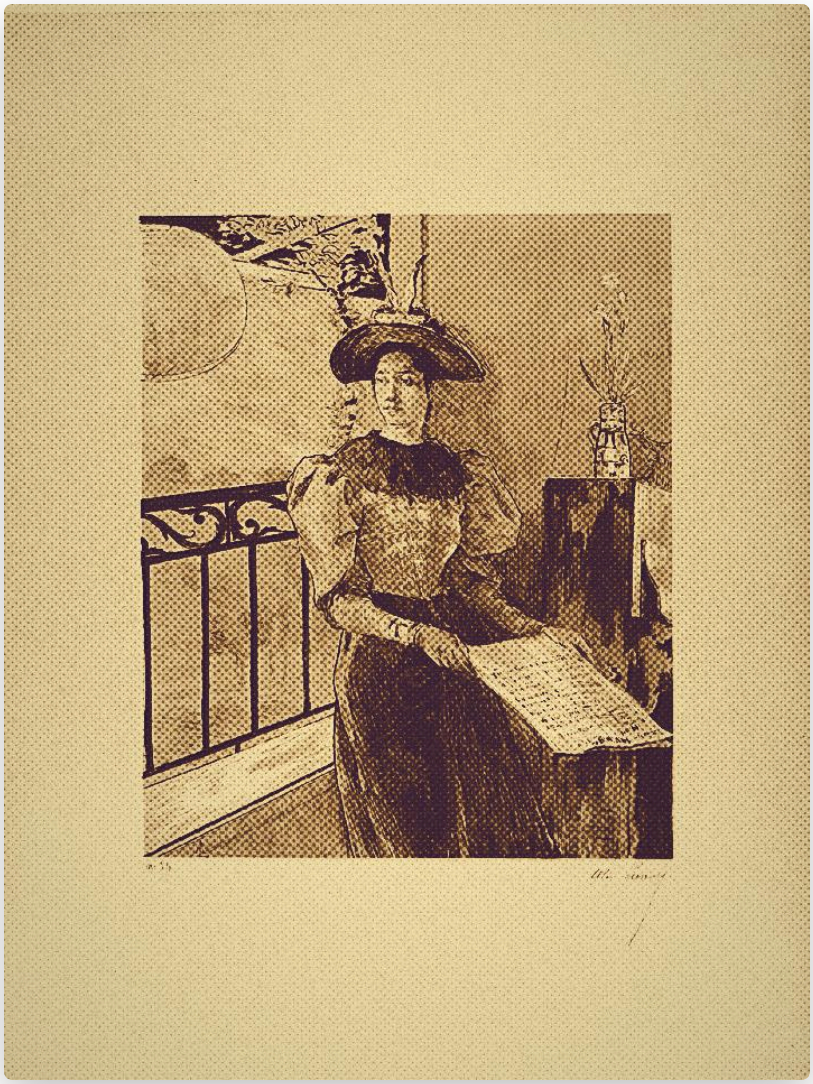
FORM S-1 · REGISTRATION STATEMENT

Lightspan Inc

IPO priced 2000-02-10 · $12.00 a share · LSPN



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 1, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1 REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

THE LIGHTSPAN PARTNERSHIP, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	8299	33-0585210
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

10140 CAMPUS POINT DRIVE SAN DIEGO, CA 92121 (858) 824-8000 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) JOHN T. KERNAN CHAIRMAN AND CHIEF EXECUTIVE OFFICER THE LIGHTSPAN PARTNERSHIP, INC. 10140 CAMPUS POINT DRIVE SAN DIEGO, CA 92121 (858) 824-8000 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) OF THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION SERIAL NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] _____ IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] _____ IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE
Common Stock ($.001 par value).....	$115,000,000	$31,970

(1) INCLUDES SHARES THAT THE UNDERWRITERS WILL HAVE THE OPTION TO PURCHASE SOLELY TO COVER OVER-ALLOTMENTS, IF ANY.

(2) ESTIMATED SOLELY FOR THE PURPOSE OF DETERMINING THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT.

REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED NOVEMBER 1, 1999

SHARES

LIGHTSPANLOGO

COMMON STOCK

PRIOR TO THIS OFFERING, THERE HAS BEEN NO PUBLIC MARKET FOR OUR COMMON STOCK. THE INITIAL PUBLIC OFFERING PRICE OF THE COMMON STOCK IS EXPECTED TO BE BETWEEN $ AND $ PER SHARE. WE HAVE APPLIED TO LIST THE COMMON STOCK ON THE NASDAQ STOCK MARKET'S NATIONAL MARKET UNDER THE SYMBOL "LSPN."

THE UNDERWRITERS HAVE AN OPTION TO PURCHASE A MAXIMUM OF ADDITIONAL SHARES TO COVER OVER-ALLOTMENTS OF SHARES.

Investing in Our Common Stock Involves Risks. See "Risk Factors" on Page 6.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO LIGHTSPAN
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CREDIT SUISSE FIRST BOSTON THOMAS WEISEL PARTNERS LLC U.S. BANCORP PIPER JAFFRAY The date of this prospectus is , 2000.

[Photo of three smiling children with "How smart can a kid get?"]

[Photos of Lightspan Achieve Now products]

Lightspan Achieve Now

An interactive curriculum in Reading, Language Arts, and Mathematics for grades K-8. Used in classrooms and at home, it adds critical learning time to every day, gets families involved in their children's learning, and is highly motivating to students. The availability of a very low cost delivery platform lets schools provide this learning opportunity to all students.

Academic Systems

Interactive, comprehensive curriculum in Mathematics and English which address the needs of under-prepared college students. With Internet & CD-ROM options, two and four year colleges and universities use these courses to help students who need to master this content before they can advance to college level work. The courses are designed to adapt to each student's academic needs and learning style. Faculty members orchestrate the instruction and receive reports regarding student mastery.

[Photo of Academic Systems Web site home page]

The Lightspan Network(r)

An Online subscription service that offers a wide variety of curriculum activities for students in grades K-8 to use in school or at home. Includes learning activities, over 115,000 educationally relevant Web sites, email, Comptons Encyclopedia Online and customer support.

Lightspan Pageone

Lets teachers easily build a classroom homepage with the online educational resources they need: access to 115,000 reviewed Web sites, learning activities, lesson plans, tools to post homework and send email to parents, online dictionary, thesaurus and encyclopedias.

Lightspan Your School Online

A free homepage builder for schools. It integrates with Lightspan PageOne's classroom homepages and includes the ability to organize Web links, a calendar to keep students and families informed about school events, and Web usage statistics.

[Photo of Lightspan.com home page]

Lightspan.com

The portal for K-12 education. This file is the gateway to all the learning services Lightspan provides: Lightspan PageOne, Global Schoolhouse, The Lightspan Network, the Lightspan Learning Store, and Your School Online.

Global Schoolhouse

An online community of educators who share ideas and projects for online education. It includes collaborative learning projects among classrooms, community organizations, businesses and individuals around the world.

The Lightspan Learning Store

An online store developed in partnership with SmarterKids.com which offers educational products to teachers and families.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR TO WHICH WE HAVE REFERRED YOU WHEN YOU ARE CONSIDERING THE INFORMATION IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY BE USED ONLY WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

Except as otherwise indicated, all information in this prospectus assumes:

- the underwriters' over-allotment option will not be exercised;

- a for split in our common stock that will become effective prior to the effectiveness of this registration statement;

- the conversion of all of our outstanding shares of preferred stock into shares of common stock upon the closing of this offering; and - our reincorporation in Delaware and the filing, upon approval of our stockholders, of the amended and restated certificate of incorporation.

The Lightspan Network(R), Global Schoolhouse(R), StudyWeb(R), Cosmic Cookoff(R), Faire Games(R), Liquid Books(R), Mona & Moki(R), Math on the Move!(R), P.K.'s Math Studio(R), The Quaddle Family Mysteries(R), The Secret of Googol(R), Timeless Math(R), Lightspan Partnership, Lightspan, Lightspan Achieve Now, Lightspan PageOne, Lightspan Adventures, Learning Search, Calamity, K9.5, Math Gallery and P.K.'s Place are trademarks of The Lightspan Partnership, Inc. All other trade names and trademarks appearing in this prospectus are the property of their holders.

Dealer Prospectus Delivery Obligation

UNTIL , 2000 (25 DAYS AFTER COMMENCEMENT OF THE OFFERING), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALER'S OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before buying shares in this offering. You should read the entire prospectus carefully.

The Lightspan Partnership, Inc.

The Lightspan Partnership is a leading provider of curriculum-based educational software and Internet products and services used both in school and at home. Our technology, delivery systems and content help increase student interest in learning, parental involvement in their children's education, and productive interaction among teachers, parents and students. Over 340 studies by schools that use our products and services show that our products improve overall student performance.

Lightspan Achieve Now, our product for students in kindergarten through eighth grade, or K-8, is a series of media-rich, interactive software programs that covers the core curriculum -- language arts, reading and math. We sell it exclusively to schools and school districts for use in both the classroom and at home. The Lightspan Achieve Now curriculum has already been purchased by over 400 school districts in 46 states and implemented in over 2,100 schools and 10,600 classrooms. Our Academic Systems products provide a series of curriculum-based software that addresses the math and writing needs of under- prepared college students. These products are currently used in over 225 colleges and universities across the United States.

We offer the following integrated family of Internet products and services through our Web site, Lightspan.com:

- The Lightspan Network, a curriculum-based online subscription service marketed to schools for classroom and home use;

- Lightspan PageOne, a service that enables teachers to easily create customized home pages for their classrooms;

- Global Schoolhouse, a leading education Web site where teachers can develop and manage collaborative learning projects online;

- StudyWeb, a leading research Web site that helps parents, teachers and students find educational information and resources on the Web;

- The Lightspan Learning Store, a Web site that sells educational products online; and - selected additional content for teachers, parents and students.

The need to improve student achievement is a top priority in American education, and educators are increasingly using educational technology to help accomplish this objective. According to the Department of Education, the United States spent an estimated $351 billion on kindergarten through twelfth grade, or K-12, education in the 1997 - 1998 school year, and industry sources project that spending on educational technology will increase from an estimated $7 billion during 1998 - 1999 to approximately $10 billion by the 2001 - 2002 school year. This growth has created a significant market opportunity for educational technology providers whose products and services help educators provide students with the tools they need to improve achievement. By increasing students' time spent on the core curriculum, their motivation to learn, and their families' involvement with their learning, our curriculum-based educational software and Internet products and services provide a unique and powerful solution for improving student achievement.

Our objective is to become the premier online education destination for teachers, parents and students, as well as the leading provider of technology-delivered, curriculum-based supplemental study materials in kindergarten through college education. To achieve this objective, we intend to pursue the following strategies:

- capitalize on our current market position;

- continue to develop and enhance Lightspan.com;

- extend our reach through expansion to other delivery platforms;

- create additional Internet-based revenue streams;

- leverage the experience of the Lightspan team; and - pursue strategic acquisitions and relationships.

We were founded in 1993 on the philosophy of using technology to increase student achievement by connecting the school to the home. Through June 1996, our activities consisted primarily of designing and developing Lightspan Achieve Now. To supplement our product offerings, we introduced The Lightspan Network in January 1997 and launched Lightspan PageOne in June 1999. We acquired

Academic Systems and Global Schoolhouse in September 1999 and StudyWeb in October 1999. Our principal executive offices are located at 10140 Campus Point Drive, San Diego, CA 92121, where our telephone number is (858) 824-8000. We maintain Web sites at www.lightspan.com and www.academic.com. Information on our Web sites is not part of this prospectus.

The Offering

Common stock offered..... shares Common stock to be outstanding after the offering..... shares Use of proceeds..... For general corporate purposes, including expanding our sales and marketing activities and continued development of our products and services, particularly our Internet offerings. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... LSPN

Shares Outstanding After the Offering

The number of shares of common stock to be outstanding after the offering is based upon the actual number of shares outstanding as of September 30, 1999, giving effect to the conversion of all of our outstanding preferred stock into 51,058,595 shares of common stock in connection with the offering. However, it does not include, as of September 30, 1999, 7,120,971 shares of common stock reserved for issuance under our stock benefit plans, all of which were covered by outstanding options with a weighted average exercise price of $1.58 per share. It also does not include warrants outstanding as of September 30, 1999 to purchase a total of:

- 749,605 shares of preferred stock, which will become warrants to purchase 807,169 shares of common stock at a weighted average exercise price of $3.32 per share upon completion of this offering; and - shares of common stock (assuming a price of $ per share in this offering), which will be exercised for $0.01 per share upon completion of this offering.

Recent Development

In October 1999, we agreed to pursue several potential strategic initiatives with CINAR Corporation. CINAR is an integrated entertainment and education company that develops, produces, markets and 4 distributes high-quality programming and supplemental education products for children, families and educators worldwide. CINAR is a leading supplier of animated and live-action children's and family programming that it markets and distributes to broadcast, cable and other media outlets. As part of our agreement, CINAR purchased 2.5 million shares of our Series E preferred stock at $5.00 per share. CINAR also agreed to purchase $10 million of our common stock at the initial public offering price in a private placement that will occur concurrently with our initial public offering. We also granted CINAR warrants to purchase 500,000 shares of our Series E preferred stock that will vest upon the achievement of various agreed-to strategic goals.

Summary Financial Data (Amounts in Thousands)

The following financial information should be read together with the "Selected Historical and Pro Forma Financial Data" and "Management's Discussion and Analysis of Financial Condition and Operating Results" included elsewhere in this prospectus.

	YEAR ENDED JANUARY 31, 1999		SIX MONTH PERIOD ENDED JULY 31, 1999	
	ACTUAL	PRO FORMA(1)	ACTUAL	PRO FORMA(1)
STATEMENT OF OPERATIONS DATA:				
Revenues	$ 30,831	$ 37,208	$ 19,500	$ 23,190
Gross profit	19,323	23,561	12,378	15,062
Loss from operations	(16,947)	(35,549)	(8,898)	(16,894)
Net loss	(16,529)	(35,020)	(8,968)	(17,037)

At July 31, 1999 Actual as Adjusted(2)

BALANCE SHEET DATA:	
Cash and cash equivalents	$25,570
Working capital	21,785
Total assets	39,893
Capital lease obligations, less current portion	470
Total shareholders' equity	22,847

(1) The pro forma statement of operations data for the year ended January 31, 1999 and the six months ended July 31, 1999 assumes that we purchased Academic Systems as of the beginning of each of these periods and is based on our historical operating results and those of Academic Systems for the periods presented, giving effect to the amortization of intangibles related to the acquisition and decreased interest income representing foregone interest income at an assumed 3% rate of return.

(2) The As Adjusted column gives effect to the conversion of all of our outstanding shares of preferred stock into shares of common stock upon the closing of this offering and reflects our receipt of the net proceeds from our private sale of common stock to CINAR and from this offering (at an assumed initial public offering price of $ per share), after deducting estimated underwriting discounts and commissions and estimated offering expenses.

Risk Factors

You should carefully consider the risks described below before making a decision to buy our common stock. If any of the following risks actually occurs, our business could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should also refer to the other information in this prospectus, including our financial statements and the related notes.

We Have a Limited Operating History That Makes an Evaluation of Our Business Difficult.

We began selling our Lightspan Achieve Now educational software in January 1996 and entered the Internet market by launching The Lightspan Network in January 1997. Academic Systems began selling its educational software in April 1994. Since early 1999, we have significantly increased our efforts to expand our Internet businesses. As a result, both our curriculum-based educational software and Internet businesses have only a limited operating history on which you can base your evaluation of our business and prospects. Before investing, you should evaluate the risks, uncertainties, expenses and difficulties frequently encountered by early stage companies, particularly companies that are seeking to significantly increase their presence in new and rapidly evolving Internet markets.

OUR QUARTERLY REVENUES ARE VOLATILE AND DIFFICULT TO FORECAST, WHICH COULD CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE.

Our quarterly revenues and operating results have fluctuated significantly in the past, and we expect these fluctuations to continue. One reason for these fluctuations is that demand for our products and services is subject to seasonal influences based on school calendars, budget cycles and the timing of school districts' funding sources. Moreover, our sales could be delayed from quarter to quarter due partly to our need to educate school district decision makers regarding the uses and benefits of our software, and the lengthy multiple approval process that typically accompanies significant capital expenditures by school districts. If a significant sale that we expect to occur in a particular quarter is delayed and does not occur until a future quarter, or does not occur at all, our quarterly performance may be worse than expected. Further, our recently expanded Internet efforts may contribute to fluctuations in our quarterly operating results because the sales cycles of our Internet businesses are different than those of our curriculum-based educational software. If our financial results for one or more quarters fall below the expectations of analysts and investors, the trading price of our common stock may decline.

WE EXPECT A SUBSTANTIAL INCREASE IN EXPENSES AND NET LOSSES IN THE FUTURE AND MAY NEVER ACHIEVE OR SUSTAIN PROFITABILITY, WHICH MAY CAUSE OUR STOCK PRICE TO FALL.

Since our inception, we have incurred significant losses. As of July 31, 1999, we had an accumulated deficit of $115.2 million. We incurred net losses of $16.5 million for the fiscal year ended January 31, 1999 and $9.0 million for the six months ended July 31, 1999. We expect our operating losses and negative cash flow to continue and increase for the foreseeable future as we incur additional costs and expenses related to:

- brand maintenance, advertising, marketing and promotional activities;

- continued development and expansion of our Internet offerings and content;

- hiring personnel, including additional Internet systems, sales and marketing, and product development personnel; and - acquisition of additional office space and other necessary facilities.

Our ability to become profitable depends on our ability to generate and sustain substantially higher revenues while maintaining reasonable expense levels. Although we intend to increase our spending on the activities listed above, these efforts may not result in increased revenues. We conduct operations using estimates as to future expense levels based on our expectations of future revenues. We cannot guarantee that we will be able to predict our future revenues accurately or that we will be able to adjust spending to compensate for any unexpected revenue shortfall. If we achieve profitability, we cannot be certain that we will be able to sustain or increase profitability in the future.

OUR CONTINUED GROWTH WILL STRAIN OUR RESOURCES, AND FAILURE TO MANAGE THIS GROWTH EFFECTIVELY COULD DISRUPT OUR OPERATIONS AND PREVENT US FROM GENERATING THE REVENUES WE EXPECT.

We expect that significant expansion of our operations will be required to successfully implement our business strategy. For example, the development of our Internet businesses continues to require increased sales, marketing and promotion expenditures as well as increased development efforts. This expansion will strain our management, operational, financial and technological resources, as well as the infrastructure for our Web sites and services. The growth of our Lightspan Achieve Now educational software business may strain the resources of our professional development staff during periods of heavy implementation in purchasing school districts. Our growth depends on our ability to attract and retain qualified employees (including employees of businesses that we acquire), particularly Internet systems, sales and marketing, and product development personnel. Our failure to manage our growth in a manner that minimizes these strains on our resources could disrupt our operations and ultimately prevent us from generating the revenues we expect.

OUR CURRICULUM-BASED EDUCATIONAL SOFTWARE MAY BE UNABLE TO ACHIEVE OR MAINTAIN BROADER MARKET ACCEPTANCE, WHICH WOULD CAUSE OUR FUTURE REVENUE GROWTH AND PROFITABILITY TO SUFFER.

Revenue from sales of our educational software constituted nearly all of our total revenues in the six months ended July 31, 1999 and the fiscal year ended January 31, 1999. We expect to continue to generate a substantial portion of our revenues from software licenses, and will need to increase these revenues in order to more effectively grow in other areas of our business. Revenues from licenses of our curriculum-based educational software will depend principally on broadening market acceptance of that software, which may not occur due to a number of factors, including:

- teacher, parent and student preferences for interactive educational technology are subject to changes in popular entertainment and educational theory;

- some teachers may be reluctant to use interactive educational technology to supplement their customary teaching practices;

- we may be unable to continue to demonstrate improvements in academic performance at schools or colleges that use our educational software; and - our failure to detect bugs in our software could result in product failures or poor product performance.

If market acceptance of our curriculum-based educational software is not broadened, our future revenue growth will suffer and we may never become profitable.

WE ARE HEAVILY DEPENDENT UPON OUR RELATIONSHIP WITH SONY COMPUTER ENTERTAINMENT, AND TERMINATION OF THAT RELATIONSHIP, SUPPLY SHORTAGES OF SONY PLAYSTATION GAME CONSOLES FROM SONY COMPUTER ENTERTAINMENT OR UNANTICIPATED CHANGES IN THE PLATFORM COULD MATERIALLY AFFECT OUR BUSINESS.

We are heavily dependent upon our relationship with Sony Computer Entertainment, which supplies the Sony PlayStation game console used by the students who use our Lightspan Achieve Now educational software at home. Without incurring significant additional expense, there currently is no readily available operating platform for broad implementation of Lightspan Achieve Now in the home other than the PlayStation game console. Sony Computer Entertainment has rights to terminate their agreement with us in various circumstances, including if it elects to stop producing the PlayStation game console. If our agreement is terminated, or if we are unable to obtain an adequate supply of PlayStation game consoles on a timely basis, our Lightspan Achieve Now operations will be interrupted and we could lose substantial revenues. 7 The next version of the PlayStation game console, the recently-announced PlayStation 2 game console, is expected to be available in the United States in late 2000. If we are unable to enter into agreements to distribute the PlayStation 2 game console, or the original PlayStation game console loses popular appeal, is discontinued or is otherwise unavailable to us, our Lightspan Achieve Now operations will be disrupted and we could lose substantial revenues. Certain schools that are potential purchasers of Lightspan Achieve Now educational software may not want or be able to afford the PlayStation 2 game console if it is priced significantly higher than the original PlayStation game console. While we expect Lightspan Achieve Now to run on the PlayStation 2 game console, we may have to adapt our software to any changes in or new versions of the PlayStation game console that occur, which may require us to redirect significant financial and personnel resources from other development efforts.

WE RELY ON STATISTICAL STUDIES TO DEMONSTRATE THE EFFECTIVENESS OF OUR PRODUCTS, AND OUR REPUTATION AND SALES AND MARKETING EFFORTS COULD BE HARMED IF THE RESULTS OF THESE STUDIES ARE NOT REPRESENTATIVE OR IF THEIR INTEGRITY IS QUESTIONED.

We rely heavily on statistical studies, including those cited in this prospectus, to demonstrate that our curriculum-based educational software increases student achievement. We believe that these studies accurately reflect the performance of our products. However, these studies involve the following risks:

- the limited sample sizes used in our studies may yield results that are not representative of the general population of students who use our products;

- the methods used to gather the information upon which these studies are based depend on cooperation from students and other participants and inaccurate or incomplete responses could distort results; and - schools studying the effectiveness of our Lightspan Achieve Now curriculum administer

different tests, and colleges and universities studying the effectiveness of our Academic Systems curriculum apply different methodologies and data collection techniques, making results difficult to aggregate and compare.

We are involved in the Lightspan Achieve Now studies in the following ways:

- we facilitate the collection and analysis of data for these studies; and - we select and pay researchers to aggregate and present the results of these studies and, in some cases, to conduct the studies.

Our sales and marketing efforts, as well as our reputation, could be harmed if the public, including our existing and potential customers, perceives these studies to be biased due to our involvement, or if the results of these studies are not representative.

THE SUCCESS OF OUR BUSINESS MODEL REQUIRES US TO INCREASE OUR REVENUES FROM OUR INTERNET BUSINESSES, AND WE MAY NEVER BECOME PROFITABLE IF WE ARE UNABLE TO DO SO.

In order to grow as currently contemplated, we will need to derive an increasing portion of our revenues from our Internet businesses, including sponsorship of our Web sites, subscriptions to The Lightspan Network and electronic commerce. Some of these methods of generating revenues are relatively new to us and largely untested. Increasing revenues from these sources depends on:

- improving the accessibility and ease of use of our Web sites;

- developing Web sites that are sufficiently engaging to increase and retain our number of teacher, student and parent visitors;

- market acceptance by parents and teachers of the products and prices being offered at our electronic commerce Web sites;

- initiation and growth of sponsorships and banner advertisement sales; and - our ability to increase the subscriber base of The Lightspan Network while maintaining a subscription fee.

If we are unable to substantially increase our revenues from our Internet businesses, we will be unable to execute our current business model and we may never become profitable.

WE DEPEND ON PUBLIC SCHOOL FUNDING FOR A SUBSTANTIAL PORTION OF OUR REVENUES, AND ANY CHANGES IN FUNDING FOR PUBLIC SCHOOL SYSTEMS COULD HARM OUR BUSINESS.

Public school funding is substantially dependent on support from federal, state and local governments. Government budget deficits may adversely affect the availability of this funding. In addition, the government appropriations process is often slow, unpredictable and subject to factors outside of our control. Curtailments, delays or reductions in the funding of schools or colleges, for example a reduction of funds allocated to schools under Title I of the Elementary and Secondary Education Act of 1965, could delay or reduce our revenues. This is partly because schools may not have sufficient capital to purchase our products or services. Funding difficulties experienced by schools or colleges could also cause those institutions to be more resistant to price increases in our products, compared to

other businesses that might better be able to pass on price increases to their customers. The growth of our Internet businesses depends on continued investment by public school systems in interactive educational technology and products. Changes to funding of public school systems could slow this kind of investment.

IF WE FAIL TO ENHANCE OUR INTERNET PRODUCTS AND SERVICES WITHOUT SYSTEMS INTERRUPTIONS AND ADAPT THOSE PRODUCTS AND SERVICES TO CHANGES IN TECHNOLOGY, OUR FUTURE REVENUE GROWTH AND PROFITABILITY COULD BE LESS THAN WE EXPECT.

We believe that our future revenue growth will depend in large part on whether we are able to enhance and improve our Web sites and services as planned. Enhancements and improvements to our Web sites are currently scheduled for commercial launch, but we cannot assure you that those enhancements and improvements will gain market acceptance or be launched on schedule and without systems interruptions. In addition, the Internet is rapidly changing, and we expect that we will continually need to adapt our Web sites and their related technology to emerging Internet standards and practices, technological advances developed by our competition, and changing subscriber, user and sponsor preferences. Ongoing adaptation of our Web sites and their related technology will entail significant expense and technical risk, and we may use new technologies ineffectively or fail to adapt our Web sites and their related technology on a timely and cost-effective basis. If our enhancements, improvements and adaptations of our Web sites and their related technology are delayed or result in systems interruptions or do not gain market acceptance, our future revenue growth will suffer and we may never become profitable.

OUR SPONSORSHIP REVENUES MAY BE LESS THAN WE EXPECT BECAUSE ADVERTISING OVER THE INTERNET IN EDUCATIONAL SETTINGS MAY BE UNPOPULAR WITH SPONSORS, THE PUBLIC OR GOVERNMENT ENTITIES.

We expect to generate revenues from the sale of sponsorships and banner advertisements on our Web sites. Advertisements in educational settings may not be accepted by the educational community or by parents and others. Sales of sponsorships on our Web sites may therefore prove controversial and lead to negative publicity and action by the government or private interests to discourage companies from advertising on our Web sites. Third parties that oppose corporate sponsorships in schools have engaged in publicity campaigns to encourage boycotts of businesses that advertise in schools, and have sought legislation to curb advertising in schools. If government or private action discourages or prevents businesses from advertising in schools or we are not able to offer potential sponsors access to our Web sites that are primarily intended for school use, our sponsorship revenues will be significantly less than we expect and our revenues could suffer.

WE MAY NOT BE ABLE TO EXECUTE PART OF OUR BUSINESS STRATEGY IF BROADBAND TECHNOLOGY DOES NOT BECOME MORE PREVALENT OR IF WE CANNOT REACH AGREEMENTS TO DISTRIBUTE OUR PRODUCTS AND SERVICES USING BROADBAND TECHNOLOGY.

We intend to offer Lightspan Achieve Now and our Internet products and services as educational channels on a digital set-top box once broadband technology becomes widely available to cable television subscribers. We cannot predict that it will ever be economically practical or technologically feasible for either ourselves or cable television operators to deliver these products using broadband technology to cable television subscribers. In addition, we may not be able to reach commercially acceptable agreements with cable operators to distribute our products and services using broadband technology. If we are unable to offer Lightspan Achieve Now and our Internet products and services as educational channels on a digital set-top box, whether because of economic or technological limitations or a failure to reach commercially acceptable agreements with cable television operators, we will not be able to execute part of our business strategy and our growth and revenues will suffer.

WE EXPECT COMPETITION TO INCREASE SIGNIFICANTLY IN THE FUTURE, WHICH COULD PREVENT US FROM SUCCESSFULLY IMPLEMENTING OUR BUSINESS STRATEGY.

The educational technology market is intensely competitive and subject to increasing commercial attention. Barriers to entering Internet markets are relatively low, and we expect competition to intensify in the future, as more businesses use the Internet to enter the student, parent and teacher markets for education-oriented products and services. Competition among Internet companies is also intensifying for Web site sponsorships. We also may be adversely affected by pricing and other operational decisions, like the recent decision of several of our competitors that offer educational content on the Internet to offer a free service rather than charge a fee, which could hurt our subscription revenues. Potential competitors include Internet content providers that license education-oriented content from third parties, and Internet retailers that may enter the education electronic commerce market. Many of our current and potential competitors have longer operating histories, larger customer or user bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. Many of these current and potential competitors can devote substantially greater resources than we can to product development, marketing and promotional campaigns and Web site and systems development.

IF WE ARE UNABLE TO SUCCESSFULLY INTEGRATE ANY RECENTLY ACQUIRED BUSINESSES OR BUSINESSES THAT WE ACQUIRE IN THE FUTURE, OUR OWN BUSINESS WILL SUFFER.

We have acquired businesses and may continue to do so in the future. We are currently in the process of integrating the operations, systems and personnel of Academic Systems, Global Schoolhouse and StudyWeb, all of which we acquired in the second half of 1999. If we are unable to fully integrate any of these acquisitions or any future acquisitions, our expenses may increase, our management will be distracted and our business and operations could suffer. We also may enter into strategic relationships with complementary businesses. For example, we have agreed to pursue several potential strategic initiatives with CINAR Corporation. We cannot assure you that we will implement these initiatives or, if implemented, that these initiatives, or any other strategic relationships we may enter into, will be successful.

Academic Systems Is Heavily Dependent on Its Relationship with Oracle Corporation.

Academic Systems is heavily dependent upon its relationship with Oracle Corporation, which provides a database that Academic Systems uses to accumulate data on students' progress in its math and writing courses. If Oracle Corporation terminates its relationship with Academic Systems or its database fails to function properly for any reason, a portion of our operations could be interrupted and we could lose revenues.

IF WE DO NOT SUCCESSFULLY ANTICIPATE AND ADAPT TO CHANGES IN COMPUTER PLATFORMS AND OTHER EVOLVING TECHNOLOGIES, OUR BUSINESS COULD BE ADVERSELY AFFECTED.

