



For Immediate Release

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

**Company Returns to Profitability
Shows Solid Revenue Growth Compared to Market**

MINNEAPOLIS, MN – August 26, 2004 – PLATO Learning, Inc. (NASDAQ: TUTR), a leading provider of K-Adult computer-based and e-learning solutions, today announced revenues for its third quarter ended July 31, 2004, totaling \$40.6 million. This represents a \$16.8 million or a 71% increase versus the \$23.8 million reported for the comparable period of fiscal 2003. The Company's acquisition of Lightspan, Inc. in November 2003 significantly contributed to the revenue growth for the quarter and year-to-date ended July 31, 2004.

Reported Revenues (000's)	Quarter Ended July 31,		Growth	Nine Months Ended July 31,		Growth
	2004	2003		2004	2003	
PLATO Learning	\$ 40,613	\$ 23,793	71%	\$ 99,381	\$ 54,717	82%
Lightspan (1)	-	14,479		969	37,371	
	<u>\$ 40,613</u>	<u>\$ 38,272</u>	6%	<u>\$ 100,350</u>	<u>\$ 92,088</u>	9%

(1) Lightspan revenues prior to acquisition.

Net earnings for the third quarter of 2004 were \$6.7 million, or \$0.29 per diluted share, as compared to \$0.3 million, or \$0.02 per diluted share, for the same period of 2003. The third quarter results for the period ended July 31, 2003, included tax expense of \$1.6 million, or \$0.10 per diluted share. Tax expense for the quarter ended July 31, 2004 was related to non-deductible goodwill and was \$150,000, or \$.01 per diluted share. The tax expense reduction between periods resulted from the full valuation allowance the Company provided against its deferred tax assets in connection with the acquisition of Lightspan and from the losses incurred year-to-date in fiscal 2004.

Adjusted Net Earnings (Loss) (000's, except per share amounts)	Quarter Ended July 31,		Nine Months Ended July 31,	
	2004	2003	2004	2003
Net earnings (loss) (GAAP)	\$ 6,724	\$ 285	\$ (4,041)	\$ (4,943)
Exclude income tax expense (benefit)	150	1,600	450	(2,185)
Net earnings (loss) (Non-GAAP)	<u>\$ 6,874</u>	<u>\$ 1,885</u>	<u>\$ (3,591)</u>	<u>\$ (7,128)</u>
Weighted average common shares outstanding	<u>23,012</u>	<u>16,363</u>	<u>22,497</u>	<u>16,558</u>
Earnings (loss) per basic share (Non-GAAP)	<u>\$ 0.30</u>	<u>\$ 0.12</u>	<u>\$ (0.16)</u>	<u>\$ (0.43)</u>
Weighted average common shares outstanding	<u>23,556</u>	<u>16,420</u>	<u>22,497</u>	<u>16,558</u>
Earnings (loss) per diluted share (Non-GAAP)	<u>\$ 0.29</u>	<u>\$ 0.11</u>	<u>\$ (0.16)</u>	<u>\$ (0.43)</u>

The acquisition of Lightspan also added significant expenses to the Company's operations, the impact of which has been partially offset by cost reductions from operating synergies of the merged businesses.

Reported Operating Expenses (000's)	Quarter Ended July 31,		Nine Months Ended July 31,	
	2004	2003	2004	2003
Operating expenses:				
PLATO Learning (1)	22,217	13,898	68,361	40,875
Lightspan (2)	-	13,941	1,941	43,169
Total	<u>22,217</u>	<u>27,839</u>	<u>70,302</u>	<u>84,044</u>
As a percentage of revenues	<u>54.7%</u>	<u>72.7%</u>	<u>70.1%</u>	<u>91.3%</u>

(1) PLATO operating expenses for the quarter and nine months in 2003 exclude \$422 and \$802 of restructuring charges, respectively.

(2) Lightspan operating expenses prior to acquisition.

