

SKILLSOFT PUBLIC LIMITED CO

Form 10-Q

June 09, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

R QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2009

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM  
TO

COMMISSION FILE NUMBER 000-25674  
SKILLSOFT PUBLIC LIMITED COMPANY  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Republic of Ireland  
(State or Other Jurisdiction of  
Incorporation or Organization)

None  
(I.R.S. Employer  
Identification No.)

107 Northeastern Boulevard  
Nashua, New Hampshire  
(Address of Principal Executive Offices)

03062  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (603) 324-3000

Not Applicable  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes £ No R

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  R

Non-accelerated filer  £

Accelerated filer  £

Smaller reporting  
company  £

(Do not check if a smaller reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
Yes  £ No  R

On June 5, 2009, the registrant had outstanding 96,491,668 Ordinary Shares (issued or issuable in exchange for the registrant’s outstanding American Depositary Shares).

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SKILLSOFT PLC

FORM 10-Q  
FOR THE QUARTER ENDED APRIL 30, 2009  
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## PART I

## ITEM 1. — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SKILLSOFT PLC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	APRIL 30, 2009 (Unaudited)	JANUARY 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 76,789	\$ 37,853
Short-term investments	599	1,099
Restricted cash	3,828	3,790
Accounts receivable, net	66,147	146,362
Prepaid expenses and other current assets	17,387	18,286
Deferred tax assets	27,076	26,444
<b>Total current assets</b>	<b>191,826</b>	<b>233,834</b>
Property and equipment, net	7,316	7,661
Intangible assets	10,986	13,472
Goodwill	238,550	238,550
Deferred tax assets	70,457	78,223
Other assets	6,825	3,360
<b>Total assets</b>	<b>\$ 525,960</b>	<b>\$ 575,100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long term debt	\$ 1,070	\$ 1,253
Accounts payable	2,190	5,648
Accrued compensation	6,225	13,513
Accrued expenses	18,190	23,760
Deferred revenue	173,958	201,518
<b>Total current liabilities</b>	<b>201,633</b>	<b>245,692</b>
Long term debt	104,021	122,131
Other long term liabilities	3,515	3,221
<b>Total long term liabilities</b>	<b>107,536</b>	<b>125,352</b>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, €0.11 par value: 250,000,000 shares authorized; 97,986,914 and 98,892,249 shares issued at April 30, 2009 and January 31, 2009, respectively	10,467	10,600
Additional paid-in capital	504,754	509,177
Treasury stock, at cost, 941,054 and 830,802 ordinary shares at April 30, 2009 and January 31, 2009, respectively	(7,102)	(5,317)
Accumulated deficit	(292,095)	(310,874)
Accumulated other comprehensive income	767	470
<b>Total shareholders' equity</b>	<b>216,791</b>	<b>204,056</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 525,960</b>	<b>\$ 575,100</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SKILLSOFT PLC AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENTS

(UNAUDITED, IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED	
	APRIL 30,	
	2009	2008
Revenue	\$ 76,439	\$ 81,643
Cost of revenue (1)	7,473	8,808
Cost of revenue – amortization of intangible assets	32	1,740
Gross profit	68,934	71,095
Operating expenses:		
Research and development (1)	8,998	13,480
Selling and marketing (1)	22,411	29,700
General and administrative (1)	7,757	8,892
Amortization of intangible assets	2,455	2,997
Merger and integration related expenses	—	520
Restructuring	52	—
SEC investigation	—	62
Total operating expenses	41,673	55,651
Operating income	27,261	15,444
Other expense, net	(618)	(403)
Interest income	70	617
Interest expense	(2,445)	(3,986)
Income before provision for income taxes from continuing operations	24,268	11,672
Provision for income taxes	5,489	4,506
Income from continuing operations	\$ 18,779	\$ 7,166
Loss from discontinued operations, net of income tax benefit of \$61	—	(93)
Net income	\$ 18,779	\$ 7,073
Net income per share (Note 9):		
Basic – continuing operations	\$ 0.19	\$ 0.07
Basic – discontinued operations	\$ —	\$ —
Basic weighted average shares outstanding	97,740,295	105,290,444
Diluted – continuing operations	\$ 0.19	\$ 0.07
Diluted – discontinued operations	\$ —	\$ —
Diluted weighted average shares outstanding	99,095,854	109,937,385

(1) Stock-based compensation included in cost of revenue and operating expenses:

	THREE MONTHS ENDED	
	APRIL 30,	
	2009	2008
Cost of revenue	\$ 21	\$ 44
Research and development	269	237
Selling and marketing	635	578
General and administrative	696	745

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SKILLSOFT PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED, IN THOUSANDS)

	THREE MONTHS ENDED APRIL 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 18,779	\$ 7,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	1,621	1,604
Depreciation and amortization	1,283	1,476
Amortization of intangible assets	2,487	4,737
Recovery of bad debts	(37)	(123)
Provision for income tax — non-cash	3,288	3,565
Non-cash interest expense	297	284
Tax benefit related to exercise of non-qualified stock options	(5)	(173)
Changes in current assets and liabilities:		
Accounts receivable	81,169	71,508
Prepaid expenses and other current assets	985	2,913
Accounts payable	(3,429)	497
Accrued expenses, including long-term	(12,271)	(12,806)
Deferred revenue	(29,183)	(33,902)
Net cash provided by operating activities	64,984	46,653
Cash flows from investing activities:		
Purchases of property and equipment	(986)	(1,258)
Cash paid for business acquisitions	—	(250)
Purchases of investments	(600)	(9,750)
Maturity of investments	1,100	9,425
Increase in restricted cash, net	(38)	(65)
Net cash used in investing activities	(524)	(1,898)
Cash flows from financing activities:		
Exercise of stock options	269	4,213
Proceeds from employee stock purchase plan	1,164	2,012
Principal payment on long term debt	(18,293)	(24,500)
Acquisition of treasury stock	(9,399)	(12,153)
Tax benefit related to exercise of non-qualified stock options	5	173
Net cash used in financing activities	(26,254)	(30,255)
Effect of exchange rate changes on cash and cash equivalents	730	323
Net increase in cash and cash equivalents	38,936	14,823
Cash and cash equivalents, beginning of period	37,853	76,059
Cash and cash equivalents, end of period	\$ 76,789	\$ 90,882

The accompanying notes are an integral part of these condensed consolidated financial statements.





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SKILLSOFT PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. THE COMPANY

SkillSoft PLC (the Company or SkillSoft) was incorporated in Ireland on August 8, 1989. The Company is a leading Software as a Service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps companies to maximize business performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is the surviving corporation in a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the SmartForce Merger).

2. BASIS OF PRESENTATION

The accompanying, unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all material adjustments (consisting only of those of a normal and recurring nature) which are necessary to present fairly the consolidated financial position of the Company as of April 30, 2009 and the results of its operations and cash flows for the three months ended April 30, 2009 and 2008. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. Certain presentational changes have been made to the prior year condensed consolidated statements of cash flows related to discontinued operations to conform with the current year presentation. Certain reclassifications have been made to the prior year condensed consolidated income statements between interest expense and other expense, net to conform with the current year presentation.

3. CASH, CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At April 30, 2009, cash equivalents consisted mainly of commercial paper. At January 31, 2009, cash equivalents consisted mainly of commercial paper and federal agency notes.

At April 30, 2009, the Company had approximately \$3.8 million of restricted cash; approximately \$2.7 million is held voluntarily to defend named former executives and board members of SmartForce PLC for actions arising out of an SEC investigation and litigation related to the 2002 securities class action and approximately \$1.1 million is held in certificates-of-deposits with a commercial bank pursuant to terms of certain facilities lease agreements.

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The Company accounts for certain investments in commercial paper, corporate debt securities, certificates-of-deposit and federal agency notes in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115). Under SFAS 115, securities that the Company does not intend to hold to maturity or for trading purposes are reported at market value, and are classified as available for sale. At April 30, 2009, the Company's investments were classified as available for sale and had an average maturity of approximately 10 days.

### 4. REVENUE RECOGNITION

The Company generates revenue primarily from the license of its products, the provision of professional services and from the provision of hosting/application service provider (ASP) services.

The Company follows the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9, as well as Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" and SEC Staff Accounting Bulletin (SAB) No. 104 (SAB 104), "Revenue Recognition," to account for revenue derived pursuant to license agreements under which customers license the Company's products and services. The pricing for the Company's courses varies based upon the content offering selected by a customer, the number of users within the customer's organization and the term of the license agreement (generally one, two or three years). License agreements permit customers to exchange course titles, generally on the contract anniversary date. Hosting services are sold separately for an additional fee. A license can provide customers access to a range of learning products including courseware, Referenceware®, simulations, mentoring and prescriptive assessment.

The Company offers discounts from its ordinary pricing, and purchasers of licenses for a larger number of courses, larger user bases or longer periods of time generally receive discounts. Generally, customers may amend their license agreements, for an additional fee, to gain access to additional courses or product lines and/or to increase the size of the user base. The Company also derives revenue from hosting fees for clients that use its solutions on an ASP basis and from the provision of professional services. In selected circumstances, the Company derives revenue on a pay-for-use basis under which some customers are charged based on the number of courses accessed by its users.

The Company recognizes revenue ratably over the license period if the number of courses that a customer has access to is not clearly defined, available, or selected at the inception of the contract, or if the contract has additional undelivered elements for which the Company does not have vendor specific objective evidence (VSOE) of the fair value of the various elements. This may occur if the customer does not specify all licensed courses at the outset, the customer chooses to wait for future licensed courses on a when and if available basis, the customer is given exchange privileges that are exercisable other than on the contract anniversaries, or the customer licenses all courses currently available and to be developed during the term of the arrangement. Revenue from nearly all of the Company's contractual arrangements is recognized on a subscription or straight-line basis over the contractual period of service.

