



**For Immediate Release**

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## **PLATO Learning, Inc. Reports First Quarter Fiscal Year 2005 Results**

**MINNEAPOLIS, MN – February 24, 2005** – 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, 2005, totaling \$25.5 million. This represents a \$1.0 million or a 4% decrease versus the \$26.4 million reported for the comparable period of fiscal 2004. On a pro-forma basis, including revenues from Lightspan before the acquisition date, revenues declined 7% in the first quarter from the comparable period in 2004.

Net loss for the first quarter of 2005 was \$10.5 million, or \$0.46 per diluted share, as compared to a net loss of \$7.5 million, or \$0.35 per share, for the same period of 2004. The net loss, excluding the impact of restructuring and other charges, was \$8.2 million, or \$0.36 per share, for the first quarter of 2005.

Gross margin was 46.7% for the quarter, versus 58.5% in first quarter 2004. The lower gross margin was driven by the decline in high gross margin license fee revenue, a greater mix of lower gross margin service revenues, and additional investments and realignment of resources in the service organization to support service revenue growth initiatives. The gross margin was further impacted by low educational consulting service revenues in the quarter, for which most costs are fixed.

Operating expenses declined 10% from first quarter 2004 on a pro-forma basis, including expenses from Lightspan before the acquisition date, and declined 19% excluding the impact of restructuring and other charges. The reduction resulted from operating synergies of the merged businesses, realignment of service resources to focus on revenue growth initiatives, and additional cost reduction actions taken during the first quarter 2005. Restructuring and other charges include severance costs incurred from restructuring activities and amounts paid to or claimed by terminated executives under employment agreements.

David Smith, President and CEO, said, “Revenue was adversely impacted by several disruptions in the quarter, including realignment of the sales and service organizations to better serve market segments, implementation of new procedures to improve selling processes, and management changes. The impact of these activities was partially offset by increased revenue from new Supplemental Educational Service offerings. The timing of Lightspan’s year-end was also a factor when comparing quarters. Lightspan’s fourth quarter aligned with our first quarter in 2004 at the time of the acquisition. After the merger, their sales force continued to be compensated under Lightspan’s annual plan until the end of that quarter. As a result, our first quarter 2004 benefited from increased sales activity, as the Lightspan sales force drove to reach their annual performance objectives.”

“Operating expenses, excluding restructuring and other charges, declined substantially on a pro-forma basis from 2004 due to the cost synergies realized after the Lightspan merger and to our efforts to continue driving cost efficiencies throughout the business. We accomplished this while initiating actions to refine the Company’s processes and align its resources for enhanced profitability and accelerated growth in the future,” added Smith.

The Company highlighted additional key financial information for the first quarter 2005:

- Loss Before Interest Taxes Depreciation and Amortization (EBITDA) and restructuring and other charges was \$3.1 million for the quarter, compared to \$2.9 million in 2004.
- Cash and marketable securities were \$41.9 million at January 31, 2005, compared to \$45.5 million at October 31, 2004, and \$27.9 million at January 31, 2004.
- Deferred revenue was \$46.7 million at January 31, 2005, versus \$51.6 million at October 31, 2004, and \$45.5 million at January 31, 2004.

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

The non-GAAP financial measures used in this press release exclude the impact of 2005 restructuring and other charges 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, 2003. 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 ongoing operating results and 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 reconciliations 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 p.m. (CT). The dial-in number for this call is 1-877-209-0397 in the U.S. and Canada, and 612-332-0923 internationally. Please call 10 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 7:15 p.m. (CT) on February 24, 2005, through midnight on March 2, 2005. To access the recording, call 1-800-475-6701 in the U.S. and Canada and 1-320-365-3844 internationally. At the prompt, enter pass code number 765768.

Additionally, investors have the opportunity to listen to the conference call over the Internet through PLATO Learning’s website at [http://www.plato.com/aboutus/investor\\_calls.asp](http://www.plato.com/aboutus/investor_calls.asp).

### **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.

PLATO Learning, Inc. is a publicly held company traded as TUTR on the NASDAQ, with trailing 12-month revenues of approximately \$141 million. PLATO Learning educational software delivered via networks, CD-ROM, the Internet, and private intranets, is primarily marketed to K–12 schools and colleges. The Company also sells to job training programs, correctional institutions, military education programs, corporations, and individuals.