We must manage our software development efforts to anticipate and adapt to changes in popular computer operating environments and other evolving technologies. For example, we are currently reviewing possibilities for migrating Academic Systems' CD-ROM-based educational software to an Internet-based product, and expect to devote significant financial resources to do so. Our curriculum-based educational software is currently delivered in CD-ROM format on Sony PlayStation game consoles and on Windows-based personal computers. We will continue to evaluate other operating environments and computer platforms for our software products as they become available. We may decide from time to time to make our software products available in other operating environments or on other computer platforms and our efforts to do so may involve substantial costs or may incur delays which could materially adversely affect our business. Our business could also be harmed if we are unable to anticipate and adapt to changes in computer platforms and other evolving technologies on a timely and cost-effective basis.

WE WILL NOT BE ABLE TO GROW OUR INTERNET BUSINESSES IF THE MARKET FOR THOSE BUSINESSES DOES NOT DEVELOP.

The success of our Internet businesses will depend in large part on the continued emergence and growth of a market for Internet-based educational technology products. The market for educational technology is characterized by rapid technological change and product innovation, unpredictable product life cycles and unpredictable preferences among students, teachers and parents. Internet commercial businesses and services are evolving markets as well, and it is difficult to estimate how and when growth or other changes in those markets will occur. We therefore cannot predict that the market for Internet-based educational technology products will continue to grow.

OUR BUSINESS MAY NOT SUCCEED WITHOUT THE CONTINUED DEVELOPMENT AND MAINTENANCE OF THE INTERNET.

Without the continued development and maintenance of the Internet infrastructure, we could fail to generate the Internet traffic and revenues we need for our business to succeed. In addition, our Lightspan Achieve Now and Academic Systems curricula are very media-rich and are not currently delivered over the Internet, given bandwidth limitations. The continued development of the Internet

includes maintenance of a reliable network with the necessary speed, data capacity and security, as well as timely development of complementary products for providing reliable Internet access and services. Because the online exchange of information and global commerce on the Internet is new and evolving, we cannot predict whether the Internet will prove to be an effective vehicle for delivering commercial content or will provide a viable marketplace for electronic commerce in the long term.

As the Internet continues to experience increased numbers of users, increased frequency of use and increased bandwidth requirements, the Internet infrastructure may be unable to support the demands placed on it. In addition, increased users or bandwidth requirements may harm the performance of the Internet.

WE MAY NEED ADDITIONAL FINANCING TO MEET OUR STRATEGIC BUSINESS OBJECTIVES, WHICH MAY NOT BE AVAILABLE AND, IF AVAILABLE, MIGHT HURT OUR EXISTING STOCKHOLDERS.

We require substantial working capital to fund our business. Since our inception, we have experienced negative cash flow from operations and expect to experience significant negative cash flow from operations for the foreseeable future. As we enter into new areas of business, like Internet-based businesses, we will incur substantially increased expenses for which we do not expect returns for months or years in the future. We currently anticipate that the net proceeds of this offering, together with our available funds, will be sufficient to meet our anticipated needs for working capital and capital expenditures through at least the next 18 months. However, we may need to raise additional funds prior to or after that period. If we raise additional funds through the issuance of equity or debt securities that have rights senior to those of our stockholders, our stockholders may experience additional dilution or may lose other rights. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to take advantage of future opportunities, grow our business or respond to competitive pressures or unanticipated developments, which could seriously harm our business.

UNLESS WE MAINTAIN A STRONG BRAND IDENTITY, OUR BUSINESS MAY NOT GROW AND OUR FINANCIAL RESULTS MAY SUFFER.

We believe that maintaining and enhancing the value of our Lightspan and Academic Systems brands is critical to attracting purchasers for our curriculum-based educational software and sponsors, subscribers and users of our Internet businesses. Our success in maintaining brand awareness will depend on our ability to continuously provide educational technology that students enjoy using and teachers and parents consider beneficial to the learning process. We cannot assure you that we will be successful in maintaining our brand equity. In addition, to attract and retain online sponsors, subscribers and users and to promote and maintain the Lightspan brand, we have spent and intend to continue spending significant amounts on an aggressive brand-enhancement strategy, which includes advertising, promotional programs and efforts by our field sales force and professional development

staffs. We may also need to spend significant amounts in the future to maintain the value of our Lightspan and Academic Systems brands as they relate to our curriculum-based educational software business. Revenues from these activities may not be sufficient to offset associated costs.

OUR PRACTICE OF COLLECTING DATA FROM OUR USER BASE MAY SUBJECT US TO LIABILITIES AND ADDITIONAL EXPENSE AND DECREASE TRAFFIC TO OUR WEB SITES.

We could be subject to liability claims for misuses of information collected from our users, such as for unauthorized marketing purposes, and could face additional expenses to analyze and comply with increasing regulation in this area. In addition, the Federal Trade Commission has announced regulations governing collection of personal information from children under 13, and is expected to issue and enforce additional regulations in this area. We are sensitive to the impetus for these regulations, and currently collect only the names of teachers who are registering for our Internet products. We intend to use this information externally on an aggregated, non-individually identifiable basis to provide our sponsors with the demographics of our user base and response rate to their media. We may in the future collect names and other personal information for students, teachers and parents, and may sell our user information on an aggregated, non-individual basis. If we collect personal information in the future from our users, privacy concerns may cause visitors to resist providing that personal information or avoid visiting our Web sites. We could also incur additional expenses, or be required to alter, or eliminate, various current practices if new regulations regarding the use or distribution of personal and other information collected online are introduced or if our privacy practices are investigated.

OUR BUSINESS OPERATIONS COULD BE SIGNIFICANTLY DISRUPTED IF WE LOSE MEMBERS OF, OR FAIL TO PROPERLY INTEGRATE, OUR MANAGEMENT TEAM.

Our success depends on the continued contributions of the principal members of our sales and marketing, product development, Internet services, and management departments. The loss of the services of any of our officers or senior managers could harm our business. We do not maintain any "key person" life insurance policies other than on John T. Kernan, our Chairman and Chief Executive Officer, and Carl Zeiger, our President and Chief Operating Officer.

Many of our existing senior management personnel joined us during 1999, including critical members of our Internet team. Some of these individuals have not previously worked together and are currently being integrated as a management team. If our senior managers are unable to work effectively as a team, our business operations could be significantly disrupted.

OUR DATA WAREHOUSING AND WEB SERVER SYSTEMS MAY STOP WORKING OR WORK IMPROPERLY DUE TO NATURAL DISASTERS, FAILURE OF SERVICES OR OTHER UNEXPECTED PROBLEMS.

Our facilities and operations could be adversely affected by an earthquake or other natural disaster, or a power or telecommunications failure. This could cause the loss of critical data and prevent us from offering our Internet services. Our business interruption insurance may not adequately compensate us

for losses that may occur. In addition, we rely on third parties to house our Web server and network systems and connect us to the Internet. A failure by any of these third parties to provide these services satisfactorily could impair our ability to operate our Web sites.

We May Face Product Liability Claims That Could Cause Our Business to Suffer.

Because we market products to third parties, we face an inherent business risk of financial exposure to product liability claims. We have applied for product liability insurance that, in general, will cover product liability claims up to the policy limits. We cannot assure you that we will have access to this insurance at a reasonable cost, if at all, or that our insurance will be adequate to satisfy any liability or litigation expenses. Any claims against us, regardless of merit or eventual outcome, could cause our business to suffer.

YEAR 2000 PROBLEMS COULD LEAD TO MALFUNCTIONS OF OUR COMPUTER AND COMMUNICATIONS SYSTEMS, AND PREVENT US FROM RUNNING OUR BUSINESS.

Many existing computer programs cannot distinguish between a year beginning with "20" and a year beginning with "19" because they use only the last two digits to refer to a year. For example, these programs cannot tell the difference between the year 2000 and the year 1900. As a result, these programs may malfunction or fail completely. If we or any third parties with whom we have a material relationship fail to achieve year 2000 readiness, our business may be seriously harmed. In particular, year 2000 problems could temporarily prevent us from operating our Internet businesses.

Government Regulation May Require Us to Change the Way We Do Business.

The laws and regulations that govern our business change rapidly. Although our operations are currently based in California, the United States government and the governments of other states and foreign countries have attempted to regulate activities on the Internet. Evolving areas of law that are relevant to our business include privacy law, intellectual property law and content regulation. Because of this rapidly evolving and uncertain regulatory environment, we cannot predict how these laws and regulations might affect our business. In addition, these uncertainties make it difficult to ensure compliance with the laws and regulations governing the Internet. These laws and regulations could harm our business by subjecting us to liability or forcing us to change how we do business.

WE MAY BE LIABLE TO THIRD PARTIES FOR CONTENT THAT IS AVAILABLE ON OR ACCESSIBLE FROM OUR WEB SITES.

We may be subject to claims relating to content that is published on our Web sites. We also could be subject to liability for content that is accessible from our network through links to other Web sites. Our insurance may not cover claims of this type, such as defamation or trademark infringement, or may not

be adequate to cover all costs incurred in defense of claims or to indemnify us for all liability that may be imposed. In addition, any claims of that type, with or without merit, could require us to change our Web sites in a manner that could be less attractive to our customers and would result in the diversion of our financial and development resources.

WE MAY NOT BE ABLE TO PREVENT OTHERS FROM USING OUR TRADEMARKS, COPYRIGHTS, SOFTWARE, CHARACTERS AND OTHER INTELLECTUAL PROPERTY ASSETS. IF OTHERS DO USE THESE ASSETS, THEIR VALUE TO US, AND OUR ABILITY TO USE THEM TO GENERATE REVENUES, MAY DECREASE.

Our intellectual property includes our trademarks and copyrights, proprietary software, characters and other proprietary rights. We believe that our intellectual property is important to our success and our 13 competitive position, and we try to protect it. However, our efforts may be inadequate. In addition, our ability to conduct our business may be harmed if others claim we violate their intellectual property rights. If successful, claims of this nature could seriously harm our business by requiring us to cease using important intellectual property or pay monetary damages. Even if unsuccessful, these claims could harm our business by damaging our reputation, requiring us to incur legal costs and diverting management's attention away from our business.

Our Stock Price May Be Particularly Volatile Because of the Industry We Are In.

The stock market in general has recently experienced extreme price and volume fluctuations. In addition, the market prices of securities of technology companies, particularly Internet-related companies, have been extremely volatile, and have experienced fluctuations that have often been unrelated to or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our stock.

WE HAVE BROAD DISCRETION TO USE THE OFFERING PROCEEDS AND OUR INVESTMENT OF THESE PROCEEDS MAY NOT YIELD A FAVORABLE RETURN.

The net proceeds of this offering are not allocated for specific uses. Our management has broad discretion to spend the proceeds from this offering in ways with which stockholders may not agree. The failure of our management to apply these funds effectively could result in unfavorable returns. This could adversely affect our financial condition and could cause the price of our common stock to decline.

OUR EXECUTIVE OFFICERS, DIRECTORS AND MAJOR STOCKHOLDERS WILL CONTROL % OF OUR COMMON STOCK AFTER THIS OFFERING.

After this offering, executive officers, directors and holders of 5% or more of our outstanding common stock will, in the aggregate, beneficially own % of our outstanding common stock. These stockholders will be able to influence all matters requiring approval by our stockholders, including the election of

directors and the approval of corporate transactions. This concentration of ownership may also delay, deter or prevent a change in control of our company and may make some transactions more difficult or impossible to complete without the support of these stockholders.

IT MAY BE DIFFICULT FOR A THIRD PARTY TO ACQUIRE OUR COMPANY, AND THIS COULD DEPRESS OUR STOCK PRICE.

Delaware corporate law and our certificate of incorporation and bylaws contain provisions that could delay, defer or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions:

- authorize us to issue preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of common stock;

- provide for a staggered board of directors, so that it would take three successive annual meetings to replace all directors;

- prohibit stockholder action by written consent; and - establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

THERE IS NO PRIOR MARKET FOR OUR SECURITIES, AND OUR STOCK PRICE MAY DECLINE AFTER THE OFFERING.

Before this offering, there has not been a public market for our common stock. After the offering, the market price of our common stock may decline below the initial public offering price. The initial public offering price has been determined by negotiations between us and representatives of the underwriters. In addition, an active public market for our common stock may not develop or be sustained after this offering.

THE BOOK VALUE OF THE SHARES YOU PURCHASE WILL BE SUBSTANTIALLY LESS THAN THE PRICE YOU PAY FOR THE SHARES AND, IF A LIQUIDATION WERE TO OCCUR, YOU MAY RECEIVE SIGNIFICANTLY LESS THAN THE PURCHASE PRICE FOR YOUR SHARES.

The initial public offering price is substantially higher than the net tangible book value of each outstanding share of our common stock. As a result, purchasers of common stock in this offering will suffer immediate and substantial dilution. This dilution will reduce the net tangible book value of their shares, since the price per share in this offering will be substantially higher than it was for our existing stockholders. The dilution will be $ per share in the net tangible book value of the common stock from the initial public offering price. If the underwriters exercise their over-allotment option, or if outstanding options or warrants to purchase shares of common stock are exercised, there will be further dilution. As a result of this dilution, in the event of a liquidation, common stockholders who purchase stock in this offering may receive significantly less than the purchase price for the shares they purchased in this offering.

APPROXIMATELY , OR %, OF OUR TOTAL OUTSTANDING SHARES ARE RESTRICTED FROM IMMEDIATE RESALE BUT MAY BE SOLD INTO THE MARKET IN THE NEAR FUTURE. THIS COULD CAUSE THE MARKET PRICE OF OUR COMMON STOCK TO DROP SIGNIFICANTLY, EVEN IF OUR BUSINESS IS DOING WELL.

Sales of a substantial number of shares of common stock in the public market following this offering could cause the market price of our common stock to decline. After completion of our private sale of common stock to CINAR and this offering, assuming a public offering price of $ per share, we will have shares of common stock outstanding. The shares offered for sale through the underwriters will be freely tradable unless purchased by our affiliates or covered by a separate lock-up agreement with the underwriters. Of the remaining shares of common stock outstanding after this offering, shares will be eligible for sale in the public market beginning 181 days after the date of this prospectus. The remaining shares will become available at various times thereafter upon the expiration of one-year holding periods. We also intend to register up to additional shares of our common stock after this offering for issuance under our equity plans.

Forward-looking Statements

This prospectus contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including "could," "may," "will," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or "opportunity," the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks described above and in other parts of this prospectus. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform them to actual results or to changes in our expectations.

Use of Proceeds

We estimate that our net proceeds from the offering will be approximately $ million (based upon an assumed initial public offering price of $ per share) after deducting the underwriting discount and commissions and estimated offering expenses ($ if the over-allotment option is exercised in full).

We expect to use the net proceeds for general corporate purposes, including expansion of our sales and marketing activities and continued development of our products and services, particularly our Internet offerings. Our management will retain broad discretion in the allocation of the net proceeds of this offering. The amounts we actually spend will depend on a number of factors, including the amount of

our future revenues and other factors described elsewhere in this prospectus. A portion of the net proceeds may also be used to acquire or invest in complementary businesses, technologies, product lines or products. Pending such uses, the net proceeds of this offering will be invested in short term, interest-bearing, investment grade securities.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings to finance the growth and development of our business and therefore do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, general business conditions and other factors that the board of directors may deem relevant.

Capitalization

The following table sets forth our capitalization as of July 31, 1999:

- On an actual basis;

- On a pro forma basis after giving effect to the conversion of all of our outstanding shares of preferred stock into 42,766,758 shares of common stock upon the closing of the offering; and - On a pro forma as adjusted basis, giving effect to our issuance of common stock in the offering at an assumed price of $ per share and our receipt of the net proceeds from our private sale of common stock to CINAR.

This information should be read in conjunction with our financial statements and related notes included elsewhere in this prospectus.

JULY 31, 1999 PRO FORMA ACTUAL PRO FORMA AS ADJUSTED Capital lease obligations, less current portion... $ 469,824 $ 469,824 $ 469,824 Shareholders' equity(1): Series A preferred stock, $.001 par value; 7,617,500 shares authorized and 7,467,500 shares issued and outstanding, actual; 0 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted..... 7,467 -- -- Series B preferred stock, $.001 par value; 11,816,664 shares authorized and 11,666,664 shares issued and outstanding, actual; 0 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted..... 11,667 -- -- Series C preferred stock, $.001 par value; 3,360,910 shares authorized and 3,264,285 shares issued and outstanding, actual; 0 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted..... 3,264 -- -- Series D preferred stock, $.001 par value; 17,000,000 shares authorized and 13,129,444 shares issued and outstanding, actual; 0 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted..... 13,129 -- -- Series E preferred stock, $.001 par value; 17,000,000 shares authorized and 5,294,185 shares issued and outstanding, actual; 0 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted..... 5,294 -- -- Common Stock, $.001 par value; 75,000,000 shares authorized and 7,831,150 shares issued and outstanding, actual; 50,597,908 shares issued and outstanding, pro

forma (unaudited); shares issued and outstanding, pro forma as adjusted..... 7,831 50,598 Additional paid-in capital..... 144,986,033 144,984,087 Deferred compensation..... (7,012,176) (7,012,176) (7,012,176) Accumulated deficit..... (115,175,590) (115,175,590) (115,175,590) Total shareholders' equity..... 22,846,919 22,846,919 Total capitalization..... $ 23,316,743 $ 23,316,743 $ (1) Share numbers in the table do not include issuances subsequent to July 31, 1999, or the following shares:

- 5,679,766 shares of common stock reserved for issuance under our stock benefit plans, all of which were covered by outstanding options with a weighted average exercise price of $1.14 per share;

- shares of common stock (assuming a price of $ per share in this offering) issuable upon exercise of outstanding warrants at an exercise price of $0.01 per share;

- 150,000 shares of Series A preferred stock issuable upon exercise of outstanding warrants at an exercise price of $1.00 per share;

- 150,000 shares of Series B preferred stock issuable upon exercise of outstanding warrants at an exercise price of $3.00 per share;

- 96,625 shares of Series C preferred stock issuable upon exercise of outstanding warrants at an exercise price of $6.00 per share;

- 57,564 shares of Series C preferred stock issuable upon exercise of outstanding warrants at an exercise price of $0.01 per share;

- 183,105 shares of Series D preferred stock issuable upon exercise of outstanding warrants at an exercise price of $3.76 per share; and - 127,659 shares of Series D preferred stock issuable upon exercise of outstanding warrants at an exercise price of $4.70 per share.

Dilution

As of July 31, 1999, our pro forma net tangible book value, after giving effect to conversion of all of our preferred stock then outstanding, was approximately $22.8 million, or $0.45 per share of common stock. Pro forma net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. After giving effect to our sale of common stock offered hereby at an assumed initial public offering price of $ per share, our private sale of common stock to CINAR, and our receipt of the estimated net proceeds from both, our pro forma net tangible book value as of July 31, 1999 would have been approximately $ million, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share..... $ Pro forma net tangible book value per share before the offering..... $0.45 Increase per share attributable to new investors..... Pro forma net tangible book value per share after this

offering..... Dilution per share to new investors..... $ The following table summarizes, on a pro forma basis as of July 31, 1999, the differences between existing stockholders and the new investors with respect to the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid before deducting the underwriting discounts and commissions for this offering and our estimated offering expenses.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
			(AMOUNTS IN THOUSANDS)		
Existing stockholders.....	50,597,908(1)	%	$138,210	%	$2.73
New investors.....		%		%	
Total.....		100.0%	$	100.0%	

(1) Gives effect to the conversion of all of our outstanding preferred stock into 42,766,758 shares of common stock in connection with the offering, and assumes no exercise of stock options or warrants outstanding as of July 31, 1999. As of July 31, 1999, there were options outstanding to purchase a total of 5,679,766 shares of common stock, with a weighted average exercise price of $1.14 per share. As of July 31, 1999, there were also warrants outstanding to purchase a total of 707,389 shares of preferred stock (which will become warrants to purchase 764,953 shares of common stock at a weighted average exercise price of $3.49 per share upon completion of this offering), as well as warrants outstanding to purchase a total of shares of common stock (assuming a price of $ per share in this offering) which will be exercised for $0.01 per share upon completion of this offering. To the extent that any of these options or warrants are exercised, there will be further dilution to new investors. See "Management -- Equity Plans," "Description of Capital Stock" and Note 5 to the Lightspan financial statements.

Selected Historical and Pro Forma Financial Data

The following selected financial data should be read in conjunction with the Lightspan and Academic Systems financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Operating Results" included elsewhere in this prospectus. The pro forma statement of operations data for the year ended January 31, 1999 and the six months ended July 31, 1999 should be read in conjunction with the unaudited pro forma financial statements included elsewhere in this prospectus. That data assumes that we purchased Academic Systems as of the beginning of each of these periods and is based on our historical operating results and those of Academic Systems for the periods presented, giving effect to the amortization of intangibles related to the acquisition, decreased interest income representing foregone interest income at an assumed 3% rate of return, our issuance of shares of common and preferred stock to complete the acquisition as if such issuance had occurred at the beginning of each of the periods presented, and the conversion of all of our outstanding shares of preferred stock as of their original dates of issuance. Our statement of operations data for the years ended January 31, 1995, 1996, 1997, 1998 and 1999 and balance sheet data as of January 31, 1995, 1996, 1997, 1998 and 1999 are derived from our audited financial statements, which are included elsewhere in this prospectus for the years ended January 31, 1997, 1998 and 1999 and as of January 31, 1998 and 1999. Academic Systems' statement of operations data

for the years ended September 30, 1997 and 1998 are derived from Academic Systems' audited financial statements included elsewhere in this prospectus. Our statement of operations data for the six months ended July 31, 1998 and 1999 and our balance sheet data as of July 31, 1999 are derived from our unaudited financial statements included elsewhere in this prospectus. Academic Systems' statement of operations data for the nine months ended June 30, 1998 and 1999 are derived from its unaudited financial statements included elsewhere in this prospectus. The unaudited financial statements have been prepared on substantially the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the financial position and results of operations for the periods presented. Historical results are not necessarily indicative of the results that may be expected in the future, and the results of interim periods are not necessarily indicative of results that may be expected for the entire year. The following financial information is in thousands, except per share data.

The Lightspan Partnership

	YEAR ENDED JANUARY 31,						SIX MONTH PERIOD ENDED JULY 31,	
	1995	1996	1997	1998	1999	1999 PRO FORMA	1998	1999 PRO FORMA
						ACTUAL		ACTUAL
STATEMENT OF OPERATIONS DATA:								
Revenues:								
Licenses	$ --	$ --	$ 5,592	$ 15,042	$ 20,985	$ 27,362	$10,724	$13,540
Services	--	--	554	1,973	3,742	3,742	1,809	2,789
Hardware	--	--	2,419	5,294	6,104	6,104	3,506	3,171
Total revenues	--	--	8,565	22,309	30,831	37,208	16,039	19,500
Cost of revenues:								
Licenses	--	--	2,964	6,409	4,150	6,289	1,902	3,030
Services	--	--	563	1,753	2,385	2,385	1,116	1,367
Hardware	--	--	2,315	4,745	4,973	4,973	2,912	2,725
Total cost of revenues	--	--	5,842	12,907	11,508	13,647	5,930	7,122
Gross profit	--	--	2,723	9,402	19,323	23,561	10,109	12,378
Operating expenses:								
Technology and development	4,907	12,152	18,953	14,816	10,594	13,876	6,072	4,458
Sales and marketing	2,177	6,831	13,773	20,296	22,066	28,814	11,030	13,810
General and administrative	1,231	1,460	2,473	2,715	3,590	5,780	1,231	2,046

Stock-based compensation.....	--	--	--	--	20	20	--	962	962
Amortization of intangibles.....	--	--	--	--	--	10,620	--	--	5,310
Total operating expenses.....	8,315	20,443	35,199	37,827	36,270	59,110	18,333	21,276	31,956
Loss from operations.....	(8,315)	(20,443)	(32,476)	(28,425)	(16,947)	(35,549)	(8,224)	(8,898)	(16,894)
Interest income (expense), net.....	86	876	(113)	(528)	418	529	243	(70)	(143)
Net loss.....	$(8,229)	$(19,567)	$(32,589)	$(28,953)	$(16,529)	$(35,020)	$(7,981)	$(8,968)	$(17,037)
Historical net loss per share(1) -- basic and diluted.....	$ (1.36)	$ (3.24)	$ (5.36)	$ (4.56)	$ (2.44)		$ (1.20)	$ (1.21)	
Historical weighted average shares -- basic and diluted.....	6,047	6,048	6,078	6,355	6,776		6,627	7,431	
Pro forma net loss per share -- basic and diluted.....					$ (0.38)(2)	$ (0.67)(3)		$ (0.20)(2)	$ (0.32)(3)
Pro forma weighted average shares -- basic and diluted.....					43,603(2)	51,935(3)		45,372(2)	53,704(3)

	JANUARY 31,					JULY 31,
	1995	1996	1997	1998	1999	1999
BALANCE SHEET DATA:						
Cash and cash equivalents.....	$17,300	$14,733	$ 1,884	$ 4,422	$ 7,143	$25,570
Working capital.....	15,795	14,037	(287)	(1,020)	3,331	21,785
Total assets.....	19,824	18,259	12,852	14,080	19,010	39,893
Capital lease obligations, less current portion.....	1,379	1,460	1,702	775	393	470
Total shareholders' equity.....	$16,379	$14,537	$ 1,614	$ 208	$ 4,314	$22,847

(1) See Note 1 to the Lightspan financial statements for a description of the computation of the historical net loss per share and the number of shares used in the historical per share calculation.

(2) Assumes the conversion of all of our outstanding preferred stock as of their original dates of issuance. See Note 1 to the Lightspan financial statements for a description of the computation of pro forma net loss per share and the number of shares used in the pro forma per share calculation.

(3) In addition to the assumption described in (2) above, assumes the issuance of our shares of common and preferred stock used to complete the acquisition of Academic Systems as if such issuance had occurred at the beginning of each of the periods presented.

Academic Systems Corporation

	YEAR ENDED SEPTEMBER 30,		NINE MONTH PERIOD ENDED JUNE 30,	
	1997	1998	1998	1999
	(AMOUNTS IN THOUSANDS)			
STATEMENT OF OPERATIONS DATA:				
Revenues	$ 4,399	$ 5,939	$ 2,947	$ 4,870
Cost of revenues	1,920	2,064	1,183	1,378
Gross profit	2,479	3,875	1,764	3,492
Operating expenses	12,737	12,893	10,013	8,003
Loss from operations	(10,259)	(9,018)	(8,249)	(4,511)
Interest income (expense), net	151	347	310	(50)
Net loss	$(10,108)	$(8,671)	$(7,939)	$(4,561)

Management's Discussion and Analysis of Financial Condition and Operating Results

Overview

We develop, market and sell curriculum-based educational software and Internet products and services used both in school and at home. Our curriculum-based educational software consists of our Lightspan Achieve Now and Academic Systems software. Lightspan Achieve Now is our media-rich, interactive CD-ROM-based software for students in kindergarten through eighth grade that covers the core curriculum of language arts, reading and math. Its technology, delivery system and content help increase student interest in learning, parental involvement in their children's education, and productive interaction among teachers, parents and students. Our Academic Systems software is also CD-ROM-based and serves the college market with an English and mathematics curriculum designed to meet the needs of under-prepared students. We offer the following integrated family of Internet products and services through our Web site, Lightspan.com:

- The Lightspan Network, an online subscription service marketed to schools for classroom and home use;

- Lightspan PageOne, an online service developed with Yahoo! that enables teachers to easily create customized home pages for their classrooms;

- Global Schoolhouse, a leading education Web site that helps teachers develop and manage collaborative learning projects online;

- StudyWeb, a leading research Web site that helps parents, teachers and students find on the Web the educational information and resources they want;

- The Lightspan Learning Store, a Web site that sells educational products online to teachers and parents; and - selected additional content for teachers, parents and students.

We charge an annual subscription fee of $2,500 for The Lightspan Network to subscribing schools. We also plan to generate revenues for our free Internet products and services, like Lightspan PageOne and Global Schoolhouse, through sponsorships, advertising and electronic commerce.

Our products and services are sold to school districts by a direct field sales force and supported by our professional development team who assists in implementing our curricula in schools.

We commenced operations in September 1993, and through June 1996 our activities consisted primarily of designing and developing Lightspan Achieve Now. In January 1996, we released our Lightspan Achieve Now curriculum for use on Windows-based personal computers. In the fall of that year, we released the product for use on the Sony PlayStation game console. In January 1997, we introduced The Lightspan Network to supplement our product offerings. In June 1999, we launched Lightspan PageOne. We acquired Academic Systems and Global Schoolhouse in September 1999, and StudyWeb in October 1999. We also introduced the Lightspan Learning Store in October 1999.

Results of Operations

Revenues

Our revenues from sales of Lightspan Achieve Now consist of license, service and hardware revenues, and our revenues from sales of The Lightspan Network consist of subscription fees. Since inception, sales of our Lightspan Achieve Now curriculum have been our primary source of revenues, representing approximately 97% of total revenues.

License Revenues. We derive license revenues from the sale of Lightspan Achieve Now licenses and subscriptions for The Lightspan Network. We recognize revenue from Lightspan Achieve Now licenses after:

- a license agreement has been executed or a definitive purchase order has been received;

- the product has been shipped;

- the license fee has become fixed and determinable;

- the collection of the fee is considered probable; and - the related hardware, if applicable, has been shipped.

Our revenue recognition for Lightspan Achieve Now licenses is in accordance with standards published by the American Institute of Certified Public Accountants. As a result of changes in those standards, in February 1998 we adopted the percentage of completion method for recognizing revenue from Lightspan Achieve Now licenses. Under this method, we recognize the full sale value of completed Lightspan Achieve Now titles upon shipment as well as a portion of the sale value of as-yet uncompleted titles based on the percentage of completion of those uncompleted titles. As previously uncompleted Lightspan Achieve Now titles are completed, we recognize a corresponding amount of revenue. We believe that the package of Lightspan Achieve Now titles initially shipped to our customers is adequate to fulfill the academic objectives of our Lightspan Achieve Now curriculum.

However, we intend to deliver to our Lightspan Achieve Now customers several as-yet-uncompleted titles to round out that curriculum. As of July 31, 1999, 5 of our 77 titles were still under development for the Sony platform and 9 of our 75 titles were still under development for the Windows platform. Most of these titles were substantially complete at July 31, 1999 and are expected to be shipped by early 2000. We may elect to produce additional Lightspan Achieve Now titles beyond those currently contemplated. These titles would be sold separately to existing Lightspan Achieve Now users for an additional license fee.

The net impact to license revenues of the accounting change described in the preceding paragraph was a decrease in license revenues of $0.8 million during the year ended January 31, 1999, and an increase in license revenues of $0.4 million for the six months ended July 31, 1999.

We recognize revenue from subscriptions to The Lightspan Network ratably over the term of the subscription agreement. Subscription licenses are for a one-year term, and are paid in advance.

Amounts received in excess of revenue that is recognized are recorded as deferred revenue.