The Company also derives revenue from extranet hosting/ASP services, which is recognized on a straight-line basis over the period the services are provided. Upfront fees are recorded as revenue over the contract period.

The Company generally bills the annual license fee for the first year of a multi-year license agreement in advance and license fees for subsequent years of multi-year license arrangements are billed on the anniversary date of the agreement. Occasionally, the Company bills customers on a quarterly basis. In some circumstances, the Company offers payment terms of up to six months from the initial shipment date or anniversary date for multi-year license agreements to its customers. To the extent that a customer is given extended payment terms (defined by the Company as greater than six months), revenue is recognized as payments become due, assuming all of the other elements of revenue recognition have been satisfied.



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The Company typically recognizes revenue from resellers when both the sale to the end user has occurred and the collectibility of cash from the reseller is probable. With respect to reseller agreements with minimum commitments, the Company recognizes revenue related to the portion of the minimum commitment that exceeds the end user sales at the expiration of the commitment period provided the Company has received payment. If a definitive service period can be determined, revenue is recognized ratably over the term of the minimum commitment period, provided that payment has been received or collectibility is probable.

The Company provides professional services, including instructor led training, customized content development, website development/hosting and implementation services. If the Company determines that the professional services are not separable from an existing customer arrangement, revenue from these services is recognized over the existing contractual terms with the customer; otherwise the Company typically recognizes professional service revenue as the services are performed.

The Company records reimbursable out-of-pocket expenses in both revenue and as a direct cost of revenue, as applicable, in accordance with EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred".

The Company records revenue net of applicable sales tax collected. Taxes collected from customers are recorded as part of accrued expenses on the balance sheet and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

The Company records as deferred revenue amounts that have been billed in advance for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment in 90 days or less for resellers and 180 days or less for direct customers.

SkillSoft contracts often include an uptime guarantee for solutions hosted on the Company's servers whereby customers may be entitled to credits in the event of non-performance. The Company also retains the right to remedy any nonperformance event prior to issuance of any credit. Historically, the Company has not incurred substantial costs relating to this guarantee and the Company currently accrues for such costs as they are incurred. The Company reviews these costs on a regular basis as actual experience and other information becomes available; and should these costs become substantial, the Company would accrue an estimated exposure and consider the potential related effects of the timing of recording revenue on its license arrangements. The Company has not accrued any costs related to these warranties in the accompanying condensed consolidated financial statements.

## 5. SHAREHOLDERS' EQUITY

### (a) ADS Repurchase Program

On April 8, 2008, the Company's shareholders approved a program for the repurchase by the Company of up to an aggregate of 10,000,000 ADSs. On September 24, 2008, the Company's shareholders approved an increase in the number of shares that may be repurchased under the program to 25,000,000 and an extension of the repurchase program until March 23, 2010. As of April 30, 2009, 12,617,631 shares remain available for repurchase, subject to certain limitations, under the shareholder approved repurchase program.

During the three months ended April 30, 2009, the Company repurchased a total of 1,285,054 shares for a total purchase price, including commissions, of \$9.4 million. The Company retired 1,174,802 shares during the three months ended April 30, 2009, including 830,802 shares repurchased in the prior fiscal year. As of April 30, 2009, 941,054 of the repurchased shares had not yet been retired or canceled and were held as treasury shares at cost. The

Company retired these shares in the second quarter of fiscal 2010.

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## (b) Share Based Compensation

The Company has two share-based compensation plans under which employees, officers, directors and consultants may be granted options to purchase the Company's ordinary shares, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years, and have a maximum term of ten years. As of April 30, 2009, 2,029,826 ordinary shares remain available for future grant under the Company's share option plans. Please see Note 9 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K as filed with the SEC on April 1, 2009 for a detailed description of the Company's share option plans.

A summary of share option activity under the Company's plans during the three months ended April 30, 2009 is as follows:

Share Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2009	13,024,156	\$ 7.54	3.91	\$ 16,075
Granted	60,000	4.17		
Exercised	(64,806)	4.15		
Forfeited	(22,917)	5.60		
Expired	(38,616)	12.09		
Outstanding, April 30, 2009	12,957,817	\$ 7.53	3.71	\$ 29,405
Exercisable, April 30, 2009	10,236,555	\$ 7.97	3.48	\$ 22,295
Vested and Expected to Vest, April 30, 2009 (1)	12,581,567	\$ 7.60	3.69	\$ 28,194

(1) Represents the number of vested options as of April 30, 2009 plus the number of unvested options as of April 30, 2009 that are expected to vest, adjusted for an estimated forfeiture rate of 15.4%. The Company recognizes expense incurred under SFAS No. 123(R) on a straight line basis. Due to the Company's vesting schedule, expense is incurred on options that have not yet vested but which are expected to vest in a future period. The options for which expense has been incurred but have not yet vested are included above as options expected to vest.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the shares on April 30, 2009 of \$8.42 and the exercise price of each in-the-money option) that would have been realized by the option holders had all option holders exercised their options on April 30, 2009.

The total intrinsic value of options exercised during the three months ended April 30, 2009 and 2008 was approximately \$0.2 million and \$5.7 million, respectively. The weighted average grant date fair value of options granted as calculated by Black-Scholes option pricing model during the three months ended April 30, 2009 and 2008 was \$3.19 and \$3.84 per share, respectively.

## 6. SPECIAL CHARGES

## MERGER AND EXIT COSTS

## (a) Merger and Exit Costs Recognized as Liabilities in Purchase Accounting

The Company's merger and exit liabilities, which include previous merger and acquisition transactions, are recorded in accrued expenses (see Note 13) and long-term liabilities. Activity in the three month period ended April 30, 2009 is as follows (in thousands):

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	CLOSEDOWN OF FACILITIES		OTHER	TOTAL
Merger and exit accrual January 31, 2009	\$	1,594	\$ 77	\$ 1,671
Payments made		(51)	2	(49)
Merger and exit accrual April 30, 2009	\$	1,543	\$ 79	\$ 1,622

The Company anticipates that the remainder of the merger and exit accrual will be paid by October 2011 as follows (in thousands):

Year Ended January 31, 2010 (remaining 9 months)	\$	326
Year Ended January 31, 2011		1,296
Total	\$	1,622

## (b) Discontinued Operations

In connection with the NETg acquisition, the Company decided to discontinue four businesses acquired from NETg because the Company believed these product offerings did not represent areas that could grow in a manner consistent with the Company's operating model or be consistent with the Company's profit model or strategic initiatives. The businesses that were identified as discontinued operations were Financial Campus, NETg Press, Interact Now and Wave.

Summarized results of operations for discontinued operations for the three months ended April 30, 2008 is as follows (in thousands):

	THREE MONTHS ENDED APRIL 30, 2008
Revenue from discontinued operations	\$ 181
Loss from discontinued operations before income taxes	(154)
Income tax benefit	(61)
Loss from discontinued operations	\$ (93)

## (c) Restructuring

On January 19, 2009, the Company committed to a reduction in force with respect to a total of approximately 120 employees in the United States, Canada, Ireland and the United Kingdom. The decision was based on a review of various cost savings initiatives undertaken in connection with the development of the Company's budget and operating plan for fiscal 2010. The Company also recorded a \$52 thousand restructuring charge for the three months ended April 30, 2009, which is included in the statement of income as restructuring, related to a further reduction in force of 6 employees in its Australia office, which was communicated on March 4, 2009. Substantially all of this charge represents the severance cost of terminated employees.

Activity in the Company's restructuring accrual was as follows (in thousands):

Restructuring accrual as of January 31, 2009	\$	1,112
Payments made		(1,137)

Restructuring charges incurred		52
Restructuring accrual as of April 30, 2009	\$	27

The Company anticipates that the remainder of the restructuring accrual will be paid out in fiscal 2010.

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## 7. GOODWILL AND INTANGIBLE ASSETS

Intangible assets are as follows (in thousands):

	APRIL 30, 2009			JANUARY 31, 2009		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Internally developed software/courseware	\$ 38,717	\$ 38,493	\$ 224	\$ 38,717	\$ 38,462	\$ 255
Customer contracts	36,848	28,366	8,482	36,848	26,938	9,910
Non-compete agreement	6,900	5,520	1,380	6,900	4,830	2,070
Trademarks and trade names	2,725	2,725	—	2,725	2,388	337
Books trademark	900	—	900	900	—	900
	\$ 86,090	\$ 75,104	\$ 10,986	\$ 86,090	\$ 72,618	\$ 13,472

Trademarks of \$0.9 million relating to Books24X7 are considered indefinite-lived and accordingly no amortization expense is recorded.

There was no change in goodwill at April 30, 2009 from the amount recorded at January 31, 2009.

The Company will be conducting its annual impairment test of goodwill for fiscal 2010 in the fourth quarter. There were no indicators of impairment in the first quarter of fiscal 2010.

