



**For Immediate Release**

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**PLATO Learning, Inc. Reports  
First Quarter Fiscal Year 2004 Results**

**Lightspan Acquisition Aids Revenue Growth  
and Operational Improvement**

**MINNEAPOLIS, MN – February 26, 2004** – PLATO Learning, Inc. (NASDAQ: TUTR), a leading provider of K-Adult computer-based and e-learning solutions, today announced revenues for its first quarter ended January 31, 2004, totaling \$26.4 million, a \$12.9 million or a 97% increase versus the \$13.5 million reported for the comparable period of fiscal 2003. The Company's acquisition of Lightspan, Inc. significantly contributed to the quarter's revenue growth.

Reported Revenues (000's)	Quarter Ended January 31,		Growth
	2004	2003	
PLATO Learning	\$ 26,448	\$ 13,457	97%
Lightspan (1)	967	13,046	
	<u>\$ 27,415</u>	<u>\$ 26,503</u>	3%

(1) Lightspan revenues prior to acquisition.

The net loss for the first quarter of 2004 was \$7.5 million, or \$0.35 per diluted share, as compared to a loss of \$3.4 million, or \$0.20 per diluted share, for the same period of 2003. The first quarter results for the period ended January 31, 2003 benefited from a tax credit of \$2.35 million, or \$0.14 per diluted share. No tax credit was recorded for the quarter ended January 31, 2004. This tax accounting treatment is consistent with the full valuation allowance we provided against our deferred tax assets in connection with the acquisition of Lightspan.

Adjusted Net Loss (000's, except per share amounts)	Quarter Ended January 31,	
	2004	2003
Net loss (GAAP)	\$ (7,535)	\$ (3,407)
Exclude:		
Income tax benefit	-	(2,350)
Net loss (Non-GAAP)	<u>\$ (7,535)</u>	<u>\$ (5,757)</u>
Weighted average common shares outstanding	<u>21,500</u>	<u>16,775</u>
Loss per basic and diluted share (Non-GAAP)	<u>\$ (0.35)</u>	<u>\$ (0.34)</u>

The acquisition of Lightspan also added significant expenses to the Company's operations.

Reported Costs and Expenses (000's)	Quarter Ended January 31,	
	2004	2003
Operating expenses:		
PLATO Learning (1)	22,863	13,222
Lightspan (2)	1,941	14,248
Total	24,804	27,470
As a percentage of revenues	90.5%	103.6%

(1) PLATO operating expenses in 2003 exclude \$380 of restructuring charges.

(2) Lightspan operating expenses prior to acquisition.

On December 17, 2003, the Company also acquired New Media (Holdings) Limited, a United Kingdom (UK) based publisher of curriculum-focused software primarily for teaching secondary school science and math. This acquisition was not significant to the revenues, operating expenses or net loss for the quarter.

John Murray, Chairman, President and CEO, said, "The first quarter was a critical period for PLATO Learning. We closed acquisitions with both Lightspan and New Media and began integrating both operations. Each of these transactions was strategically important in allowing PLATO Learning to emerge as a stronger, leading provider of products and services to the K-12 market, as well as being the clear leader in the post-secondary market." Mr. Murray added, "Our first quarter results reflect our ability to grow revenues in a continually tough funding environment, when competition continues to experience year over year declines, and to do so while working through the distractions inherent in consummating mergers of this magnitude. We also demonstrated our ability to remove costs from the combined entities."

Mr. Murray continued, "Although we achieved our first quarter targets from both a financial and integration perspective, there is even greater opportunity ahead. We must continue to wisely integrate operations and begin to capitalize on the product, brand and human assets of PLATO Learning. The results of the quarter are encouraging and validate the strategic wisdom of these combinations. We look forward to the revenue growth and improved operating results we can accomplish."

Mr. Murray highlighted additional key financial information:

- Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), calculated as operating income (loss) before depreciation, amortization and restructuring charges, was \$9.1 million for the twelve month period ended January 31, 2004 as compared to \$4.5 million for the twelve month period ended January 31, 2003.
- Cash flow used in operations in Q1 2004 totaled \$1.3 million as compared to cash flow generated from operations of \$959,000 in the first quarter of last fiscal year

The Company's balance sheet remains strong:

- Cash and marketable securities were \$27.9 million at January 31, 2004, compared to \$27.7 million at October 31, 2003, despite using \$6.8 million to acquire New Media (Holdings) Limited in December. There were no bank borrowings outstanding at January 31, 2004.
- Deferred revenue was \$40.9 million at January 31, 2004, versus \$20.1 million at January 31, 2003. Lightspan had deferred revenue of \$12.3 million at January 31, 2003.
- Stockholders' equity was \$153.3 million at January 31, 2004, compared to \$109.9 million at October 31, 2003.