Service Revenues. We derive service revenues from implementation services and training for our Lightspan Achieve Now curriculum that is provided by our professional development team and, to a lesser extent, from telephone support and maintenance. All customers that purchase our Lightspan Achieve Now curriculum also purchase service and support. This service and support are paid for in advance and initially recorded as deferred revenues. Service revenues are recognized when services are performed, in accordance with the standard implementation, training, service, and evaluation plans that we establish for the customer. Revenues from telephone support and maintenance arrangements are recognized ratably over the one-year term of the support and maintenance agreement.

Hardware Revenues. We derive hardware revenues from the sale of Sony PlayStation game consoles and accessories. We recognize hardware revenues after a definitive purchase order has been received, the product has been shipped and collection of the sales price is considered probable. Substantially all of our Lightspan Achieve Now customers also purchase Sony PlayStation game consoles. Our future hardware revenues will vary based on the cost to us of Sony PlayStation game consoles and accessories.

Future Revenue Sources. We anticipate that the sources of our revenues will change over time. In the future, we plan to generate revenues from other sources such as:

- sponsorship of, and advertising on, our Web sites;

- electronic commerce; and - new titles that may be developed to expand Lightspan Achieve Now.

As broadband technology becomes more prevalent and cable operators provide more of their customers with digital set-top boxes, we also intend to offer both Lightspan Achieve Now and all of our Internet products and services as educational channels on digital cable television systems.

Cost of Revenues

Our cost of revenues consists of:

- costs for assembly, distribution and materials for CD-ROMs, and packaging and print material costs;

- labor costs and overhead related to professional development personnel;

- costs for Sony PlayStation game consoles and related accessories;

- costs for third-party royalties and third-party content; and - costs for server and network fees.

Operating Expenses

During the years ended January 31, 1998 and 1999, our technology and development and sales and marketing expenses related primarily to the development, release, marketing, sale and distribution of Lightspan Achieve Now. During the six months ended July 31, 1999, our expenses relating to the development, sale and marketing of our Internet products and services increased. We expect that we will continue to make investments in product development, sales and marketing to enhance our Lightspan Achieve Now and Academic Systems curricula and expand our existing customer base. However, an increasingly important part of our strategy and spending will focus on building our technology and development and sales and marketing teams to support our Internet products and services.

Technology and Development. Our technology and development costs consist primarily of payroll and related costs for design, art, production, development, maintenance and testing of our Lightspan Achieve Now curriculum and for performing Web site design, development and testing. We believe that continued investment in Web site development is critical to attain our strategic objectives and therefore anticipate that Web site development expenses will increase significantly in future periods.

Sales and Marketing. Our sales and marketing expenses consist primarily of salaries, commissions, bonuses, related payroll and travel costs, advertising, promotional activities, customer incentive programs and research and evaluation of our current customers and markets. We expect that sales and marketing expenses will increase significantly in future periods and we intend to continue to pursue aggressive branding and marketing campaigns to retain and increase sales to current customers, attract new customers, and broaden our markets. We expect that most of these activities will be directed toward the target users and markets for our Internet products and services.

General and Administrative. Our general and administrative expenses consist primarily of payroll and related costs for executive and administrative personnel, professional services expenses and other general corporate expenses. We expect that general and administrative expenses will increase as our business grows and we expand our staff, increase our infrastructure, and incur costs associated with being a public company.

Stock-Based Compensation. We have recorded deferred stock-based compensation as a result of our granting of stock options to employees with exercise prices per share deemed to be below the fair values per share for our common stock on the dates those options were granted. The deferred stock-

based compensation is being amortized to expense on an accelerated basis over the vesting period of the individual options, generally four years. As of July 31, 1999, there was approximately $7.0 million to be amortized in future periods.

Operating Losses

We have incurred significant losses since our inception and, as of July 31, 1999, had an accumulated deficit of approximately $115.2 million. We expect to continue to incur substantial operating losses for the foreseeable future.

Comparison of Six Months Ended July 31, 1999 and July 31, 1998

Revenues

Our revenues increased to $19.5 million in the six months ended July 31, 1999 from $16.0 million for the comparable period of 1998, an increase of 22%.

License Revenues. Our license revenues grew to $13.5 million from $10.7 million, an increase of 26%.

Lightspan Achieve Now license revenues were $12.7 million compared to $10.4 million, an increase of 22%, and represented 94% and 97% of total license revenues in the six months ended July 31, 1999 and 1998, respectively. This increase was due primarily to increased sales and marketing efforts, continued market acceptance of our products and expansion of our customer base. The increase was also attributable to license revenue recognized under the percentage of completion method upon further development, completion and release to existing customers of additional Lightspan Achieve Now titles during the six months ended July 31, 1999. No one customer accounted for more than 10% of Lightspan Achieve Now license revenues for the six month periods ended July 31, 1999 or 1998.

Our revenues from subscription fees for The Lightspan Network increased to $0.8 million from $0.3 million, an increase of 141%. This increase was due primarily to an increase in the number of subscribers to The Lightspan Network. No one customer accounted for more than 10% of subscription fee revenues from The Lightspan Network during the six month periods ended July 31, 1999 or 1998.

Service Revenues. Our service revenues increased to $2.8 million from $1.8 million, an increase of 54%. This increase was due primarily to an increase in sales of Lightspan Achieve Now licenses. All customers that purchase our Lightspan Achieve Now curriculum also purchase professional service and support.

Hardware Revenues. Our hardware revenues declined to $3.2 million from $3.5 million, a decrease of 10%. This decrease was due to a decrease in the average selling price of the Sony PlayStation game console, offset in part by an increase in the number of units we shipped.

Cost of Revenues

Our cost of revenues increased to $7.1 million for the six months ended July 31, 1999 from $5.9 million for the comparable period in 1998, an increase of 20%. Gross margin as a percentage of total revenues was 63% for the six months ended July 31, 1999 and 1998.

Cost of License Revenues. Our cost of license revenues increased to $3.0 million from $1.9 million, an increase of 59%. Gross margin as a percentage of license revenues decreased to 78% from 82%.

Our cost of revenues for Lightspan Achieve Now licenses was $2.8 million compared to $1.8 million, an increase of 54%. Gross margin as a percentage of Lightspan Achieve Now license revenues decreased to 78% from 83%. In the six months ended July 31, 1998, we elected to discontinue the development of certain as-yet-uncompleted Lightspan Achieve Now titles and reduced our estimates of the cost to complete other Lightspan Achieve Now titles, both of which reduced our cost of license revenues and favorably impacted our gross margin in that period. In addition, our cost of license revenues for the six months ended July 31, 1998 was favorably impacted when we revised our estimate of the costs to convert our existing customer base for our Lightspan Achieve Now curriculum to a new software Motion Picture Experts Group, or MPEG, format and Sony PlayStation game consoles. Our gross margin in the six months ended July 31, 1999 was favorably impacted by a reduction in material and packaging costs and third-party royalty rates.

Our cost of revenues for subscriptions to The Lightspan Network increased to $0.2 million from $0.1 million, an increase of 145%. This growth was due primarily to an increase in third-party content fees driven by an increase in subscriptions. Gross margin as a percentage of subscription fee revenues from The Lightspan Network decreased to 69% from 70%. This decrease was primarily due to additional network and server costs and, to a lesser extent, additional support personnel costs required to support a larger subscription base.

Cost of Service Revenues. Our cost of service revenues increased to $1.4 million from $1.1 million, an increase of 23%. This increase was primarily due to an increase in professional services and support personnel to accommodate the growth in sales of Lightspan Achieve Now licenses and related services. Gross margin as a percentage of service revenues increased to 51% from 38%. This increase was primarily due to our service revenues increasing at a greater rate than our fixed professional development costs.

Cost of Hardware Revenues. Our cost of hardware revenues decreased to $2.7 million from $2.9 million, a decrease of 6%. This decrease was due to a decrease in the cost to us of Sony PlayStation game consoles and accessories. Gross margin as a percentage of hardware revenues decreased to 14% from 17%. This decrease was primarily due to variations in the product mix of hardware accessories, which resulted in fewer sales of higher-margin accessories than in the prior period.

Technology and Development Our technology and development expenses decreased to $4.5 million for the six months ended July 31, 1999 from $6.1 million for the comparable period of 1998, a decrease of 27%. This decrease was due to a reduction in development personnel and related costs that occurred in the second half of the prior fiscal year. The reduction occurred following completion of initial design and development of substantially all of our Lightspan Achieve Now titles. This reduction was partially

offset by our hiring of additional personnel for Web site design and development and a shift of some existing development personnel and related costs to our Internet business as we expanded our Internet offerings.

Sales and Marketing

Our sales and marketing expenses increased to $13.8 million for the six months ended July 31, 1999 from $11.0 million for the comparable period in 1998, an increase of 25%. This increase was attributable to an increase in marketing personnel and marketing and promotional activities, particularly in connection with the launch of Lightspan PageOne.

General and Administrative Our general and administrative expenses increased to $2.0 million for the six months ended July 31, 1999 from $1.2 million for the comparable period in 1998, an increase of 66%. This increase was due primarily to increased personnel and related costs, particularly in our finance and management information systems departments.

Stock-Based Compensation During the year ended January 31, 1999 and the six months ended July 31, 1999, we granted stock options with exercise prices that were less than the deemed fair value of the underlying shares of common stock on the date of grant. As a result, we have recorded and will continue to record deferred stock-based compensation expense over the period that these options vest. The deferred stock-based compensation expense was approximately $1.0 million for the six months ended July 31, 1999.

Interest Income (Expense) We incurred net interest expense of $0.1 million for the six months ended July 31, 1999, as compared to net interest income of $0.2 million for the comparable period in 1998. This net interest expense as compared to our net interest income for the prior comparable period was due to higher average cash balances in the prior comparable period because of our receipt of proceeds from a Series D preferred stock financing then. Our interest expense for the six months ended July 31, 1999 was attributable to the utilization of our existing equipment lease lines of credit and borrowings against our revolving line of credit.

Comparison of Years Ended January 31, 1999, 1998 and 1997

Revenues

Our revenues increased to $30.8 million during the year ended January 31, 1999, or fiscal 1999, from $22.3 million during the year ended January 31, 1998, or fiscal 1998, and $8.6 million during the year ended January 31, 1997, or fiscal 1997. Revenues grew by 38% in fiscal 1999 and 160% in fiscal 1998.

Our license revenues increased to $21.0 million from $15.0 million and $5.6 million in fiscal 1998 and fiscal 1997, respectively. The 40% and 169% increases were due to increases in the sales of Lightspan Achieve Now licenses, primarily as a result of increased sales and marketing efforts, continued market

acceptance of our products, expansion of our customer base and availability and release of additional Lightspan Achieve Now titles. The increases were also due, to a lesser extent, to increases in the number of subscriptions to The Lightspan Network.

Our service revenues were $3.7 million, $2.0 million, and $0.6 million in fiscal 1999, fiscal 1998, and fiscal 1997, respectively, and grew by 90% in fiscal 1999 and 256% in fiscal 1998. These increases were due primarily to increases in sales of Lightspan Achieve Now licenses. All customers that purchase our Lightspan Achieve Now curriculum also purchase professional service and support.

Our hardware revenues increased to $6.1 million in fiscal 1999 from $5.3 million in fiscal 1998 and $2.4 million in fiscal 1997. These 15% and 119% increases were due to increased sales of Lightspan Achieve Now licenses and hardware, partially offset by reductions in the cost of Sony PlayStation game consoles to us that we passed through to our customers.

Cost of Revenues

Our cost of revenues decreased to $11.5 million in fiscal 1999 from $12.9 million in fiscal 1998, or 11%, and increased in fiscal 1998 from $5.8 million in fiscal 1997, or 121%. Gross margin as a percentage of revenues increased to 63% in fiscal 1999 from 42% in fiscal 1998 and 32% in fiscal 1997.

Our cost of license revenues decreased to $4.1 million in fiscal 1999 from $6.4 million in fiscal 1998, a decrease of 35%. Our cost of license revenues increased in fiscal 1998 from $3.0 million in fiscal 1997, or by 116%. Gross margin as a percentage of license revenues increased to 80% in fiscal 1999 from 57% in fiscal 1998 and 47% in fiscal 1997. The improvements in gross margin each year reflected reductions in material and packaging costs, reductions in third-party royalty rates and an increase in the selling price of Lightspan Achieve Now licenses. In addition, our cost of license revenues in fiscal 1998 was negatively impacted by a charge for estimated costs to convert our existing customer base to a new software MPEG format and Sony PlayStation game console platforms. In fiscal 1999, we revised our estimate of the cost of the conversion, and our cost of license revenues was favorably impacted. Our cost of license revenues in fiscal 1999 was also favorably impacted by a reduction in our estimates of the cost to complete certain Lightspan Achieve Now titles.

Our cost of service revenues grew to $2.4 million in fiscal 1999 from $1.8 million in fiscal 1998 and $0.6 million in fiscal 1997. These increases were due to increases in professional development services and support personnel to accommodate the growth in sales of Lightspan Achieve Now licenses and related services. Gross margin as a percentage of service revenue increased to 36% in fiscal 1999 from 11% in fiscal 1998 and from (2%) in fiscal 1997. These increases were due to increased utilization of our professional development staff, an increase in the average number of days of service sold per license, improved billing of customers for services provided beyond the scope of the original license agreement, and, in general, our service revenues increasing at a greater rate than our fixed professional development costs.

Our cost of hardware revenues increased to $5.0 million in fiscal 1999 from $4.7 million in fiscal 1998 and $2.3 million in fiscal 1997. These increases were due to increased Lightspan Achieve Now license sales, offset in large part by our transition to the Sony PlayStation game console, a less expensive

hardware platform than the hardware platforms that we had previously provided to our Lightspan Achieve Now customers, often at low or negative margins. Gross margin as a percentage of hardware revenues increased to 19% in fiscal 1999 from 10% in fiscal 1998 and 4% in fiscal 1997. These increases were due to the transition to the higher-margin Sony PlayStation game console platform.

Technology and Development Our technology and development expenses decreased to $10.6 million in fiscal 1999 from $14.8 million in fiscal 1998, a 28% decrease, and by 22% in fiscal 1998 from $19.0 million in fiscal 1997. These decreases were due to reductions in development personnel and related costs associated with completion of most of our Lightspan Achieve Now titles. By the end of fiscal 1999, substantially all design, development and testing had been completed on our Lightspan Achieve Now product line.

Sales and Marketing

Our sales and marketing expenses increased to $22.1 million in fiscal 1999 from $20.3 million in fiscal 1998 and $13.8 million in fiscal 1997. These 9% and 47% increases are the result of increased personnel in marketing, increased commissions and bonuses as the result of growing sales, and additional marketing and promotional activities. The increase from fiscal 1998 to fiscal 1999 was partially offset by a decrease in personnel and related costs in the sales and professional development organizations due to a reduction in headcount during the last half of fiscal 1999.

General and Administrative Our general and administrative expenses increased to $3.6 million in fiscal 1999 from $2.7 million in fiscal 1998 and $2.5 million in fiscal 1997. The 32% increase in general and administrative expenses in fiscal 1999 compared to fiscal 1998 was caused primarily by legal fees as well as an increase in personnel and other costs related to our growth, partially offset by decreases in bad debt expense in fiscal 1999 as compared to fiscal 1998. The 10% increase in general and administrative expenses in fiscal 1998 compared to fiscal 1997 was caused primarily by an increase in bad debt and rent expenses.

Interest Income (Expense) We earned net interest income of $0.4 million in fiscal 1999, as compared to net interest expense of $0.5 million and $0.1 million in fiscal 1998 and fiscal 1997, respectively. Our net interest income in fiscal 1999 compared to our net interest expense in fiscal 1998 was due to higher average cash balances in the six months ended July 31, 1998, when we received proceeds of a Series D preferred stock financing. Our interest expense for fiscal 1999, fiscal 1998 and fiscal 1997 is attributable to the utilization of our equipment lease lines and borrowings against our revolving line of credit.

Quarterly Results

The following table sets forth certain statement of operations data for us for each of the six quarters ended July 31, 1999. This information has been derived from our unaudited financial statements. The unaudited financial statements have been prepared on substantially the same basis as the audited financial statements contained in this prospectus and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of this information.

You should read this information in conjunction with our audited and unaudited financial statements and related notes appearing elsewhere in this prospectus. Our quarterly operating results are expected to vary significantly because of seasonal influences on demand for our Lightspan Achieve Now and Academic Systems curricula and our services based on school calendars, budget cycles and timing of school districts' funding sources. Our revenues have historically been highest in our second fiscal quarter, and lowest in our first fiscal quarter. In light of these factors, our limited operating history and the rapidly evolving nature of our business, we believe that period-to-period comparisons of our results are not meaningful and should not be relied upon as indicators of future performance.

	QUARTER ENDED					
	APRIL 30, 1998	JULY 31, 1998	OCT. 31, 1998	JAN. 31, 1999	APRIL 30, 1999	JULY 31, 1999
	(IN THOUSANDS)					
Revenues	$ 4,853	$11,186	$ 7,542	$ 7,250	$ 6,562	$12,938
Cost of revenues	1,969	3,961	2,781	2,797	2,468	4,654
Gross profit	2,884	7,225	4,761	4,453	4,094	8,284
Operating expenses	9,252	9,081	8,394	9,543	9,328	11,948
Loss from operations	(6,368)	(1,856)	(3,633)	(5,090)	(5,234)	(3,664)
Interest income (expense)	93	150	108	67	2	(72)
Net loss	$(6,275)	$(1,706)	$(3,525)	$(5,023)	$(5,232)	$(3,736)

Academic Systems Acquisition

We acquired Academic Systems in September 1999. Academic Systems develops, markets and sells curriculum-based educational software to colleges and universities for use by under-prepared college students. Academic Systems offers five course programs -- four in mathematics covering elementary algebra to college algebra, and one in English covering remedial writing and freshman composition. Academic Systems' products also include a student management system that can be run on the Internet or the college's own network.

Revenues consist primarily of fees for licenses and implementation of Academic Systems' software, customer training, books and materials, upgrades and support. Academic Systems enters into license agreements under which software, support and other services are provided to a customer for a fixed fee for a specified period of time. License revenues are recognized upon contract signing and delivery of the software, provided the related fee is fixed and determinable and collection of the fee is probable. The revenues associated with books and materials are recognized upon shipment and revenues for services are recognized when the services are performed.

The cost of license revenues consists of costs related to materials for CD-ROMs, assembly and distribution of CD-ROMs, print materials and third-party royalties.

Comparison of Nine Months Ended June 30, 1999 and June 30, 1998 Academic Systems' revenues increased to $4.9 million for the nine months ended June 30, 1999 from $2.9 million for the comparable period in 1998, an increase of 65%. This increase was due to increases in sales of licenses, primarily as a result of expansion of Academic Systems' customer base. Cost of license revenues increased to $1.4 million from $1.2 million, an increase of 16%. Gross margin as a percentage of revenues increased to 72% from 60% due to decreases in the cost of materials and third-party royalties and increased utilization of Academic Systems' support and operations personnel. Operating expenses declined to $8.0 million from $10.0 million, a decrease of 20%. This decrease was due to reductions in technology and development expense, as Academic Systems completed the development of its product line, and sales and marketing, as staffing and marketing programs were reduced.

Comparison of Years Ended September 30, 1998 and 1997 Academic Systems' revenues increased to $5.9 million in the year ended September 30, 1998 from $4.4 million in the year ended September 30, 1997. The 35% increase was due to increases in sales of licenses, as a result of increased sales and marketing efforts, continued market acceptance of the Academic Systems curriculum, expansion of the customer base, and the availability of additional titles. The cost of licenses increased to $2.1 million from $1.9 million. Gross margin improved to 65% from 56% due to the decreasing cost of materials and improved utilization of support and operations staffs. Operating expenses increased to $12.9 million from $12.7 million. Technology and development expense decreased each year as Academic Systems completed the development of its product line. Sales and marketing expense increases accounted for the majority of the growth in operating expenses as Academic Systems increased its sales and marketing staffs, increased commissions and bonuses as a result of growing sales, and added marketing and promotional activities.

Purchase Accounting

The acquisition of Academic Systems is being accounted for as a purchase. The purchase price was allocated to the assets acquired, consisting principally of goodwill and intangible assets, which are being amortized over useful lives ranging from 4 to 10 years.

Recent Development

In October 1999, we agreed to pursue several potential strategic initiatives with CINAR Corporation. CINAR is an integrated entertainment and education company that develops, produces, markets and distributes high-quality programming and supplemental education products for children, families and educators. CINAR is a leading supplier of animated and live-action children's and family programming that it markets and distributes to broadcast, cable and other media outlets worldwide. CINAR's productions include the two-time Emmy award-winning Arthur, the top-rated children's television program in the United States, as well as Are You Afraid of the Dark?, Wimzie's House, Lassie, The Busy World of Richard Scarry and The Adventures of Paddington Bear. CINAR also publishes and distributes approximately 2,000 supplemental education products for pre-kindergarten through eighth grade that enhance classroom curricula and foster continued learning in the home. CINAR's products are sold each year to more than 1.6 million teachers and 370,000 daycare providers in North America.

As part of our agreement, CINAR purchased 2.5 million shares of our Series E preferred stock at $5.00 per share. CINAR also agreed to purchase $10 million of our common stock in a private placement that will occur concurrently with our initial public offering at the initial public offering price. We also granted CINAR warrants to purchase 500,000 shares of our Series E preferred stock that will vest upon the achievement of various agreed-to strategic goals. The planned strategic initiatives include such projects as a convergence educational television series (the combination of broadband interactive offerings and standard television), the co-development of a pre-kindergarten educational portal featuring CINAR's subsidiary HighReach Learning, and a series of other co-marketing and distribution arrangements such as the international distribution of Lightspan products.

As part of our agreement with CINAR, Ronald A. Weinberg, CINAR's President and co-CEO, joined our board.

Liquidity and Capital Resources

From inception through July 31, 1999, we financed our operations and met our capital expenditure requirements primarily with the net proceeds from private sales of equity securities totaling approximately $135 million. At July 31, 1999, we had $25.6 million of cash and cash equivalents. The expansion of our business will require significant additional capital to fund operating losses, capital expenditures and working capital needs.

Net cash used in operating activities was $7.2 million for the six months ended July 31, 1999, $16.5 million for fiscal 1999, $22.5 million for fiscal 1998 and $31.5 million for fiscal 1997. Net cash used during these periods was primarily to fund technology and development, sales and marketing and general and administrative costs associated with the development and deployment of our Lightspan Achieve Now curriculum and Internet products and services.

Net cash used in investing activities was $0.6 million for the six months ended July 31, 1999, $0.7 million for fiscal 1999 and insignificant in fiscal 1998. Net cash used during these periods was primarily for the acquisition of property and equipment. Net cash provided by investing activities was $2.6 million for fiscal 1997, due to maturities on our short-term investments.

Net cash provided by financing activities was $26.3 million for the six months ended July 31, 1999, $19.9 million for fiscal 1999, $25.4 million for fiscal 1998 and $21.5 million for fiscal 1997. Our cash provided by financing activities during these periods was raised by issuing our Series C, D and E preferred stock to various strategic and financial investors.

In February 1999, we extended our line of credit with a financial institution. The line of credit bears interest at the bank's prime rate plus 1.5% and expires in April 2000. The amount available under the line of credit was increased to $10 million or 75% of eligible accounts receivable, and is collateralized by substantially all of our assets.

We entered into a $1.0 million capital leasing line with a financial institution in April 1999. Under the agreement, which expires in March 2000, we finance the purchase of capital equipment at an 8.8% interest rate over a 42 month period with a purchase option.

We have also entered into various purchase order commitments with a number of vendors, primarily for the purchase of hardware, marketing services, promotional activities and development activities. As of July 31, 1999, our outstanding purchase order commitments were approximately $0.4 million.

Our future capital requirements will depend on a variety of factors, including market acceptance of our products and services and the resources we devote to developing, marketing, selling and supporting our products. We expect to devote substantial capital resources in connection with:

- brand maintenance, advertising, marketing and promotional activities;

- continued development and expansion of our Internet offerings and content;

- hiring personnel, including additional Internet systems, sales and marketing, and product development personnel; and - acquiring additional office space and other necessary facilities.

In addition, we may devote substantial capital resources to strategic acquisitions and relationships.

We believe that our cash and cash equivalents and the net proceeds from this offering will be sufficient to fund our operations for at least the next 18 months. Despite our expectations, we may need to raise additional capital before the end of the next 18 months.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and on the increase or decrease in the amount of interest expense we must pay with respect to our various outstanding debt instruments. Our risk associated with fluctuating interest expense is limited, however, to our line of credit, the interest rates under which are tied to market rates, and our investments in interest sensitive financial instruments. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. We ensure the safety and preservation of our invested principal funds by limiting default risks, market risk and reinvestment risk. We mitigate default risk by investing in investment grade securities. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our interest sensitive financial instruments at January 31 or July 31, 1999. Declines in interest rates over time will, however, reduce our interest income while increases in interest rates over time will increase our interest expense.

Year 2000 Readiness Disclosure

Many existing computer programs cannot distinguish between a year beginning with "20" and a year beginning with "19" because they use only the last two digits to refer to a year. For example, these programs cannot tell the difference between the year 2000 and the year 1900. As a result, these programs may malfunction or fail completely. If we or any third parties with whom we have a material relationship fail to achieve year 2000 readiness, our business may be seriously harmed. In particular, year 2000 problems could temporarily prevent us from offering our products and services.

Our State of Readiness We have made a preliminary assessment of the year 2000 readiness of our information technology systems, including our telecommunications, order processing, data collection, and Internet-related systems. Our assessment plan consists of:

- evaluating our date-dependent code, software and hardware and evaluating external dependencies;

- quality assurance testing of our internally developed software and systems; and - obtaining assurances or warranties regarding the year 2000 readiness of third parties with whom we have material relationships, such as vendors and licensors of material hardware, software and services that are related to the delivery of our products and services.

As part of our effort to assess our year 2000 readiness, we requested year 2000 readiness statements from our significant suppliers and vendors.

Our critical systems fall into six categories: transaction processing, call management, telecommunications, fulfillment, finance and interactive applications. The core transaction processing and infrastructure systems are internally maintained and hosted. To date, our assessment has determined that these critical business systems are all year 2000 ready.

Based on our testing or representations from manufacturers, we believe our non-critical and non-information technology systems, which include security and mailing systems, are year 2000 ready.

All material commercial software and hardware that we depend on is either year 2000 ready or will be upgraded to be ready in the normal course of business through the installation of upgrades or replacements. Our material hardware, software and service vendors have informed us that the products we use, or will be using as upgrades or replacements, are year 2000 ready.

We also have assessed our software products and concluded that they are year 2000 ready.

Costs to Address Our Year 2000 Issues To date, we have not incurred any significant costs attributable to year 2000 compliance. Our recent information technology investments have been in support of our expanding operating and decision support requirements and also facilitated year 2000 readiness to the extent they involved a replacement of an existing system. We are not currently aware of any material operational issues or costs associated with preparing our systems for the year 2000. Nonetheless, we may experience material unexpected costs caused by undetected errors or defects in the technology used in our systems or because of the failure of a material vendor to be year 2000 ready.

Risks of Year 2000 Issues Notwithstanding our year 2000 readiness efforts, the failure of a material system or vendor, or the Internet generally, to be year 2000 ready could harm our operations or have other unforeseen, material adverse consequences for us. We may also experience external year 2000-related failures or disruptions that might generally affect industry and commerce, such as utility or transportation company year 2000 readiness failures and related service interruptions. If any of these risks occur, our business could be materially harmed.

Our Contingency Plan

Our contingency plan is focused on those activities and functions specifically related to processing customer orders and maintaining our operations. It addresses only those types of failures for which contingency operation is possible. Our contingency plan does not address any types of failures for which contingency operations would be impossible, such as disruption of the Internet.

Business

Overview

The Lightspan Partnership is a leading provider of curriculum-based educational software and Internet products and services used both in school and at home. Our technology, delivery systems and content help increase student interest in learning, parental involvement in their children's education, and productive interaction among teachers, parents and students. Over 340 studies by schools that use our products and services show that our products improve overall student performance.

Lightspan Achieve Now, our product for students in kindergarten through eighth grade, or K-8, is a series of media-rich, interactive software programs that covers the core curriculum -- language arts, reading and math. We sell it exclusively to schools and school districts, and it is used by teachers, students and parents. We typically sell the Lightspan Achieve Now software with a Sony PlayStation game console that the student uses to run the program at home throughout the school year. We also provide a series of curriculum-based software that addresses the math and writing needs of under-prepared college students through our subsidiary, Academic Systems Corporation.

We offer the following integrated family of Internet products and services through our Web site, Lightspan.com:

- The Lightspan Network, an online subscription service marketed to schools for classroom and home use, introduced in January 1997 and redesigned in September 1999;

- Lightspan PageOne, an online service developed with Yahoo! and launched in June 1999 that enables teachers to easily create customized home pages for their classrooms;

- Global Schoolhouse, a leading education Web site that helps teachers develop and manage collaborative learning projects online;

- StudyWeb, a leading research Web site started in 1995 that helps parents, teachers and students find educational information and resources on the Web;

- The Lightspan Learning Store, a Web site that sells educational products online to teachers and parents, introduced in October 1999; and - selected additional content for teachers, parents and students.

We were founded in 1993 on the philosophy of using technology to increase student achievement by connecting the school to the home. Over 400 school districts in 46 states have purchased our Lightspan Achieve Now curriculum and implemented it in over 2,100 schools and 10,600 classrooms, representing a total of 113,000 student and teacher licenses. Over 900 schools currently subscribe to The Lightspan Network. Students in over 225 colleges and universities across the United States are currently using Academic Systems' products. Lightspan PageOne has approximately 28,000 registered users and Global Schoolhouse has approximately 28,400 registered users.

Market Opportunity

Education is the second largest sector of the United States economy, behind health care. According to the Department of Education, the United States spent an estimated $351 billion on kindergarten through twelfth grade, or K-12, education in the 1997 - 1998 school year, which represented over 4% of the United States gross domestic product. During the 1997 - 1998 school year, an estimated 52.2 million students were enrolled in K-12 in 110,473 public and private schools in over 16,400 school districts.

Comparative studies among industrialized countries show that American students rank near the bottom in educational performance. Thirty-eight percent of American fourth graders read below the basic reading level and American eighth graders recently ranked 28th in a study comparing their mathematical performance to that of students from 40 other countries. In addition, a recent federal study found that approximately 30% of incoming college freshmen in the United States enrolled in at least one remedial education course.

The need to improve student achievement is a top priority in American education. Growing concerns about this issue have resulted in educators and school districts being held increasingly accountable for their students' educational progress. Educators have responded by seeking alternatives for more effective K-12 education and have identified key elements that are important for educational reform. These key elements include:

- students spending more time on core curriculum;

- students being motivated to learn;

- families becoming more actively involved in their children's schooling; and - educational resources being accessible to all students, families and schools, regardless of socioeconomic status.

Educators today are challenged to effectively access and implement educational technology that addresses key educational reform elements and improves student performance. Industry sources estimate that spending on educational technology was approximately $7 billion during the 1998-1999 school year, and this figure is expected to increase to approximately $10 billion by the 2001 - 2002 school year.

