided by operating activities	8,563	4,768
<b>Investing activities:</b>		
Capitalization of product development costs	(6,863)	(7,738)
Capital expenditures	(2,088)	(3,275)
Purchases of marketable securities	(3,842)	-
Acquisitions, net of cash acquired	-	(12,370)
Net cash used in investing activities	(12,793)	(23,383)
<b>Financing activities:</b>		
Repurchase of common stock	(2,161)	(11,340)
Net proceeds from issuance of common stock	82	1,331
Repayments of capital lease obligations	(258)	(295)
Repayments of bank debt	-	(2,366)
Net cash used in financing activities	(2,337)	(12,670)
Effect of foreign currency on cash	11	107
<b>Net decrease in cash and cash equivalents</b>	<b>(6,556)</b>	<b>(31,178)</b>
Cash and cash equivalents at beginning of period	30,390	61,568
Cash and cash equivalents at end of period	\$ 23,834	\$ 30,390