## 8. COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period resulting from transactions, other events and circumstances related to non-owner sources. Comprehensive income for the three months ended April 30, 2009 and 2008 was as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2009	2008
Comprehensive income:		
Net income	\$ 18,779	\$ 7,073
Other comprehensive income/(loss):		
Foreign currency adjustment, net of tax	(80)	390
Change in fair value of interest rate hedge, net of tax	377	370
Unrealized losses on available-for-sale securities	—	(15)
Comprehensive income	\$ 19,076	\$ 7,818

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## 9. NET INCOME PER SHARE

Basic net income per share was computed using the weighted average number of shares outstanding during the period. Diluted net income per share was computed by giving effect to all dilutive potential shares outstanding. The weighted average number of shares outstanding used to compute basic net income per share and diluted net income per share was as follows:

	THREE MONTHS ENDED APRIL 30,	
	2009	2008
Basic weighted average shares outstanding	97,740,295	105,290,444
Effect of dilutive shares outstanding	1,355,559	4,646,941
Weighted average common shares outstanding, as adjusted	99,095,854	109,937,385

The following share equivalents have been excluded from the computation of diluted weighted average shares outstanding for the three months ended April 30, 2009 and 2008, respectively, as they would be anti-dilutive:

	THREE MONTHS ENDED APRIL 30,	
	2009	2008
Options excluded	7,776,273	2,957,632

## 10. INCOME TAXES

The Company operates as a holding company with operating subsidiaries in several countries, and each subsidiary is taxed based on the laws of the jurisdiction in which it operates.

The Company has significant net operating loss (NOL) carryforwards, some of which are subject to potential limitations based upon the change in control provisions of Section 382 of the United States Internal Revenue Code.

The provision for income tax in the three months ended April 30, 2009 was \$5.5 million, which consisted of a cash tax provision of \$2.2 million and a non-cash tax provision of \$3.3 million. The non-cash tax provision of \$3.3 million was reduced by approximately \$0.4 million due to an adjustment made to the Company's foreign based tax accruals. The non-cash tax provision relates to the expected utilization of U.S. and Irish NOL carryforwards and other net deferred tax assets in the current fiscal year.

At April 30, 2009, the Company's unrecognized tax benefits and related interest and penalties totaled \$2.7 million, all of which, if recognized, would affect the Company's effective tax rate. As of April 30, 2009, the Company had approximately \$0.6 million of accrued interest related to uncertain tax positions.

In the normal course of business, the Company is subject to examination by taxing authorities in such major jurisdictions as Ireland, the United Kingdom, Germany, Australia, Canada and the U.S. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations for years before fiscal 2004 in these major jurisdictions.

## 11. COMMITMENTS AND CONTINGENCIES

In January 2007, the Boston District Office of the SEC informed the Company that it is the subject of an informal investigation concerning option granting practices at SmartForce for the period beginning April 12, 1996 through July 12, 2002 (the Option Granting Investigation). These grants were made prior to the September 6, 2002 merger with SmartForce PLC. The Company has produced documents in response to requests from the SEC. The SEC staff has informed the Company that the staff has not determined whether to close the Option Granting Investigation.

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The Company believes that it accounted for SmartForce stock option grants properly in the merger, and believes that as a result of the merger accounting the Company's financial statements are not going to change even if the SEC concludes that SmartForce did not properly account for its pre-merger option grants. When SkillSoft Corporation and SmartForce merged on September 6, 2002, SkillSoft Corporation was for accounting purposes deemed to have acquired SmartForce. Accordingly, the pre-merger financial statements of SmartForce are not included in the historical financial statements of the Company, and the Company's financial statements include results from what had been the business of SmartForce only from the date of the merger.

Under applicable accounting rules, the Company valued all of the outstanding SmartForce stock options assumed in the merger at fair value upon consummation of the merger.

Accordingly, the Company believes that its accounting for SmartForce stock options will not be affected by any error that SmartForce may have made in its own accounting for stock option grants and that that the Option Granting Investigation should not require any change in the Company's financial statements.

The Company has cooperated with the SEC in the Option Granting Investigation. At the present time, the Company is unable to predict the outcome of the Option Granting Investigation or its potential impact on its operating results or financial position.

From time to time, the Company is a party to or may be threatened with other litigation in the ordinary course of its business. The Company regularly analyzes current information, including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable and estimable liabilities for the eventual disposition of these matters. The Company is not a party to any material legal proceedings.

## 12. GEOGRAPHICAL DISTRIBUTION OF REVENUE

The Company attributes revenue to different geographical areas on the basis of the location of the customer. Revenues by geographical area for the three month periods ended April 30, 2009 and 2008 were as follows (in thousands):

	THREE MONTHS ENDED	
	APRIL 30,	
	2009	2008
Revenue:		
United States	\$ 58,712	\$ 59,052
United Kingdom	8,588	11,832
Canada	2,693	3,492
Europe, excluding United Kingdom	2,104	1,838
Australia/New Zealand	2,751	3,883
Other	1,591	1,546
Total revenue	\$ 76,439	\$ 81,643

Long-lived tangible assets at non-US locations are not significant.

## 13. ACCRUED EXPENSES

Accrued expenses in the accompanying condensed combined balance sheets consisted of the following (in thousands):

APRIL 30,	JANUARY
2009	31, 2009

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Professional fees	\$	2,493	\$	4,237
Sales tax payable/VAT payable		1,252		3,806
Accrued royalties		2,213		1,650
Interest rate swap liability		953		1,581
Accrued tax		2,866		854
Other accrued liabilities		8,413		11,632
Total accrued expenses	\$	18,190	\$	23,760

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## 14. OTHER ASSETS

Other assets in the accompanying condensed consolidated balance sheets consist of the following (in thousands):

	APRIL 30, 2009	JANUARY 31, 2009
Debt financing cost – long term (See Note 17)	2,927	3,211
Deferred charge	3,734	—
Other	164	149
Total other assets	\$ 6,825	\$ 3,360

## 15. OTHER LONG TERM LIABILITIES

Other long term liabilities in the accompanying condensed consolidated balance sheets consist of the following (in thousands):

	APRIL 30, 2009	JANUARY 31, 2009
Merger accrual – long term	1,296	1,189
Uncertain tax positions including interest and penalties – long term	1,978	1,714
Other	241	318
Total other long-term liabilities	\$ 3,515	\$ 3,221

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the Company’s fair value hierarchy in accordance with SFAS 157, Fair Value Measurements,” for its financial assets and liabilities measured at fair value as of April 30, 2009 (in thousands):

	April 30, 2009	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Financial Assets:</b>				
Cash equivalents (1)	\$ 1,000	\$ 1,000	\$ —	\$ —
Available for sale securities (2)	\$ 599	\$ 599	\$ —	\$ —
<b>Financial Liabilities:</b>				
Interest rate swap agreement (Note 18)	\$ 953	\$ —	\$ 953	\$ —

(1) Consists of high-grade commercial paper notes with original and remaining maturities of less than 90 days.

(2) Consists of high-grade commercial paper with original maturities of 90 days or more and remaining maturities of less than 365 days.

## 17. CREDIT FACILITIES



The Company has an agreement (the Credit Agreement), as amended, with certain lenders (the Lenders) providing for a \$225 million senior secured credit facility comprised of a \$200 million term loan facility and a \$25 million revolving credit facility. The term loan was used to finance the NETg acquisition and the revolving credit facility may be used for general corporate purposes. There are no amounts outstanding under the revolving credit facility.

The term loan bears interest at a rate per annum equal to, at the Company's election, (i) a base rate (3.25% at April 30, 2009) plus a margin of 2.50% or (ii) adjusted LIBOR (1.22% at April 30, 2009) plus a margin of 3.50%. The Company is required to maintain certain financial covenants under the credit facility, for which the Company was in compliance during the three months ended April 30, 2009.

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In connection with the Credit Agreement and the amendment, the Company incurred debt financing costs of \$6.2 million which were capitalized and are being amortized as additional interest expense over the term of the loans using the effective-interest method. During the three months ended April 30, 2009, the Company paid approximately \$1.6 million in interest. The Company recorded \$0.3 million of amortized interest expense related to the capitalized debt financing costs for both the three months ended April 30, 2009 and 2008. As of April 30, 2009, total unamortized debt financing costs of \$1.0 million and \$2.9 million are recorded within prepaid expenses and other current assets and non-current other assets, respectively, based on scheduled future amortization.

During the three months ended April 30, 2009, the Company paid \$18.3 million against the term loan amount. As a result, the balance outstanding under the term loan was \$105.1 million at April 30, 2009, with a weighted average interest rate for the three month period ended April 30, 2009 of 7.15%.

Future scheduled minimum payments under this credit facility are as follows (in thousands):

Fiscal 2010 (remaining 9 months)	\$	802
Fiscal 2011		1,070
Fiscal 2012		1,070
Fiscal 2013		1,070
Thereafter		101,079
Total	\$	105,091

## 18. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding as well as the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings

### Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The Company assesses the effectiveness of each hedging relationship by using a regression analysis of the changes in fair value or cash flows of the derivative hedging instrument and the changes in fair value or cash flows of the designated hedged item or transaction. The effective portion of changes in the fair value of derivatives designated as and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended April 30, 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on cash flow hedges was recognized during the three months ended April 30,

2009.

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Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The current interest rate swap held by the Company matures on December 31, 2009. For the period from May 1, 2009 through December 31, 2009, the Company estimates that an additional \$1.0 million will be recorded as an increase to interest expense.