The Internet is becoming an increasingly important part of American education, with teachers viewing the Internet as a powerful learning, communication and information resource for use in both schools and in homes. In a recent survey, 90% of teachers said they considered Internet access in their classroom valuable or essential, and over 51% of classrooms had Internet access in 1998. The number of five through twelve year-old children with Internet access is expected to grow 155% to 21.9 million between 1998 and 2002. Teachers are seeking ways to effectively harness the resources available on the Internet and offer their students safe and appropriate materials.

Increased spending on educational technology, a growing commitment to improving student achievement, and rising demand for educational reform programs that are built around or include educational technology has created a significant market opportunity for providers of software- and Internet-based educational products and services.

The Lightspan Solution

Lightspan offers curriculum-based educational software featuring digital video technology and entertainment industry production quality. Our software is used by students in an interactive setting in schools, colleges and homes. We combine our software offerings with Internet products and services to provide teachers, students and families with educational tools and resources to help students learn and succeed. We believe that our competitive advantages include the following:

We Improve Student Achievement. We have developed curriculum-based educational software that improves student achievement. Over 340 studies by schools that use our products and services show that our products improve student performance in reading or mathematics or in both subjects. A composite analysis of studies conducted by schools at 36 sites and covering 4,650 students shows that, on average, 24% more Lightspan Achieve Now students were successful in reading and 46% more Lightspan Achieve Now students were successful in mathematics than their peers who did not use the Lightspan Achieve Now curriculum, as measured by performance on standardized tests. In part because of its demonstrated impact on student achievement, our Lightspan Achieve Now curriculum has been included as a skill-and-content-based reform model eligible for funding by the U.S. Department of Education's Comprehensive School Reform Demonstration program. Several independent studies conducted by colleges that use our Academic Systems products have shown that these products, compared to traditional lecture taught courses, increase pass rates, keep more students enrolled in the courses covered and increase students' performance in follow-on course work.

We Increase Student Motivation. We believe that the engaging Lightspan Achieve Now interactive learning experience, and the increased involvement of parents when students use the curriculum at home, motivate K-8 students to focus more effectively on core curriculum study. Approximately 60% of teachers using our Lightspan Achieve Now program reported to us in a survey that the program had a positive impact on student attitude and motivation in their classrooms. We also believe that the Academic Systems interactive learning experience, which links writing or math lessons with immediate practice and feedback and allows students to choose the learning style that works best for them, is a unique motivational tool for students in remediation courses.

We Extend Learning Beyond Traditional Classroom Time. In addition to their use in the classroom, our products and services are used both in the home and in structured after-school and summer-school programs designed to increase the amount of time students spend learning. Schools that have implemented the Lightspan Achieve Now curriculum report that 84% of students spend approximately one half hour or more, and that 41% spend approximately an hour or more, at home on core curriculum study daily. Moreover, when our products are used in the home, parents can take a more active role in their child's learning. Additionally, the learning resources offered through our Internet products and services can be accessed at any time by teachers, parents and students to further a broad range of out-of-classroom educational objectives.

We Facilitate Widespread Use of Our Products and Services. We seek to provide schools with cost-effective ways to give access to enhanced learning through educational technology to all students, regardless of socioeconomic status. A school that implements Lightspan Achieve Now generally provides to students, at no cost to the family, a Sony PlayStation game console to run the program on a home television. Our Academic Systems software products cost approximately as much as a textbook, which makes these learning tools accessible to most students, either in a computer lab or in their residence. For K-12 students that have access to the Internet, we provide free or paid-for-by-the-school Internet tools that are either customized by their teacher or correlated to their curriculum. We believe our ability to reach students will be enhanced as more students get Internet access at home. Also, as broadband technology becomes more widespread among cable television subscribers, our products may become available on a digital set-up box provided by cable operators, and be accessible to all students with cable service whose school districts use our products and services.

We Have Experienced Staff to Reach the Nation's Educators. We currently employ 87 direct salespeople and 71 professional development staff members for our Lightspan and Academic Systems products and services. They are experienced in selling to and training educators and have established strong relationships with key decision makers in the education community. We generally hire current or former education professionals to serve the territories that encompass their local education communities. As a team, our sales and professional development staff guides educators through the decision making process for purchasing educational technology and ease their transition to its use, thereby making educational technology more accessible to educators and available to more students. We believe that our ability to successfully transition educators to the use of our curricula manifests

itself in our large number of repeat customers. For example, during our fiscal year ended January 31, 1999, 74% of school districts that were using our Lightspan Achieve Now curriculum at the beginning of the year bought additional products.

We Offer High-Quality, Curriculum-Based Content. We have developed and own the rights to nearly all of the content on the 77 titles in our Lightspan Achieve Now curriculum, which aggregate over 1,200 hours of learning-intensive programs correlated to state academic standards. We have also developed The Lightspan Network, an online subscription service for classroom and home use that provides subscribers with a rich array of curriculum-based content that is correlated to state academic standards. In addition, we have developed and own the rights to all 5 titles in our Academic Systems curriculum, which aggregate over 420 hours. We intend to enhance our current content-based products and services, particularly in connection with our planned expansion of Lightspan.com.

Strategy

Our objective is to become the premier online education destination for teachers, parents and students, as well as the leading provider of technology-delivered, curriculum-based supplemental study materials in kindergarten through college education. In order to achieve this objective, we intend to pursue the following strategies:

Capitalize on Our Current Market Position. We intend to capitalize on the relationships that we have established with educators and the strength of our products and services and Lightspan and Academic Systems brands to increase our market penetration. We have established our market position to date by directing our marketing efforts toward becoming the educational technology provider of choice among teachers. We believe that our established market position will enable us to do the following:

- migrate our existing installed user base to our Internet offerings;

- sell The Lightspan Network and Lightspan Achieve Now to schools that use our free Internet services;

- increase the number of schools, colleges, classrooms and college sections that use our curriculum-based software; and - extend the use of our Academic Systems curriculum to more high schools that participate in outreach programs with community colleges that currently use that curriculum.

Continue to Develop and Enhance Lightspan.com. We intend to continue to develop and enhance our Lightspan.com Web site to make it the premier online education destination for teachers, parents and students. To increase connectivity between schools and homes, we plan to introduce Your School Online, a free home page builder for schools, at our Lightspan.com Web site in early 2000. Also in early 2000, we plan to increase the offerings for teachers, parents and students at Lightspan.com, and to further enhance Lightspan.com by entering into strategic relationships to sell teaching supplies and other products online. Accordingly, we will seek to ensure that our Lightspan.com Web site will offer teachers, parents and students:

- tools to enhance communication between classroom, school and home;

- access to curriculum-based interactive K-8 educational content;

- proprietary search capabilities tailored to classroom use; and - the opportunity to purchase a broad range of educational products and teaching supplies.

While Lightspan.com's content is currently focused on K-8 students and their parents and teachers, we intend to later expand its selected educational content to address the needs of high school students.

Extend our Reach through Expansion to Other Delivery Platforms. As technology evolves, we intend to migrate our customers to new delivery platforms that will extend our reach. Our Lightspan Achieve Now and Academic Systems curricula are very media-rich and are not currently delivered over the Internet, given bandwidth limitations. However, we recently began to manage some of the Academic Systems curriculum through our Academic Systems Web site, which enables teachers to efficiently compile information about time-on-task and performance for students who use that curriculum. We plan to implement use of an Internet compatible game console or other delivery platform that will provide direct access from the home to our Internet products and services. We anticipate this will enable us to enhance future releases of our Lightspan Achieve Now curriculum with content available through our Internet products and services. As broadband technology becomes more prevalent and cable operators provide more of their customers with digital set-top boxes, we intend to offer both Lightspan Achieve Now and all of our Internet products and services as educational channels on digital cable television systems. We expect that, while we will continue to sell these products and services to schools, these products and services will be the equivalent of channels on televisions rather than CD-ROM-based content used by students on Sony PlayStation game consoles.

Create Additional Internet-Based Revenue Streams. We believe that the complementary nature of our product lines will allow us to cross-promote and cross-sell our products and services, and to generate and 38 sustain multiple revenue streams in the future. With the introduction of our first Internet service, The Lightspan Network, we gained a renewable stream of subscription revenue to augment our revenues from software licenses. We expect to continue to generate a subscription revenue stream with sales of The Lightspan Network, and ultimately to sell subscriptions for Lightspan Achieve Now to be delivered using broadband technology. In addition, we plan to focus on the sale of "Olympic-style" sponsorships, supplemented by sales of banner advertisements where appropriate, to fund the further development of Lightspan.com and our other free Internet offerings. We also intend to sell an increasing array of educational products online. The Lightspan Learning Store, a Web site where SmarterKids.com sells educational products under the Lightspan brand to families, was introduced in early October 1999, and we intend to increase our offerings on that site. We also intend to develop other Web sites that will sell teaching supplies and other products beginning in early 2000.

Leverage the Experience of the Lightspan Team. We have a management team with extensive educational technology and Internet experience. Both John Kernan, our Chairman and Chief Executive Officer, and Carl Zeiger, our President and Chief Operating Officer, started educational technology companies before they founded Lightspan. Our sales and marketing organizations are headed by people with extensive experience in educational technology sales at Apple Computer, Inc. Our sales and marketing personnel also have extensive contacts in school districts or colleges within their

territories and frequently can leverage their existing relationships with school district and school decision makers. Our Lightspan Achieve Now product development team is comprised of former classroom teachers and experienced instructional designers, animators, and multimedia computer programmers. Our Internet team includes several key individuals who previously contributed to the development and management of Disney Online and Disney.com while working at The Walt Disney Company.

Pursue Strategic Acquisitions and Relationships. We have pursued and entered into strategic acquisitions and relationships to facilitate the growth of our business, such as our acquisitions of Academic Systems, Global Schoolhouse and StudyWeb and our relationships with Sony Computer Entertainment and SmarterKids.com. We intend to continue to pursue strategic acquisitions and relationships as we attempt to diversify our revenue sources and the delivery platforms for our curriculum-based content. For example, in October 1999, we agreed to pursue several potential strategic initiatives with CINAR Corporation.

Products

Our products and services are technology-based educational tools and resources that can be used by teachers, students and families to increase student performance.

Lightspan Achieve Now is a series of media-rich, interactive software programs that covers the core curriculum of language arts, reading and math, and is designed to enhance learning in both the classroom and at home. Lightspan Achieve Now is a supplement to textbooks and other materials used in K-8 schools and covers more than 80% of the typical K-8 reading, language arts and mathematics curricula. Lightspan Achieve Now incorporates a variety of interactive formats and varying levels of difficulty to cover a specific set of educational objectives and to address a diverse range of learning styles, making it possible to reach each student in a class more effectively. The Lightspan Achieve Now curriculum features stories and original characters designed around an active learning approach, which is intended to provide the learner with the following essential components of an effective learning environment:

- motivation to master a skill or concept;

- learning by doing;

- practice; and

- application of the skill or concept to another situation.

The Lightspan Achieve Now curriculum was developed using entertainment industry production techniques and features full motion digital video and 3-D animation.

We deliver our reading and language arts and mathematics curricula in imaginary "worlds" -- episodic, interactive series with a consistent set of characters that are designed to cover a broad range of curriculum objectives. Generally, each world is contained on a series of CD-ROMs, or titles, which are

divided into multiple "Adventures." Our Adventures are developed with the assistance of an advisory board of reading, language arts and mathematics educators, an advisory board of video game developers, television writers and commercial animators. Various characters from our Lightspan worlds are depicted below.

[A collection of Lightspan characters from various Lightspan Worlds and Adventures] Our Lightspan Achieve Now language arts and reading curriculum provides a variety of learning paths, all with a single objective -- improving literacy and communication -- and is designed to ensure that all students succeed in listening, speaking, reading, writing, viewing and producing. The Adventures that comprise our Lightspan Achieve Now reading and language arts curriculum address vocabulary comprehension, critical thinking skills, study skills, the writing process, print and text recognition, phonics, decoding, and many other areas covered by the typical K-8 reading and language arts curriculum. These Adventures currently include the following:

Lightspan Achieve Now Language Arts and Reading Curriculum

Adventure Series Grades Focus

Calamity	3-4	Reading informational text
Cosmic Cookoff	K-2	Reducing test-taking anxiety
Cosmic Quest	K-2	Motivation in learning
Faire Games	K-2	Practicing test-taking skills
K9.5	3-4	Strategies for written and oral communication
KazMania	3-4	Literary appreciation and comprehension
Liquid Books	K-6	Reading with fluency
Mona & Moki	3-4	Developing vocabulary
Road Writer	K-6	Steps in writing process
Stay & Play	K-2	Applying skills in everyday experiences
str.at.e.s	5-8	Confidence in reading informational text
WalkAbout	K-2	Theme-based activities for literacy

Our Lightspan Achieve Now math curriculum is designed to provide a set of experiences that increase student confidence and encourage students to solve problems, think mathematically and apply and communicate their thinking. The Adventures that comprise our Lightspan Achieve Now mathematics curriculum address number sense, critical thinking, number theory, estimation, geometry and many other areas covered by the typical K-8 mathematics curriculum. These Adventures currently include the following:

Lightspan Achieve Now Math Curriculum

Adventure Series Grades Focus

Cali's Geo Tools	K-2	Mastery of basic math concepts
Cosmic Cookoff	3-4	Reducing test-taking anxiety

Creative Tools	3-4	Interactive scenarios
Faire Games	K-2	Practicing test-taking skills
Math Gallery	K-6	Understanding math problems
Math on the Move!	3-6	Mental math strategies
P.K.'s Math Studio	3-4	Mastery of basic math by solving word problems
P.K.'s Place	3-4	Practicing math skills
The Quaddle Family Mysteries	3-4	Practicing active math problem solving
The Secret of Googol	K-2	Developing strong math foundations
Timeless Math	5-8	Broadening students' awareness of other cultures through math challenges

The Lightspan Achieve Now curriculum is divided into grade clusters for K-2, 3-4, and 5-6. The 5-6 materials are also used in middle schools for poorer performing grade 7-8 students. Lightspan Achieve Now licenses are sold on a perpetual license basis for approximately $600 per student license including the teacher license and materials. A complete Lightspan Achieve Now program consists of teacher licenses containing approximately 35 CD-ROM titles appropriate to each grade level, instructional materials, student licenses for each student containing the same CD-ROM titles as those included with the teacher licenses, student pre-tests, post-tests and progress checks, parenting and other materials, professional development visits, and evaluation criteria to meet accountability standards.

Lightspan Achieve Now's curriculum runs on both Sony PlayStation game consoles and MPEG-capable, Windows-based personal computers, though use at home is currently almost always on Sony PlayStation game consoles. We plan to continue development of new titles to meet changing education trends and to refresh the product over time.

Our revenues from sales of our Lightspan Achieve Now curriculum were $29.8 million, $22.0 million and $8.5 million for our fiscal years ended January 31, 1999, 1998 and 1997, respectively.

K-12 Internet

Our family of Internet products and services provides teachers, students and parents with a wide array of online learning resources.

Lightspan.com

All of our Internet products and services can be found at www.lightspan.com, including Lightspan PageOne, Global Schoolhouse, The Lightspan Network, The Lightspan Learning Store and StudyWeb. We intend to significantly expand the products and services offered through Lightspan.com in early 2000. Our Lightspan.com Web site home page screen is depicted below.

[Lightspan.com Home Page Screen Shot] Lightspan PageOne Developed with Yahoo!, Lightspan PageOne helps teachers quickly and easily build customized classroom home pages and assemble the best educational resources available on the Internet to support their classroom instruction. Lightspan PageOne allows teachers to:

- access a database of over 115,000 educational Web sites, activities and lesson plans which have been reviewed by educators;

- bookmark favorite sites;

- post homework assignments;

- create class albums, like collections of student artwork or projects;

- access on-line reference resources such as a dictionary, thesaurus, and encyclopedia;

- use a variety of curriculum-based interactive learning activities in their classrooms; and - share these features in a password-protected environment with students' families.

Lightspan PageOne Home Page Screen Shot Global Schoolhouse We recently acquired Global Schoolhouse, a Web site which has over 28,400 registered users. It enables classroom to classroom collaboration by allowing educators to share ideas and create projects together online. Global Schoolhouse began as a pilot project of the National Science Foundation. Global Schoolhouse has teamed with individuals, schools, businesses, and community organizations to design, develop and manage hundreds of collaborative online learning projects each year. Global Schoolhouse offers:

- Cyberfair, an annual global Internet competition for children in grades K-12, who showcase their local communities by designing their own Web sites;

- CU-Schools Videoconferencing, a real-time, community-building conferencing system that lets students and their teachers learn and collaborate online; and - Internet Projects Registry, a registry of classroom projects from teachers all over the world.

[Global Schoolhouse Home Page Screen Shot] StudyWeb We recently acquired StudyWeb, a "homework helper" Web site. StudyWeb was started approximately four years ago to specifically address one of the needs most frequently cited by parents, teachers and students seeking to use the Web for educational purposes -- finding research resources as easily as possible on the Web without encountering inappropriate materials. StudyWeb has developed a sophisticated system for identifying and reviewing Web sites, and has built a database with more than 115,000 Web site reviews. Reviews are categorized by subject matter and include grade level recommendations, content descriptions and other useful information.

[StudyWeb Home Page Screen Shot] The Lightspan Network The Lightspan Network is our premium online subscription service for classroom and home use. It provides a rich array of curriculum-based K-8 content correlated to state academic standards in an advertising-free environment. We charge a subscription fee of $2,500 annually to each subscribing school for The Lightspan Network. The Lightspan Network:

- provides Internet activities and lesson plans;

- offers approximately 100 interactive, adventure-filled learning activities developed by educators that cover reading, mathematics, writing, vocabulary development, and Web literacy;

- provides access to a database of over 115,000 educational Web sites, activities and lesson plans that have been reviewed by educators;

- offers teachers and students Ed-mail, a personal e-mail account featuring special security measures created specifically for use in schools;

- provides tools to enhance Internet research and student learning with a subscription to Compton's Encyclopedia Online, a leading online reference tool for K-12 schools; and - offers customer support through our professional development staff and access to our telephone help line.

[The Lightspan Network Home Page Screen Shot] The Lightspan Learning Store We developed The Lightspan Learning Store in partnership with SmarterKids.com to offer educational products online to teachers and families. As we expand and enhance Lightspan.com, we plan to include links from products that SmarterKids.com recommends to specific Lightspan learning activities found on Lightspan.com. We also expect that our Lightspan learning activities will be linked to the Lightspan Learning Store, allowing users to make an immediate purchase of educational products related to the learning activity.

[The Lightspan Learning Store Home Page Screen Shot] Your School Online We plan to launch Your School Online, currently in beta test, in early 2000 as a free home page builder for schools. We expect Your School Online to allow teachers to automatically integrate their classrooms' Lightspan PageOne home pages with their school's home page. We also expect that Your School Online will work with many other Web publishing tools that a school might have in place. Its features include:

- the ability to organize and compile Web links;

- a calendar of events that makes it easy for parents and students to find out what events or activities are happening at school;

- a simple way for users to connect to Lightspan PageOne home pages for particular classrooms within a given school;

- a site for teachers to post notes and announcements and receive feedback;

- a school contact page which allows parents to easily send e-mail to a school representative; and - easy access to Web site usage statistics to help administrators understand what is popular on their site.

[Your School Online Home Page Screen Shot] Financial information about our Lightspan Achieve Now educational software and our Internet products and services is included in Note 8 to the Lightspan financial statements that are included elsewhere in this prospectus.

Higher Education

Academic Systems' products address the needs of under-prepared college students, and consist of:

- Interactive Mathematics -- Elementary Algebra, which covers whole numbers, proportional reasoning, signed numbers and introductory geometry and algebra;

- Interactive Mathematics -- Algebra, which covers polynomials, rational expressions, linear equations and graphing;

- Interactive Mathematics -- Intermediate Algebra, which covers rational exponents, quadratic equations, functions, exponential and logarithmic functions, and non-linear equations and inequalities;

- Interactive Mathematics -- College Algebra, which includes non-linear functions, equations, conic sections, matrices, determinants, induction, sequences and counting; and - Interactive English, which prepares students for academic writing, including narrative writing, data analysis, text interpretation, and persuasive writing, and contains concise grammar instructions on common college writing errors and related reading and comprehension activities.

Academic Systems' products are media-rich with extensive graphics and video components and are grounded in teaching techniques that focus on students as individuals. Students take the courses in a computer lab or on a Windows-based personal computer in their residence, at their own pace. Students review lessons and then practice the concepts learned. Depending upon the student's performance in the practice session, the program prompts further review or moves the student onto the next lesson. Wrong answers will prompt an explanation of how to solve the question. In the Elementary Algebra course, there is a special help function featuring video characters. Each character represents a different learning style and offers multiple approaches to solving the problem, ranging from showing the method that can be used to solve the problem, to explaining the solution with a picture or graph, to providing the solution from a theoretical perspective. This often provides the help that under-prepared college students need to pass the course and succeed in school. Academic Systems also offers printed practice materials.

Academic Systems provides management services to educators who use its curriculum, typically by compiling and communicating information about student time-on-task and performance while using the curriculum. These management services can be accessed on the Internet at academic.com or a college's Web site, and also on a college's local area network.

Academic Systems curriculum products are licensed to colleges and then sold by the licensing colleges to students on a student-by-student basis for use with each class, instead of a textbook. The licensing fee to colleges of $60 to $80 per student is approximately equal to an equivalent textbook.

[Academic Systems Home Page Screen Shot]

Product Design and Development

We consider successful product development to be essential to maintaining and growing our market position. We expect to continue enhancing our Lightspan Achieve Now and Academic Systems curricula while significantly increasing our efforts to further develop our Internet products and services.

Lightspan Achieve Now products include a diverse mix of media, formats, and visual presentations. Every Lightspan Adventure is built according to the following fundamental design principles, which we believe differentiate our products from competitive products:

- we correlate each title to state and national academic standards;

- we create interesting characters in engaging stories that unfold with the help of full-screen, full-motion video and music, and with sophisticated interactivity representing many of the techniques of the latest video games; and - we develop assessment components for the teacher to monitor students' progress for each of the titles.

All Lightspan Achieve Now programs are designed so they can be used on a television as well as on a computer screen. Text elements are rendered on the screen for clear visibility from across the room. Live action video and animation segments are converted from original footage to the MPEG software format, and then digitally optimized for a sharp television picture. We believe these design features offer a unique opportunity to move our Lightspan Achieve Now curriculum to a digital set-top box once broadband technology becomes widely available to cable television subscribers. We also believe that our competitors who have designed their educational technology for use only on a computer screen will experience difficulties in converting their computer interfaces to television interfaces, and that we are better positioned to move our products to a digital set-top box platform.

We are pursuing a broad range of product development efforts to expand and enhance our Lightspan.com Web site. These product development efforts include developing new collaborative learning applications for Global Schoolhouse and enhancing its existing content, developing new content for teachers, parents and students on Lightspan.com, and expanding our electronic commerce offerings.

Academic Systems' math and writing products combine media-rich video and graphics with teaching techniques that focus on students as individuals and offer extensive help and reinforcement examples. The Academic Systems curriculum is reviewed each school year based on input from user groups made up of faculty from across the country, and updated when appropriate.

Sales and Marketing

We sell our Lightspan Achieve Now curriculum and The Lightspan Network directly to school districts. We have identified and are targeting school districts that routinely implement new and innovative programs. Our programs are generally sold "top down," with the first presentations made to a school district's key decision maker, who is often the superintendent or assistant superintendent in charge of curriculum or technology. Schools are becoming more involved in the decision process as site-based management is implemented within school districts. The sales cycle for the initial purchase of our Lightspan Achieve Now curriculum is typically six to twelve months, with shorter periods for The Lightspan Network.

A school district will typically purchase the Lightspan Achieve Now curriculum for a few classrooms in one school. Upon the successful implementation of the Lightspan Achieve Now curriculum, the school district will typically add the curriculum in other schools within the district. For example, during our fiscal year ended January 31, 1999, 74% of school districts that were using our Lightspan Achieve Now

curriculum at the beginning of the year bought additional products. The product is also often sold deeper into individual schools, either in additional classrooms in a given grade or in additional grade levels.

We currently employ 74 direct salespeople for grades K-12. This sales force is supported by a 66 person professional development team that provides pre- and post-sales support and works with current Lightspan schools to identify additional sales opportunities. While our sales force and professional development team are focused on selling into new accounts and increasing our presence in current accounts, they also act as partners with implementing schools in identifying funding sources. Each member of our sales force has substantial experience in educational technology sales, is generally working in his or her home territory and has extensive contacts in school districts within their territory.

Our marketing efforts include:

- hosting policy forums for education policy makers at industry events;

- giving keynote speeches and presentations at major education conventions;

- participating on the advisory boards of key organizations in education;

- presenting at education trade shows and customer conferences; and - pursuing focused media relations activities in the education trade press and in local media in communities that are implementing our Lightspan Achieve Now curriculum.

Sales of our Internet products and services are supported by our Lightspan field sales force, including a dedicated team of six Internet sales people that focus on driving state-wide sales of our Internet products and services. We offer customized versions of The Lightspan Network to states having large contracts, and currently have contracts with the states of Illinois, North Carolina, Pennsylvania, Oklahoma, Texas, Delaware, and Hawaii. To date, most of the marketing focus for our Internet products and services has been on the educational community. For example, a very active campaign of direct mail, telemarketing and advertising focused on the educational community, along with participation by our field sales and professional development staffs at the school district and school site levels and appearances at trade shows, has resulted in the registration of over 28,000 teachers for Lightspan PageOne since its launch in June 1999.

In the future, our focus will expand to include marketing directly to families. Print advertising will be supplemented with a variety of online strategies. A series of promotions will be directed at encouraging usage and may include sweepstakes, user points affinity programs, and referral programs. Public relations efforts will focus on educational, consumer and business press. We have formed an advisory board of educators to assist us with the design and development of our Internet products and services. Direct marketing will concentrate on teachers and parents. We expect the results of these marketing efforts will 52 be an increase in the number of teachers, students and parents accessing the content and tools provided by Lightspan.com. We believe that the marketing of Lightspan.com and our Internet products and services will contribute to sales of The Lightspan Network and sales of our Lightspan Achieve Now curriculum.

Academic Systems currently employs 13 direct sales people in a separate sales organization. Academic Systems' sales and marketing efforts focus on statewide, system-wide and district sales, and specifically target potential purchasers that offer opportunities for sales of the Academic Systems curriculum to multiple college class sections. A typical initial sale of the Academic Systems curriculum will be for several sections in a college course. As the faculty becomes familiar with the Academic Systems curriculum and witnesses improved results from sections that are using the curriculum, Academic Systems' contracts tend to be renewed and increased. Over 90% of the institutions that have installed any portion of the Academic Systems curriculum since it was first offered remain as installed users. In addition, over 70% of institutions that have renewed their contracts with Academic Systems over its last four fiscal years have signed larger contracts. Academic Systems' marketing efforts include print advertising in periodicals directed at the higher education market, direct marketing, participation at trade shows, and user conferences.

Professional Development and Support Services

We believe that successfully implementing our products and services in schools and extending them to the home is necessary to realize potential improvements in student achievement. We also believe that improvements in student achievement differentiate the Lightspan Achieve Now curriculum from products offered by our competitors and generate further support at the school level for expanded sales. Our goal is to become the partner of schools that implement our products and services. Given the comprehensive nature of the Lightspan Achieve Now curriculum, its connection of schools to homes, the rapid technological changes brought about by the Internet, and educators' needs for ongoing technical training and mentoring, we commit substantial resources to train educators in the use of our products and services.

We maintain a staff of 66 trained professionals, most of whom are former educators, to provide pre-sale planning and post-sale implementation, customer support, training services and motivation for teachers, administrators and parents in Lightspan schools. We also operate a toll-free, five-day per week technical and curriculum support telephone help line called Partner Line that is accessible to both teachers and parents. We include professional development and Partner Line services with the initial purchase of Lightspan Achieve Now. Schools may purchase additional professional development or support services. We believe that the on-site training provided by our professional development staff is a key factor in encouraging school districts to implement Lightspan products in more schools within the district and in additional classrooms within an individual school.

We provide pre-sale and post-sale support for college campuses that use our Academic Systems curriculum in a manner similar to that provided for our Lightspan Achieve Now curriculum, with a greater emphasis on technical support and installation related to the Web-based or local area networked student management system. Installation and support are included with the software license and additional services may be purchased.

Competition

The market for educational technology content and services is highly fragmented and competitive, with no company having significant market penetration. We generally compete for school instructional dollars with textbook publishers, software publishers, supplemental print publishers, Internet content and service providers, and training services, among others. We believe our solution is unique and competes favorably with existing products in these categories on a price and performance basis.

In the instructional technology segment of this market, we believe our existing and prospective competitors may be divided into the following groups:

- comprehensive curriculum software publishers which offer various school-based computer-based learning systems, including Jostens Learning Corporation and Computer Curriculum Corporation;

- "edutainment" software vendors, which principally target the consumer market but also sell to schools;

- education-oriented Internet services and the educational segments of general on-line service providers;

- distance learning providers; and - programs that take over management of the school or provide substantial tutoring help, such as those provided by Edison Schools, Inc. and Sylvan Learning Systems, Inc.

As Internet and broadband services become more widely deployed in K-12 and colleges, we believe new and as yet unidentified competition will enter the market. Traditional media companies and rapidly expanding Internet companies are likely to present new competition. Many of our current and potential competitors have longer operating histories, larger customer or user bases, greater brand recognition and significantly greater financial, marketing and other resources than we do. In addition, many of these current and potential competitors can devote substantially greater resources to product development, marketing and promotional campaigns and Web site and systems development than we can.

Rights to Content

We rely principally upon a combination of copyright, trademark and trade secret laws and contractual restrictions to protect our proprietary rights.

We developed and own the rights to nearly all of the content within the Lightspan Achieve Now curriculum, including the worlds, characters, stories, educational content, and games. We hold trademarks to all of our Lightspan Achieve Now worlds, our individual CD-ROM titles, and many of our characters.

Seasonality

Our operating results are expected to vary significantly from quarter to quarter because of seasonal influences on demand for our Lightspan Achieve Now and Academic Systems curricula and our services based on school calendars, budget cycles and timing of school districts' funding sources. Our revenues have historically been highest in our second fiscal quarter, and lowest in our first fiscal quarter.

Employees

As of October 1, 1999, we employed 398 persons, including 124 in technology and development, 48 in general and administrative, 143 in sales and marketing and 83 in professional development. We expect that our headcount will increase, particularly in sales and professional development and Internet marketing and product development. None of our employees is represented by a labor union and we consider our employee relations to be excellent.

Facilities

Our headquarters are located in San Diego, California, where we currently lease approximately 47,000 square feet under a lease expiring in 2003. Warehouse facilities are located in Carlsbad, California, where we currently lease approximately 9,000 square feet under a lease expiring in 2002. Additional facilities for the Internet group are located in Santa Monica, California, where approximately 6,900 square feet are under a lease expiring in 2002, and, for Academic Systems, in Mountain View, California, where approximately 15,500 square feet are under a lease expiring in 2001. While we consider our current facilities adequate for our current operations, we expect that we will need to lease additional facilities as our operations expand.