John Murray, Chairman, President and CEO, said, "Our financial performance for the third quarter clearly demonstrates the significant financial leverage of our business model. We returned to profitability this quarter with \$6.9 million of operating income, representing 17% of revenue. Operating income also improved from second quarter 2004 by over \$10 million, further demonstrating both our financial leverage and the additional cost synergies achieved since the Lightspan acquisition. Our cash and investments grew over \$9 million during the quarter, including over \$12 million provided by operating activities. Given the relatively fixed nature of most of our cost structure, our financial performance is expected to continue to improve as revenues grow."

Mr. Murray continued, "While the market has been softer than expected, we have successfully grown revenues and deferred revenues at rates greater than the market growth rate by capturing market share. This growth reflects the superior quality and strength of our product offering. With a broad market leading portfolio of accountability, assessment and curriculum products and services, we are uniquely positioned to take full advantage of this growth. As our business model has demonstrated, this growth is expected to continue to generate improved financial performance and, accordingly, increased value for our shareholders."

The Company highlighted additional key financial information:

- Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), calculated as operating income before depreciation, amortization and restructuring charges, were \$17.9 million for the twelve month period ended July 31, 2004 as compared to \$4.9 million for the twelve month period ended July 31, 2003.
- Cash and marketable securities were \$31.0 million at July 31, 2004, compared to \$21.7 million at April 30, 2004. No bank borrowings were outstanding at July 31, 2004.
- Deferred revenue was \$42.9 million at July 31, 2004, versus \$39.7 million at July 31, 2003, which includes Lightspan deferred revenue on a pro-forma basis.
- Stockholders' equity was \$157.2 million at July 31, 2004, compared to \$109.9 million at October 31, 2003 and \$106.6 million at July 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 benefit in 2003, and a 2003 restructuring charge on PLATO Learning's operating results, as well as present EBITDA and certain combined 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 (CDT). 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 5:45 p.m. on August 26, 2004, through midnight September 4, 2004. To access the recording call: 1-800-642-1687. At the prompt, enter pass code number 8356830.

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 6,000 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 approximately \$127 million, PLATO Learning, Inc. is a publicly held company traded as TUTOR on the NASDAQ-NMS. PLATO[®] Learning educational software is marketed to K-12 schools and colleges. The Company also sells to job training programs, correctional institutions, military education programs, corporations and individuals. Products are 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 is a registered trademark of PLATO Learning, Inc. PLATO Learning is a trademark of PLATO Learning, Inc.

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

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2004	2003	2004	2003
Revenues:				
License fees	\$ 25,421	\$ 16,300	\$ 55,693	\$ 33,497
Subscriptions	5,812	1,806	15,645	5,197
Services	7,403	3,918	20,937	11,597
Other	1,977	1,769	7,106	4,426
Total revenues	<u>40,613</u>	<u>23,793</u>	<u>99,381</u>	<u>54,717</u>
Cost of revenues:				
License fees	3,378	2,124	9,953	5,798
Subscriptions	1,782	1,204	5,522	2,559
Services	4,193	2,646	12,527	8,024
Other	2,157	1,649	6,698	3,951
Total cost of revenues	<u>11,510</u>	<u>7,623</u>	<u>34,700</u>	<u>20,332</u>
Gross profit	<u>29,103</u>	<u>16,170</u>	<u>64,681</u>	<u>34,385</u>
Operating expenses:				
Sales and marketing	14,897	10,079	45,875	29,263
General and administrative	4,915	3,200	14,447	9,511
Product development	1,293	472	4,842	1,660
Amortization of intangibles	1,112	147	3,197	441
Restructuring charges	-	422	-	802
Total operating expenses	<u>22,217</u>	<u>14,320</u>	<u>68,361</u>	<u>41,677</u>
Operating income (loss)	6,886	1,850	(3,680)	(7,292)
Interest income	41	83	298	295
Interest expense	(28)	(34)	(100)	(88)
Other expense, net	(25)	(14)	(109)	(43)
Earnings (loss) before income taxes	6,874	1,885	(3,591)	(7,128)
Income tax expense (benefit)	150	1,600	450	(2,185)
Net earnings (loss)	<u>\$ 6,724</u>	<u>\$ 285</u>	<u>\$ (4,041)</u>	<u>\$ (4,943)</u>
Earnings (loss) per share:				
Basic and diluted	<u>\$ 0.29</u>	<u>\$ 0.02</u>	<u>\$ (0.18)</u>	<u>\$ (0.30)</u>
Weighted average common shares outstanding:				
Basic	<u>23,012</u>	<u>16,363</u>	<u>22,497</u>	<u>16,558</u>
Diluted	<u>23,556</u>	<u>16,420</u>	<u>22,497</u>	<u>16,558</u>