### **Use of Non-GAAP Financial Measures**

The non-GAAP financial measures used in this press release exclude the impact of an income tax credit in 2003, and a 2003 restructuring charge on PLATO Learning's operating results, as well as present certain proforma operations as if Lightspan had been acquired as of November 1, 2002. These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. PLATO Learning's management views these non-GAAP financial measures to be helpful in assessing the Company's progress in integrating the operations of Lightspan. In addition, these non-GAAP financial measures facilitate management's internal comparisons to PLATO Learning's historical operating results and comparisons to competitors' operating results. PLATO Learning includes these non-GAAP financial measures in its earnings announcement because the Company believes they are useful to investors in allowing for greater transparency related to supplemental information used by management in its financial and operational analysis. Investors are encouraged to review the reconciliation of the non-GAAP financial measures used in this press release to their most directly comparable GAAP financial measures as provided with the financial statements attached to this press release.

### **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 February 26, 2004, through midnight March 4, 2004. To access the recording call: 1-800-642-1687. At the prompt, enter pass code number 5050874.

### **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 over \$97 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 and colleges. We also sell to job training programs, correctional institutions, military education programs, corporations and individuals and delivered via networks, CD-ROM, the Internet and private intranets.

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, 2003. Actual results may differ materially from anticipated results.*

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

	<b>Three Months Ended</b>	
	<b>January 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenues:		
License fees	\$ 13,059	\$ 7,445
Subscriptions	4,508	1,624
Services	6,337	3,383
Other	2,544	1,005
Total revenues	<u>26,448</u>	<u>13,457</u>
Cost of revenues:		
License fees	3,341	1,757
Subscriptions	1,679	569
Services	3,764	2,370
Other	2,199	991
Total cost of revenues	<u>10,983</u>	<u>5,687</u>
Gross profit	<u>15,465</u>	<u>7,770</u>
Operating expenses:		
Sales and marketing	15,185	9,238
General and administrative	4,492	3,276
Product development	2,203	561
Amortization of intangibles	983	147
Restructuring charges	-	380
Total operating expenses	<u>22,863</u>	<u>13,602</u>
Operating loss	<u>(7,398)</u>	<u>(5,832)</u>
Interest income	119	120
Interest expense	(35)	(24)
Other expense, net	(71)	(21)
Loss before income taxes	<u>(7,385)</u>	<u>(5,757)</u>
Income tax expense (benefit)	150	(2,350)
Net loss	<u>\$ (7,535)</u>	<u>\$ (3,407)</u>
Loss per share:		
Basic and diluted	<u>\$ (0.35)</u>	<u>\$ (0.20)</u>
Weighted average common shares outstanding:		
Basic and diluted	<u>21,500</u>	<u>16,775</u>

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

	<u>January 31,</u> <u>2004</u>	<u>October 31,</u> <u>2003</u>
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,196	\$ 23,834
Accounts receivable, net	41,638	39,176
Prepaid expenses and other current assets	9,276	4,819
Deferred income taxes	-	2,218
Total current assets	<u>75,110</u>	<u>70,047</u>
Long-term marketable securities	3,746	3,862
Equipment and leasehold improvements, net	7,367	5,024
Product development costs, net	14,695	14,738
Goodwill	69,393	39,609
Identified intangible assets, net	45,562	14,707
Other assets	1,940	1,975
Total assets	<u><u>\$ 217,813</u></u>	<u><u>\$ 149,962</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,416	\$ 2,876
Accrued employee salaries and benefits	4,592	6,678
Accrued liabilities	13,390	3,600
Deferred revenue	34,931	22,192
Total current liabilities	<u>57,329</u>	<u>35,346</u>
Deferred revenue	6,010	4,372
Deferred income taxes	863	-
Other liabilities	284	312
Total liabilities	<u>64,486</u>	<u>40,030</u>
Stockholders' equity:		
Common stock, \$.01 par value, 50,000 shares authorized; 22,979 shares issued and outstanding at January 31, 2004; 17,671 shares issued and 16,370 shares outstanding at October 31, 2003	230	164
Additional paid in capital	162,110	123,135
Treasury stock at cost, 0 and 1,301 shares, respectively	-	(11,652)
Accumulated deficit	(8,557)	(1,022)
Accumulated other comprehensive loss	(456)	(693)
Total stockholders' equity	<u>153,327</u>	<u>109,932</u>
Total liabilities and stockholders' equity	<u><u>\$ 217,813</u></u>	<u><u>\$ 149,962</u></u>

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

	<b>Three Months Ended</b>	
	<b>January 31,</b>	
	<b>2004</b>	<b>2003</b>
<b>Operating activities:</b>		
Net loss	\$ (7,535)	\$ (3,407)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	150	(2,350)
Amortization of capitalized product development costs	1,764	1,294
Amortization of identified intangible assets	1,780	476
Depreciation and amortization of equipment and leasehold improvements	911	549
Provision for doubtful accounts	346	525
Loss on disposal of equipment	1	2
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	5,741	4,830
Prepaid expenses and other current and noncurrent assets	(1,296)	(370)
Accounts payable	(1,314)	1,029
Accrued liabilities, accrued employee salaries and benefits and other liabilities	(3,586)	(2,048)
Deferred revenue	1,786	429
Total adjustments	<u>6,283</u>	<u>4,366</u>
Net cash provided by (used in) operating activities	<u>(1,252)</u>	<u>959</u>
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	2,324	-
Capitalization of product development costs	(1,664)	(1,667)
Capital expenditures	(572)	(297)
Sales of marketable securities	116	-
Net cash provided by (used in) investing activities	<u>204</u>	<u>(1,964)</u>
<b>Financing activities:</b>		
Repurchase of common stock	-	(540)
Net proceeds from issuance of common stock	1,311	16
Repayments of capital lease obligations	(60)	(69)
Net cash provided by (used in) financing activities	<u>1,251</u>	<u>(593)</u>
Effect of foreign currency on cash	<u>159</u>	<u>81</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>362</b>	<b>(1,517)</b>
Cash and cash equivalents at beginning of period	<u>23,834</u>	<u>30,390</u>
Cash and cash equivalents at end of period	<u>\$ 24,196</u>	<u>\$ 28,873</u>