Legal Proceedings

We are not currently involved in any material legal proceedings.

Management

Executive Officers, Key Employees and Directors

The following table sets forth certain information about our executive officers, key employees and directors as of September 30, 1999:

Name	*Age*	*Position*
John T. Kernan	53	Chief Executive Officer and Chairman
Carl Zeiger	57	President, Chief Operating Officer and Director
Kathleen R. McElwee	44	Vice President of Finance, Chief Financial Officer
John H. Brandon	43	Executive Vice President, President of Academic Systems and Director
Winifred B. Wechsler	42	Executive Vice President and General Manager of Internet and Broadband Services
Merritt D. Farren	39	Senior Vice President of Corporate Development
Sandra K. Fivecoat	50	Senior Vice President of Sales
Bernice Stafford	57	Vice President of School Marketing and Evaluation
Dr. Larry R. Vaughn	61	Senior Vice President of School Reform
James W. Breyer	38	Director(2)
L. John Doerr	48	Director(2)
Bradley P. Dusto	46	Director
David D. Hiller	46	Director(1)
Bruce W. Ravenel	49	Director
Jeffrey P. Sanderson	40	Director(1)
Barry J. Schiffman	53	Director(1)
Ronald A. Weinberg	48	Director

(1) Member of Audit Committee (2) Member of Compensation Committee John T. Kernan co-founded Lightspan and has served as our Chairman and Chief Executive Officer since September 1993. Prior to founding Lightspan, Mr. Kernan served as Chairman and Chief Executive Officer of Jostens Learning Corporation, an educational software company. Mr. Kernan developed Jostens Learning from a start-up company in 1985 (then named Education Systems Technology Corporation) to one of the largest educational software businesses in the United States. Under Mr. Kernan's leadership, Jostens Learning was a leading supplier of pre-kindergarten through adult educational software. Prior to founding Jostens Learning, Mr. Kernan was an executive with Gill Cable Corporation, a Northern California cable TV operator. He also was Vice President of Product Development for DELTAK, Inc. (now NETg), then the nation's largest provider of video-based training for technical professionals. Mr. Kernan was the President of the Software Publishers Association, has been named "Educator of the Decade" by Electronic Learning Magazine and regional "Entrepreneur of the Year" by Inc. Magazine, among other distinctions. Mr. Kernan helped found Academic Systems, which has since been acquired by Lightspan, and Elemental Software, which has since been acquired by Macromedia. Mr. Kernan sits on the boards of Teach.com and TechNet. Mr. Kernan holds a Bachelor of Science from Loyola College.

Carl Zeiger co-founded Lightspan and has served as our President and Chief Operating Officer and as one of our directors since September 1993. Prior to founding Lightspan, Mr. Zeiger served as the President and Chief Operating Officer of Jostens Learning Corporation. Along with Mr. Kernan, Mr. Zeiger developed Jostens Learning into a leading supplier of pre-kindergarten through adult educational software. Prior to joining Jostens Learning, Mr. Zeiger served as Senior Vice President of Finance for Integrated Software Systems Corporation, a leading provider of presentation graphics software, and managed its initial and secondary public offerings and its eventual sale to Computer Associates.

Mr. Zeiger is a certified public accountant in the State of California and holds a Bachelor of Science from the University of Denver.

Kathleen R. McElwee has served as our Vice President of Finance and Chief Financial Officer since January 1999. From November 1997 to January 1999, she served as Vice President of Finance and Chief Financial Officer of Galoob Toys, Inc., a developer and marketer of toys. From December 1995 to November 1997, she served as Vice President of Planning for Galoob. From September 1993 to December 1995, she served as Assistant Controller of Nissan Motor Corporation in USA, an automobile company. Ms. McElwee holds a Bachelor in Business Administration from Pennsylvania State University and a Masters in Business Administration from the Wharton School of the University of Pennsylvania.

John H. Brandon has served as our Executive Vice President and President of Academic Systems since we acquired Academic Systems in September 1999. From June 1997 to September 1999, he served as President and Chief Executive Officer of Academic Systems. From 1987 to May 1997, Mr. Brandon held various management positions at Adobe Systems, a provider of Web and print publishing software, and most recently was Vice President and General Manager of Adobe North America. Mr. Brandon holds a Bachelor of Arts from the University of California at Davis.

Winifred B. Wechsler joined Lightspan in February 1999 and is our Executive Vice President and General Manager of Internet and Broadband Services. From 1985 to January 1999, Ms. Wechsler served in various management positions at The Walt Disney Company, a media and entertainment company, and most recently as Senior Vice President of Buena Vista Internet Group, or BVIG. One of the founders of Disney Online, Ms. Wechsler launched and managed Disney.com, directing all operations, including design, production, electronic commerce, advertising and marketing. In addition, Ms. Wechsler oversaw Disney's investment in Infoseek and the launch of Go Network and set policy and direction for BVIG. Prior to joining BVIG, Ms. Wechsler held a variety of positions at the Disney Channel, including Senior Vice President of New Business Development. Ms. Wechsler holds a Bachelor of Arts from Wellesley College and a Masters in Business Administration from the Wharton School of the University of Pennsylvania.

Merritt D. Farren has served as our Senior Vice President of Corporate Development since April 1999. From May 1988 to April 1999, Mr. Farren held various management positions at The Walt Disney Company, a media and entertainment company, and most recently was Senior Vice President and General Counsel of The Disneyland Resort, Anaheim, California. Mr. Farren holds a Bachelor of Arts from Stanford University and a Juris Doctor from the University of California at Berkeley.

Sandra K. Fivecoat has served as our Senior Vice President of Sales since February 1999. From April 1998 to January 1999, she served as Regional Vice President for our South Central Region. From 1987 to April 1998, Ms. Fivecoat held various sales management positions at Apple Computer, a manufacturer of computers and software. Ms. Fivecoat holds a Bachelor of Science and a Masters in Education from the University of Texas at Austin.

Bernice Stafford has served as our Vice President of School Marketing and Evaluation since October 1993. From 1989 to 1993, she served as Director of Sales Programs at Jostens Learning Corporation. Ms. Stafford holds a Bachelor of Arts and a Master of Arts from the University of California at Berkeley.

Dr. Larry R. Vaughn, Ed.D. has served as our Senior Vice President of School Reform since January 1999. From January 1993 to July 1998, he served as superintendent of Wichita Public Schools in Wichita, Kansas. Dr. Vaughn holds a Bachelor of Arts from Mississippi State University and a Doctorate in Education from the University of Houston.

James W. Breyer has served as one of our directors since December 1993. Since 1990, Mr. Breyer has been a partner at Accel Partners, a venture capital firm. He is responsible for Accel's involvement in more than a dozen companies that have completed public offerings or successful mergers, including Arbor Software, Centillion/Bay Networks, Centrum/3Com, Claremont, Collabra/Netscape, Corsair Communications, Macromedia, MicroProse, Inc. (formerly Spectrum Holobyte) and several private companies. Mr. Breyer currently serves on the boards of directors of Actuate, a provider of electronic business 56 services, HearMe, a provider of real-time Internet communication tools, RealNetworks, a provider of streaming media technology on the Internet, and several private companies. Mr. Breyer holds a Bachelor of Science degree from Stanford University and a Masters in Business Administration from the Harvard Business School.

L. John Doerr has served as one of our directors since December 1993. Since 1980, Mr. Doerr has been a partner at Kleiner Perkins Caufield & Byers, a venture capital firm. Mr. Doerr was the founding Chief Executive Officer of Silicon Compilers. Mr. Doerr currently serves on the boards of directors of Intuit, a producer of electronic finance software, Amazon.com, an online retailer, Macromedia, a provider of Web publishing software, and Sun Microsystems, a provider of network computing products and services, as well as several privately held companies. Mr. Doerr co-manages the Technology Network, the high-technology community's political action organization. He holds a Bachelor of Science and Master of Science from Rice University and a Masters in Business Administration from the Harvard Business School.

Bradley P. Dusto has served as one of our directors since May 1999. Mr. Dusto is Chief Technology Officer and Executive Vice President for Comcast Cable Communications, a media company, and is responsible for engineering, product development and new product operations. Prior to joining Comcast in 1992, Mr. Dusto held management positions with several companies in the cable television and satellite industries. He received a Bachelor of Science from Cornell University and a Masters in Business Administration from New York University.

David D. Hiller has served as one of our directors since September 1996. Since October 1993, Mr. Hiller has served as Senior Vice President of Development at Tribune Company, a media company. He is responsible for strategic planning and acquisitions for all Tribune businesses. Mr. Hiller currently serves on the boards of directors of several private companies. He holds a Bachelor of Arts from Harvard College and a Juris Doctor from Harvard Law School.

Bruce W. Ravenel has served as one of our directors since 1994. Since June 1999 he has served as a director and Executive Vice President of Liberty Digital, Inc., a new media investment company. From September 1998 to June 1999 he was employed by Liberty Media Corporation in connection with the formation of Liberty Digital. From April 1998 to September 1998, Mr. Ravenel was Executive Vice President -- Interactive Ventures of TCI Communications, Inc., a former subsidiary of Tele-Communications, Inc. Mr. Ravenel also served as President and Chief Executive Officer of TCI.Net, Inc. and Senior Vice President -- Internet Services of TCI Communications, Inc. from January 1996 to April 1998. Mr. Ravenel also served as Senior Vice President and Chief Operating Officer of TCI Technology Ventures, Inc. from March 1994 to January 1996. Mr. Ravenel was a founder and served on the board of directors of At Home Corporation, a media company, from March 1995 until March 1999. He serves on the boards of directors of several private companies. Mr. Ravenel holds a Bachelor of Arts from the University of Colorado, where he also studied in the doctoral program in computer science.

Jeffrey P. Sanderson has served as one of our directors since December 1998. Since June 1984, Mr. Sanderson has served as General Manager of Business Development for the Consumer and Commerce Group of Microsoft Corporation, a software company. Mr. Sanderson holds a Bachelor of Arts from Princeton University and attended the Harvard Business School.

Barry J. Schiffman has served as one of our directors since August 1997. Since 1996, Mr. Schiffman has served as President, Chief Investment Officer and a director of JAFCO America Ventures, Inc., a venture capital firm. Prior to JAFCO, he was a general partner at Weiss, Peck & Greer Venture Partners, a venture capital firm. Mr. Schiffman is currently chairman of AirGate PCS, Inc. (PCSA), an affiliate of Sprint, and member of the board of several private companies. Mr. Schiffman holds a Bachelor of Science from Georgia Institute of Technology and a Masters in Business Administration from the Stanford Graduate School of Business.

Ronald A. Weinberg joined our board of directors in October 1999. Mr. Weinberg serves as President and co-CEO of CINAR Corporation, an integrated entertainment and education company, which he founded in 1976. Mr. Weinberg is the producer on all CINAR productions including some of its most successful current series, such as Arthur, Are You Afraid of the Dark?, The Busy World of Richard Scarry, Wimzie's House, and Lassie. Mr. Weinberg currently serves on the boards of directors of Cossette Communications Group Inc., a communications and marketing concern, and several private companies and institutions. Mr. Weinberg holds a Bachelor of Science from Tulane University.

Board Committees

The board of directors has established an audit committee and a compensation committee. The audit committee consists of David D. Hiller, Jeffrey P. Sanderson and Barry J. Schiffman. The audit committee makes recommendations to the board of directors regarding the selection of independent auditors, reviews the results and scope of the audit and other services provided by our independent auditors and reviews and evaluates our audit and control functions.

The compensation committee consists of James W. Breyer and L. John Doerr. The compensation committee makes recommendations regarding our 1992 Stock Option Plan and our 2000 Equity Incentive Plan and makes general decisions concerning salaries and incentive compensation for our employees and consultants.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended January 31, 1999, James W. Breyer and L. John Doerr served as members of our compensation committee. During that fiscal year, none of our executive officers or employees served as a director or as a member of the compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

Our directors do not currently receive any cash compensation for services on the board of directors or any committee thereof, but directors may be reimbursed for certain expenses in connection with attendance at board and committee meetings. In addition, all directors are eligible to participate in our 2000 Equity Incentive Plan.

Executive Compensation

The following table sets forth summary information concerning compensation awarded to, earned by, or accrued for services rendered to us in all capacities during the fiscal year ended January 31, 1999 by our Chief Executive Officer and two other executive officers. The compensation described in this table does not include medical, group life insurance or other benefits which are available generally to all of our salaried employees and certain perquisites and other personal benefits received which do not exceed the lesser of $50,000 or 10% of his or her salary and bonus as disclosed in this table.

Summary Compensation Table

Annual Compensation Name and Principal Position Salary($) Bonus($)

John T. Kernan..... Chairman and Chief Executive Officer	$192,500	--
Carl Zeiger..... President and Chief Operating Officer	$192,500	--
Michelle M. Hays(1)..... Former Vice President of Finance and Administration	$124,290	$6,000

(1) Ms. Hays resigned from Lightspan in September 1998.

No options were granted to our executive officers during the fiscal year ended January 31, 1999.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-end Option Values

The following table sets forth information as of January 31, 1999 regarding options held by the executive officers listed. No stock appreciation rights were outstanding at January 31, 1999.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT JANUARY 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT JANUARY 31, 1999	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John T. Kernan	0	0	0	0
Carl Zeiger	0	0	0	0
Michelle M. Hays	82,498	27,502	$66,749	$17,251

Dollar values in the table above are calculated by taking the fair market value of our common stock on January 31, 1999, as determined by our board of directors, subtracting the per share exercise price of the options, and multiplying the result by the number of shares. Options were granted at an exercise price equal to the fair market value of our common stock, as determined by the board of directors on the date of grant.

Ms. Hays resigned from Lightspan in September 1998. On March 15, 1999, her options stopped vesting, and in April 1999 all of her unexercised options were cancelled.

Equity Plans

2000 Equity Incentive Plan In October 1999, the board adopted our 2000 Equity Incentive Plan. A total of 12,280,544 shares of common stock are currently reserved for issuance pursuant to the 2000 Plan. This share reserve shall automatically increase each year, based upon a formula, by an amount not to exceed 3% of our total outstanding common stock at the time of the automatic increases. The 2000 Plan provides for the grant of options to our directors, officers and key employees, and our consultants and certain of our advisors. Options to purchase 6,817,530 shares under the 2000 Plan are currently outstanding, and 3,400,479 shares remain available for issuance pursuant to the 2000 Plan.

The 2000 Plan permits the granting of options intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code to employees (including officers and employee directors) and nonstatutory stock options to employees (including officers and employee directors), directors and consultants (including non-employee directors). In addition, the 2000 Plan permits the granting of stock bonuses and rights to purchase restricted stock. No person is eligible to be granted options covering more than one million shares of common stock in any calendar year.

The 2000 Plan is administered by the board or a committee appointed by the board. Subject to the limitations set forth in the 2000 Plan, the board has the authority to select the persons to whom grants are to be made, to designate the number of shares to be covered by each stock award, to determine whether an option is to be an incentive stock option or a nonstatutory stock option, to establish vesting schedules, to specify the option exercise price and the type of consideration to be paid upon exercise and, subject to certain restrictions, to specify other terms of stock awards.

The maximum term of options granted under the 2000 Plan is ten years. The aggregate fair market value, determined at the time of grant, of the shares of common stock with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year (under all of our incentive plans) may not exceed $100,000 or the options or portion thereof which exceed such limit (according to the order in which they are granted) shall be treated as nonstatutory stock options. Stock options granted under the 2000 Plan generally are non-transferable. Options expire three months after the termination of an optionee's service. In general, if an optionee is permanently disabled or dies during his or her service, such person's options may be exercised up to 12 months following such disability and 18 months following such death.

The exercise price of options granted under the 2000 Plan is determined by the board of directors in accordance with the guidelines set forth in the 2000 Plan. The exercise price of an incentive stock option cannot be less than 100% of the fair market value of the common stock on the date of the grant. The exercise price of a nonstatutory stock option cannot be less than 85% of the fair market value of the common stock on the date of grant. Options granted under the 2000 Plan vest at the rate specified in the option agreement. The exercise price of incentive stock options granted to any person who at the time of grant owns stock representing more than 10% of the total combined voting power of all classes of our capital stock must be at least 110% of the fair market value of such stock on the date of grant and the term of such incentive stock options cannot exceed five years.

Any stock bonuses or restricted stock purchase awards granted under the 2000 Plan shall be in such form and will contain such terms and conditions as the board deems appropriate. The purchase price under any restricted stock purchase agreement will not be less than 85% of the fair market value of our common stock on the date of grant. Stock bonuses and restricted stock purchase agreements awarded under the 2000 Plan are generally transferable.

Pursuant to the 2000 Plan, shares subject to stock awards that have expired or otherwise terminated without having been exercised in full again become available for grant, but exercised shares repurchased by us pursuant to a right of repurchase will not again become available for grant.

Upon certain changes in control, all outstanding stock awards under the 2000 Plan must either be assumed or substituted for by the surviving entity. In the event the surviving entity does not assume or substitute for such stock awards, such stock awards will be accelerated and then terminated to the extent not exercised prior to such change in control.

The board has the authority to amend or terminate the 2000 Plan. The existence of the 2000 Plan does not affect the board's ability to grant other incentives or compensation under other authority that it has.

2000 Employee Stock Purchase Plan In October 1999, we adopted the 2000 Employee Stock Purchase Plan. A total of 1,000,000 shares of common stock has been reserved for issuance under the Purchase Plan. This share reserve shall automatically increase each year, based upon a formula, by an amount not to exceed 1% of our total outstanding common stock at the time of the automatic increases. The Purchase Plan is intended to qualify as an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under the Purchase Plan, the board may authorize participation by eligible employees, including officers, in periodic offerings following the commencement of the Purchase Plan.

Unless otherwise determined by the board, employees are eligible to participate in the Purchase Plan only if they are employed by us or our subsidiary designated by the board for at least 20 hours per week and are customarily employed by us or our subsidiary designated by the board for at least 5 months per calendar year. Employees who participate in an offering may have up to 15% of their earnings withheld pursuant to the Purchase Plan. The amount withheld is then used to purchase shares of the common stock on specified dates determined by the board. The price of common stock purchased under the Purchase Plan will be equal to 85% of the lower of the fair market value of the common stock at the commencement date of each offering period or the relevant purchase date. Employees may end their participation in the offering at any time during the offering period, and participation ends automatically on termination of employment.

In the event of a merger, reorganization, consolidation or liquidation, the board has discretion to provide that each right to purchase common stock will be assumed or an equivalent right substituted by the successor corporation or the board may provide for all sums collected by payroll deductions to be applied to purchase stock immediately prior to such merger or other transaction. The board has the authority to amend or terminate the Purchase Plan, provided, however, that no such action may adversely affect any outstanding rights to purchase common stock.

401(k) Plan

We have established a tax-qualified employee savings and retirement plan. Our 401(k) Plan provides that each participant may contribute up to 20% of his or her pre-tax gross compensation (up to a statutorily prescribed annual limit of $10,000 in 1999). Employees must be twenty-one years old to participate and are eligible on the first day of the quarter following six months as our employee. All amounts contributed by employee participants and earnings on these contributions are fully vested at all times. Employee participants may elect to invest their contributions in various established funds.

1992 Stock Option Plan Upon the closing of our acquisition of Academic Systems, we assumed Academic Systems' 1992 Stock Option Plan, under which outstanding options to purchase shares of common stock of Academic Systems became exercisable for 1,114,016 shares of Lightspan common stock. As of October 14, 1999, options to purchase 526,808 shares of common stock were outstanding under the 1992 Stock Option Plan.

Employment Agreements

We have no employment agreements with any of our officers or employees.

Indemnification of Directors and Officers and Limitation on Liability

Our bylaws provide that we must indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by Delaware law, except with respect to certain proceedings initiated by these persons. Our bylaws also allow us to enter into indemnification contracts with our directors and officers and to purchase insurance on behalf of any person we are required or permitted to indemnify. Pursuant to this provision, we have entered into indemnification agreements with each of our directors and executive officers.

In addition, our restated certificate provides that our directors will not be personally liable to us or our stockholders for monetary damages for any breach of their fiduciary duties as a director, except for liability (i) for any breach of the director's duty of loyalty to us or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derives an improper personal benefit. The restated certificate also provides that if the Delaware General Corporation Law is amended after our stockholders' approval of the restated certificate to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of our directors shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. The provision does not affect a director's responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

Related-party Transactions

The following is a description of transactions occurring after February 1, 1996 to which we have been a party, in which the amount involved exceeds $60,000 and in which any director, executive officer or holder of more than 5% of our capital stock had or will have a direct or indirect material interest, other than compensation arrangements which are described under "Management."

The following affiliates of our directors purchased securities in the amounts set forth below. The number of shares and price per share of the preferred stock are calculated as if these shares were converted into common stock.

PURCHASER(1)	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	SERIES E PREFERRED STOCK	WARRANTS
Entities Affiliated with Directors				
Entities affiliated with Accel Partners(2).....	327,381	475,410	1,224,902	38,021

Comcast Cable Corporation(3).....	297,619	--	1,000,000	--
Entities affiliated with JAFCO America Ventures, Inc.(4).....	--	2,127,658	--	--
Entities affiliated with Kleiner, Perkins, Caufield & Byers(5).....	166,666	475,414	1,235,593	38,023
Entities affiliated with Liberty Digital, Inc.(6).....	297,619	207,174	3,661,951	23,546
Microsoft Corporation(7).....	297,619	475,415	1,203,243	33,313
Tribune Company(8).....	1,666,667	741,373	200,000	30,718
Price Per Share:.....	$6.00	$3.76	$5.00	$3.76 - $5.00

(1) See "Principal Stockholders" for more detail on shares held by these purchasers.

(2) Mr. James W. Breyer, one of our directors, is a partner of Accel Partners.

(3) Mr. Bradley P. Dusto, one of our directors, is the Chief Technology Officer and Executive Vice President of Comcast Cable Communications, Inc.

(4) Mr. Barry J. Schiffman, one of our directors, is President and Chief Investment Officer of JAFCO America Ventures, Inc.

(5) Mr. L. John Doerr, one of our directors, is a partner of Kleiner, Perkins, Caufield & Byers.

(6) Mr. Bruce W. Ravenel, one of our directors, is an Executive Vice President of Liberty Digital, Inc.

(7) Mr. Jeffrey P. Sanderson, one of our directors, is General Manager of Business Development of Microsoft Corporation.

(8) Mr. David D. Hiller, one of our directors, is Senior Vice President of Development of Tribune Company.

In September 1999, we acquired Academic Systems. John Brandon and funds associated with four of our other directors, Messrs. Breyer, Doerr, Ravenel and Sanderson, were shareholders of Academic Systems and received shares of our common stock and Series E preferred stock in the acquisition.

In October 1999, CINAR Corporation purchased 2.5 million shares of our Series E preferred stock at $5.00 per share. CINAR also agreed to purchase $10 million of our common stock in a private placement that will occur concurrently with our initial public offering at the initial public offering price. We also granted CINAR warrants to purchase 500,000 shares of our Series E preferred stock that will vest upon the achievement of various agreed-to strategic goals. As part of our agreement with CINAR, Ronald A. Weinberg, CINAR's President and co-CEO, joined our board.

We believe that the foregoing transactions were in our best interest and were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. All future transactions between us and any of our officers, directors or principal shareholders will be approved by a majority of the independent and disinterested members of the board of directors, will be on terms no less favorable to us than could be obtained from unaffiliated third parties and will be in connection with our bona fide business purposes.

Principal Stockholders

The following table contains information about the beneficial ownership of our common stock before and after our initial public offering for:

- each person who beneficially owns more than five percent of the common stock;

- each of our directors;

- each of our executive officers listed in the Summary Compensation Table under "Management"; and - all directors and executive officers as a group.

Unless otherwise indicated, the address for each person or entity named below is c/o The Lightspan Partnership, Inc., 10140 Campus Point Drive, San Diego, California 92121.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 60,132,764 shares of common stock outstanding as of September 30, 1999, as adjusted to reflect the conversion of all outstanding shares of preferred stock upon the closing of this offering.

The table assumes no exercise of the underwriters' over-allotment option. If the underwriters' over-allotment option is exercised in full, we will sell up to an aggregate of additional shares of our common stock, and up to shares of common stock will be outstanding after the completion of this offering.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES OUTSTANDING BEFORE OFFERING	PERCENTAGE OF SHARES OUTSTANDING AFTER OFFERING
John T. Kernan(1)	2,602,654	4.3%	
Carl Zeiger	2,577,000	4.3%	
John H. Brandon(2)	292,921	*	
Michelle M. Hays(3)	50,000	*	
James W. Breyer(4) Accel Partners	6,121,964	10.2%	
L. John Doerr(5) Kleiner, Perkins, Caufield & Byers	5,876,199	9.8%	
Jeffrey P. Sanderson(6) Microsoft Corporation	5,492,111	9.1%	
David D. Hiller(7) Tribune Company	3,600,948	6.0%	
Bradley P. Dusto(8) Comcast Cable Corporation	4,808,257	8.0%	
Bruce W. Ravenel(9) Liberty Digital, Inc.	7,677,382	12.8%	
Barry J. Schiffman(10) JAFCO America Ventures, Inc.	2,127,658	3.5%	
All directors and officers as a group (10 persons)(11)	41,177,094	68.4%	

(1) Includes 1,513 shares issuable under options exercisable by November 30, 1999.

(2) Includes 50,501 shares issuable under options exercisable by November 30, 1999.

(3) Michelle M. Hays resigned from Lightspan in September 1998.

(4) Mr. Breyer's business address is 428 University Avenue, Palo Alto, CA 94301. 64 Includes:

- 4,455,882 shares held by Accel IV L.P., which represents 7.4% of the total number of shares outstanding before this offering;

- 179,983 shares held by Accel Investors '93 L.P., which represents less than 1% of the total number of shares outstanding before this offering;

- 107,019 shares held by Ellmore C. Patterson Partners, which represents less than 1% of the total number of shares outstanding before this offering;

- 92,424 shares held by Accel Keiretsu L.P., which represents less than 1% of the total number of shares outstanding before this offering;

- 29,184 shares held by Prosper Partners, which represents less than 1% of the total number of shares outstanding before this offering;

- 1,081,426 shares held by Accel III L.P., which represents 1.8% of the total number of shares outstanding before this offering;

- 75,448 shares held by Accel Investors '92 L.P., which represents less than 1% of the total number of shares outstanding before this offering; and - 100,598 shares held by Accel Japan L.P., which represents less than 1% of the total number of shares outstanding before this offering.

(5) Mr. Doerr's business address is 2750 Sand Hill Road, Menlo Park, CA 94025.

Includes:

- 5,325,302 shares held by Kleiner, Perkins, Caufield & Byers VI, which represents 8.9% of the total number of shares outstanding before this offering; and - 550,897 shares held by KPCB VI Founders Fund, which represents less than 1% of the total number of shares outstanding before this offering.

(6) Mr. Sanderson's business address is One Microsoft Way, Redmond, WA 98052.

(7) Mr. Hiller's business address is 435 North Michigan Avenue, Chicago, IL 60611.

(8) Mr. Dusto's business address is 1500 Market Street, Philadelphia, PA 19102 (9) Mr. Ravenel's business address is 9197 South Peoria Street, Englewood, CO 80112 (10) Mr. Schiffman's business address is 505 Hamilton Avenue, Palo Alto, CA 94301.

Includes:

- 851,062 shares held by U.S. Information Technology Investment Enterprise Partnership, which represents 1.4% of the total number of shares outstanding before this offering;

- 851,062 shares held by U.S. Information Technology #2 Investment Enterprise Partnership, which represents 1.5% of the total number of shares outstanding before this offering;

- 89,047 shares held by JAFCO G-7 (B) Investment Enterprise Partnership, which represents less than 1% of the total number of shares outstanding before this offering;

- 89,047 shares held by JAFCO G-7 (A) Investment Enterprise Partnership, which represents less than 1% of the total number of shares outstanding before this offering;

- 76,201 shares held by JAFCO R-2 Investment Enterprise Partnership, which represents less than 1% of the total number of shares outstanding before this offering;

- 86,128 shares held by JAFCO JS -2 Investment Enterprise Partnership, which represents less than 1% of the total number of shares outstanding before this offering; and - 94,111 shares held by Japan Associated Finance Co., Ltd., which represents less than 1% of the total number of shares outstanding before this offering.

(11) Includes 52,014 shares issuable under options exercisable by November 30, 1999.

Description of Capital Stock

Immediately following the closing of this offering, our authorized capital stock will consist of 250,000,000 shares of common stock, $0.001 par value per share, and 20,000,000 shares of preferred stock, $0.001 par value per share. As of September 30, 1999, and assuming the conversion of all outstanding preferred stock into common stock upon the closing of this offering, there were outstanding 60,132,764 shares of common stock held of record by 323 stockholders, options to purchase 7,120,971 shares of common stock and warrants to purchase 807,169 shares of common stock.

Common Stock

The holders of common stock are entitled to one vote per share on all matters to be voted on by the stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive, conversion, subscription or other rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

As of September 30, 1999, assuming the closing of this offering, all outstanding shares of preferred stock would have been converted into 51,058,595 shares of common stock. See Note 5 to the Lightspan financial statements for a description of the currently outstanding preferred stock. Following the conversion, our certificate of incorporation will be amended and restated to delete all references to such shares of preferred stock. The certificate, as restated, gives to the board the authority, without further action by stockholders, to issue up to 20,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted to or imposed upon such preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preference and sinking fund terms, any or all of which may be greater than the rights of the common stock. The issuance of preferred stock could:

- adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation;

- decrease the market price of the common stock; or - delay, deter or prevent a change in our control.

We have no present plans to issue any shares of preferred stock.

Registration Rights

Pursuant to the Amended and Restated Investor Rights Agreement, as amended, between us and some of our investors, the investors, holding an aggregate of 51,058,595 shares of our common stock issuable upon conversion of our outstanding preferred stock and upon exercise of outstanding warrants to purchase common stock, have registration rights pertaining to the securities they hold, exercisable any time following 180 days after the effective date of this offering. If we propose to register any of our securities under the Securities Act for our own account or the account of any of our stockholders other than these holders of registrable shares, holders of such registrable shares are entitled to notice of the registration and are entitled to include registrable shares therein, provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in such registration. In addition, commencing 180 days after the effective date of the registration statement of which this prospectus is a part, we may be required to prepare and file a registration statement under the Securities Act at our expense if requested to do so by the holders of at least 30% of the registrable shares, or by holders who 66 propose to register securities, the aggregate offering price of which, net of underwriting discounts and commissions, equals or exceeds $10,000,000. We are required to use our best efforts to effect such registration, subject to certain conditions and limitations. We are not obligated to effect more than three of such stockholder-initiated registrations. Further, holders of registrable securities may require us to file additional registration statements on Form S-3, subject to certain conditions and limitations.