As of April 30, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivates	Notional (in thousands)	Effective Date	Maturity Date December 31,	Index	Strike Rate
Interest Rate Swap	\$ 59,600	May 14, 2007	2009	3 Month LIBOR	5.1015%

The following table summarizes the location of the fair value of the Company's derivative instruments within the condensed consolidated balance sheets as of April 30, 2009, and January 31, 2009 (in thousands):

	Balance Sheet Location	April 30, 2009	January 30, 2009
Liabilities:			
Derivative instruments designated as a cash flow instruments under SFAS 133:			
Interest rate swap contracts	Accrued expenses	\$ 953	\$ 1,581
Total assets		\$ 953	\$ 1,581

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statement of Income for the three months ended April 30, 2009 (in thousands):

	Location of Gain (Loss) Reclassified from AOCI into Net Income	Amount of Gain(Loss) Recognized in OCI	Amount of Gain(Loss) Reclassified from AOCI into Net Income
Interest rate swap contracts	Interest Expense	\$ (46)	\$ (673)
Total		\$ (46)	\$ (673)

As of April 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these instruments was \$1.2 million. As of April 30, 2009, the Company had not posted any collateral related to these instruments. If the Company had breached any of these provisions at April 30, 2009, it would have been required to settle its obligations under the instruments at their termination value of \$1.2 million.

## 19. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised), "Business Combinations" (SFAS 141(R)). SFAS 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent

consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. Adoption of SFAS 141(R) on February 1, 2009 did not have a material impact on the Company's financial position or results of operations. The adoption of SFAS 141(R) will have an impact on the Company's accounting for business combinations occurring on or after the adoption date, but the effect will be dependent on the acquisitions at that time.

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In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (SFAS 160). SFAS 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders’ equity, and the elimination of “minority interest” accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent’s controlling ownership interest. Adoption of SFAS 160 on February 1, 2009 did not have a material impact on the Company’s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (SFAS 161). SFAS 161 applies to all derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of Statement 133 and related hedged items accounted for under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133). SFAS 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, results of operations, and cash flows. Adoption of SFAS 161 on February 1, 2009 did not have a material impact on the Company’s financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, “Determination of the Useful Life of Intangible Assets” (FSP 142-3). FSP 142-3 requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142’s entity-specific factors. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2009. Adoption of this statement is not expected to have a material impact on the Company’s consolidated financial statements when it becomes effective.

In May 2008, the FASB issued SFAS No. 162 “The Hierarchy of Generally Accepted Accounting Principles” (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the U.S. SFAS 162 is effective 60 days following the SEC approval of Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not anticipate that SFAS 162 will have a material impact on the Company’s financial statements.

**ITEM 2. — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

From time to time, including in this Quarterly Report on Form 10-Q, we may make forward-looking statements relating to such matters as anticipated financial performance, business prospects, strategy, plans, regulatory, market and industry trends, and similar matters. The Private Securities Litigation Reform Act of 1995 and federal securities laws provides a safe harbor for forward-looking statements. We note that a variety of factors, including known and unknown risks and uncertainties as well as incorrect assumptions, could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The factors that may affect the operations, performance, development and results of our business include those discussed under Part II, Item 1A, “Risk Factors” of this Quarterly Report on Form 10-Q.

As used in this Form 10-Q, “we”, “us”, “our”, “SkillSoft” and “the Company” refer to SkillSoft Public Limited Company and subsidiaries; and references to our fiscal year refer to the fiscal year ended on January 31 of that year (e.g., fiscal 2009

is the fiscal year ended January 31, 2009).

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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes appearing elsewhere in this Quarterly Report on Form 10-Q.

### OVERVIEW

We are a leading Software as a Service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. We enable business organizations to maximize business performance through a combination of comprehensive e-learning content, online information resources, flexible learning technologies and support services. Our multi-modal learning solutions support and enhance the speed and effectiveness of both formal and informal learning processes and integrate our in-depth content resources, learning management system, virtual classroom technology and support services.

We generate revenue primarily from the license of our products, the provision of professional services as well as from the provision of hosting and application services. The pricing for our courses varies based upon the content offering selected by a customer, the number of users within the customer's organization and the length of the license agreement (generally one, two or three years). Our agreements permit customers to exchange course titles, generally on the contract anniversary date. Hosting services are sold separately for an additional fee.

Cost of revenue includes the cost of materials (such as storage media), packaging, shipping and handling, CD duplication, custom content development and hosting services, royalties and certain infrastructure and occupancy expenses and share-based compensation. We generally recognize these costs as incurred. Also included in cost of revenue is amortization expense related to capitalized software development costs and intangible assets related to developed software and courseware acquired in business combinations.

We account for software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" (SFAS 86), which requires the capitalization of certain computer software development costs incurred after technological feasibility is established. No software development costs incurred during the three months ended April 30, 2009 met the requirements for capitalization in accordance with SFAS 86.

Research and development expenses consist primarily of salaries and benefits, share-based compensation, certain infrastructure and occupancy expenses, fees to consultants and course content development fees. Selling and marketing expenses consist primarily of salaries and benefits, share-based compensation, commissions, advertising and promotion expenses, travel expenses and certain infrastructure and occupancy expenses. General and administrative expenses consist primarily of salaries and benefits, share-based compensation, consulting and service expenses, legal expenses, audit and tax preparation costs, regulatory compliance costs and certain infrastructure and occupancy expenses.

Amortization of intangible assets represents the amortization of customer value, non-compete agreements, trademarks and tradenames from our acquisitions of NETg, Targeted Learning Corporation (TLC), Books24x7 and GoTrain Corp. and our merger with SkillSoft Corporation (the SmartForce Merger).

Merger and integration related expenses primarily consist of salaries paid to NETg employees for transitional work assignments, facilities, systems and process integration activities.

Restructuring expenses primarily consist of charges associated with our recent reduction in force as described in our Form 8-K filed with the SEC on January 20, 2009.



SEC investigation expenses primarily consist of legal and consulting fees incurred in connection with the SEC investigation relating to the restatement of SmartForce's financial statements for 1999, 2000, 2001 and the first two quarters of 2002, and more recently, the SEC's review of SmartForce's option granting practices prior to the SmartForce Merger.

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BUSINESS OUTLOOK

In the three months ended April 30, 2009, we generated revenue of \$76.4 million as compared to \$81.6 million in the three months ended April 30, 2008. We reported operating income in the three months ended April 30, 2009 of \$27.3 million as compared to \$15.4 million in the three months ended April 30, 2008. We reported net income in the three months ended April 30, 2009 of \$18.8 million as compared to \$7.1 million in the three months ended April 30, 2008.

While we have achieved increased operating income and net income from last fiscal year's comparable period, we have experienced during the last nine months a significantly more cautious customer spending environment due to the current challenging global economic climate. In addition, we continue to find ourselves in a challenging business environment due to (i) budgetary constraints on information technology (IT) spending by our current and potential customers, (ii) price competition and value-based competitive offerings from a broad array of competitors in the learning market and (iii) the relatively slow overall market adoption rate for e-learning solutions. In recent months, the challenging U.S. and global economic environment has put additional pressure on potential budgetary constraints on IT and spending by our current and potential customers. While we have seen some customers put spending on hold, we have seen others increase spending and utilize e-learning as a cost effective alternative to traditional learning. Despite these challenges, our core business so far this fiscal year has performed in accordance with our expectations. We currently expect our revenue to decline approximately 5% to 9% this fiscal year as compared to last fiscal year primarily due to recent changes in foreign exchange rates and the negative effect they have on our international subsidiaries' revenue when converted to U.S. dollars. However, given the volatility of foreign exchange rates, our forward-looking estimates, which are based on January 31, 2009 rates, could change materially. Despite the expected decrease in revenue, we anticipate an increase in our operating income and net income this fiscal year as compared to last fiscal year, primarily due to a number of actions we took in the fourth quarter of fiscal 2009 to reduce our cost structure. These cost-saving initiatives allow us flexibility to manage our costs in light of the difficult economic conditions we are facing. Despite these cost-savings initiatives, we have recently added, and will continue to add, additional sales resources in response to the cautious customer spending environment, including our telesales business unit to continue pursuing the small and medium-sized business markets.

In fiscal 2010 we will continue to focus on revenue and earnings growth primarily by:

- cross selling and up selling;
- looking at new markets;
- acquiring new customers;
- carefully managing our spending

continuing to execute on our new product and telesales distribution initiatives; and

continuing to evaluate merger and acquisition and possible partnership opportunities that could contribute to our long-term objectives.

CRITICAL ACCOUNTING POLICIES

We believe that our critical accounting policies are those related to revenue recognition, amortization of intangible assets and impairment of goodwill, share-based compensation, deferral of commissions, restructuring charges, legal contingencies and income taxes. We believe these accounting policies are particularly important to the portrayal and understanding of our financial position and results of operations and require application of significant judgment by our management. In applying these policies, management uses its judgment in making certain assumptions and estimates. Our critical accounting policies are more fully described under the heading "Summary of Significant Accounting Policies" in Note 2 of the Notes to the Consolidated Financial Statements and under "Management's Discussion and Analysis of Financial Conditions and Results of Operations – Critical Accounting Policies" in our Annual Report on Form 10-K as filed with the SEC on April 1, 2009. The policies set forth in our Form 10-K have not changed.



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## RESULTS OF OPERATIONS

## THREE MONTHS ENDED APRIL 30, 2009 VERSUS THREE MONTHS ENDED APRIL 30, 2008

## Revenue

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
Revenue	\$ 76,439	\$ 81,643	\$ (5,204)	(6)%
Operating income	27,261	15,444	11,817	77 %

The decrease in revenue for the three months ended April 30, 2009 versus April 30, 2008 was primarily due to the negative effect foreign exchange rates had on our international subsidiaries' revenue when converted to U.S. dollars.