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

	July 31, 2004	October 31, 2003
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 27,011	\$ 23,834
Accounts receivable, net	46,831	39,176
Prepaid expenses and other current assets	9,389	4,819
Deferred income taxes	-	2,218
Total current assets	<u>83,231</u>	<u>70,047</u>
Long-term marketable securities	3,993	3,862
Equipment and leasehold improvements, net	6,899	5,024
Product development costs, net	16,481	14,738
Goodwill	67,743	39,609
Identified intangible assets, net	41,369	14,707
Other assets	1,617	1,975
Total assets	<u><u>\$ 221,333</u></u>	<u><u>\$ 149,962</u></u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,794	\$ 2,876
Accrued employee salaries and benefits	9,934	6,678
Accrued liabilities	6,173	3,600
Deferred revenue	35,607	22,192
Total current liabilities	<u>55,508</u>	<u>35,346</u>
Deferred revenue	7,337	4,372
Deferred income taxes	1,163	-
Other liabilities	141	312
Total liabilities	<u>64,149</u>	<u>40,030</u>
Stockholders' equity:		
Common stock, \$.01 par value, 50,000 shares authorized; 23,065 shares issued and 23,045 outstanding at July 31, 2004; 17,671 shares issued and 16,370 shares outstanding at October 31, 2003	230	164
Additional paid in capital	162,828	123,135
Treasury stock at cost, 20 and 1,301 shares, respectively	(205)	(11,652)
Accumulated deficit	(5,063)	(1,022)
Accumulated other comprehensive loss	(606)	(693)
Total stockholders' equity	<u>157,184</u>	<u>109,932</u>
Total liabilities and stockholders' equity	<u><u>\$ 221,333</u></u>	<u><u>\$ 149,962</u></u>

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

	Nine Months Ended	
	July 31,	
	2004	2003
Operating activities:		
Net loss	\$ (4,041)	\$ (4,943)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income taxes	450	(2,185)
Amortization of capitalized product development costs	5,160	4,202
Amortization of identified intangible assets	5,706	1,495
Depreciation and amortization of equipment and leasehold improvements	2,600	1,635
Provision for doubtful accounts	1,522	1,607
Stock-based compensation	217	-
Loss on disposal of equipment	79	59
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(357)	(2,220)
Prepaid expenses and other current and noncurrent assets	(2,184)	395
Accounts payable	(1,566)	1,339
Accrued liabilities, accrued employee salaries and benefits and other liabilities	(3,210)	(1,484)
Deferred revenue	3,789	5,350
Total adjustments	<u>12,206</u>	<u>10,193</u>
Net cash provided by operating activities	<u>8,165</u>	<u>5,250</u>
Investing activities:		
Acquisitions, net of cash acquired	2,460	-
Capitalization of product development costs	(6,830)	(4,893)
Capital expenditures	(1,880)	(1,542)
Purchases of marketable securities	(387)	-
Sales of marketable securities	256	-
Net cash used in investing activities	<u>(6,381)</u>	<u>(6,435)</u>
Financing activities:		
Repurchase of common stock	(205)	(2,161)
Net proceeds from issuance of common stock	1,812	51
Repayments of capital lease obligations	(54)	(196)
Net cash provided by (used in) financing activities	<u>1,553</u>	<u>(2,306)</u>
Effect of foreign currency on cash	(160)	17
Net increase (decrease) in cash and cash equivalents	<u>3,177</u>	<u>(3,474)</u>
Cash and cash equivalents at beginning of period	23,834	30,390
Cash and cash equivalents at end of period	<u>\$ 27,011</u>	<u>\$ 26,916</u>