We are required to bear substantially all costs incurred in connection with any such registrations, other than underwriting discounts and commissions. The foregoing registration rights could result in substantial future expenses for us and adversely affect any future equity offerings.

Anti-takeover Provisions

Delaware Law

We are governed by the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sale or other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of the corporation's voting stock. The statute could have the effect of delaying, deferring or preventing a change in our control.

Certificate of Incorporation and Bylaw Provisions Our restated certificate, which will become effective upon the closing of the offering, provides that the board of directors will be divided into three classes of directors, with each class serving a staggered three-year term. The classification system of electing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us and may maintain the composition of the board of directors, as the classification of the board of directors generally increases the difficulty of replacing a majority of directors. Our restated certificate provides that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing. In addition, our bylaws provide that special meetings of our stockholders may be called only by the Chairman of the board of directors, our President, our Chief Executive Officer, or by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors. Our restated certificate also specifies that the authorized number of directors may be changed only by resolution of the board of directors and does not include a provision for cumulative voting for directors. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors. These and other provisions contained in our restated certificate and bylaws could delay or discourage certain types of transactions involving an actual or potential change in control of us or our management (including transactions in which stockholders might otherwise receive a premium for their shares over then current prices) and may limit the ability of stockholders to remove current management or approve transactions that stockholders may deem to be in their best interests and, therefore, could adversely affect the price of our common stock.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Harris Trust Company of California.

The Nasdaq Stock Market's National Market

We have applied to list our common stock on the Nasdaq Stock Market's National Market under the trading symbol "LSPN."

Shares Eligible for Future Sale

Prior to this offering, there has been no market for our common stock, and we cannot assure you that a significant public market for our common stock will develop or be sustained after this offering. As described below, no shares currently outstanding will be available for sale immediately after this offering due to certain contractual and securities law restrictions on resale. Sales of substantial amounts of our common stock in the public market after the restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options. Of these shares, the shares offered for sale through the underwriters will be freely tradable without restriction under the Securities Act unless purchased by our affiliates or covered by a separate lock-up agreement with the underwriters.

The remaining shares of common stock held by existing stockholders are restricted securities. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration described below under Rules 144, 144(k) or 701 promulgated under the Securities Act.

As a result of the lock-up agreements and the provisions of Rules 144, 144(k) and 701 described below, these restricted shares will be available for sale in the public market as follows:

- no shares may be sold prior to 180 days from the date of this prospectus;

- shares will have been held long enough to be sold under Rule 144 or Rule 701 beginning 181 days after the date of this prospectus; and - the remaining shares may be sold under Rule 144 or 144(k) once they have been held for the required time.

Lock-Up Agreements. We and our officers, directors and stockholders have agreed not to transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock, for a period of 180 days after the date of this prospectus. Transfers or dispositions can be made sooner with the prior written consent of Credit Suisse First Boston Corporation.

Rule 144. In general, under Rule 144, a person who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding which will equal approximately shares immediately after this offering; or - the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also limited by manner-of-sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k). Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 3 months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years is entitled to sell these shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144 discussed above.

Rule 701. In general, under Rule 701, any of our employees, consultants or advisors who purchases or receives shares from us under a compensatory stock purchase plan or option plan or other written agreement will be eligible to resell their shares beginning 90 days after the date of this prospectus. Non- affiliates will be able to sell their shares subject only to the manner-of-sale provisions of Rule 144.

Affiliates will be able to sell their shares without compliance with the holding period requirements of Rule 144.

Registration Rights. Upon completion of this offering, the holders of shares of our common stock have rights to have their shares registered under the Securities Act. Except for shares purchased by affiliates or covered by lock-up agreements, registration of their shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

Stock Options. Immediately after this offering, we intend to file a registration statement under the Securities Act covering the shares of common stock reserved for issuance upon exercise of outstanding options. The registration statement is expected to be filed and become effective as soon as practicable after the closing of this offering. Accordingly, shares registered under the registration statement will be available for resale in the open market beginning 180 days after the effective date of the registration statement of which this prospectus is a part, except with respect to Rule 144 volume limitations that apply to our affiliates.

Underwriting

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2000, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, Thomas Weisel Partners LLC and U.S. Bancorp Piper Jaffray Inc. are acting as representatives, the following respective numbers of shares of common stock:

Number Underwriter of Shares Credit Suisse First Boston Corporation..... Thomas Weisel Partners LLC..... U.S. Bancorp Piper Jaffray Inc.....

Total.....

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering, if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering of common stock may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares from us at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to dealers may be changed by the representatives.

The following table summarizes the compensation and expenses we will pay.

	Per Share		Total	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Underwriting discounts and commissions paid by us.....	$	$	$	$
Expenses payable by us.....	$	$	$	$

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

Thomas Weisel Partners LLC, one of the representatives of the underwriters, was organized and registered as a broker-dealer in December 1998. Since December 1998, Thomas Weisel Partners has acted as lead or co-manager on numerous public offerings of equity securities. Thomas Weisel Partners does not have any material relationship with us or any of our officers, directors or other controlling persons, except with respect to its contractual relationship with us pursuant to the underwriting agreement entered into in connection with this offering.

We and our officers, directors and stockholders have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing,

without the prior written consent of Credit Suisse First Boston Corporation, for a period of 180 days after the date of this prospectus, except, in our case, issuances pursuant to the exercise of employee stock options outstanding on the date hereof.

The underwriters have reserved for sale, at the initial public offering price, up to shares of the common stock for employees, directors and certain other persons associated with us who have expressed an interest in purchasing common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent such persons purchase such reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or to contribute to payments which the underwriters may be required to make in that respect.

We have applied to list our common stock on The Nasdaq Stock Market's National Market under the trading symbol "LSPN."

Prior to this offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiation between us and the representatives. The principal factors to be considered in determining the public offering price include the following:

- the information included in this prospectus and otherwise available to the representatives;

- market conditions for initial public offerings;

- the history of, and the prospects for, the industry in which we will compete;

- the ability of our management;

- the prospects for our future earnings;

- the present state of our development and our current financial condition;

- the general condition of the securities markets at the time of this offering; and - the recent market prices of, and the demand for, publicly-traded common stock of companies that are generally comparable to us.

The representatives may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Syndicate covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover syndicate short positions.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the securities originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on The Nasdaq Stock Market's National Market or otherwise and, if commenced, may be discontinued at any time.

Notice to Canadian Residents

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are effected. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

Each purchaser of common stock in Canada who receives a purchase confirmation will be deemed to represent to us and the dealer from whom such purchase confirmation is received that: (i) such purchaser is entitled under applicable provincial securities laws to purchase such common stock without the benefit of a prospectus qualified under such securities laws, (ii) where required by law, such purchaser is purchasing as principal and not as agent, and (iii) such purchaser has reviewed the text above under "Resale Restrictions."

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents

A purchaser of common stock to whom the Securities Act (British Columbia) applies is advised that such purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any common stock acquired by such purchaser pursuant to this offering. Such report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one such report must be filed in respect of common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and with respect to the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

Legal Matters

Cooley Godward LLP, San Diego, California will pass upon the validity of the shares of common stock offered by this prospectus for us. As of the date of this prospectus, an investment fund created by Cooley Godward LLP owns an aggregate of 70,000 shares of Series E preferred stock (convertible into 70,000 shares of common stock). O'Melveny & Myers LLP, Newport Beach, California will pass upon certain legal matters in connection with this offering for the underwriters.

Experts

Ernst & Young LLP have audited our financial statements as of January 31, 1998 and 1999 and for the years ended January 31, 1997, 1998 and 1999 and the financial statements of Academic Systems as of September 30, 1997 and 1998 and for the years then ended, as set forth in their reports. We have

included our financial statements (including those of Academic Systems) in this prospectus and elsewhere in the registration statement in reliance on their reports, given on their authority as experts in accounting and auditing.

Additional Information

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act, with respect to the common stock offered by this prospectus. As permitted by the rules and regulations of the Commission, this prospectus, which is a part of the registration statement, omits certain information, exhibits, schedules and undertakings set forth in the registration statement. For further information pertaining to us and the common stock offered hereby, reference is made to such registration statement and the exhibits and schedules thereto. Statements contained in this prospectus as to the contents or provisions of any contract or other document referred to herein are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. A copy of the registration statement may be inspected without charge at the office of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of all or any part of the registration statement may be obtained from such offices upon the payment of the fees prescribed by the Commission. In addition, registration statements and certain other filings made with the Commission through its Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system, including our registration statement and all exhibits and amendments to our registration statements, are publicly available through the Commission's Web site at http://www.sec.gov.

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Report of Ernst & Young Llp, Independent Auditors

The Board of Directors The Lightspan Partnership, Inc.

We have audited the accompanying balance sheets of The Lightspan Partnership, Inc. as of January 31, 1998 and 1999 and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 1999. These financial statements are the responsibility of Lightspan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lightspan Partnership, Inc. at January 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 1999, in conformity with generally accepted accounting principles.

Ernst & Young Llp

San Diego, California March 25, 1999

The Lightspan Partnership, Inc.

Balance Sheets

	JANUARY 31,			PRO FORMA
	1998	1999	JULY 31, 1999 (UNAUDITED)	SHAREHOLDERS' EQUITY (UNAUDITED)
ASSETS Current assets: Cash and cash equivalents	$ 4,421,617	$ 7,142,938	$ 25,569,628	
Accounts receivable, less allowance for doubtful accounts of $533,168, $400,000 and $649,995 at January 31, 1998 and 1999 and July 31, 1999, respectively	5,243,838	7,794,981	11,253,006	
Finished goods inventory	919,142	1,267,237	463,734	
Other current assets	1,086,017	1,045,997	743,765	
Total current assets	11,670,614	17,251,153	38,030,133	
Property and equipment, net	2,241,784	1,637,886	1,694,328	
Deposits and other assets	167,494	121,178	168,143	
Total assets	$ 14,079,892	$ 19,010,217	$ 39,892,604	
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable	$ 3,285,340	$ 3,069,280	$ 3,343,527	
Accrued liabilities	5,677,311	5,721,065	7,144,726	
Deferred revenue	2,494,072	4,199,589	5,180,070	
Current portion of capital lease obligations	1,234,358	930,040	576,477	
Total current liabilities	12,691,081	13,919,974	16,244,800	
Deferred rent	406,281	382,486	331,061	
Capital lease obligations, less current portion	774,889	393,480	469,824	
Commitments Shareholders' equity: Convertible preferred stock, par value $0.001: Authorized shares -- 56,795,074 Issued and outstanding shares -- 30,049,176 and 35,527,893 at January 31, 1998 and 1999, respectively, and 40,822,078 at July 31, 1999; no shares pro forma				
Aggregate liquidation preference -- $90,819,936 and $111,419,912 at January 31, 1998 and 1999, respectively, and $137,890,837 at July 31, 1999	30,049	35,527	40,821	$ --
Common stock, par value $0.001: Authorized shares -- 75,000,000 Issued and outstanding shares -- 6,551,236 and 7,081,156 at January 31, 1998 and 1999, respectively, and 7,831,150 at July 31, 1999; 50,597,908 shares pro forma	6,552	7,081	7,831	50,598
Additional paid-in capital	89,849,633	110,671,293	144,986,033	144,984,087
Deferred compensation	--	(192,196)	(7,012,176)	(7,012,176)
Accumulated deficit	(89,678,593)	(106,207,428)	(115,175,590)	(115,175,590)
Total shareholders' equity	207,641	4,314,277	22,846,919	$ 22,846,919
Total liabilities and shareholders' equity	$ 14,079,892	$ 19,010,217	$ 39,892,604	

The Lightspan Partnership, Inc.

Statements of Operations

	YEARS ENDED JANUARY 31,			SIX MONTHS ENDED JULY 31,	
	1997	1998	1999	1998	1999
				(UNAUDITED)	
Revenues:					
Licenses	$ 5,591,769	$ 15,041,742	$ 20,985,230	$10,723,900	$13,539,415
Services	553,912	1,973,595	3,742,237	1,808,920	2,789,220
Hardware	2,419,360	5,293,671	6,103,957	3,505,683	3,170,894
Total revenues	8,565,041	22,309,008	30,831,424	16,038,503	19,499,529
Cost of revenues:					
Licenses	2,963,848	6,408,733	4,149,915	1,901,833	3,029,567
Services	563,403	1,753,808	2,385,056	1,116,017	1,367,257
Hardware	2,314,844	4,744,887	4,973,166	2,911,595	2,724,748
Total cost of revenues	5,842,095	12,907,428	11,508,137	5,929,445	7,121,572
Gross profit	2,722,946	9,401,580	19,323,287	10,109,058	12,377,957
Operating expenses:					
Technology and development	18,953,329	14,816,050	10,593,735	6,071,391	4,458,012
Sales and marketing	13,773,048	20,295,916	22,066,261	11,029,927	13,809,139
General and administrative	2,472,717	2,714,544	3,590,159	1,231,262	2,046,209
Stock-based compensation	--	--	19,680	--	962,462
	35,199,094	37,826,510	36,269,835	18,332,580	21,275,822
Loss from operations	(32,476,148)	(28,424,930)	(16,946,548)	(8,223,522)	(8,897,865)
Interest income (expense), net	(112,559)	(527,659)	417,713	242,580	(70,297)
Net loss	$(32,588,707)	$(28,952,589)	$(16,528,835)	$(7,980,942)	$(8,968,162)
Historical net loss per share:					
Basic and diluted	$ (5.36)	$ (4.56)	$ (2.44)	$ (1.20)	$ (1.21)
Weighted average shares -- basic and diluted	6,077,648	6,354,630	6,775,544	6,627,252	7,431,082
Pro forma net loss per share:					
Basic and diluted			$ (0.38)		$ (0.20)
Weighted average shares --					

basic and diluted........ 43,602,679 45,371,650

See accompanying notes.

The Lightspan Partnership, Inc.

Statements of Shareholders' Equity

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK	ACCUMULATED
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPENSATION	DEFICIT
Balance at January 31, 1996.....	19,134,164	$19,134	6,048,875	$6,049	$ 42,649,455	$	$ (28,137,297)
Issuance of Series C convertible preferred stock at $6.00 per share for cash, net of offering costs of $30,994.....	3,264,285	3,264	--	--	19,551,452	--	--
Issuance of warrants to purchase convertible preferred stock.....	--	--	--	--	99,124	--	--
Exercise of stock options.....	--	--	88,854	89	11,920	--	--
Net loss.....	--	--	--	--	--	--	(32,588,707)
Balance at January 31, 1997.....	22,398,449	22,398	6,137,729	6,138	62,311,951	(60,726,004)	
Issuance of Series D convertible preferred stock at $3.76 per share for cash, net of offering costs of $1,405,286.....	5,984,038	5,984	--	--	21,088,712	--	--
Issuance of Series D convertible preferred stock at $3.76 per share in exchange for bridge loans from shareholders.....	1,666,689	1,667	--	--	6,265,085	--	--
Issuance of warrants to purchase convertible preferred stock.....	--	--	--	--	102,536	--	--
Exercise of stock options.....	--	--	489,549	490	82,779	--	--
Repurchase of common stock for cash.....	--	--	(76,042)	(76)	(1,430)	--	--
Net loss.....	--	--	--	--	--	--	(28,952,589)
Balance at January 31, 1998.....	30,049,176	30,049	6,551,236	6,552	89,849,633	(89,678,593)	
Issuance of Series D convertible preferred stock at $3.76 per share for cash, net of offering costs of $127,132.....	5,478,717	5,478	--	--	20,467,364	--	--
Exercise of stock options.....	--	--	529,920	529	142,420	--	--
Deferred compensation related to stock options.....	--	--	--	--	211,876	(211,876)	--
Amortization of deferred compensation.....	--	--	--	--	--	19,680	--
Net loss.....	--	--	--	--	--	--	--
(16,528,835)							
Balance at January 31, 1999.....	35,527,893	35,527	7,081,156	7,081	110,671,293	(192,196)	(106,207,428)
Issuance of Series E convertible preferred stock at $5.00 per share for cash, net of offering costs of $8,861 (unaudited).....	5,294,185	5,294	--	--	26,456,770	--	--
Exercise of stock options (unaudited).....	--	--	749,994	750	75,528	--	--
Deferred compensation related to stock options (unaudited).....	--	--	--	--	7,782,442	(7,782,442)	--
Amortization of deferred compensation (unaudited).....	--	--	--	--	--	962,462	--
Net loss (unaudited).....	--	--	--	--	--	--	--
(8,968,162)							
Balance at July 31, 1999 (unaudited).....	40,822,078	$40,821	7,831,150	$7,831	$144,986,033	$(7,012,176)	$(115,175,590)

TOTAL SHAREHOLDERS' EQUITY
Balance at January 31, 1996..... $ 14,537,341
Issuance of Series C convertible preferred stock at $6.00 per share for cash, net of offering costs of $30,994..... 19,554,716
Issuance of warrants to purchase convertible preferred stock..... 99,124
Exercise of stock options..... 12,009
Net loss.....

(32,588,707) Balance at January 31, 1997..... 1,614,483 Issuance of Series D convertible preferred stock at $3.76 per share for cash, net of offering costs of $1,405,286..... 21,094,696 Issuance of Series D convertible preferred stock at $3.76 per share in exchange for bridge loans from shareholders..... 6,266,752 Issuance of warrants to purchase convertible preferred stock..... 102,536 Exercise of stock options..... 83,269 Repurchase of common stock for cash..... (1,506) Net loss..... (28,952,589) Balance at January 31, 1998..... 207,641 Issuance of Series D convertible preferred stock at $3.76 per share for cash, net of offering costs of $127,132..... 20,472,842 Exercise of stock options..... 142,949 Deferred compensation related to stock options..... -- Amortization of deferred compensation..... 19,680 Net loss..... (16,528,835) Balance at January 31, 1999..... 4,314,277 Issuance of Series E convertible preferred stock at $5.00 per share for cash, net of offering costs of $8,861 (unaudited)..... 26,462,064 Exercise of stock options (unaudited)..... 76,278 Deferred compensation related to stock options (unaudited)..... -- Amortization of deferred compensation (unaudited)..... 962,462 Net loss (unaudited)..... (8,968,162) Balance at July 31, 1999 (unaudited)..... $ 22,846,919 See accompanying notes.

The Lightspan Partnership, Inc.

Statements of Cash Flows

	YEARS ENDED JANUARY 31,			SIX MONTHS ENDED JULY 31,	
	1997	1998	1999	1998	1999
					(UNAUDITED)
OPERATING ACTIVITIES:					
Net loss	$(32,588,707)	$(28,952,589)	$(16,528,835)	$(7,980,942)	$(8,968,162)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	982,665	1,637,485	1,310,498	680,064	588,993
(Gain) loss on disposal of assets	(64,827)	37,774	(5,060)	--	--
Provision for doubtful accounts	235,991	297,177	(133,168)	106,832	249,995
Amortization of deferred stock-based compensation	--	--	19,680	--	962,462
Amortization of interest expense issued in connection with debt	61,509	140,151	--	--	--
Changes in operating assets and liabilities:					
Accounts receivable	(5,620,093)	(156,913)	(2,417,975)	(2,165,740)	(3,708,020)
Inventory	(284,871)	174,579	(348,095)	(681,534)	803,503
Deposits and other assets	160,654	(288,659)	86,336	(67,122)	255,267
Accounts payable	2,136,259	(149,262)	(216,060)	664,347	

274,247					
Deferred revenue.....	1,769,315	724,757	1,705,517	1,115,379	
980,481					
Accrued liabilities.....	1,732,330	4,055,077	19,959	(762,739)	
1,372,236					
Net cash flows used in operating activities.....	(31,479,775)	(22,480,423)	(16,507,203)	(9,091,455)	
(7,188,998)					
INVESTING ACTIVITIES:					
Decrease in short-term investments.....	5,423,307	414,000	--	--	
--					
Purchase of property and equipment.....	(2,850,709)	(422,808)	(725,707)	(604,585)	
(645,435)					
Proceeds from sale of fixed assets.....	--	30,816	24,167	--	
--					
Net cash flows provided by (used in) investing activities.....	2,572,598	22,008	(701,540)	(604,585)	
(645,435)					
FINANCING ACTIVITIES:					
Proceeds from issuance of preferred stock.....	19,554,716	21,094,696	20,472,842	20,472,842	
26,462,064					
Proceeds from convertible bridge notes.....	--	6,266,752	--	--	
--					
Proceeds from lessor from capital leases.....	2,287,118	339,112	699,538	416,474	
431,788					
Principal repayments on capital leases.....	(1,216,743)	(1,527,864)	(1,385,265)	(454,169)	
(709,007)					
Proceeds from notes payable.....	1,600,000	--	--	--	
--					
Principal repayments on notes payable...	(755,152)	(844,848)	--	--	
--					
Proceeds from exercise of stock options.....	12,009	83,269	142,949	67,523	
76,278					
Repurchase of common stock.....	--	(1,506)	--	--	
--					
Net cash flows provided by financing activities.....	21,481,948	25,409,611	19,930,064	20,502,670	
26,261,123					
Increase (decrease) in cash and cash equivalents.....	(7,425,229)	2,951,196	2,721,321	10,806,630	
18,426,690					
Cash and cash equivalents at beginning of period.....	8,895,650	1,470,421	4,421,617	4,421,617	
7,142,938					
Cash and cash equivalents at end of period.....	$ 1,470,421	$ 4,421,617	$ 7,142,938	$15,228,247	
$25,569,628					
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Interest paid.....	$ 495,966	$ 584,035	$ 193,058	$ 110,353	$
94,351					
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:					
Conversion of bridge notes into Series D convertible preferred stock.....	$ --	$ 6,266,752	$ --	$ --	$
--					
Deferred stock-based compensation.....	$ --	$ --	$ 211,876	$ --	$
7,782,442					

See accompanying notes. F-6

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited)

1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity

The Lightspan Partnership ("Lightspan") was founded in 1993. Lightspan provides curriculum-based educational software and Internet products and services to schools and school districts that are used both in school and at home. Lightspan Achieve Now is an interactive CD-ROM-based software product for kindergarten through eighth grade, or K-8, that covers the core curriculum of language arts, reading and math. The Lightspan Achieve Now program typically includes the Lightspan Achieve Now software and a Sony PlayStation(R) game console that the student uses to run the program at home throughout the school year. The Lightspan Network is an online subscription service that provides curriculum-based content for classroom and home use.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments which include debt securities with remaining maturities when acquired of three months or less.

Concentration of Credit Risk

Substantially all of Lightspan's accounts receivable are from school districts located throughout the United States. Lightspan provides for estimated losses from uncollectible accounts and such losses have historically not exceeded management's expectations.

Inventory

Inventory consists primarily of software for resale and is stated at the lower of cost (first in, first out method) or market.

Property and Equipment

Property and equipment is stated at cost and depreciated or amortized over the shorter of the estimated useful life of the related asset (two to five years) or the term of the lease, using the straight-line method.

Impairment of Long-lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, Lightspan regularly evaluates its long-lived assets for indicators of possible impairment by comparison of the carrying amounts to undiscounted estimated cash flows to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the asset's fair value or discounted estimates of future cash flows. Lightspan has not identified any such impairment losses to date.

Fair Value of Financial Instruments

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and capital lease obligations, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited)

1. Organization and Summary of Significant Accounting Policies (Continued) Deferred Rent

Rent expense is recorded on a straight-line basis over the term of the lease. The difference between rent expense accrued and amounts paid under the lease agreements is recorded as deferred rent in the accompanying balance sheet.

Revenue Recognition

Revenue is derived from the licensing of software, product implementation and training services, customer support services (PCS), Internet subscriptions and the sale of PlayStation(R) game consoles and accessories. In software arrangements that include rights to software products, PCS and product

implementation and training services, Lightspan allocates the total arrangement fee among each deliverable based on the relative fair value of each element as determined by vendor-specific objective evidence.

Software Licenses

Prior to fiscal year 1999, Lightspan recognized revenue under AICPA Statement of Position, or SOP, 91-1, Software Revenue Recognition. Under SOP 91-1, Lightspan recognized the full sales value of Lightspan Achieve Now software licenses, including both completed and as-yet uncompleted titles, upon shipment of the then-completed titles provided that there were no contractual performance obligations to deliver the uncompleted titles and the collection of the related receivable was deemed probable. Lightspan accrued the production costs associated with the undelivered titles in the period in which the revenue was recognized, and included these costs in the cost of software license revenues and on the balance sheet as accrued cost of revenues.

Effective February 1, 1998, Lightspan adopted SOP 97-2, Software Revenue Recognition, which superseded SOP 91-1. Under SOP 97-2, Lightspan changed its method of revenue recognition for licenses containing as-yet uncompleted titles and began recognizing revenue using the percentage of completion method of accounting based on the actual titles delivered and the estimated progress to completion on as-yet uncompleted titles.

Post Customer Support Revenue derived from telephone support and maintenance arrangements provided by the professional development organization is recognized ratably over the one-year term of the support and maintenance period.

Product Implementation and Training Services Revenue derived from product implementation and customer training provided by the professional development organization is recognized when services are performed, in accordance with the standard implementation, training, service, and evaluation plans that Lightspan establishes for its customers.

Internet Subscriptions Revenue derived from Internet subscriptions is recognized on a straight-line basis over the term of the agreement (generally one year).

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) PlayStation(R) Game Consoles and Related Accessories Revenue derived from the sale of PlayStation(R) game consoles and related accessories is recognized upon delivery of the console and the related software product.

Deferred Revenue

Payments received in advance of amounts earned are recorded as deferred revenue in the accompanying financial statements.

Software Development Costs

Software development costs are expensed as incurred until technological feasibility has been established and a definitive decision has been made to proceed with the commercial launch of the title. To date, these factors have been met upon substantial completion of the title, and therefore software development costs subsequent to technological feasibility have been insignificant.

Stock-based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, Lightspan has elected to follow Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for stock-based employee compensation. Under APB No. 25, if the exercise price of Lightspan's employee and director stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. When the exercise price of the employee or director stock options is less than the fair value of the underlying stock on the grant date, Lightspan records deferred stock compensation for the difference and amortizes this amount to expense in accordance with FASB Interpretation No. 28, or FIN 28, over the vesting period of the options. Options or stock awards issued to non-employees are recorded at their fair value as determined in accordance with SFAS No. 123 and recognized over the related service period.

Comprehensive Income

In accordance with SFAS No. 130, Reporting Comprehensive Income, all components of comprehensive income, including net income, are reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income (loss), including unrealized gains and losses on investments, are reported net of their related tax effect, to arrive at comprehensive income (loss). For the years ended January 31, 1997, 1998 and 1999 and the six month periods ended July 31, 1998 and 1999, comprehensive loss equals the net loss as reported.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Lightspan management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements.

Actual results could differ from those estimates.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) RECLASSIFICATIONS Certain amounts in prior year financial statements have been reclassified to conform with the current year presentation.

Interim Financial Data

The financial statements as of July 31, 1999 and for the six months ended July 31, 1998 and 1999 are unaudited. The unaudited financial statements have been prepared on the same basis as the audited financial statements and, in the opinion of Lightspan management, include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial information included in accordance with generally accepted accounting principles. The results of operations for the interim period ended July 31, 1999 are not necessarily indicative of the results which may be reported for any other interim period or for the full fiscal year ending January 31, 2000.

Net Loss Per Share and Unaudited Pro Forma Shareholders' Equity

Lightspan computes net loss per share in accordance with SFAS No. 128, Earnings Per Share, and SEC Staff Accounting Bulletin (or SAB) No. 98. Under the provisions of SFAS No. 128, basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period. Potentially dilutive securities composed of incremental common shares issuable upon the exercise of stock options and warrants, and common shares issuable on conversion of preferred stock, were excluded from historical diluted loss per share because of their anti-dilutive effect.

Under the provisions of SAB No. 98, common shares issued for nominal consideration, if any, would be included in the per share calculations as if they were outstanding for all periods presented. No common shares have been issued for nominal consideration.

The following table sets forth the computation of historical net loss per share, basic and diluted:

	YEARS ENDED JANUARY 31,			SIX MONTHS ENDED JULY 31,	
	1997	1998	1999	1998	1999
				(UNAUDITED)	

Numerator: Net loss..... $(32,588,707) $(28,952,589) $(16,528,835) $(7,980,942) $(8,968,162) Denominator for historical basic and diluted calculations: Weighted average common shares outstanding..... 6,077,648 6,354,630 6,775,544 6,627,252 7,431,082 Historical net loss per share: Basic and diluted..... $ (5.36) $ (4.56) $ (2.44) $ (1.20) $ (1.21)

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Pro forma net loss per share has been computed as described above and also gives effect to common equivalent shares arising from preferred stock that will automatically convert upon the closing of the initial public offering contemplated by this prospectus (using the as-if converted method from the original date of issuance).

Unaudited pro forma shareholders' equity at July 31, 1999, as adjusted for the conversion of the convertible preferred stock into common stock, is disclosed on the balance sheet.

2. Balance Sheet Details

Cash equivalents consist of the following:

	JANUARY 31,		
	1998	1999	JULY 31, 1999 (UNAUDITED)
U.S. Corporate master notes.....	$1,825,000	$3,425,000	$ --
U.S. Corporate repurchase agreements.....	262,000	1,741,000	--
Money market accounts.....	25,823	27,748	19,308,152
U.S. Government repurchase agreements.....	700,000	1,226,000	--
	$2,812,823	$6,419,748	$19,308,152

Other current assets consist of the following:

	JANUARY 31,		
	1998	1999	JULY 31, 1999 (UNAUDITED)
Prepaid royalties.....	$ 594,883	$ 450,983	$101,362
Other receivables.....	147,587	284,832	136,448
Short-term deposits.....	221,946	235,578	296,168
Other current assets.....	121,601	74,604	209,787
	$1,086,017	$1,045,997	$743,765

Property and equipment consist of the following:

	JANUARY 31,		
	1998	1999	JULY 31, 1999 (UNAUDITED)

Machinery and equipment.....	$ 3,978,385	$ 4,339,758	$ 4,748,560
Software.....	140,719	244,455	366,870
Office furniture and equipment.....	1,163,078	1,186,394	1,300,612
	5,282,182	5,770,607	6,416,042
Less accumulated depreciation and amortization.....	(3,040,398)	(4,132,721)	(4,721,714)
	$ 2,241,784	$ 1,637,886	$ 1,694,328

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 2. BALANCE SHEET DETAILS (CONTINUED) Accrued liabilities consist of the following:

	JANUARY 31,		JULY 31,
	1998	1999	1999 (UNAUDITED)
Other accrued liabilities.....	$1,337,516	$2,341,934	$2,559,769
Accrued bonuses and commissions.....	1,130,438	1,669,737	2,904,217
Accrued vacation.....	572,857	533,157	644,236
Accrued cost of revenues.....	2,636,500	1,176,237	1,036,504
	$5,677,311	$5,721,065	$7,144,726

3. Line of Credit

Lightspan has a line of credit with a bank which allows Lightspan to borrow up to a maximum of the lesser of (a) 75% of eligible accounts receivable (as defined) or (b) $10,000,000, at any one time outstanding. The line of credit was renewed in February 1999 and expires in April 2000 and bears interest at the bank's prime rate plus 1.5% (9.25% at January 31, 1999), payable monthly. The line of credit is collateralized by substantially all of Lightspan's assets. The loan agreement with the bank contains various covenants. As of January 31, 1999 and July 31, 1999, there were no amounts outstanding under the line of credit.