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
Revenue:				
United States	\$ 58,712	\$ 59,052	\$ (340)	(1)%
International	17,727	22,591	(4,864)	(22)%
Total	76,439	81,643	(5,204)	(6 )%

The decrease in revenue internationally for the three months ended April 30, 2009 versus April 30, 2008 was primarily the result of the negative effect of foreign exchange rates as described above.

## Costs and Expenses

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
Cost of revenue	\$ 7,473	\$ 8,808	\$ (1,335)	(15)%
As a percentage of revenue	10%	11%		
Cost of revenue – amortization of intangible assets	32	1,740	(1,708)	(98)%
As a percentage of revenue	—	2%		

The decrease in cost of revenue in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a reduction in personnel as a result of our recent cost-saving initiatives carried out in the fourth quarter of fiscal 2009. In addition we had a reduction in outside contractor costs and maintenance fees primarily due to the completion during fiscal 2009 of certain NETg integration initiatives in the three months ended April 30, 2008.

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The decrease in cost of revenue - amortization of intangible assets in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to certain intangible assets becoming fully amortized during fiscal 2009.

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
Research and development	\$ 8,998	\$ 13,480	\$ (4,482)	(33)%
As a percentage of revenue	12%	17%		

The decrease in research and development expense in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a reduction in outsourced development fees of \$2.9 million as well as a decrease in compensation and benefits expense of \$1.1 million primarily due to our recent the cost-saving initiatives instituted in the fourth quarter of fiscal 2009 and that continued into the current fiscal year. The reduction in professional fees was also due to the three months ended April 30, 2008 including costs attributable to the NETg acquisition, which included maintaining multiple platforms and product commitments assumed prior to the completion of the integration.

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
Selling and marketing	\$ 22,411	\$ 29,700	\$ (7,289)	(25)%
As a percentage of revenue	29%	36%		

The decrease in selling and marketing expense in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a decrease in compensation and benefits expense of \$4.7 million. This decrease was primarily the result of a reduction in our field support personnel as part of our cost-saving initiatives as well as a reduction in commission expense which was primarily due to when certain commissions were earned as a result of changes to the structure of our compensation plan. We also had a reduction in marketing expense related to demand generation of \$0.3 million and a reduction in travel expenses of \$0.6 million as a result of our cost-saving initiatives. In addition, a major customer event which occurred during the first quarter of our last fiscal year will not occur until the second quarter of this fiscal year, and this resulted in a \$1.0 million reduction in expenses for the three months ended April 30, 2009 versus the three months ended April 30, 2008.

	THREE MONTHS ENDED APRIL 30,		DOLLAR	PERCENT
	2009	2008	INCREASE/(DECREASE)	CHANGE
(In thousands, except percentages)				
General and administrative	\$ 7,757	\$ 8,892	\$ (1,135)	(13)%
As a percentage of revenue	10%	11%		

The decrease in general and administrative expense in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a reduction of \$0.8 million in legal and professional fees. This was primarily due to the feasibility analysis related to our business realignment strategy becoming substantially complete during fiscal 2009 as well as a reduction in tax and accounting fees related to our ongoing operations. In addition, we had a decrease in compensation and benefits expense of \$0.2 million as a result of a reduction in personnel as part of

our cost-saving initiatives.

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	THREE MONTHS ENDED		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	APRIL 30, 2009	APRIL 30, 2008		
(In thousands, except percentages)				
Amortization of intangible assets	\$ 2,455	\$ 2,997	\$ (542)	(18)%
As a percentage of revenue	3%	4%		
Merger and integration related expenses	—	\$ 520	(520)	(100)%
As a percentage of revenue	0%	1%		
Restructuring	52	\$ —	52	*
As a percentage of revenue	0%	0%		
SEC investigation	—	\$ 62	(62)	(100)%
As a percentage of revenue	0%	0%		

\* Not meaningful

The decrease in amortization of intangible assets for the three months ended April 30, 2009 versus April 30, 2008 was primarily due to certain assets becoming fully amortized during fiscal 2009.

During the three months ended April 30, 2009, we incurred merger and integration expenses related to the NETg acquisition. We completed our efforts to integrate NETg's operations during fiscal 2009.

	THREE MONTHS ENDED		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	APRIL 30, 2009	APRIL 30, 2008		
(In thousands, except percentages)				
Other expense, net	\$ (618)	\$ (403)	\$ (215)	53 %
As a percentage of revenue	(1)%	0%		
Interest income	70	\$ 617	(547)	(89)%
As a percentage of revenue	0%	1%		
Interest expense	(2,445)	\$ (3,986)	1,541	(39)%
As a percentage of revenue	(3)%	(5)%		

The increase in other expense, net in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to foreign currency fluctuations. Due to our multi-national operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies used in our business.

The reduction in interest income in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a reduction in our short-term investments attributed to our share buyback program and our significant long term debt repayments as well as lower interest rates.

The decrease in interest expense in the three months ended April 30, 2009 versus the three months ended April 30, 2008 was primarily due to a reduction of our long term debt as a result of \$69.4 million in principal debt repayments made since April 30, 2008.

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## Provision for Income Taxes

	THREE MONTHS ENDED		DOLLAR INCREASE/(DECREASE)	PERCENT CHANGE
	APRIL 30, 2009	APRIL 30, 2008		
(In thousands, except percentages)				
Provision for income taxes	\$ 5,489	\$ 4,506	\$ 983	22%
As a percentage of revenue	7%	6%		

For the three months ended April 30, 2009 and 2008, our effective tax rates, exclusive of any discrete charges, were 24.3% and 35.9% respectively. The decrease in the current year effective tax rate is primarily due to a change in the geographical distribution of worldwide earnings, reflecting our business realignment strategy. For the three months ended April 30, 2009 and 2008, the effective tax rate was higher than the Irish statutory rate of 12.5% due primarily to earnings in higher tax jurisdictions outside of Ireland.

## LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 2009, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled \$77.4 million. This compares to \$39.0 million at January 31, 2009.

Net cash provided by operating activities of \$65.0 million for the three months ended April 30, 2009 was primarily due to a decrease in accounts receivable of \$81.2 million. Net cash provided by operating activities was also a result of net income from continuing operations of \$18.8 million, which included the impact of non-cash expenses for depreciation and amortization and amortization of intangible assets of \$3.8 million, non-cash provision for income taxes of \$3.3 million and share-based compensation expense of \$1.6 million. These amounts were partially offset by a decrease in accrued expenses of \$12.3 million and deferred revenue of \$29.2 million as well as a decrease in accounts payable of \$3.4 million. These decreases in accounts receivable, accrued expenses and deferred revenue are primarily a result of the seasonality of our operations, with the fourth quarter of our fiscal year historically generating the most activity, including order intake and billing. During the three months ended April 30, 2009 the decrease in accounts receivable was \$81.2 million as compared to \$71.5 million during the three months April 30, 2008. This change is primarily due to the timing of collections.

Net cash used in investing activities was \$0.5 million for the three months ended April 30, 2009, which includes the purchases of capital assets of approximately \$1.0 million. This was partially offset by the maturity of investments, net of purchases, generating a cash inflow of approximately \$0.5 million.

Net cash used in financing activities was \$26.3 million for the three months ended April 30, 2009. During this period, we made principal payments on our debt of \$18.3 million and purchased our own shares having a value of \$9.4 million under our shareholder-approved share repurchase program. These uses of cash were partially offset by proceeds of \$1.4 million received from the exercise of share options under our various share option programs, including the related tax benefit, and share purchases made under our 2004 Employee Share Purchase Plan.

We had a working capital deficit of approximately \$9.8 million as of April 30, 2009 and approximately \$11.9 million as of January 31, 2008. The increase in working capital was primarily due to net income from continuing operations of \$18.8 million, which includes non-cash charges for depreciation and amortization of \$3.8 million, share-based compensation expense of \$1.6 million and a non-cash tax charge of \$3.3 million. Additionally, we received proceeds of \$1.4 million from the exercise of share options under our various share option programs and from share purchases made under our 2004 Employee Share Purchase Plan. This was partially offset by principal debt payments of \$18.3



million and the purchase of treasury shares having a value of \$9.4 million under our shareholder-approved share repurchase program.

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As of January 31, 2009, we had U.S. federal NOL carryforwards of \$214.2 million. These NOL carryforwards represent the gross carrying value of the operating loss carryforwards and are available to reduce future taxable income, if any, through 2025. We completed several financings since our inception and have incurred ownership changes as defined under Section 382 of the Internal Revenue Code. We completed an analysis of these changes and do not believe that the changes will have a material impact on our ability to use these net operating loss carryforwards. Included in the \$214.2 million of U.S. federal NOL carryforwards is \$114.7 million of U.S. NOL carryforwards that were acquired in the SmartForce Merger and the purchase of Books24X7, \$55.4 million of NOL carryforwards resulting from disqualifying dispositions and \$44.1 million of U.S. NOL carryforwards that relate to our operations. We will realize the benefit of the disqualifying disposition losses through increases to shareholders' equity in the periods in which the losses are utilized to reduce tax payments. Additionally, we have \$190.2 million of Irish NOL carryforwards. These NOL carryforwards represent the gross carrying value of the operating loss carryforwards. Included in the \$190.2 million are \$149.8 million of NOL carryforwards which were acquired in the SmartForce Merger and \$40.4 million of NOL carryforwards that relate to our Irish operations. We also had U.S. federal tax credit carryforwards of approximately \$3.9 million at January 31, 2009.