PLATO Learning, Inc.
Supplemental Financial Information
(Unaudited)

Revenues (\$000's)	Quarter Ended July 31,						% Change	
	2004			2003			As Reported	Pro Forma
	As Reported	Lightspan (1)	Pro Forma	As Reported	Lightspan (1)	Pro Forma		
License fees	\$ 25,421	\$ -	\$ 25,421	\$ 16,300	\$ 7,976	\$ 24,276	56%	5%
Subscriptions	5,812	-	5,812	1,806	2,957	4,763	222%	22%
Services	7,403	-	7,403	3,918	2,411	6,329	89%	17%
Other	1,977	-	1,977	1,769	1,135	2,904	12%	-32%
	<u>\$ 40,613</u>	<u>\$ -</u>	<u>\$ 40,613</u>	<u>\$ 23,793</u>	<u>\$ 14,479</u>	<u>\$ 38,272</u>	71%	6%

(1) Lightspan revenues prior to acquisition.

Operating Expenses (\$000's)	Quarter Ended July 31, 2004		Quarter Ended April 30, 2004		Quarter Ended January 31, 2004			
	As Reported	% of Revenue	As Reported	% of Revenue	As Reported	Pro Forma (3)	% of Revenue Reported	Pro Forma
	Sales and marketing	\$ 14,897	37%	\$ 15,793	49%	\$ 15,185	\$ 16,467	57%
General and administrative	4,915	12%	5,040	16%	4,492	4,802	17%	18%
Product development	1,293	3%	1,346	4%	2,203	2,530	8%	9%
Amortization of intangibles	1,112	3%	1,102	3%	983	1,005	4%	4%
	<u>\$ 22,217</u>	55%	<u>\$ 23,281</u>	72%	<u>\$ 22,863</u>	<u>\$ 24,804</u>	86%	90%

Operating Expenses (\$000's)	Quarter Ended July 31, 2003			% of Revenue	
	As Reported (1)	Lightspan (2)	Pro Forma	As Reported	Pro Forma
	Sales and marketing	\$ 10,079	\$ 8,614	\$ 18,693	42%
General and administrative	3,200	1,343	4,543	13%	12%
Product development	472	2,153	2,625	2%	7%
Amortization of intangibles	147	1,831	1,978	1%	5%
	<u>\$ 13,898</u>	<u>\$ 13,941</u>	<u>\$ 27,839</u>	58%	73%

(1) Excludes \$422 of restructuring charges.

(2) Lightspan operating expenses prior to acquisition.

(3) Difference between As Reported and Pro Forma represents \$1.9 million of Lightspan operating expenses prior to acquisition.

Order Size (\$000's)	Quarter Ended July 31,				% Change	
	2004		2003 (1)		Number	Value
	Number	Value	Number	Value		
\$100 to \$249	52	\$ 7,699	56	\$ 8,772	-7%	-12%
\$250 or greater	18	13,506	25	12,689	-28%	6%
	<u>70</u>	<u>\$ 21,205</u>	<u>81</u>	<u>\$ 21,461</u>	-14%	-1%

(1) 2003 includes both PLATO Learning and Lightspan.

PLATO Learning, Inc.
Supplemental Financial Information
(Unaudited)

Revenues (\$000's)	Nine Months Ended July 31,						% Change	
	2004			2003			As Reported	Pro Forma
	As Reported	Lightspan (1)	Pro Forma	As Reported	Lightspan (1)	Pro Forma		
License fees	\$ 55,693	\$ -	\$ 55,693	\$ 33,497	\$ 18,880	\$ 52,377	66%	6%
Subscriptions	15,645	531	16,176	5,197	8,799	13,996	201%	16%
Services	20,937	438	21,375	11,597	7,025	18,622	81%	15%
Other	7,106	-	7,106	4,426	2,667	7,093	61%	0%
	<u>\$ 99,381</u>	<u>\$ 969</u>	<u>\$100,350</u>	<u>\$ 54,717</u>	<u>\$ 37,371</u>	<u>\$ 92,088</u>	82%	9%

(1) Lightspan revenues prior to acquisition.