4. Commitments

Lightspan leases its facilities under an operating lease agreement. The facilities lease is subject to annual escalation provisions based upon the Consumer Price Index.

Cost of equipment acquired under capital leases totaled $4,615,354, $3,697,293 and $3,506,874 (and accumulated amortization totaled $2,657,047, $2,647,881 and $2,580,790) at January 31, 1998 and 1999 and July 31, 1999, respectively. Facilities rent and operating lease expenses were $1,062,433, $1,302,815 and $405,299 for the years ended January 31, 1998 and 1999 and the six months ended July 31, 1999, respectively.

In addition, Lightspan subleases a portion of their facility for a period of one year subject to one-year renewal options. Sublease income was $0, $125,323 and $213,123 for the years ended January 31, 1997, 1998 and 1999, respectively.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 4. COMMITMENTS (CONTINUED) Future minimum lease payments for all leases with initial terms of one year or more are as follows at January 31, 1999:

	OPERATING LEASES	CAPITAL LEASES
2000	$1,366,129	$1,121,192
2001	1,277,130	333,158
2002	1,310,154	84,960
2003	1,295,473	--
2004	1,013,153	--
Total minimum lease payments	$6,262,039	1,539,310
Less amounts representing interest		215,790
Present value of future minimum lease payments		1,323,520
Less current portion of capital lease obligations		930,040
Long-term capital lease obligations		$ 393,480

5. Shareholders' Equity

Convertible Preferred Stock

At July 31, 1999, convertible preferred stock outstanding is as follows:

DATE ISSUED	SERIES	PRICE PER SHARE	NUMBER OF SHARES	LIQUIDATION VALUE
December 1993	A	$1.00	7,135,000	$ 7,135,000
March 1994	A	$1.00	332,500	332,500
February 1995	B	$3.00	5,833,336	17,500,008
June 1995	B	$3.00	5,833,328	17,499,984
September 1996	C	$6.00	3,264,285	19,585,710
June 1997	D	$3.76	5,984,038	22,499,983
March 1997	D	$3.76	1,666,689	6,266,751
March 1998	D	$3.76	5,478,717	20,599,976
July 1999	E	$5.00	5,294,185	26,470,925
			40,822,078	$137,890,837

The preferred stock will automatically be converted into shares of common stock at the then effective conversion price upon the closing of the initial public offering contemplated by this prospectus as long as the initial public offering price and aggregate proceeds meet minimum requirements, as defined by the agreements. As of July 31, 1999, the Series A, B, C, D and E preferred stock are convertible, at the

option of the holder, into 7,467,500, 11,666,664, 5,208,965, 13,129,444 and 5,294,185 shares of common stock, respectively, which has been reserved for issuance upon conversion of the preferred stock, subject to certain antidilution adjustments.

Holders of the Series A, B, C, D and E preferred stock are entitled to receive dividends at a rate of $.10, $.30, $.60, $.376 and $.50 per share per annum, whenever funds are legally available and as declared by Lightspan's board of directors. The holder of each share of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the preferred stock could be converted.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 5. SHAREHOLDERS' EQUITY (CONTINUED) Lightspan is subject to certain covenants under the agreements that require the vote or written consent by a majority of the then outstanding preferred shares regarding certain changes in the rights and interests of the preferred shares.

In the event of any liquidation, dissolution or winding up of Lightspan, the holders of preferred stock are entitled to receive their liquidation value prior to and in preference to any distribution of the assets or surplus funds of Lightspan to the holders of common stock. If, upon the occurrence of such event, the assets and funds distributed among the holders of preferred stock are insufficient to permit full payment, the entire assets and funds of Lightspan would be distributed among the preferred shareholders in proportion to the product of the liquidation preference of each such share and the number of shares owned by each such holder.

All series of preferred stock have redemption features, at the option of Lightspan, which are subject to approval and written consent of a majority of the shareholders for Series A, C, D and E, voting separately as a single class, and 57% of the shareholders for Series B, voting separately as single class. The right of redemption cannot be exercised with respect to any series of preferred stock prior to the fifth anniversary of the original issue date of the Series D preferred stock, but may be exercised at any time and from time to time thereafter.

Upon the sale of Lightspan's common stock in a qualified public offering within 24 months of the second date on which Series D preferred stock was issued, and subject to certain criteria being met, additional warrants to purchase up to 3,326,112 shares of common stock at $.01 per share could be issued. These "springing warrants" will be issued only if on the measurement date (the date on which the qualified public offering occurs), the measurement price (the closing per share price of Lightspan's common stock on the tenth business day immediately preceding the measurement date) is less than the return benchmark (as defined by the agreement). The number of shares issuable upon exercise of the warrants will be equal to the wealth shortfall (as defined by the agreement) divided by the measurement price. If the offering contemplated by this prospectus is completed under the terms set forth on the cover, warrants to purchase an additional shares of common stock would be issued.

Stock Option Plan

In 1993, Lightspan adopted its Stock Option Plan (the "Plan"). Options for common stock may be incentive stock options or non-statutory stock options and are granted at the discretion of the Board of Directors. The Plan permits immediate exercise of options with the unvested portion subject to repurchase by Lightspan at the original exercise price, in the event of termination of employment or engagement. Non-statutory stock options may be granted to employees, directors and consultants whereas incentive stock options may be granted to employees and directors only. The option price for incentive stock options shall not be less than 100% of the fair value on the date of grant, and the option price of non-statutory options shall not be less than 85% of the fair value on the date of grant. The maximum term of options granted under the Plan is ten years. Incentive stock options granted under the Plan are immediately exercisable in full and generally vest at the rate of 25% after one year from the vesting commencement date and 1/36 of the remaining shares every month thereafter. Non-statutory stock options are immediately exercisable in full and generally vest at the rate of 50% after one year from the vesting commencement date and the remaining 50% after two years from such date.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 5. SHAREHOLDERS' EQUITY (CONTINUED) Lightspan is authorized to issue 5,765,000 shares of common stock to eligible employees, officers, directors and consultants under the Plan, of which options to purchase 1,089,427 shares were available for future grant at January 31, 1999.

A summary of Lightspan's stock option activity and related information is as follows:

	YEARS ENDED JANUARY 31,					
	1997		1998		1999	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	2,289,000	$.18	3,717,500	$.27	3,902,167	$.30
Granted	1,786,000	$.38	1,717,000	$.43	1,034,875	$.68
Exercised	(88,854)	$.14	(489,549)	$.17	(529,920)	$.27
Forfeited	(268,646)	$.27	(1,042,784)	$.47	(841,747)	$.40
Outstanding -- end of year	3,717,500	$.27	3,902,167	$.30	3,565,375	$.39
Exercisable at end of year	1,245,233		1,936,773		2,062,010	
Weighted average fair value of options						

granted during the year.....	$ .07	$ .10	$ .15

The following table summarizes information about stock options outstanding as of January 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
$.0000 - $ .10.....	684,000	.5	$ .10	660,561	$ .10
$.2001 - $ .30.....	1,074,000	1.9	$ .30	858,623	$ .30
$.3001 - $ .40.....	1,309,250	3.8	$ .40	494,390	$ .40
$.5001 - $ .60.....	43,000	3.1	$ .60	22,163	$ .60
$.9001 - $1.00.....	455,125	4.5	$1.00	250	$1.00
	3,565,375		$ .3913	2,035,987	$ .2627

Pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if Lightspan had accounted for its employee stock options under the fair value method of that statement. The fair value of these options was estimated at the date of grant using the minimum value option pricing model with the following weighted average assumptions for 1997, 1998 and 1999, respectively: risk-free interest rates of 6.00%, 5.13% and 5.00%, respectively; dividend yields of 0%; and a weighted-average expected life of the options of four to five years.

The minimum value option pricing model is similar to the Black-Scholes option valuation model which was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable, except that it excludes the factor of volatility. In addition, option

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 5. SHAREHOLDERS' EQUITY (CONTINUED) valuation models require the input of highly subjective assumptions. Because Lightspan's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of such options. Lightspan's pro forma information is as follows:

Years Ended January 31, 1997 1998 1999

Pro forma net loss..... $(32,615,453) $(29,020,517) $(16,587,899) Pro forma historical net loss per share, basic and diluted..... $ (5.37) $ (4.57) $ (2.45)

Warrants

In connection with debt and equipment lease financing agreements entered into at various dates, Lightspan issued warrants to purchase an aggregate of up to 150,000 shares of Series A preferred stock at $1.00 per share, up to 150,000 shares of Series B preferred stock at $3.00 per share, up to 96,625 shares and 57,564 shares of Series C preferred stock at $6.00 per share and $0.01 per share, respectively, and up to 183,105 shares and 127,659 shares of Series D preferred stock at $3.76 and $4.70 per share, respectively. The warrants expire on various dates commencing in 2002 through 2006.

The warrants were valued at an aggregate of $201,660, which was recorded as debt discounts and accreted into interest expense over the life of the applicable agreements. The fair value of the warrants were estimated at the dates of grant using the minimum value method with the following assumptions: risk free interest rate of 6.00%; an expected warrant life of two years; and no annual dividends. Interest expense related to the accretion of the debt discounts totaled $61,509 and $140,151 for the years ended January 31, 1997 and 1998, respectively. There were no such amounts included in interest expense for the year ended January 31, 1999 or the six month periods ended July 31, 1998 and 1999.

Stock-based Compensation

Lightspan has recorded deferred compensation of $211,876 and $7,782,442 for the year ended January 31, 1999 and the six months ended July 31, 1999, respectively, in connection with the grants of certain stock options to employees and consultants. Amortization of deferred stock compensation was $19,680 and $962,462 during the year ended January 31, 1999 and the six months ended July 31, 1999, respectively.

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited)

5. Shareholders' Equity (Continued) Common Shares Reserved for Future Issuance

The following table summarizes common shares reserved for future issuance:

	JANUARY 31, 1999	JULY 31, 1999 (UNAUDITED)
Convertible preferred stock	37,472,573	42,766,758
Convertible preferred stock warrants	764,953	764,953
Common stock options	3,565,375	5,679,766
Total common shares reserved for issuance	41,802,901	49,211,477

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of Lightspan's deferred tax assets are shown below:

January 31, 1998 1999

Deferred tax assets:		
Net operating loss carryforwards	$ 29,993,000	$ 35,586,000
Capitalized research expenses	2,111,000	2,119,000
Research and development credits	2,608,000	3,257,000
Other	1,989,000	1,467,000
Total deferred tax assets	36,701,000	42,429,000
Valuation allowance for deferred tax assets	(36,701,000)	(42,429,000)
Net deferred tax assets	$ --	$ --

A reconciliation of income taxes at the statutory federal income tax rate to the provision for income taxes is as follows:

Years Ended January 31, 1997 1998 1999

U.S. federal taxes at statutory rate	$(11,080,000)	$(9,844,000)	$(5,620,000)
State taxes, net of federal benefit	(1,955,000)	(1,737,000)	(992,000)
Change in valuation allowance	12,783,000	12,753,000	5,728,000
Other nondeductible expenses and expiration of net operating loss carryforwards, net	252,000	(1,172,000)	884,000
	$ --	$ --	$ --

A valuation allowance has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

At January 31, 1999, Lightspan had federal and California net operating loss carryforwards of approximately $98,670,000 and $18,288,000, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to capitalization of research expenses and limitations on net operating losses for California tax purposes. The federal tax loss carryforwards will begin

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 6. INCOME TAXES (CONTINUED) expiring in 2008 unless previously utilized. Through January 31, 1999, California tax loss carryforwards of $2,774,000 had expired, and additional loss

carryforwards will continue to expire in fiscal 2000. Lightspan also has federal and California research and development tax credit carryforwards of $2,338,000 and $1,414,000, respectively, which will begin expiring in 2008 unless previously utilized.

Pursuant to Internal Revenue Code Section 382 and 383, the use of Lightspan's net operating loss and credit carryforwards could be limited in the event of a cumulative change in ownership of more than 50%.

7. Retirement Plan

Lightspan has a 401(k) defined contribution savings and retirement plan (the "Retirement Plan"). The Retirement Plan is for the benefit of all qualifying employees and permits employees voluntary contributions up to 20% of base salary limited by the IRS imposed maximum. On January 1, 1999, Lightspan began matching 10% of employee contributions up to 4% of eligible compensation. Employer contributions were $3,459 for the year ended January 31, 1999.

8. Reportable Segments

DESCRIPTION OF THE TYPES OF PRODUCTS FROM WHICH EACH REPORTABLE SEGMENT DERIVES ITS REVENUES Lightspan has two reportable segments: Lightspan Achieve Now and K-12 Internet. Revenues derived from the Lightspan Achieve Now segment typically include the sale of Lightspan Achieve Now software licenses, Sony PlayStation(R) game consoles and related accessories, and implementation, training and support services. Revenues derived from the K-12 Internet segment primarily include subscription fees for The Lightspan Network.

Measurement of Segment Profit or Loss and Segment Assets

Lightspan evaluates performance and allocates resources based on profit or loss from operations before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Factors Management Used to Identify Lightspan's Reportable Segments

Lightspan's reportable segments are business units that offer different products and services.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited)

8. Reportable Segments (Continued) Financial Information for Lightspan's Segments

The following information is for the Lightspan Achieve Now and K-12 Internet segments:

YEAR ENDED JANUARY 31, 1997 LIGHTSPAN ACHIEVE NOW K-12 INTERNET ELIMINATIONS CONSOLIDATED

Revenues from external customers	$ 8,487,916	$ 77,125	--	$ 8,565,041
Inter segment revenues	--	--	--	--
Interest income (expense), net	(107,184)	(5,375)	--	(112,559)
Depreciation and amortization	977,752	4,913		982,665
Segment profit (loss) before income taxes	(31,032,452)	(1,556,255)	--	(32,588,707)
Segment assets	12,773,740	78,407	--	12,852,147
Other significant non cash items:				
Deferred stock compensation	--	--	--	--
Amortization of deferred stock compensation	--	--	--	--

YEAR ENDED JANUARY 31, 1998 LIGHTSPAN ACHIEVE NOW K-12 INTERNET ELIMINATIONS CONSOLIDATED

Revenues from external customers	$ 22,020,363	$ 288,645	--	$ 22,309,008
Inter segment revenues	--	--	--	--
Interest income (expense), net	(504,087)	(23,572)	--	(527,659)
Depreciation and amortization	1,629,299	8,187		1,637,486
Segment profit (loss) before income taxes	(27,659,200)	(1,293,389)	--	(29,952,589)
Segment assets	13,925,617	154,275	--	14,079,892
Other significant non cash items:				
Deferred stock compensation	--	--	--	--
Amortization of deferred stock compensation	--	--	--	--

YEAR ENDED JANUARY 31, 1999 LIGHTSPAN ACHIEVE NOW K-12 INTERNET ELIMINATIONS CONSOLIDATED

Revenues from external customers	$ 29,807,710	$ 1,023,714	--	$ 30,831,424
Inter segment revenues	--	--	--	--
Interest income (expense), net	359,654	58,059	--	417,713
Depreciation and amortization	1,297,390	13,108		1,310,498
Segment profit (loss) before income taxes	$(14,231,589)	(2,297,246)	--	(16,528,835)
Segment assets	18,541,785	468,432	--	19,010,217
Other significant non cash items:				
Deferred stock compensation	211,876	--	--	211,876
Amortization of deferred stock compensation	--	--	--	19,680

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited)

9. Subsequent Events (Unaudited)

Equipment Lease Financing

In April 1999, Lightspan entered into a $1.0 million capital lease with a financial institution. Under the agreement, which expires March 2000, Lightspan finances the purchase of substantially all capital equipment at an 8.8% interest rate, with payments due over a 42-month period and a purchase option at the end of the lease term.

Series E Preferred Stock

Subsequent to July 31, 1999, Lightspan issued an additional 1,149,998 shares of Series E convertible preferred stock for cash at $5.00 per share and an additional 7,191,839 shares of Series E convertible preferred stock in conjunction with the acquisition of Academic Systems Corporation, as discussed below.

Acquisition of Academic Systems Corporation

On May 10, 1999, Lightspan entered into a merger agreement with Academic Systems Corporation ("Academic"), which was consummated on September 20, 1999, pursuant to which Lightspan issued 7,191,839 shares of Series E convertible preferred stock, 1,140,712 shares of common stock and $1,735,840 cash in exchange for all of the outstanding common and preferred shares of Academic. The acquisition was accounted for as a purchase. The Series E convertible preferred stock was valued at $5.00 per share (the same price such shares were sold for cash in July and September 1999). The merger agreement included a "put right" whereby Academic common shareholders could elect to receive cash of $.50 per Academic common share ($4.13 per Lightspan common share on an as-converted basis) in lieu of shares of Lightspan common stock. Shareholders holding approximately 21% of Academic's common shares and outstanding options exercised the "put right," resulting in an aggregate cash payment to Academic common shareholders and optionholders of $1,735,840. The remaining Academic common shares and options to purchase Academic common shares were converted to Lightspan common shares and options to purchase Lightspan common shares at a ratio of .12121-to-1. Lightspan issued options to purchase 524,987 shares of Lightspan common stock to

Academic optionholders. All Lightspan common stock and options to purchase Lightspan common stock that were issued to effect the merger were valued at $4.13 and $3.41 per share, respectively. The aggregate purchase price totaled $44,314,711.

The purchase price was allocated to the assets acquired, consisting principally of intangible assets and goodwill, which are being amortized over useful lives ranging from four to ten years.

The following unaudited pro forma financial information assumes the acquisition of Academic was consummated on February 1, 1998:

	YEAR ENDED JANUARY 31, 1999	SIX MONTHS ENDED JULY 31, 1999
Revenues	$ 37,207,665	$ 23,190,120
Net loss	(35,019,888)	(17,037,076)
Historical net loss per share, basic and diluted	$ (4.42)	$ (1.99)

Acquisition of Globalschoolhouse.com

On September 2, 1999, Lightspan acquired certain assets of The Global SchoolNet Foundation, principally consisting of the web site GlobalSchoolhouse.com and related intellectual property, for

The Lightspan Partnership, Inc.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (Information subsequent to January 31, 1999 and pertaining to July 31, 1999 and for the six months ended July 31, 1998 and 1999 is unaudited) 9. SUBSEQUENT EVENTS (UNAUDITED) (CONTINUED) $2.5 million in cash. The purchase price was allocated to the assets acquired, principally intangible assets related to the web site, which are being amortized over three years.

Acquisition of Studyweb.com

On October 28, 1999, Lightspan acquired certain assets of American Computer Resource, principally consisting of the web site StudyWeb.com and related intellectual property, for $1.0 million in cash and 217,000 shares of Lightspan's Series E Preferred Stock. The purchase price was allocated to the assets acquired, principally intangible assets related to the web site, which are being amortized over three years.

Stock-based Compensation

Subsequent to July 31, 1999, Lightspan granted additional options to purchase 1,530,156 shares of common stock at $4.13 per share, and recorded additional deferred compensation related to such grants.

Agreement with Cinar Corporation

On October 28, 1999, Lightspan entered into an agreement with CINAR Corporation (CINAR) pursuant to which CINAR purchased 2.5 million shares of Lightspan's Series E Preferred Stock at $5.00 per share and agreed to purchase $10 million of Lightspan common stock in a private placement that will occur concurrently with the initial public offering contemplated by this prospectus and at the same price per share. Lightspan also granted CINAR warrants to purchase 500,000 shares of Lightspan's Series E Preferred Stock that will vest upon the achievement of various agreed-to strategic goals. To the extent that the fair value per share of Lightspan's stock exceeds the exercise price of the warrants at the date of vesting, Lightspan will record an expense for the amount of such difference.

Report of Ernst & Young Llp, Independent Auditors

The Board of Directors Academic Systems Corporation We have audited the accompanying balance sheets of Academic Systems Corporation as of September 30, 1997 and 1998, and the related statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Academic Systems Corporation as of September 30, 1997 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ernst & Young Llp

San Diego, California October 28, 1999

Academic Systems Corporation

Balance Sheets

	SEPTEMBER 30,	JUNE 30,

	1997	1998	1999 (UNAUDITED)
ASSETS Current assets: Cash and cash equivalents	$ 13,157,705	$ 4,521,895	$ 2,341,984
Accounts receivable, less allowance for doubtful accounts of $0, $63,724 and $63,724 at September 30, 1997 and 1998 and June 30, 1999, respectively	1,142,576	828,931	2,603,255
Other current assets	514,630	582,822	170,622
Total current assets	14,814,911	5,933,648	5,115,861
Property and equipment, net	1,131,684	932,918	670,975
Total assets	$ 15,946,594	$ 6,866,566	$ 5,786,836
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable	$ 231,733	$ 849,162	$ 304,864
Accrued liabilities	635,439	790,115	1,340,758
Deferred revenue	2,392,049	2,155,423	2,349,934
Current portion of long-term debt	93,731	206,849	3,503,020
Current portion of capital lease obligations	189,443	140,794	98,769
Total current liabilities	3,542,395	4,142,343	7,597,345
Long-term debt, less current portion	388,316	241,323	86,187
Capital lease obligations, less current portion	242,703	120,768	--
Commitments Shareholders' equity (deficit): Convertible preferred stock, no par value: Authorized shares -- Issued and outstanding shares -- 29,535,529 and 27,504,693 at September 30, 1997 and 1998, and at June 30, 1999, respectively			
Aggregate liquidation preference -- $43,197,149 and $41,715,227 at September 30, 1997 and 1998, and June 30, 1999, respectively	42,895,034	42,115,864	42,115,864
Common stock, no par value: Authorized shares -- 50,000,000 Issued and outstanding shares -- 4,353,339 and 4,715,454 at September 30, 1997 and 1998, respectively, and 8,111,713 at June 30, 1999	62,681	102,032	404,520
Accumulated deficit	(31,184,535)	(39,855,764)	(44,417,080)
Total shareholders' equity (deficit)	11,773,180	2,362,132	(1,896,696)
Total liabilities and shareholders' equity (deficit)	$ 15,946,594	$ 6,866,566	$ 5,786,836

See accompanying notes. F-23

Academic Systems Corporation

Statements of Operations

	YEARS ENDED SEPTEMBER 30,		NINE MONTHS ENDED JUNE 30,	
	1997	1998	1998	1999 (UNAUDITED)
Revenues	$ 4,398,994	$ 5,938,618	$ 2,946,885	$ 4,869,613
Cost of revenue	1,920,439	2,063,800	1,183,409	1,377,878
Gross profit	2,478,555	3,874,818	1,763,476	3,491,735
Operating expenses:				
Technology and development	4,321,114	3,863,785	3,072,660	1,965,752
Sales and marketing	6,088,928	7,175,302	5,696,939	4,675,330
General and administrative	2,327,203	1,853,968	1,243,126	1,362,097
	12,737,245	12,893,055	10,012,725	8,003,179
Loss from operations	(10,258,690)	(9,018,237)	(8,249,249)	(4,511,444)
Interest income (expense), net	150,490	347,008	310,187	(49,872)
Net loss	$(10,108,200)	$ (8,671,229)	$ (7,939,062)	$(4,561,316)

See accompanying notes. F-24

Academic Systems Corporation

Statements of Shareholders' Equity

	CONVERTIBLE PREFERRED STOCK		COMMON STOCK			TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT	ACCUMULATED DEFICIT	SHAREHOLDERS' EQUITY
Balance at September 30, 1996	14,720,720	$26,943,956	4,024,052	$ 45,865	$(21,076,335)	$ 5,913,486
Sale of Series F convertible preferred stock, net of issuance costs of $48,932	12,962,998	13,951,078	--	--	--	13,951,078
Conversion of bridge loans into Series F convertible preferred stock	1,851,811	2,000,000	--	--	--	2,000,000
Exercise of stock options	--	--	329,287	16,816	--	16,816
Net loss	--	--	--	--	(10,108,200)	(10,108,200)
Balance at September 30, 1997	29,535,529	42,895,034	4,353,339	62,681	(31,184,535)	11,773,180
Repurchase of convertible preferred stock	(2,116,484)	(871,670)	--	--	--	(871,670)
Issuance of Series F convertible preferred stock for services	85,648	92,500	--	--	--	92,500
Exercise of stock options	--	--	362,115	39,351	--	39,351
Net loss	--	--	--	--	(8,671,229)	(8,671,229)
Balance at September 30, 1998	27,504,693	42,115,864	4,715,454	102,032	(39,855,764)	2,362,132
Exercise of stock options (unaudited)	--	--	3,396,259	302,488	--	302,488
Net loss (unaudited)	--	--	--	--	(4,561,316)	(4,561,316)
Balance at June 30, 1999 (unaudited)	27,504,693	$42,115,864	8,111,713	$404,520	$(44,417,080)	$ (1,896,696)

See accompanying notes. F-25

Academic Systems Corporation

Statements of Cash Flows

	YEARS ENDED SEPTEMBER 30,		NINE MONTHS ENDED JUNE 30,	
	1997	1998	1998	1999
			(UNAUDITED)	
OPERATING ACTIVITIES:				
Net loss	$(10,108,200)	$(8,671,229)	$(7,939,062)	$(4,561,316)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	533,494	597,810	407,728	436,544
Loss on sale of property and equipment	17,209	70,451	--	--
Preferred stock issued for services	--	92,500	92,500	--
Changes in operating assets and liabilities:				
Accounts receivable	(686,029)	(558,025)	(1,979,909)	(1,774,324)
Other assets	(192,840)	(68,192)	265,701	412,200
Accounts payable	(122,449)	617,429	281,087	(544,298)
Accrued liabilities	280,733	(236,626)	528,927	550,643
Deferred revenue	1,409,355	154,676	1,251,260	194,511
Net cash flows used in operating activities	(8,868,727)	(8,001,205)	(7,091,768)	(5,286,040)
INVESTING ACTIVITIES:				
Purchase of property and equipment	(474,927)	(474,332)	(363,352)	(174,601)
Proceeds from sale of property and equipment	7,573	4,835	--	--
Net cash flows used in investing activities	(467,354)	(469,497)	(363,352)	(174,601)
FINANCING ACTIVITIES:				
Net proceeds from issuance of convertible preferred stock	13,951,078	--	--	--
Exercise of stock options	16,816	39,351	25,877	302,488
Proceeds from debt	482,048	138,000	138,000	--
Repayment of debt	--	(171,875)	(120,163)	(158,965)
Proceeds from convertible bridge notes	2,000,000	--	--	3,300,000
Principal payments under capital lease obligations	(215,034)	(170,584)	(133,699)	(162,793
Net cash flows provided by (used in) financing activities	16,234,908	(165,108)	(89,985)	3,280,730
Increase (decrease) in cash and cash equivalents	6,898,827	(8,635,810)	(7,545,105)	(2,179,911)

Cash and cash equivalents at beginning of period.....	6,258,878	13,157,705	13,157,705	4,521,895
Cash and cash equivalents at end of period.....	$ 13,157,705	$ 4,521,895	$ 5,612,600	$ 2,341,984
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid.....	$ 130,804	$ 108,774	$ 85,197	$ 49,168
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:				
Return of convertible preferred stock in satisfaction of accounts receivable.....	$ --	$ 871,670	871,670	--
Conversion of bridge notes into Series F convertible preferred stock.....	$ 2,000,000	$ --	--	--

See accompanying notes. F-26

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity

Academic Systems Corporation ("Academic") was founded in 1992. Academic sells and supports interactive multimedia learning systems, principally to colleges and universities that install Academic's software systems on campus servers to deliver instruction, assessment and support to students and faculty.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments which include debt securities with remaining maturities when acquired of three months or less.

Concentration of Credit Risk

Substantially all of Academic's accounts receivable are from colleges and universities located throughout the United States. Academic provides for estimated losses from uncollectible accounts and such losses have historically not exceeded management's expectations.

For the years ended September 30, 1997 and 1998, one customer represented 26% and 13% of Academic's revenues, respectively. Accounts receivable from this customer was $270,000 and $0 at September 30, 1997 and 1998, respectively.

Property and Equipment

Property and equipment is stated at cost and depreciated and amortized over the shorter of the estimated useful life of the assets (three to five years) or the term of the lease using the straight line method.

Impairment of Long-lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, Academic regularly evaluates its long-lived assets for indicators of possible impairment by comparison of the carrying amounts to undiscounted estimated cash flows to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess of the carrying value of the asset over the asset's fair value or discounted estimates of future cash flows. Academic has not identified any such impairment losses to date.

Fair Value of Financial Instruments

Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and capital lease obligations, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

Revenue Recognition

Revenue consists primarily of fees for licenses and implementation of Academic's software products and for customer training, books and materials, upgrades and support.

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) Through September 30, 1997, Academic recognized revenue in accordance with American Institute of Certified Public Accountants Statement of Position (SOP) 91-1, Software Revenue Recognition. Effective October 1, 1997, Academic adopted the provisions of SOP 97-2, Software Revenue Recognition, as amended by SOP 98-4.

Academic enters into software license agreements under which software, support and other services are provided to a customer for a fixed fee for a specified period of time. The arrangement fee is allocated to the various elements of the arrangements based upon vendor-specific objective evidence of the fair value of each of the elements. Software license revenues are recognized upon contract signing and delivery of the software provided the related fee is fixed and determinable, and collectability of the fee is probable. The fee for implementation services is recognized upon completion of the services. The Company defers revenue related to specified upgrades based upon the established fair value of the upgrade, until the upgrade has been delivered. The revenue relating to books and materials is recognized upon shipment. Revenue for training is recognized when the services are performed.

Software Development Costs

Software development costs are expensed as incurred until technological feasibility has been established. To date, the Company's software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, no costs have been capitalized.

Stock-based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, Academic has elected to follow Accounting Principles Board Opinion, or APB, No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for stock-based employee compensation. Under APB 25, if the exercise price of Academic's employee stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recognized. When the exercise price of the employee stock options is less than the fair value of the underlying stock on the grant date, Academic records deferred stock compensation for the difference and amortizes the difference to expense in accordance with FASB Interpretation No. 28 over the vesting period of the individual options. Options or stock awards issued to non-employees are recorded at their fair value and recognized over the related service period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comprehensive Income

In accordance with SFAS No. 130, Reporting Comprehensive Income, all components of comprehensive income, including net income, are reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED) 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) comprehensive income (loss), including unrealized gains and losses on investments, are reported net of their related tax effect, to arrive at comprehensive income (loss). For the years ended September 30, 1997 and 1998 and the nine month periods ended June 30, 1998 and 1999, comprehensive loss equals the net loss as reported.