PLATO Learning is headquartered at 10801 Nesbitt Avenue South, Bloomington, Minnesota 55437, 952.832.1000 or 800.869.2000. The Company has offices throughout the United States, Canada, and the United Kingdom, as well as international distributors in Puerto Rico, Singapore, South Africa, and the United Arab Emirates. For more information, please visit <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, 2004. Actual results may differ materially from anticipated results.*

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**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>2005</b>	<b>2004</b>
<b>Revenues:</b>		
License fees	\$ 11,095	\$ 13,059
Subscriptions	4,533	4,508
Services	8,196	6,337
Other	1,631	2,544
Total revenues	<u>25,455</u>	<u>26,448</u>
<b>Cost of revenues:</b>		
License fees	3,432	3,341
Subscriptions	2,313	1,679
Services	6,126	3,764
Other	1,700	2,199
Total cost of revenues	<u>13,571</u>	<u>10,983</u>
Gross profit	<u>11,884</u>	<u>15,465</u>
<b>Operating expenses:</b>		
Sales and marketing	13,326	15,185
General and administrative	4,210	4,492
Product development	1,471	2,203
Amortization of intangibles	1,092	983
Restructuring and other charges	2,289	-
Total operating expenses	<u>22,388</u>	<u>22,863</u>
Operating loss	<u>(10,504)</u>	<u>(7,398)</u>
Interest income	212	119
Interest expense	(15)	(35)
Other expense, net	(70)	(71)
Loss before income taxes	<u>(10,377)</u>	<u>(7,385)</u>
Income tax expense	150	150
Net loss	<u>\$ (10,527)</u>	<u>\$ (7,535)</u>
<b>Loss per share:</b>		
Basic and diluted	<u>\$ (0.46)</u>	<u>\$ (0.35)</u>
<b>Weighted average common shares outstanding:</b>		
Basic and diluted	<u>23,110</u>	<u>21,500</u>

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

	<u>January 31,</u> <u>2005</u> (Unaudited)	<u>October 31,</u> <u>2004</u> (See Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 38,859	\$ 29,235
Marketable securities	2,999	12,615
Accounts receivable, net	28,672	41,852
Prepaid expenses and other current assets	10,434	9,460
Total current assets	<u>80,964</u>	<u>93,162</u>
Long-term marketable securities	-	3,608
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$11,152 and \$10,361, respectively	7,839	7,946
Product development costs, net of accumulated amortization of \$20,731 and \$18,835, respectively	17,821	17,116
Goodwill	71,404	71,267
Identified intangible assets, net	37,232	39,432
Other assets	178	213
Total assets	<u>\$ 215,438</u>	<u>\$ 232,744</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,999	\$ 5,196
Accrued employee salaries and benefits	6,907	8,772
Accrued liabilities	6,793	6,383
Deferred revenue	40,732	43,042
Total current liabilities	<u>57,431</u>	<u>63,393</u>
Long-term deferred revenue	5,927	8,533
Deferred income taxes	1,472	1,322
Other liabilities	26	46
Total liabilities	<u>64,856</u>	<u>73,294</u>
Stockholders' equity:		
Common stock, \$.01 par value, 50,000 shares authorized; 23,340 shares issued and 23,320 outstanding at January 31, 2005; 23,095 shares issued and 23,075 shares outstanding at October 31, 2004	233	231
Additional paid in capital	164,354	162,956
Treasury stock at cost, 20 shares	(205)	(205)
Accumulated deficit	(13,377)	(2,850)
Accumulated other comprehensive loss	(423)	(682)
Total stockholders' equity	<u>150,582</u>	<u>159,450</u>
Total liabilities and stockholders' equity	<u>\$ 215,438</u>	<u>\$ 232,744</u>

Note: The balance sheet at October 31, 2004 has been derived from our audited financial statements at that date.

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

	<b>Three Months Ended</b>	
	<b>January 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities:</b>		
Net loss	\$ (10,527)	\$ (7,535)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	150	150
Amortization of capitalized product development costs	1,868	1,764
Amortization of identified intangible assets	2,243	1,780
Depreciation and amortization of equipment and leasehold improvements	873	911
Restructuring and other charges	2,289	-
Provision for doubtful accounts	305	346
Loss on disposal of equipment	14	1
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	12,875	5,741
Prepaid expenses and other current and noncurrent assets	(939)	(1,296)
Accounts payable	(2,197)	(1,314)
Accrued liabilities, accrued employee salaries and benefits and other liabilities	(3,738)	(3,586)
Deferred revenue	(4,916)	1,786
Total adjustments	<u>8,827</u>	<u>6,283</u>
Net cash used in operating activities	<u>(1,700)</u>	<u>(1,252)</u>
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	-	2,324
Capitalization of product development costs	(2,876)	(1,664)
Capital expenditures	(748)	(572)
Purchases of marketable securities	(2,985)	-
Sales and maturities of marketable securities	16,251	116
Net cash provided by investing activities	<u>9,642</u>	<u>204</u>
<b>Financing activities:</b>		
Net proceeds from issuance of common stock	1,400	1,311
Repayments of capital lease obligations	(26)	(60)
Net cash provided by financing activities	<u>1,374</u>	<u>1,251</u>
Effect of foreign currency on cash	<u>308</u>	<u>159</u>
<b>Net increase in cash and cash equivalents</b>	<u>9,624</u>	<u>362</u>
Cash and cash equivalents at beginning of period	29,235	23,834
Cash and cash equivalents at end of period	<u>\$ 38,859</u>	<u>\$ 24,196</u>