Operating Expenses (\$000's)	Nine Months Ended July 31,			% of Revenue	
	2004			As Reported	Pro Forma
	As Reported	Lightspan (2)	Pro Forma		
Sales and marketing	\$ 45,875	\$ 1,282	\$ 47,157	46%	47%
General and administrative	14,447	310	14,757	15%	15%
Product development	4,842	327	5,169	5%	5%
Amortization of intangibles	3,197	22	3,219	3%	3%
	<u>\$ 68,361</u>	<u>\$ 1,941</u>	<u>\$ 70,302</u>	69%	70%

	Nine Months Ended July 31,			% of Revenue	
	2003			As Reported	Pro Forma
	As Reported (1)	Lightspan (2)	Pro Forma		
Sales and marketing	\$ 29,263	\$ 23,935	\$ 53,198	53%	58%
General and administrative	9,511	5,848	15,359	17%	17%
Product development	1,660	7,553	9,213	3%	10%
Amortization of intangibles	441	5,833	6,274	1%	7%
	<u>\$ 40,875</u>	<u>\$ 43,169</u>	<u>\$ 84,044</u>	75%	91%

(1) Excludes \$802 of restructuring charges.

(2) Lightspan operating expenses prior to acquisition.

Order Size (\$000's)	Nine Months Ended July 31,				% Change	
	2004 (1)		2003 (2)		Number	Value
	Number	Value	Number	Value		
\$100 to \$249	122	\$ 17,969	101	\$ 15,678	21%	15%
\$250 or greater	43	29,543	48	23,509	-10%	26%
	<u>165</u>	<u>\$ 47,512</u>	<u>149</u>	<u>\$ 39,187</u>	11%	21%

(1) 2004 excludes amounts related to the second quarter Idaho Department of Education contract.

(2) 2003 includes both PLATO Learning and Lightspan.

PLATO Learning, Inc.
Supplemental Financial Information
(Unaudited)

Deferred Revenue (\$000's)	July 31,		October 31,
	2004	2003	2003
License fees	\$ 8,583	\$ 5,446	\$ 4,762
Subscriptions	9,141	3,365	4,134
Services	24,668	15,979	17,360
Other	552	274	308
	42,944	25,064	26,564
Lightspan	-	14,645	14,262
Total	\$ 42,944	\$ 39,709	\$ 40,826

EBITDA (\$000's)	As Reported	Twelve Months Ended				
		July 31, 2004				
		Q4-2003	Q1-2004	Q2-2004	Q3-2004	Total
Net earnings (loss)	\$ 3,276	\$ (7,535)	\$ (3,230)	\$ 6,724	\$ (765)	
Income taxes	1,744	150	150	150	2,194	
Interest expense	16	35	37	28	116	
Depreciation and amortization	2,854	4,455	4,623	4,388	16,320	
Restructuring charge	-	-	-	-	-	
	\$ 7,890	\$ (2,895)	\$ 1,580	\$ 11,290	\$ 17,865	

EBITDA (\$000's)	As Reported	Twelve Months Ended				
		July 31, 2003				
		Q4-2002	Q1-2003	Q2-2003	Q3-2003	Total
Net earnings (loss)	\$ 119	\$ (3,407)	\$ (1,821)	\$ 285	\$ (4,824)	
Income taxes	1,575	(2,350)	(1,435)	1,600	(610)	
Interest expense	24	24	30	34	112	
Depreciation and amortization	2,076	2,319	2,231	2,782	9,408	
Restructuring charge	-	380	-	422	802	
	\$ 3,794	\$ (3,034)	\$ (995)	\$ 5,123	\$ 4,888	