**PLATO Learning, Inc.**  
**Supplemental Financial Information**  
**(Unaudited)**

Revenues (\$000's)	Quarter Ended January 31,						% Change	
	2004			2003				
	As Reported	Lightspan (1)	Pro Forma	As Reported	Lightspan (1)	Pro Forma	As Reported	Pro Forma
License fees	\$ 13,059	\$ -	\$ 13,059	\$ 7,445	\$ 6,825	\$ 14,270	75%	-8%
Subscriptions	4,508	531	5,039	1,624	2,977	4,601	178%	10%
Services	6,337	438	6,775	3,383	2,425	5,808	87%	17%
Other	2,544	-	2,544	1,005	819	1,824	153%	39%
	<u>\$ 26,448</u>	<u>\$ 969</u>	<u>\$ 27,417</u>	<u>\$ 13,457</u>	<u>\$ 13,046</u>	<u>\$ 26,503</u>	97%	3%

(1) Lightspan revenues prior to acquisition.

Operating Expenses (\$000's)	Quarter Ended January 31,			% of Revenue	
	2004				
	As Reported	Lightspan (1)	Pro Forma	As Reported	Pro Forma
Sales and marketing	\$ 15,185	\$ 1,282	\$ 16,467	57%	60%
General and administrative	4,492	310	4,802	17%	18%
Product development	2,203	327	2,530	8%	9%
Amortization of intangibles	983	22	1,005	4%	4%
	<u>\$ 22,863</u>	<u>\$ 1,941</u>	<u>\$ 24,804</u>	86%	90%

  

	Quarter Ended January 31,			% of Revenue	
	2003				
	As Reported	Lightspan (1)	Pro Forma	As Reported	Pro Forma
Sales and marketing	\$ 9,238	\$ 6,862	\$ 16,100	69%	61%
General and administrative	3,276	2,367	5,643	24%	21%
Product development	561	3,018	3,579	4%	14%
Amortization of intangibles	147	2,001	2,148	1%	8%
	<u>\$ 13,222</u>	<u>\$ 14,248</u>	<u>\$ 27,470</u>	98%	104%

(1) Lightspan operating expenses prior to acquisition.

Order Size (\$000's)	Quarter Ended January 31,				% Change	
	2004		2003 (1)			
	Number	Value	Number	Value	Number	Value
\$100 to \$249	30	\$ 4,309	20	\$ 3,150	50%	37%
\$250 or greater	14	9,118	9	4,675	56%	95%
	<u>44</u>	<u>\$ 13,427</u>	<u>29</u>	<u>\$ 7,825</u>	52%	72%

(1) 2003 includes both PLATO Learning and Lightspan

**PLATO Learning, Inc.**  
**Supplemental Financial Information**  
**(Unaudited)**

Deferred Revenue (\$000's)	January 31,		October 31,
	2004	2003	2003
License fees	\$ 7,096	\$ 4,706	\$ 4,762
Subscriptions	11,675	1,790	4,134
Services	21,968	13,382	17,360
Other	202	265	308
	40,941	20,143	26,564
Lightspan	-	12,324	14,262
Total	\$ 40,941	\$ 32,467	\$ 40,826

EBITDA (\$000's)	As Reported	Twelve Months Ended January 31, 2004				
		Q2-2003	Q3-2003	Q4-2003	Q1-2004	Total
Net earnings (loss)	\$	(1,821)	\$ 285	\$ 3,276	\$ (7,535)	\$ (5,795)
Income taxes		(1,435)	1,600	1,744	150	2,059
Interest expense		30	34	16	35	115
Depreciation and amortization		2,231	2,782	2,854	4,455	12,322
Restructuring charge		-	422	-	-	422
	\$	(995)	\$ 5,123	\$ 7,890	\$ (2,895)	\$ 9,123

EBITDA (\$000's)	As Reported	Twelve Months Ended January 31, 2003				
		Q2-2002	Q3-2002	Q4-2002	Q1-2003	Total
Net earnings (loss)	\$	297	\$ (200)	\$ 119	\$ (3,407)	\$ (3,191)
Income taxes		275	(350)	1,575	(2,350)	(850)
Interest expense		31	34	24	24	113
Depreciation and amortization		1,586	2,017	2,076	2,319	7,998
Restructuring charge		-	-	-	380	380
	\$	2,189	\$ 1,501	\$ 3,794	\$ (3,034)	\$ 4,450