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

Revenues (\$000's)	Quarter Ended January 31,				% Change	
	2005	2004			As	Pro
	As Reported	As Reported	Lightspan (1)	Pro Forma	As Reported	Pro Forma
License fees	\$ 11,095	\$ 13,059	\$ -	\$ 13,059	-15%	-15%
Subscriptions	4,533	4,508	531	5,039	1%	-10%
Services	8,196	6,337	438	6,775	29%	21%
Other	1,631	2,544	-	2,544	-36%	-36%
	<u>\$ 25,455</u>	<u>\$ 26,448</u>	<u>\$ 969</u>	<u>\$ 27,417</u>	<u>-4%</u>	<u>-7%</u>

(1) Lightspan revenues prior to acquisition.

Operating Expenses (\$000's)	Quarter Ended January 31, 2005		Quarter Ended January 31, 2004				% Change		
	As	% of	As	Lightspan	Pro	% of Revenue		% Change	
	Reported	Revenue	Reported	(1)	Forma	Reported	Pro Forma	Reported	Pro Forma
Sales and marketing	\$13,326	52%	\$15,185	\$ 1,282	\$16,467	57%	60%	-12%	-19%
General and administrative	4,210	17%	4,492	310	4,802	17%	18%	-6%	-12%
Product development	1,471	6%	2,203	327	2,530	8%	9%	-33%	-42%
Amortization of intangibles	1,092	4%	983	22	1,005	4%	4%	11%	9%
Restructuring and other charges	2,289	9%	-	-	-				
	<u>\$22,388</u>	88%	<u>\$22,863</u>	<u>\$ 1,941</u>	<u>\$24,804</u>	86%	90%	-2%	-10%
Total operating expenses	\$22,388		\$22,863		\$24,804				
Restructuring and other charges	(2,289)		-		-				
Operating expenses before restructuring and other charges	<u>\$20,099</u>	79%	<u>\$22,863</u>		<u>\$24,804</u>	86%	90%	-12%	-19%

(1) Lightspan operating expenses prior to acquisition.

Net Loss (\$000's)	Quarter Ended January 31,	
	2005	2004
As Reported		
Net loss	\$ (10,527)	\$ (7,535)
Add back restructuring and other charges	2,289	-
Net loss before restructuring and other charges	<u>\$ (8,238)</u>	<u>\$ (7,535)</u>
Weighted average common shares outstanding - basic and diluted	<u>23,110</u>	<u>21,500</u>
Loss per share - basic and diluted	<u>\$ (0.36)</u>	<u>\$ (0.35)</u>

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

Order Size (\$000's)	Quarter Ended January 31,				% Change	
	2005		2004 (1)		Number	Value
	Number	Value	Number	Value		
\$100 to \$249	18	\$ 2,529	30	\$ 4,309	-40%	-41%
\$250 or greater	11	4,924	14	9,118	-21%	-46%
	29	\$ 7,453	44	\$ 13,427	-34%	-44%

(1) 2004 includes both PLATO Learning and Lightspan.

**EBITDA (excluding restructuring and other charges)**  
**(\$000's)**

	As Reported	Twelve Months Ended January 31, 2005				
		Q2-2004	Q3-2004	Q4-2004	Q1-2005	Total
Net earnings (loss)		\$ (3,230)	\$ 6,724	\$ 2,213	\$ (10,527)	\$ (4,820)
Income taxes		150	150	1,580	150	2,030
Interest expense		37	28	22	15	102
Depreciation and amortization		4,623	4,388	4,481	4,984	18,476
Restructuring and other charges		-	-	-	2,289	2,289
		\$ 1,580	\$ 11,290	\$ 8,296	\$ (3,089)	\$ 18,077

	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 and other charges		-	422	-	-	422
		\$ (995)	\$ 5,123	\$ 7,890	\$ (2,895)	\$ 9,123