



**For Immediate Release**

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

**MINNEAPOLIS, MN – June 2, 2005** – PLATO Learning, Inc. (NASDAQ: TUTR), a leading provider of K–adult computer-based and e-learning solutions, today announced revenues for its second quarter ended April 30, 2005, totaling \$31.4 million. This represents a \$0.9 million or a 3% decrease versus the \$32.3 million reported for the comparable period of fiscal 2004.

Net loss for the second quarter of 2005 was \$3.0 million, or \$0.13 per diluted share, as compared to a net loss of \$3.2 million, or \$0.14 per share, for the same period of 2004. The net loss, excluding the impact of restructuring and other charges, was \$2.3 million, or \$0.10 per share, for the second quarter of 2005.

Gross margin was 58.3% for the quarter versus 62.2% in the second quarter of 2004. The lower gross margin was primarily driven by a shift in revenue mix from high gross margin license fee revenue to lower gross margin service revenues. Operating expenses, excluding the impact of restructuring and other charges, declined 12% for the quarter from 2004. The decrease resulted from cost reduction actions initiated throughout 2004 and 2005 and from realignment of service resources from sales support to billable activities. Restructuring and other charges primarily include severance payments, facility closing costs, and amounts paid to terminated executives under employment agreements.

Revenues for the six months ended April 30, 2005, were \$56.9 million, also a 3% decrease from 2004. Net loss, excluding restructuring and other charges of \$2.9 million, was \$10.6 million, compared to \$10.8 million in 2004. Loss per share, excluding the impact of restructuring and other charges of \$0.13, was \$0.45, compared to \$0.48 in 2004.

Mike Morache, PLATO Learning President and CEO, said, “Our performance in the second quarter was somewhat better than anticipated and got us back on plan for the first six months of the year. Particularly noteworthy was the 12% reduction in operating expenses from 2004 for both the quarter and year-to-date periods, excluding restructuring and other charges. These declines reflect our continuing focus on reducing the company’s cost structure and improving efficiency.”

“Since joining the company much of my time has been spent on assessing the business. PLATO Learning has tremendous assets in its intellectual property, customer relationships, and the talent of its employees who have a sincere passion for improving education. The company, however, also needs to make changes in its business structure, systems, and processes to sustain a growing and profitable business in the future. All of us at PLATO Learning are working diligently to implement the changes necessary to transform the Company during 2005, with the goal of having them in place as we enter into fiscal year 2006,” said Morache.

“Our financial goals for the year remain unchanged, as we see sufficient opportunity to achieve our objectives. The type and magnitude of the changes we are implementing, however, can have an impact on our near-term financial performance. We intend to manage change to minimize disruption; however, the changes are needed to achieve our expected financial performance over the long term and are among the Company’s top priorities,” added Morache.

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

- Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), and restructuring and other charges, was \$2.4 million for the quarter, compared to \$1.6 million for the same period in 2004.
- Cash and marketable securities were \$31.5 million at April 30, 2005, compared to \$21.7 million at April 30, 2004, and \$45.5 million at October 31, 2004.
- Deferred revenue was \$39.3 million at April 30, 2005, versus \$38.3 million at April 30, 2004, and \$51.6 million at October 31, 2004.
- Both cash and marketable securities and deferred revenue were impacted by low order volume in the first half of the year, due in part to changes in the sales organization and procedures and in part to the seasonality of the business.