We lease certain of our facilities and certain equipment and furniture under operating lease agreements that expire at various dates through 2023. In addition, we have a term loan which will be paid out over the next 5 years. Future minimum lease payments, net of estimated sub-rentals, under these agreements and the debt repayments schedule are as follows (in thousands):

Contractual Obligations	Total	Payments Due By Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating Lease Obligations	\$ 13,096	\$ 4,056	\$ 5,772	\$ 3,176	\$ 92
Debt Obligations	105,091	1,070	2,140	101,881	-
Total Obligations	\$ 118,187	\$ 5,126	\$ 7,912	\$ 105,057	\$ 92

We do not have any off-balance sheet arrangements, as defined under SEC rules, such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating transactions that are not required to be reflected on our balance sheet.

In May 2007, we entered into a credit agreement with Credit Suisse and certain lenders providing for a \$225.0 million senior credit facility comprised of a \$200 million term loan facility and a \$25.0 million revolving credit facility. On July 7, 2008, we entered into an amendment to the credit agreement (“the Amendment”). The primary purpose of the Amendment was to expand our and our subsidiaries’ ability to make additional repurchases of our shares. The expanded repurchase ability under the Amendment is conditioned on the absence of an event of default and a requirement that (i) the leverage ratio shall be no greater than 2.75:1 as of the most recently completed fiscal quarter ending prior to the date of such repurchase and (ii) that we make a prepayment of the term loan under the credit agreement in an amount equal to the dollar amount of any such repurchase. Such term loan prepayments were not, however, required in connection with the first \$24.0 million of repurchases made from and after July 7, 2008. The Amendment also provides for an increase in the annual interest rate on the term loan to, at our election, (i) base rate plus a margin of 2.5% or (ii) adjusted LIBOR plus margin of 3.5%.

Please see Note 10 of The Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K as filed with the SEC on April 1, 2009 for a detailed description of the credit agreement, as amended.

We expect that the principal sources of funding for our operating expenses, capital expenditures, debt payment obligations, share repurchases and other liquidity needs will be a combination of our available cash and cash

equivalents and short-term investments, and funds generated from future cash flows from operating activities.

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We believe our current funds and expected cash flows from operating activities will be sufficient to fund our operations, including our debt repayment obligations, for at least the next 12 months. However, there are several items that may negatively impact our available sources of funds. In addition, our cash needs may increase due to factors such as unanticipated developments in our business or the marketplace for our products in general or significant acquisitions. The amount of cash generated from operations will be dependent upon the successful execution of our business plan. Although we do not foresee the need to raise additional capital, any unanticipated economic or business events could require us to raise additional capital to support our operations.

## EXPLANATION OF USE OF NON-GAAP FINANCIAL RESULTS

In addition to reporting our audited and unaudited financial results in accordance with United States generally accepted accounting principles (GAAP), to assist investors we on occasion provide certain non-GAAP financial results as an alternative means to explain our periodic results. The non-GAAP financial results typically exclude non-cash or unusual charges or benefits.

Our management uses the non-GAAP financial results internally as an alternative means for assessing our results of operations. By excluding non-cash charges such as share-based compensation, amortization of purchased intangible assets, impairment of goodwill and purchased intangible assets, management can evaluate our operations excluding these non-cash charges and can compare our results on a more consistent basis to the results of other companies in our industry. By excluding charges such as merger and integration related expenses and one-time or infrequent charges our management can compare our ongoing operations to prior quarters where such items may be materially different and to ongoing operations of other companies in our industry who may have materially different unusual charges. Our management recognizes that non-GAAP financial results are not a substitute for GAAP results, but believes that non-GAAP measures are helpful in assisting them in understanding and managing our business.

Our management believes that the non-GAAP financial results may also provide useful information to investors. Non-GAAP results may also allow investors and analysts to more readily compare our operations to prior financial results and to the financial results of other companies in the industry who similarly provide non-GAAP results to investors and analysts. Investors may seek to evaluate our business performance and the performance of our competitors as they relate to cash. Excluding one-time and non-cash charges may assist investors in this evaluation and comparisons.

In addition, certain covenants in our credit agreement are based on non-GAAP financial measures, such as adjusted EBITDA, and evaluating and presenting these measures allows us and our investors to assess our compliance with the covenants in our credit agreement and thus our liquidity situation.

We intend to continue to assess the potential value of reporting non-GAAP results consistent with applicable rules and regulations.

## ITEM 3. — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of April 30, 2009, we did not use derivative financial instruments for speculative or trading purposes.

### INTEREST RATE RISK

Our general investing policy is to limit the risk of principal loss and to ensure the safety of invested funds by limiting market and credit risk. We currently use a registered investment manager to place our investments in highly liquid money market accounts and government-backed securities. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Interest income is sensitive to changes in the general level

of U.S. interest rates. Based on the short-term nature of our investments, we have concluded that there is no significant market risk exposure.

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In order to limit our exposure to interest rate changes associated with our term loan, we entered into an interest rate swap agreement with an initial notional amount of \$160 million which amortizes over a period consistent with our anticipated payment schedule. This strategy uses an interest rate swap to effectively convert \$160 million in variable rate borrowings into fixed rate liabilities at a 5.1015% effective interest rate. The interest rate swap is considered to be a hedge against changes in the amount of future cash flows associated with interest payments on a variable rate loan.

### FOREIGN CURRENCY RISK

Due to our multinational operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenue or pay expenses and the U.S. dollar. Our expenses are not necessarily incurred in the currency in which revenue is generated, and, as a result, we are required from time to time to convert currencies to meet our obligations. These currency conversions are subject to exchange rate fluctuations, in particular changes to the value of the Euro, Canadian dollar, Australian dollar, New Zealand dollar, Singapore dollar, and pound sterling relative to the U.S. dollar, which could adversely affect our business and our results of operations. During the three months ended April 30, 2009 and 2008, we incurred foreign currency exchange losses of \$0.7 million and \$0.6 million, respectively.

### ITEM 4. — CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2009. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of April 30, 2009, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended April 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### ITEM 1. — LEGAL PROCEEDINGS

Not applicable.

### ITEM 1A. – RISK FACTORS

Investors should carefully consider the risks described below before making an investment decision with respect to our shares. While the following risk factors have been updated to reflect developments subsequent to the filing of our

Annual Report on Form 10-K for the fiscal year ended January 31, 2009, there have been no material changes to the risk factors included in that report.

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RISKS RELATED TO THE OPERATION OF OUR BUSINESS

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY, LIMITING YOUR ABILITY TO EVALUATE HISTORICAL FINANCIAL RESULTS AND INCREASING THE LIKELIHOOD THAT OUR RESULTS WILL FALL BELOW MARKET ANALYSTS' EXPECTATIONS, WHICH COULD CAUSE THE PRICE OF OUR ADSs TO DROP RAPIDLY AND SEVERELY.

In the past we have experienced fluctuations in our quarterly operating results, and we anticipate that these fluctuations will continue. As a result, we believe that our quarterly revenue, expenses and operating results are likely to vary significantly in the future. If in some future quarters our results of operations are below the expectations of public market analysts and investors, this could have a severe adverse effect on the market price of our ADSs.

Our operating results have historically fluctuated, and our operating results may in the future continue to fluctuate, as a result of factors, which include, without limitation:

the size and timing of new/renewal agreements and upgrades;

royalty rates;

the announcement, introduction and acceptance of new products, product enhancements and technologies by us and our competitors;

the mix of sales between our field sales force, our other direct sales channels and our telesales channels;

general conditions in the U.S. or the international economy;

the loss of significant customers;

delays in availability of new products;

product or service quality problems;

seasonality — due to the budget and purchasing cycles of our customers, we expect our revenue and operating results will generally be strongest in the second half of our fiscal year and weakest in the first half of our fiscal year;

the spending patterns of our customers;

litigation costs and expenses;

non-recurring charges related to acquisitions;

growing competition that may result in price reductions; and

currency fluctuations.

Most of our expenses, such as rent and most employee compensation, do not vary directly with revenue and are difficult to adjust in the short-term. As a result, if revenue for a particular quarter is below our expectations, we could not proportionately reduce operating expenses for that quarter. Any such revenue shortfall would, therefore, have a



disproportionate effect on our expected operating results for that quarter.

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**PAST AND FUTURE ACQUISITIONS MAY NOT PRODUCE THE BENEFITS WE ANTICIPATE AND COULD HARM OUR CURRENT OPERATIONS.**

One aspect of our business strategy is to pursue acquisitions of businesses or technologies that will contribute to our future growth. However, we may not be successful in identifying or consummating attractive acquisition opportunities. Moreover, any acquisitions we do consummate may not produce benefits commensurate with the purchase price we pay or our expectations for the acquisition. In addition, acquisitions involve numerous risks, including:

difficulties in integrating the technologies, operations, financial controls and personnel of the acquired company;

difficulties in retaining or transitioning customers and employees of the acquired company;

diversion of management time and focus;

the incurrence of unanticipated expenses associated with the acquisition or the assumption of unknown liabilities or unanticipated financial, accounting or other problems of the acquired company; and

accounting charges related to the acquisition, including restructuring charges, write-offs of in-process research and development costs, and subsequent impairment charges relating to goodwill or other intangible assets acquired in the transaction.

**DEMAND FOR OUR PRODUCTS AND SERVICES IS ESPECIALLY SUSCEPTIBLE TO GENERAL GLOBAL MARKET AND ECONOMIC CONDITIONS.**

Weakness in the United States and/or worldwide economy has had and could continue to have a negative effect on demand for our products and our results of operations. Companies may not view training products and services as critical to the success of their businesses. If these companies continue experience disappointing operating results, whether as a result of adverse economic conditions, competitive issues or other factors, they may decrease or forego education and training expenditures before limiting their other expenditures or in conjunction with lowering other expenses. In addition, during economic downturns, customers may slow the rate at which they pay vendors or may become unable to pay their debts as they become due, which would have a negative effect on our results.

**INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES, WHICH MAY RESULT IN REDUCED REVENUE AND GROSS PROFITS AND LOSS OF MARKET SHARE.**

The market for corporate education and training solutions is highly fragmented and competitive. We expect the market to become increasingly competitive due to the lack of significant barriers to entry. In addition to increased competition from new companies entering into the market, established companies are entering into the market through acquisitions of smaller companies, which directly compete with us, and this trend is expected to continue. We may also face competition from publishing companies, vendors of application software and human resource outsourcers, including those vendors with whom we have formed development and marketing alliances.

Our primary sources of direct competition are:

third-party suppliers of instructor-led information technology, business, management and professional skills education and training;

technology companies that offer learning courses covering their own technology products;

suppliers of computer-based training and e-learning solutions;

internal education, training departments and human resources outsourcers of potential customers; and

value-added resellers and network integrators.

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Growing competition may result in price reductions, reduced revenue and gross profits and loss of market share, any one of which would have a material adverse effect on our business. Many of our current and potential competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater name recognition, and we expect to face increasing price pressures from competitors as managers demand more value for their training budgets. Accordingly, we may be unable to provide e-learning solutions that compare favorably with new instructor-led techniques, other interactive training software or new e-learning solutions.

**WE RELY ON A LIMITED NUMBER OF THIRD PARTIES TO PROVIDE US WITH EDUCATIONAL CONTENT FOR OUR COURSES AND REFERENCEWARE, AND OUR ALLIANCES WITH THESE THIRD PARTIES MAY BE TERMINATED OR FAIL TO MEET OUR REQUIREMENTS.**

We rely on a limited number of independent third parties to provide us with the educational content for a majority of our courses based on learning objectives and specific instructional design templates that we provide to them. We do not have exclusive arrangements or long-term contracts with any of these content providers. If one or more of our third party content providers were to stop working with us, we would have to rely on other parties to develop our course content. In addition, these providers may fail to develop new courses or existing courses on a timely basis. We cannot predict whether new content or enhancements would be available from reliable alternative sources on reasonable terms. In addition, our subsidiary, Books24x7 relies on third party publishers to provide all of the content incorporated into its Referenceware products. If one or more of these publishers were to terminate their license with us, we may not be able to find substitute publishers for such content. In addition, we may be forced to pay increased royalties to these publishers to continue our licenses with them.

In the event that we are unable to maintain or expand our current development alliances or enter into new development alliances, our operating results and financial condition could be materially adversely affected. Furthermore, we will be required to pay royalties to some of our development partners on products developed with them, which could reduce our gross margins. We expect that cost of revenues may fluctuate from period to period in the future based upon many factors, including the revenue mix and the timing of expenses associated with development alliances. In addition, the collaborative nature of the development process under these alliances may result in longer development times and less control over the timing of product introductions than for e-learning offerings developed solely by us. Our strategic alliance partners may from time to time renegotiate the terms of their agreements with us, which could result in changes to the royalty or other arrangements, adversely affecting our results of operations.

The independent third party strategic partners we rely on for educational content and product marketing may compete with us, harming our results of operations. Our agreements with these third parties generally do not restrict them from developing courses on similar topics for our competitors or from competing directly with us. As a result, our competitors may be able to duplicate some of our course content and gain a competitive advantage.

**OUR SUCCESS DEPENDS ON OUR ABILITY TO MEET THE NEEDS OF THE RAPIDLY CHANGING MARKET.**

The market for education and training software is characterized by rapidly changing technology, evolving industry standards, changes in customer requirements and preferences and frequent introductions of new products and services embodying new technologies. New methods of providing interactive education in a technology-based format are being developed and offered in the marketplace, including intranet and Internet offerings. In addition, multimedia and other product functionality features are being added to educational software. Our future success will depend upon the extent to which we are able to develop and implement products which address these emerging market requirements on a cost effective and timely basis. Product development is risky because it is difficult to foresee developments in technology coordinate technical personnel and identify and eliminate design flaws. Any significant delay in releasing new

products could have a material adverse effect on the ultimate success of our products and could reduce sales of predecessor products. We may not be successful in introducing new products on

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a timely basis. In addition, new products introduced by us may fail to achieve a significant degree of market acceptance or, once accepted, may fail to sustain viability in the market for any significant period. If we are unsuccessful in addressing the changing needs of the marketplace due to resource, technological or other constraints, or in anticipating and responding adequately to changes in customers' software technology and preferences, our business and results of operations would be materially adversely affected. We, along with the rest of the industry, face a challenging and competitive market for IT spending that has resulted in reduced contract value for our formal learning product lines. This pricing pressure has a negative impact on revenue for these product lines and may have a continued or increased adverse impact in the future.

**THE E-LEARNING MARKET IS A DEVELOPING MARKET, AND OUR BUSINESS WILL SUFFER IF E-LEARNING IS NOT WIDELY ACCEPTED.**

The market for e-learning is a new and emerging market. Corporate training and education have historically been conducted primarily through classroom instruction and have traditionally been performed by a company's internal personnel. Many companies have invested heavily in their current training solutions. Although technology-based training applications have been available for several years, they currently account for only a small portion of the overall training market.

Accordingly, our future success will depend upon the extent to which companies adopt technology-based solutions for their training activities, and the extent to which companies utilize the services or purchase products of third-party providers. Many companies that have already invested substantial resources in traditional methods of corporate training may be reluctant to adopt a new strategy that may compete with their existing investments. Even if companies implement technology-based training or e-learning solutions, they may still choose to design, develop, deliver or manage all or part of their education and training internally. If technology-based learning does not become widespread, or if companies do not use the products and services of third parties to develop, deliver or manage their training needs, then our products and service may not achieve commercial success.

**NEW PRODUCTS INTRODUCED BY US MAY NOT BE SUCCESSFUL.**

An important part of our growth strategy is the development and introduction of new products that open up new revenue streams for us. Despite our efforts, we cannot assure you that we will be successful in developing and introducing new products, or that any new products we do introduce will meet with commercial acceptance. The failure to successfully introduce new products will not only hamper our growth prospects but may also adversely impact our net income due to the development and marketing expenses associated with those new products.

**THE SUCCESS OF OUR E-LEARNING STRATEGY DEPENDS ON THE RELIABILITY AND CONSISTENT PERFORMANCE OF OUR INFORMATION SYSTEMS AND INTERNET INFRASTRUCTURE.**

The success of our e-learning strategy is highly dependent on the consistent performance of our information systems and Internet infrastructure. If our Web site fails for any reason or if it experiences any unscheduled downtimes, even for only a short period, our business and reputation could be materially harmed. We have in the past experienced performance problems and unscheduled downtime, and these problems could recur. We currently rely on third parties for proper functioning of computer infrastructure, delivery of our e-learning applications and the performance of our destination site. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquake, financial patterns of hosting providers and similar events. Any system failures could adversely affect customer usage of our solutions and user traffic results in any future quarters, which could adversely affect our revenue and operating results and harm our reputation with corporate customers, subscribers and commerce partners. Accordingly, the satisfactory performance, reliability and availability of our Web site and computer infrastructure are critical to our reputation and ability to attract and retain corporate customers,

subscribers and commerce partners. We cannot accurately project the rate or timing of any increases in traffic to our Web site and, therefore, the integration and timing of any upgrades or enhancements required to facilitate any significant traffic increase to the Web site are uncertain. We have in the past experienced difficulties in upgrading our Web site infrastructure to handle increased traffic, and these difficulties could recur.

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The failure to expand and upgrade our Web site or any system error, failure or extended down time could materially harm our business, reputation, financial condition or results of operations.

**BECAUSE MANY USERS OF OUR E-LEARNING SOLUTIONS WILL ACCESS THEM OVER THE INTERNET, FACTORS ADVERSELY AFFECTING THE USE OF THE INTERNET OR OUR CUSTOMERS' NETWORKING INFRASTRUCTURES COULD HARM OUR BUSINESS.**

Many of our customer's users access our e-learning solutions over the Internet or through our customers' internal networks. Any factors that adversely affect Internet usage could disrupt the ability of those users to access our e-learning solutions, which would adversely affect customer satisfaction and therefore our business.

For example, our ability to increase the effectiveness and scope of our services to customers is ultimately limited by the speed and reliability of both the Internet and our customers' internal networks. Consequently, the emergence and growth of the market for our products and services depends upon the improvements being made to the entire Internet as well as to our individual customers' networking infrastructures to alleviate overloading and congestion. If these improvements are not made, and the quality of networks degrades, the ability of our customers to use our products and services will be hindered and our revenue may suffer.

Additionally, a requirement for the continued growth of accessing e-learning solutions over the Internet is the secure transmission of confidential information over public networks. Failure to prevent security breaches into our products or our customers' networks, or well-publicized security breaches affecting the Internet in general could significantly harm our growth and revenue. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise of technology we use to protect content and transactions, our products or our customers' proprietary information in our databases. Anyone who is able to circumvent our security measures could misappropriate proprietary and confidential information or could cause interruptions in our operations. We may be required to expend significant capital and other resources to protect against such security breaches or to address problems caused by security breaches. The privacy of users may also deter people from using the Internet to conduct transactions that involve transmitting confidential information.