2. Property and Equipment

Property and equipment consist of the following:

	SEPTEMBER 30,		JUNE 30,
	1997	1998	1999 (UNAUDITED)
Computer equipment	$1,708,512	$1,738,579	$1,415,837
Software	428,566	500,873	511,577
Furniture and fixtures	281,517	306,483	793,124
	2,418,595	2,545,935	2,720,538
Less accumulated depreciation and amortization	1,286,911	1,613,017	2,049,563
	$1,131,684	$ 932,918	$ 670,975

Equipment and furniture and fixtures under capital leases aggregated $1,077,491 and $508,939 as of September 30, 1997 and 1998, respectively, and the related accumulated amortization was $744,623 and $371,800, respectively.

3. Debt

Academic has entered into a loan agreement with a bank whereby Academic can borrow up to $1,000,000 with interest payable monthly at prime plus 0.50 percent per annum. As of September 30, 1997 and 1998, principal of $482,047 and $448,172, respectively, was outstanding. Amounts drawn against the loan agreement are payable in 36 equal monthly installments.

4. Lease Commitments

The Company leases its facility under an operating lease and certain equipment and furniture and fixtures under capital leases. These leases expire at various dates through fiscal 2001.

Future minimum lease payments for all leases with initial terms of one year or more are as follows at September 30, 1998:

YEARS ENDING SEPTEMBER 30	OPERATING LEASES	CAPITAL LEASES
1999	$ 413,162	$172,172
2000	417,843	39,745
2001	312,672	81,039
Future minimum lease payments	$1,143,677	292,956
Less amount representing interest		31,394
Present value of future minimum lease		261,562
Less current portion		140,794
Long-term portion		$120,768

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED) 4. LEASE COMMITMENTS (CONTINUED) Rent expense was $429,592 and $440,640 for the years ended September 30, 1997 and 1998, respectively.

5. Shareholders' Equity

Convertible Preferred Stock

At September 30, 1998, convertible preferred stock outstanding is as follows:

DATE ISSUED	SERIES	PRICE PER SHARE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES OUTSTANDING	LIQUIDATION VALUE
February 1993	A	$ .40	1,173,107	653,382	$ 261,353
February 1993	B	$ .75	435,000	217,500	163,125
February 1993	C	$ .80	5,995,741	3,995,741	3,196,593
August 1994	D	$2.725	4,404,280	4,404,280	12,001,663
August 1996	E	$ 3.00	5,478,717	3,333,333	9,999,999
July 1997	F	$ 1.08	15,740,740	14,900,457	16,092,494
				27,504,693	$41,715,227

The preferred stock will automatically be converted into shares of common stock at the then effective conversion price upon the closing of a sale of Academic common stock in a public offering registered under the Securities Act of 1933 which meets certain minimum requirements, as defined by the

agreements. The shares of preferred stock are convertible, at the option of the holder, into an aggregate of 27,504,693 shares of common stock, which have been reserved for issuance upon conversion of the preferred stock, subject to certain antidilution adjustments.

Holders of the Series A, B, C, D, E and F preferred stock are entitled to receive dividends at a rate of $.04, $.075, $.08, $.2725, $.30 and $.108 per share per annum, whenever funds are legally available and as declared by Academic's Board of Directors. The holder of each share of preferred stock is entitled to the number of votes equal to the number of shares of common stock into which the preferred stock could be converted. Academic is subject to certain covenants under the agreements that require the vote or written consent by a majority of the then outstanding preferred shares regarding certain changes in the rights and interests of the preferred shares.

In the event of any liquidation, dissolution or winding up of the Company, the holders of preferred stock are entitled to receive their liquidation value prior to and in preference to any distribution of the assets or surplus funds of the Company to the holders of common stock. If, upon the occurrence of such event, the assets and funds distributed among the holders of preferred stock are insufficient to permit full payment, the entire assets and funds of the Company would be distributed among the preferred shareholders in proportion to the product of the liquidation preference of each such share and the number of shares owned by each such holder.

All series of preferred stock have redemption features, at the option of the Company, which are subject to approval and written consent of a majority of the shareholders for Series A, B and C, voting separately as a single class, and 75% of the shareholders for Series D and E, voting separately as single class.

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED)

5. Shareholders' Equity (Continued) Stock Option Plan

In 1992, Academic adopted the 1992 Incentive Stock Option Plan (the "Plan"). Options for common stock may be incentive stock options or non-statutory stock options and are granted at the discretion of the Board of Directors. The Plan permits immediate exercise of options with the unvested portion subject to repurchase by the Company at the original exercise price, in the event of termination of employment or engagement. Non-statutory stock options may be granted to employees and consultants whereas incentive stock options may be granted to employees only. The option price for incentive stock options shall not be less than 100% of the fair value on the date of grant, and the option price of non-statutory options shall not be less than 85% of the fair value on the date of grant.

The maximum term of options granted under the Plan is ten years. Options granted under the Plan are immediately exercisable in full and generally vest at the rate of 25% after one year from the date of employment and 1/36 of the remaining shares every month thereafter.

Academic is authorized to issue 10,798,792 shares of common stock to eligible employees, officers, directors and consultants under the Plan, of which options to purchase 1,408,277 shares are available for future grant at September 30, 1998.

A summary of the Company's stock option activity and related information is as follows:

	YEARS ENDED SEPTEMBER 30,			
	1997		1998	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding -- beginning of year	2,328,500	$.154	8,121,333	$.095
Granted	7,874,000	$.107	2,615,000	$.100
Exercised	(329,287)	$.087	(362,115)	$.087
Forfeited	(1,751,880)	$ .23	(1,618,251)	$.100
Outstanding -- end of year	8,121,333	$.095	8,755,967	$.096
Exercisable -- end of year	1,315,059		3,167,551	
Weighted-average fair value of options granted during the year	$ .021		$ .018	

The following table summarizes information about stock options outstanding at September 30, 1998:

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
$.05	775,000	0.27	$ .05	775,000	$ .05
$.10	7,977,217	3.87	$ .10	2,390,051	$ .10
$.25	3,750	1.51	$ .25	2,500	$ .25
	8,755,967		$.096	3,167,551	$.088

Pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if Academic had accounted for its employee stock options under the fair value method of that statement. The fair value of these options was estimated at the date of grant using the minimum value option pricing F-31

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED) 5. SHAREHOLDERS' EQUITY (CONTINUED) model with the following weighted average assumption for 1997 and 1998, respectively: risk-free interest rates of 6.09% and 6.29%, respectively; dividend yields of 0%; and a weighted-average expected life of the options of 3.66 and 3.75 years, respectively.

The minimum value option pricing model is similar to the Black-Scholes option valuation model which was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable, except that it excludes the factor of volatility. In addition, option valuation models require the input of highly subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of such options. The Company's pro forma information is as follows:

Years Ended September 30, 1997 1998

Pro forma net loss..... $(10,138,200) $(8,682,944)

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of Academic's deferred tax assets are shown below:

September 30, 1997 1998

Deferred tax assets:		
Net operating loss carryforwards.....	$ 10,915,000	$ 13,917,000
Deferred revenue.....	600,000	608,000
Research and development credits.....	852,000	1,020,000
Other.....	251,000	181,000
Total deferred tax assets.....	12,618,000	15,726,000
Valuation allowance for deferred tax assets.....	(12,618,000)	(15,726,000)
Net deferred tax assets.....	$ --	$ --

A valuation allowance has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

At September 30, 1998, Academic has federal and California net operating loss carryforwards of approximately $37,000,000 and $22,000,000 respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to capitalization of research expenses and limitations on net operating losses for California tax purposes. The federal tax loss carryforwards will begin expiring in 2008 unless previously utilized. The Company also has federal and California research and development tax credit carryforwards of $689,000 and $486,000, respectively, which will begin expiring in 2007 unless previously utilized. The above carryforwards were determined as if the Company were filing tax returns at September 30, 1998. However, for tax return purposes, the Company uses a June 30 year end.

Academic Systems Corporation

NOTES TO FINANCIAL STATEMENTS (CONTINUED) (INFORMATION SUBSEQUENT TO SEPTEMBER 30, 1998 AND PERTAINING TO JUNE 30, 1999 AND FOR THE NINE MONTHS ENDED JUNE 30, 1998 AND 1999 IS UNAUDITED) 6. INCOME TAXES (CONTINUED) Pursuant to Internal Revenue Code Section 382 and 383, the use of the Company's net operating loss and credit carryforwards may be limited in the event of a cumulative change in ownership of more than 50%. Management believes such limitations will not have a material impact on Academic's ability to use its carryforwards.

7. Subsequent Events

Convertible Promissory Notes

In March 1999, Academic issued Convertible Promissory Notes (Notes) in the amount of approximately $3,300,000 from certain of its existing investors. The Notes bear interest at the prime rate, and all principal and interest is due and payable on June 30, 1999. The Notes are convertible into the number and type of equity security issued in the next equity financing completed by the Company which results in gross proceeds of at least $5,000,000. The Notes allow for the issuance of warrants to the noteholders if the Notes are not repaid or converted by May 1, 1999. Upon the consummation of the merger discussed below, the Notes were converted into 3,168,165 shares of Academic's Series F convertible preferred stock.

Acquisition by the Lightspan Partnership, Inc.

On September 17, 1999, Academic entered into a merger agreement with The Lightspan Partnership, Inc. ("Lightspan") pursuant to which Lightspan acquired all of Academic's outstanding shares of common and preferred stock in exchange for an aggregate of 7,191,839 shares of Lightspan Series E convertible preferred stock, 1,140,712 shares of Lightspan common stock and cash of $1,735,840.

The Lightspan Partnership, Inc.

Unaudited Pro Forma Combined Condensed Balance Sheets July 31, 1999

	THE LIGHTSPAN PARTNERSHIP, INC.	ACADEMIC SYSTEMS	PRO FORMA ADJUSTMENTS (NOTE 5)	COMBINED PRO FORMA
ASSETS				
Current assets:				

Cash and cash equivalents	$25,569,628	$1,029,645	$(1,735,840)	$24,863,433
Accounts receivable, net	11,253,006	1,950,582	--	13,203,588
Finished goods inventory	463,734	282,835	--	746,569
Other current assets	743,765	60,154	--	803,919
Total current assets	38,030,133	3,287,669	(1,735,840)	39,617,509
Property and equipment, net	1,694,328	445,317	--	2,139,645
Goodwill	--	--	18,183,722(1)	18,183,722
Other intangibles	--	--	25,800,000(1)	25,800,000
Deposits and other assets	168,143	--	--	168,143
Total assets	$39,892,604	$3,768,533	$42,247,882	$85,909,019
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 3,343,527	$ 389,555	$ --	$ 3,733,082
Deferred revenue	5,180,070	1,297,944	--	6,478,014
Accrued liabilities	7,144,726	1,417,272	97,036(3)	8,659,034
Note payable	--	206,849	--	206,849
Current portion, capital lease obligations	576,477	108,062	--	684,539
Total current liabilities	16,244,800	3,419,682	97,036	19,761,518
Other liabilities	800,885	17,862	--	818,746
			42,481,835	
Shareholders' equity	22,846,919	330,989	(330,989)(2)	65,328,755
Total liabilities and shareholders' equity	$39,892,604	$3,768,533	$42,247,882	$85,909,019

(1) Represents the purchase price assigned to the fair value of the intangibles acquired (See Note 1).

(2) Represents the elimination of shareholders' equity of Academic Systems at the date of acquisition.

(3) Represents estimated merger costs to be incurred by Lightspan, less amounts paid through July 31, 1999.

See accompanying notes to unaudited pro forma combined condensed financial statements. F-34

The Lightspan Partnership, Inc.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS FOR THE TWELVE MONTHS ENDED JANUARY 31, 1999

	THE LIGHTSPAN PARTNERSHIP, INC.	ACADEMIC SYSTEMS	PRO FORMA ADJUSTMENTS (NOTE 5)	COMBINED PRO FORMA
Revenues	$ 30,831,424	$ 6,376,241	$ --	$ 37,207,665
Cost of revenues	11,508,137	2,138,785	--	13,646,922
Gross profit	19,323,287	4,237,456	--	23,560,743
Operating expenses:				
Technology and development	10,593,735	3,281,876	--	13,875,611
Sales and marketing	22,066,261	6,747,590	--	28,813,851
General and administrative	3,609,839	2,189,785	10,620,930(4)	16,420,554
Total operating expenses	36,269,835	12,219,251	10,620,930	59,110,016
Loss from operations	(16,946,548)	(7,981,795)	(10,620,930)	(35,549,273)
Other income (expense), net	417,713	163,747	(52,075)(5)	529,385
Net loss	$(16,528,835)	$(7,818,048)	$ (10,673,005)	$(35,019,888)
Pro forma net loss per share, basic and diluted				$ (0.67)
Shares used in the computation of pro forma net loss per share, basic and diluted				51,935,230(6)

(4) Represents the amortization of intangible assets and goodwill over estimated useful lives ranging from four to ten years.

(5) Represents the forgone interest income on the cash paid to effect the acquisition, based on an assumed 3% rate of return.

(6) Pro forma net loss per share is based on Lightspan's weighted average common shares outstanding, after giving effect to the issuance of shares of Lightspan common and preferred stock used to complete the acquisition as if such issuance had occurred at the beginning of the period, and the assumed conversion of all of Lightspan's outstanding shares of preferred stock as of their original dates of issuance.

See accompanying notes to unaudited pro forma combined condensed financial statements. F-35

The Lightspan Partnership, Inc.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JULY 31, 1999

	THE LIGHTSPAN PARTNERSHIP, INC.	ACADEMIC SYSTEMS	PRO FORMA ADJUSTMENTS	COMBINED PRO FORMA
Revenues	$19,499,529	$ 3,690,591	$ --	$ 23,190,120
Cost of revenues	7,121,572	1,006,699	--	8,128,271
Gross profit	12,377,957	2,683,892	--	15,061,849
Operating expenses:				
Technology and development	4,458,012	1,197,420	--	5,655,432
Sales and marketing	13,809,139	3,279,971	--	17,089,110
General and administrative	3,008,671	892,082	5,310,465(4)	9,211,218
Total operating expenses	21,275,822	5,369,473	5,310,465	31,955,760
Loss from operations	(8,897,865)	(2,685,581)	(5,310,465)	(16,893,911)
Other income (expense), net	(70,297)	(46,830)	(26,038)(5)	(143,165)
Net loss	$(8,968,162)	$(2,732,411)	$(5,336,503)	$(17,037,076)
Pro forma net loss per share, basic and diluted				$ (0.32)
Shares used in the computation of pro forma net loss per share, basic and diluted				53,704,201(6)

(4) Represents the amortization of intangible assets and goodwill over estimated useful lives ranging from four to ten years.

(5) Represents the forgone interest income on the cash paid to effect the acquisition, based on an assumed 3% rate of return.

(6) Pro forma net loss per share is based on Lightspan's weighted average common shares outstanding, after giving effect to the issuance of shares of Lightspan common and preferred stock used to complete the acquisition as if such issuance had occurred at the beginning of the period, and the assumed conversion of all of Lightspan's outstanding shares of preferred stock as of their original dates of issuance.

See accompanying notes to unaudited pro forma combined condensed financial statements. F-36

The Lightspan Partnership, Inc.

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

Note 1.

On September 20, 1999, The Lightspan Partnership ("Lightspan") acquired all of the outstanding shares of Academic Systems Corporation ("Academic") for the following consideration: (i) cash of $1,735,840; (ii) 1,140,712 shares of Lightspan's common stock valued at $4.13 per share; (iii) 7,191,839 shares of its Series E Convertible Preferred stock valued at $5.00 per share; (iv) options to acquire 524,987 shares of the Lightspan's common stock, valued at $3.41 per share; and (v) warrants to purchase 42,216 shares of Lightspan's common stock, valued at $1.25 per share for 8,000 shares and $0.33 per share for the remaining 34,216 shares. As a result, the aggregate purchase price is calculated to be $44,314,711, which includes acquisition costs of $368,037. The purchase price was allocated as follows:

Current assets acquired	$ 3,287,669
Property, equipment and other assets	480,864
Goodwill	18,183,722
Customer base	16,200,000
Core technology	5,600,000
Trademark and trade name	3,000,000
Assembled workforce	1,000,000
Deferred revenue	(1,297,944)
Liabilities assumed	(2,139,600)
	$44,314,711

Note 2.

The unaudited pro forma combined condensed financial statements have been prepared by Lightspan based upon the historical financial statements of Lightspan and Academic, and may not be indicative of the results that may have actually occurred if the combination had been in effect on the date indicated or for the periods presented or which may be obtained in the future. The unaudited pro forma combined condensed statements of operations include the statements of operations of Lightspan and Academic for the twelve months ended January 31, 1999 and the six months ended July 31, 1999. The pro forma combined condensed financial statements should be read in conjunction with the audited financial statements and notes of Lightspan and Academic included elsewhere in the Prospectus.

Note 3.

The unaudited pro forma combined condensed balance sheet assumes the purchase of Academic had been consummated on July 31, 1999. The pro forma information is based on historical financial statements of Lightspan at such date and Academic as of the acquisition date, giving effect to the transaction under the purchase method of accounting.

Note 4.

The unaudited pro forma combined condensed statements of operations of Lightspan and Academic for the twelve months ended January 31, 1999 and the six months ended July 31, 1999 assume the purchase of Academic had been consummated on February 1, 1998. The pro forma information is based on the historical financial statements of Lightspan and Academic giving effect to the transaction under the purchase method of accounting and the assumptions and adjustments in the accompanying footnotes to the pro forma financial statements.

Lightspanlogo

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth all expenses payable by the Registrant in connection with the sale of the common stock being registered. All of the amounts shown are estimates, except for the SEC registration fee, the NASD filing fee and the Nasdaq National Market application fee.

Amount to Be Paid

Registration fee..... $31,970 NASD filing fee..... 12,000 Nasdaq Stock Market Listing Application fee..... 95,000 Blue sky qualification fees and expenses..... Printing and engraving expenses..... Legal fees and expenses..... Accounting fees and expenses..... Transfer agent and registrar fees..... Miscellaneous..... Total.....

Item 14. Indemnification of Officers and Directors

Under Section 145 of the Delaware General Corporation Law, the Registrant has broad powers to indemnify its Directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

The Registrant's Certificate of Incorporation and Bylaws include provisions to (i) eliminate the personal liability of its directors for monetary damages resulting from breaches of their fiduciary duty to the extent permitted by Section 102(b)(7) of the General Corporation Law of Delaware (the "Delaware Law") and (ii) require the Registrant to indemnify its Directors and officers to the fullest extent permitted by Section 145 of the Delaware Law, including circumstances in which indemnification is otherwise discretionary. Pursuant to Section 145 of the Delaware Law, a corporation generally has the power to indemnify its present and former directors, officers, employees and agents against expenses incurred by them in connection with any suit to which they are or are threatened to be made, a party by reason of their serving in such positions so long as they acted in good faith and in a manner they reasonably believed to be in or not opposed to, the best interests of the corporation and with respect to any criminal action, they had no reasonable cause to believe their conduct was unlawful. The Registrant believes that these provisions are necessary to attract and retain qualified persons as Directors and officers. These provisions do not eliminate the Directors' duty of care, and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware Law. In addition, each Director will continue to be subject to liability for breach of the Director's duty of loyalty to the Registrant, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for acts or omissions that the Director believes to be contrary to the best interests of the Registrant or its stockholders, for any transaction from which the Director derived an improper personal benefit, for acts or omissions involving a reckless disregard for the Director's duty to the Registrant or its stockholders when the Director was aware or should have been aware of a risk of serious injury to the Registrant or its stockholders, for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the Director's duty to the Registrant or its stockholders, for improper transactions between the Director and the Registrant and for improper distributions to stockholders and loans to Directors and officers. The provision also does not affect a Director's responsibilities under any other law, such as the federal securities law or state or federal environmental laws.

The Registrant has entered into indemnity agreements with each of its Directors and executive officers that require the Registrant to indemnify such persons against expenses, judgments, fines, settlements and other amounts incurred (including expenses of a derivative action) in connection with any proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a Director or an executive officer of the Registrant or any of its affiliated enterprises, provided that such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to

any criminal proceeding, had no reasonable cause to believe his conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

At present, there is no pending litigation or proceeding involving a Director or officer of the Registrant as to which indemnification is being sought nor is the Registrant aware of any threatened litigation that may result in claims for indemnification by any officer or Director.

The Registrant has an insurance policy covering the officers and Directors of the Registrant with respect to certain liabilities, including liabilities arising under the Securities Act or otherwise.

Item 15. Recent Sales of Unregistered Securities

Since February 1, 1996, we have sold and issued the following unregistered securities:

(a) On April 26, 1996, we issued and sold a warrant to purchase 26,625 shares of our Series C preferred stock at an exercise price of $6.00 per share to Comdisco, Inc., an accredited investor. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(b) On September 20, 1996, we issued and sold an aggregate of 3,222,618 shares of our Series C preferred stock (convertible into 5,142,469 shares of common stock) to 14 accredited investors for an aggregate purchase price of $19,335,708. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(c) On November 13, 1996, we issued and sold an aggregate of 41,667 shares of our Series C preferred stock (convertible into 66,489 shares of common stock) to two accredited investors for an aggregate purchase price of $250,002. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(d) On March 24, 1997, we issued a warrant to purchase 70,000 shares of our Series C preferred stock to Silicon Valley Bank, an accredited investor, at an exercise price of $6.00 per share. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(e) In March, May and June 1997, we issued warrants to purchase an aggregate of 156,510 shares of Series D preferred stock to twelve accredited investors at an exercise price of $3.76 per share. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(f) On June 24, 1997, we issued and sold an aggregate of 6,985,833 shares of our Series D preferred stock (convertible into 6,985,833 shares of common stock) to twenty-one accredited investors for an aggregate purchase price of $26,266,732.08. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(g) On November 14, 1997, we issued and sold an aggregate of 132,978 shares of our Series D preferred stock (convertible into 132,978 shares of common stock) to Anderson Lightspan Partners, an accredited investor, for an aggregate purchase price of $499,997.28. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(h) On December 15, 1997, we issued and sold an aggregate of 531,915 shares of our Series D preferred stock (convertible into 531,915 shares of common stock) to three accredited investors for an aggregate purchase price of $2,000,000.40. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(i) On March 10, 1998, we issued and sold an aggregate of 5,478,717 shares of our Series D preferred stock (convertible into 5,478,717 shares of common stock) to twenty-five accredited investors for an aggregate purchase price of $20,599,975.92. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(j) On March 10, 1998, we issued warrants to purchase up to 3,326,112 shares of our Series D Preferred Stock to 33 accredited investors at an exercise price of $0.01 per share. For the issuance of the warrant, we relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(k) On June 24, 1998, we issued a warrant to purchase 127,659 shares of Series D preferred stock to Montgomery Securities, an accredited investor, at an exercise price of $4.70 per share. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(l) On August 16, 1998, we issued and sold an aggregate of 1,150,000 shares of our Series E preferred stock (convertible into 1,150,000 shares of common stock) to thirteen accredited investors for an aggregate purchase price of $5,750,000. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(m) On July 8, 1999 we issued and sold an aggregate of 4,294,183 shares of our Series E preferred stock (convertible into 4,294,183 shares of common stock) to eight accredited investors for an aggregate purchase price of $21,470,923. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(n) On July 27, 1999, we issued and sold an aggregate of 1,000,000 shares of our Series E preferred stock (convertible into 1,000,000 shares of common stock) to Comcast Interactive Investments, Inc., and accredited investors for an aggregate purchase price of $5,000,000. We relied on the exemption provided by Section 4(2) of the Securities Act of 1933.

(o) In September 1999, in connection with our acquisition of Academic Systems, we issued shares of our Series E preferred stock and shares of our common stock to the former preferred and common shareholders of Academic Systems. We relied on the exemption provided by 3(a)(10) of the Securities Act of 1933.

(p) On October 29, 1999, we sold an aggregate of 250,000 shares of our Series E preferred stock to three accredited investors for an aggregate purchase price of $1,250,000. We relied on the exemption provided by Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

(q) On October 29, 1999, we sold and issued 2,500,000 shares of our Series E preferred stock and a warrant to purchase up to 500,000 shares of our Series E preferred stock to CINAR Corporation, an accredited investor, in connection with a strategic relationship. We relied on the exemption provided by Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

(r) On October 29, 1999 we issued and sold 217,000 shares of our Series E preferred stock as partial consideration for assets we purchased from American Computer Resources, Inc., an accredited investor. We relied on the exemption provided by Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

The recipients of the above-described securities represented their intention to acquire the securities for investment only and not with a view to distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. All recipients had adequate access, through employment or other relationships, to information about us.

Item 16. Exhibits and Financial Statement Schedules

(a) EXHIBITS.

Exhibit Number Description of Document

1.1 Form of Underwriting Agreement.(1) 2.1 Agreement and Plan of Merger. 3.1 Amended and Restated Articles of Incorporation, as currently in effect. 3.2 Bylaws, as currently in effect. 3.3 Amended and Restated Certificate of Incorporation, to be filed and become effective upon re-incorporation into Delaware. 3.4 Bylaws to become effective upon re-incorporation into Delaware. 3.5 Amended and Restated Certificate of Incorporation, to be filed and become effective upon the closing of the offering. 4.1 Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5. 4.2 Specimen Stock Certificate.(1) 5.1 Opinion of Cooley Godward LLP.(1) 10.1 1992 Stock Option Plan. 10.2 Forms of Incentive and Nonstatutory Stock Option Agreement under the 1992 Stock Option Plan. 10.3 2000 Equity Incentive Plan. 10.4 Form of Stock Option Agreement pursuant to the 2000 Equity Incentive Plan. 10.5 2000 Employee Stock Purchase Plan and related offering documents. 10.6+ Office Lease by and between the Company and Insurance Company of the West dated as of May 28, 1996.(1) 10.7 Lease by and between the Travelers Insurance Company and Academic Systems Corporation dated as of July 1, 1996 and amended December 3, 1996. 10.8+ Office Sublease by and between the Company and Qualcomm Incorporated dated as of December 1, 1997 and amended September 21, 1998.(1) 10.9 Office Lease by and between the Company and McWin Corporation dated as of May 1, 1997. 10.10 Office Lease by and between the Company and Auerbach Plaza Limited Partnership and Goliac, Inc., dated as of June 4, 1999.(1) 10.11 Loan and Security Agreement by and between the Company and Silicon Valley Bank dated as of February 25, 1997 and amended December 31, 1997, March 31, 1998 and March 26, 1999. 10.12 Master Lease Agreement by and between the Company and Transamerica Business Credit Corporation dated as of August 14, 1997, including Schedules 1, 2, 3, 4 and 5 thereto. 10.13 Master Equipment Lease by and between the Company and Pentech Financial Services, Inc. dated as of July 25, 1999, including supplements 1, 2 and 3 thereto. 10.14 Equipment Financing Agreement by and between the Company and Pentech Financial Services, Inc. dated as of July 1, 1999. 10.15 Amended and Restated Investor Rights Agreement by and among the Company and certain stockholders of the Company dated July 8, 1999. 10.16 Amendment and Waiver dated October 28,

1999. 10.17 Amendment to Investor Rights Agreement dated October 29, 1999. 10.18 Form of Indemnity Agreement between the Company and its directors and officers. 10.19 Developer Agreement by and between the Company and Sony Computer Entertainment America dated as of January 26, 1996. 10.20+ Sale and License Agreement by and between the Company and Sony Computer Entertainment America dated as of January 26, 1996.(1) 10.21+ Letter Agreement by and between the Company and SmarterKids.com, Inc. dated as of July 12, 1999.(1) 10.22 Academic Systems Fulfillment Agreement by and between Academic Systems Corporation and FGI Print Management dated as of June 12, 1998.

Exhibit Number Description of Document

10.23	Series E Stock Purchase Agreement by and between the Company and CINAR Corporation dated as of October 29, 1999.
10.24	Warrant Agreement to purchase Series A preferred stock by and between the Company and Comdisco, Inc. dated as of March 15, 1994.
10.25	Warrant Agreement to purchase Series B preferred stock by and between the Company and Comdisco, Inc. dated as of May 30, 1995.
10.26	Warrant Agreement to purchase Series B preferred stock by and between the Company and Comdisco, Inc. dated as of April 26, 1996.
10.27	Warrant to purchase Series C preferred stock by and between the Company and Silicon Valley Bank dated as of March 24, 1997.
10.28	Warrant Agreement to purchase Series C preferred stock by and between the Company and Comdisco, Inc. dated as of April 26, 1996.
10.29	Warrant to purchase Series D preferred stock by and between the Company and Montgomery Securities.
10.30	Form of Warrant to purchase Series D preferred stock.
10.31	Form of Warrant to purchase Series D preferred stock.
10.32	Letter Agreement regarding strategic initiatives by and between the Company and CINAR Corporation dated as of October 29, 1999.(1)
10.33	Amendment and Waiver dated October 28, 1999.
10.34	Warrant to purchase Series E preferred stock by and between the Company and Comdisco, Inc.(1)
10.35	Form of Warrant to purchase Series E preferred stock.(1)
10.36	Warrant to purchase Series D preferred stock by and between the Company and SZ Investments L.L.C. dated as of June 6, 1997.(1)
10.37	Oracle Reseller agreement, dated as of August 9, 1994, including Addendums.(1)
21.1	Subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP., Independent Auditors.
23.3	Consent of Cooley Godward LLP. Reference is made to Exhibit 5.1.(1)
24.1	Power of Attorney. Reference is made to page II-5.
27	Financial Data Schedule.

+ Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

(1) To be filed by amendment.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to provisions described in Item 14 or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. II-5 The undersigned Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, County of San Diego, State of California, on November 1, 1999.

By: /s/ JOHN T. KERNAN John T. Kernan Chief Executive Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. Kernan and Carl Zeiger and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his

name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments, exhibits thereto and other documents in connection therewith) to this Registration Statement and any subsequent registration statement filed by the registrant pursuant to Rule 462(b) of the Securities Act of 1933, as amended, which relates to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature Title Date

/s/ JOHN T. KERNAN - ---------- John T. Kernan	Chief Executive Officer and Chairman (Principal Executive Officer)	November 1, 1999
/s/ CARL ZEIGER - ---------- Carl Zeiger	President, Chief Operating Officer and Director	November 1, 1999
/s/ KATHLEEN R. MCELWEE - ---------- Kathleen R. McElwee	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	November 1, 1999
/s/ JOHN H. BRANDON - ---------- John H. Brandon	Executive Vice President, President of Academic Systems and Director	November 1, 1999

/s/ JAMES W. BREYER Director November 1, 1999 James W. Breyer /s/ L. JOHN DOERR Director November 1, 1999 L. John Doerr /s/ JEFFREY P. SANDERSON Director November 1, 1999 Jeffrey P. Sanderson

Signature Title Date

/s/ DAVID D. HILLER Director November 1, 1999 David D. Hiller Director Bradley P. Dusto Director Bruce W. Ravenel /s/ BARRY J. SCHIFFMAN Director November 1, 1999 Barry J. Schiffman Director Ronald A. Weinberg

Exhibit Index

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(1) To be filed by amendment. </TEXT>