#### **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. 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. 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 1.612.332.0923 for international calls. Please call 10 minutes prior to the start of the call and inform the operator you are participating in PLATO Learning's quarterly earnings 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 June 2, 2005, through midnight on June 9, 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 web site 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 \$140 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, 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>Six Months Ended</b>	
	<b>April 30,</b>		<b>April 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>				
License fees	\$ 14,233	\$ 17,213	\$ 25,328	\$ 30,272
Subscriptions	4,517	5,325	9,050	9,833
Services	10,908	7,197	19,104	13,534
Other	1,771	2,585	3,402	5,129
<b>Total revenues</b>	<b>31,429</b>	<b>32,320</b>	<b>56,884</b>	<b>58,768</b>
<b>Cost of revenues:</b>				
License fees	2,869	3,234	6,301	6,575
Subscriptions	2,142	2,061	4,455	3,740
Services	6,108	4,570	12,234	8,334
Other	1,985	2,342	3,685	4,541
<b>Total cost of revenues</b>	<b>13,104</b>	<b>12,207</b>	<b>26,675</b>	<b>23,190</b>
<b>Gross profit</b>	<b>18,325</b>	<b>20,113</b>	<b>30,209</b>	<b>35,578</b>
<b>Operating expenses:</b>				
Sales and marketing	13,410	15,793	26,736	30,978
General and administrative	4,842	5,040	9,052	9,532
Product development	1,222	1,346	2,693	3,549
Amortization of intangibles	1,080	1,102	2,172	2,085
Restructuring and other charges	632	-	2,921	-
<b>Total operating expenses</b>	<b>21,186</b>	<b>23,281</b>	<b>43,574</b>	<b>46,144</b>
<b>Operating loss</b>	<b>(2,861)</b>	<b>(3,168)</b>	<b>(13,365)</b>	<b>(10,566)</b>
Interest income	168	138	380	257
Interest expense	(28)	(37)	(43)	(72)
Other expense, net	(83)	(13)	(153)	(84)
<b>Loss before income taxes</b>	<b>(2,804)</b>	<b>(3,080)</b>	<b>(13,181)</b>	<b>(10,465)</b>
Income tax expense	150	150	300	300
<b>Net loss</b>	<b>\$ (2,954)</b>	<b>\$ (3,230)</b>	<b>\$ (13,481)</b>	<b>\$ (10,765)</b>
<b>Loss per share:</b>				
Basic and diluted	<b>\$ (0.13)</b>	<b>\$ (0.14)</b>	<b>\$ (0.58)</b>	<b>\$ (0.48)</b>
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	<b>23,378</b>	<b>22,989</b>	<b>23,240</b>	<b>22,236</b>

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

	<u>April 30,</u> <u>2005</u> (Unaudited)	<u>October 31,</u> <u>2004</u> (See Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,534	\$ 29,235
Marketable securities	5,982	12,615
Accounts receivable, net	28,589	41,852
Prepaid expenses and other current assets	9,672	9,460
Total current assets	<u>69,777</u>	<u>93,162</u>
Long-term marketable securities	-	3,608
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$11,955 and \$10,361, respectively	7,499	7,946
Product development costs, net of accumulated amortization of \$22,294 and \$18,835, respectively	18,628	17,116
Goodwill	71,997	71,267
Identified intangible assets, net	35,291	39,432
Other assets	1,088	213
Total assets	<u>\$ 204,280</u>	<u>\$ 232,744</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,104	\$ 5,196
Accrued employee salaries and benefits	6,798	8,772
Accrued liabilities	5,624	6,383
Deferred revenue	33,434	43,042
Total current liabilities	<u>47,960</u>	<u>63,393</u>
Long-term deferred revenue	5,835	8,533
Deferred income taxes	1,622	1,322
Other liabilities	39	46
Total liabilities	<u>55,456</u>	<u>73,294</u>
Stockholders' equity:		
Common stock, \$.01 par value, 50,000 shares authorized; 23,495 shares issued and 23,475 outstanding at April 30, 2005; 23,095 shares issued and 23,075 shares outstanding at October 31, 2004	235	231
Additional paid in capital	165,457	162,956
Treasury stock at cost, 20 shares	(205)	(205)
Accumulated deficit	(16,331)	(2,850)
Accumulated other comprehensive loss	(332)	(682)
Total stockholders' equity	<u>148,824</u>	<u>159,450</u>
Total liabilities and stockholders' equity	<u>\$ 204,280</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>Six Months Ended</b>	
	<b>April 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities:</b>		
Net loss	\$ (13,481)	\$ (10,765)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	300	300
Amortization of capitalized product development costs	3,463	3,478
Amortization of identified intangible and other noncurrent assets	4,280	3,763
Depreciation and amortization of equipment and leasehold improvements	1,743	1,837
Restructuring and other charges	2,921	-
Provision for doubtful accounts	674	827
Stock-based compensation	39	217
Loss on disposal of equipment	32	1
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	12,589	5,775
Prepaid expenses and other current and noncurrent assets	(1,170)	(755)
Accounts payable	(3,092)	(1,854)
Accrued liabilities, accrued employee salaries and benefits and other liabilities	(5,588)	(6,210)
Deferred revenue	(12,306)	(834)
Total adjustments	<u>3,885</u>	<u>6,545</u>
Net cash used in operating activities	<u>(9,596)</u>	<u>(4,220)</u>
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	-	2,460
Capitalization of product development costs	(5,211)	(4,291)
Capital expenditures	(1,375)	(1,112)
Purchases of marketable securities	(9,266)	(287)
Sales and maturities of marketable securities	19,559	370
Net cash provided by (used in) investing activities	<u>3,707</u>	<u>(2,860)</u>
<b>Financing activities:</b>		
Net proceeds from issuance of common stock	1,925	1,491
Repurchase of common stock	-	(205)
Repayments of capital lease obligations	(127)	(70)
Net cash provided by financing activities	<u>1,798</u>	<u>1,216</u>
Effect of foreign currency on cash	390	(28)
<b>Net decrease in cash and cash equivalents</b>	<u>(3,701)</u>	<u>(5,892)</u>
Cash and cash equivalents at beginning of period	<u>29,235</u>	<u>23,834</u>
Cash and cash equivalents at end of period	<u>\$ 25,534</u>	<u>\$ 17,942</u>

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

Revenues (\$000's)	Quarter Ended April 30,			Six Months Ended April 30,		
	2005	2004	% Change	2005	2004	% Change
	License fees	\$ 14,233	\$ 17,213	-17%	\$ 25,328	\$ 30,272
Subscriptions	4,517	5,325	-15%	9,050	9,833	-8%
Services	10,908	7,197	52%	19,104	13,534	41%
Other	1,771	2,585	-31%	3,402	5,129	-34%
	<u>\$ 31,429</u>	<u>\$ 32,320</u>	<u>-3%</u>	<u>\$ 56,884</u>	<u>\$ 58,768</u>	<u>-3%</u>

Operating Expenses (\$000's)	Quarter Ended April 30,				
	2005	% of Revenue	2004	% of Revenue	% Change
Total operating expenses	\$ 21,186	67%	\$ 23,281	72%	-9%
Restructuring and other charges	(632)		-		
Operating expenses before restructuring and other charges	<u>\$ 20,554</u>	65%	<u>\$ 23,281</u>	72%	-12%
	Six Months Ended April 30,				
	2005	% of Revenue	2004	% of Revenue	% Change
Total operating expenses	\$ 43,574	77%	\$ 46,144	79%	-6%
Restructuring and other charges	(2,921)		-		
Operating expenses before restructuring and other charges	<u>\$ 40,653</u>	71%	<u>\$ 46,144</u>	79%	-12%

Net Loss (\$000's)	Quarter Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
Net loss	\$ (2,954)	\$ (3,230)	\$ (13,481)	\$ (10,765)
Add back restructuring and other charges	632	-	2,921	-
Net loss before restructuring and other charges	<u>\$ (2,322)</u>	<u>\$ (3,230)</u>	<u>\$ (10,560)</u>	<u>\$ (10,765)</u>
Weighted average common shares outstanding - basic and diluted	<u>23,378</u>	<u>22,989</u>	<u>23,240</u>	<u>22,236</u>
Loss per share before restructuring and other charges - basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.14)</u>	<u>\$ (0.45)</u>	<u>\$ (0.48)</u>

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

Order Size (\$000's)	Quarter Ended April 30,				% Change	
	2005		2004		Number	Value
	Number	Value	Number	Value		
\$100 to \$249	19	\$ 3,021	40	\$ 5,961	-53%	-49%
\$250 or greater	10	5,060	11	6,919	-9%	-27%
	29	\$ 8,081	51	\$ 12,880	-43%	-37%

  

	Six Months Ended April 30,				% Change	
	2005		2004		Number	Value
	Number	Value	Number	Value		
\$100 to \$249	37	\$ 5,550	70	\$ 10,270	-47%	-46%
\$250 or greater	21	9,984	25	16,037	-16%	-38%
	58	\$ 15,534	95	\$ 26,307	-39%	-41%

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

	Twelve Months Ended April 30, 2005				
	Q3-2004	Q4-2004	Q1-2005	Q2-2005	Total
Net earnings (loss)	\$ 6,724	\$ 2,213	\$ (10,527)	\$ (2,954)	\$ (4,544)
Income taxes	150	1,580	150	150	2,030
Interest expense	28	22	15	28	93
Depreciation and amortization	4,388	4,481	4,984	4,502	18,355
Restructuring and other charges	-	-	2,289	632	2,921
	\$ 11,290	\$ 8,296	\$ (3,089)	\$ 2,358	\$ 18,855

	Twelve Months Ended April 30, 2004				
	Q3-2003	Q4-2003	Q1-2004	Q2-2004	Total
Net earnings (loss)	\$ 285	\$ 3,276	\$ (7,535)	\$ (3,230)	\$ (7,204)
Income taxes	1,600	1,744	150	150	3,644
Interest expense	34	16	35	37	122
Depreciation and amortization	2,782	2,854	4,455	4,623	14,714
Restructuring and other charges	422	-	-	-	422
	\$ 5,123	\$ 7,890	\$ (2,895)	\$ 1,580	\$ 11,698