**WE DEPEND ON A FEW KEY PERSONNEL TO MANAGE AND OPERATE THE BUSINESS AND MUST BE ABLE TO ATTRACT AND RETAIN HIGHLY QUALIFIED EMPLOYEES.**

Our success is largely dependent on the personal efforts and abilities of our senior management. Failure to retain these executives, or the loss of certain additional senior management personnel or other key employees, could have a material adverse effect on our business and future prospects. We are also dependent on the continued service of our key sales, content development and operational personnel and on our ability to attract, train, motivate and retain highly qualified employees. In addition, we depend on writers, programmers, Web designers and graphic artists. We may be unsuccessful in attracting, training, retaining or motivating key personnel. The inability to hire, train and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our business, new product development efforts and future business prospects.

**OUR BUSINESS IS SUBJECT TO CURRENCY FLUCTUATIONS THAT HAVE, AND COULD CONTINUE TO, ADVERSELY AFFECT OUR OPERATING RESULTS.**

Due to our multinational operations, our operating results are subject to fluctuations based upon changes in the exchange rates between the currencies in which revenue is collected or expenses are paid. In particular, the value of the U.S. dollar against the Euro, pound sterling, Canadian dollar, Australian dollar, New Zealand dollar, Singapore dollar and related currencies will impact our operating results. Our expenses will not necessarily be incurred in the currency in which revenue is generated, and, as a result, we will be required from time to time to convert currencies to



meet our obligations. These currency conversions are subject to exchange rate fluctuations, and changes to the value of these currencies and other currencies relative to the U.S. dollar have and could continue to adversely affect our business and results of operations.

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**LEGISLATION HAS RECENTLY BEEN INTRODUCED IN THE UNITED STATES CONGRESS THAT COULD, IF ENACTED IN ITS CURRENT FORM, SUBJECT US TO TAXATION AS A U.S. CORPORATION, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We are aware of two bills recently proposed in Congress that seek to prevent U.S. companies from taking advantage of tax shelters in foreign jurisdictions. One of these proposed bills would, if enacted in its current form, tax a foreign corporation as domestic if it is publicly traded and managed and controlled in the U.S. At this point, it is impossible to tell whether any of the proposed bills will be enacted into law, or whether the provisions of any enacted bill would apply to SkillSoft. In addition, we believe that if any such bill does become law, it would not take effect for several years. If any tax legislation of this nature is ultimately adopted, we would assess its impact on us and take steps, where appropriate, to mitigate such impact. However, it is possible that we could become subject to additional taxes as a result of the adoption of such legislation.

**WE MAY BE UNABLE TO PROTECT OUR PROPRIETARY RIGHTS. UNAUTHORIZED USE OF OUR INTELLECTUAL PROPERTY MAY RESULT IN DEVELOPMENT OF PRODUCTS OR SERVICES THAT COMPETE WITH OURS.**

Our success depends to a degree upon the protection of our rights in intellectual property. We rely upon a combination of patent, copyright, and trademark laws to protect our proprietary rights. We have also entered into, and will continue to enter into, confidentiality agreements with our employees, consultants and third parties to seek to limit and protect the distribution of confidential information. However, we have not signed protective agreements in every case.

Although we have taken steps to protect our proprietary rights, these steps may be inadequate. Existing patent, copyright, and trademark laws offer only limited protection. Moreover, the laws of other countries in which we market our products may afford little or no effective protection of our intellectual property. Additionally, unauthorized parties may copy aspects of our products, services or technology or obtain and use information that we regard as proprietary. Other parties may also breach protective contracts we have executed or will in the future execute. We may not become aware of, or have adequate remedies in the event of, a breach. Litigation may be necessary in the future to enforce or to determine the validity and scope of our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Even if we were to prevail, such litigation could result in substantial costs and diversion of management and technical resources.

**OUR WORLDWIDE OPERATIONS ARE SUBJECT TO RISKS WHICH COULD NEGATIVELY IMPACT OUR FUTURE OPERATING RESULTS.**

We expect that international operations will continue to account for a significant portion of our revenues and are subject to inherent risks, including:

- difficulties or delays in developing and supporting non-English language versions of our products and services;
- political and economic conditions in various jurisdictions;
- difficulties in staffing and managing foreign subsidiary operations;
- longer sales cycles and account receivable payment cycles;
- multiple, conflicting and changing governmental laws and regulations;
- foreign currency exchange rate fluctuations;

protectionist laws and business practices that may favor local competitors;

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difficulties in finding and managing local resellers;  
potential adverse tax consequences; and  
the absence or significant lack of legal protection for intellectual property rights.

Any of these factors could have a material adverse effect on our future operations outside of the United States, which could negatively impact our future operating results.

**OUR SALES CYCLE MAY MAKE IT DIFFICULT TO PREDICT OUR OPERATING RESULTS.**

The period between our initial contact with a potential customer and the purchase of our products by that customer typically ranges from three to twelve months or more. Factors that contribute to our long sales cycle, include:

our need to educate potential customers about the benefits of our products;  
competitive evaluations by customers;  
the customers' internal budgeting and approval processes;

the fact that many customers view training products as discretionary spending, rather than purchases essential to their business; and

the fact that we target large companies, which often take longer to make purchasing decisions due to the size and complexity of the enterprise.

These long sales cycles make it difficult to predict the quarter in which sales may occur. Delays in sales could cause significant variability in our revenue and operating results for any particular period.

**OUR BUSINESS COULD BE ADVERSELY AFFECTED IF OUR PRODUCTS CONTAIN ERRORS.**

Software products as complex as ours contain known and undetected errors or "bugs" that result in product failures. The existence of bugs could result in loss of or delay in revenue, loss of market share, diversion of product development resources, injury to reputation or damage to efforts to build brand awareness, any of which could have a material adverse effect on our business, operating results and financial condition.

**RISKS RELATED TO LEGAL PROCEEDINGS**

**WE ARE THE SUBJECT OF AN INVESTIGATION BY THE SEC.**

The Boston District Office of the SEC informed us in January 2007 that we are the subject of an informal investigation concerning option granting practices at SmartForce for the period beginning April 12, 1996 through July 12, 2002. These grants were made prior to the September 6, 2002 merger of SkillSoft Corporation and SmartForce PLC. We have produced documents in response to requests from the SEC.

We have cooperated with the SEC in this matter. At the present time, we are unable to predict the outcome of this matter or its potential impact on our operating results or financial position. However, we may incur substantial costs in connection with the SEC option granting practices investigation, and this investigation could cause a diversion of

management time and attention. In addition, we could be subject to penalties, fines or regulatory sanctions or claims by our former officers, directors or employees for indemnification of costs they may incur in connection with the SEC investigation. Any or all of those issues could adversely affect our business, operating results and financial position.

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CLAIMS THAT WE INFRINGE UPON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS COULD RESULT IN COSTLY LITIGATION OR ROYALTY PAYMENTS TO THIRD PARTIES, OR REQUIRE US TO REENGINEER OR CEASE SALES OF OUR PRODUCTS OR SERVICES.

Third parties have in the past and could in the future claim that our current or future products infringe their intellectual property rights. Any claim, with or without merit, could result in costly litigation or require us to reengineer or cease sales of our products or services, any of which could have a material adverse effect on our business. Infringement claims could also result in an injunction barring the sale of our products or require us to enter into royalty or licensing agreements. Licensing agreements, if required, may not be available on terms acceptable to the combined company or at all.

From time to time we learn of parties that claim broad intellectual property rights in the e-learning area that might implicate our offerings. These parties or others could initiate actions against us in the future.

WE COULD INCUR SUBSTANTIAL COSTS RESULTING FROM PRODUCT LIABILITY CLAIMS RELATING TO OUR CUSTOMERS' USE OF OUR PRODUCTS AND SERVICES.

Many of the business interactions supported by our products and services are critical to our customers' businesses. Any failure in a customer's business interaction or other collaborative activity caused or allegedly caused in the future by our products and services could result in a claim for substantial damages against us, regardless of our responsibility for the failure. Although we maintain general liability insurance, including coverage for errors and omissions, there can be no assurance that existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim.

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**WE COULD BE SUBJECTED TO LEGAL ACTIONS BASED UPON THE CONTENT WE OBTAIN FROM THIRD PARTIES OVER WHOM WE EXERT LIMITED CONTROL.**

It is possible that we could become subject to legal actions based upon claims that our course content infringes the rights of others or is erroneous. Any such claims, with or without merit, could subject us to costly litigation and the diversion of our financial resources and management personnel. The risk of such claims is exacerbated by the fact that our course content is provided by third parties over whom we exert limited control. Further, if those claims are successful, we may be required to alter the content, pay financial damages or obtain content from others.

**IN PRIOR YEARS, SOME OF OUR INTERNATIONAL SUBSIDIARIES HAVE NOT COMPLIED WITH REGULATORY REQUIREMENTS RELATING TO THEIR FINANCIAL STATEMENTS AND TAX RETURNS.**

We operate our business in various foreign countries through subsidiaries organized in those countries. Due to our restatement of the historical SmartForce financial statements, some of our subsidiaries have been delayed in the filing of their audited statutory financial statements and have been delayed in filing their tax returns in their respective jurisdictions. As a result, some of these foreign subsidiaries may be subject to regulatory restrictions, penalties and fines and additional taxes.

**RISKS RELATED TO OUR ADSs**

**THE MARKET PRICE OF OUR ADSs MAY FLUCTUATE AND MAY NOT BE SUSTAINABLE.**

The market price of our ADSs has fluctuated significantly since our initial public offering, has declined significantly in recent months and is likely to continue to be volatile. In addition, in recent years the stock market in general, and the market for shares of technology stocks in particular, have experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of our ADSs may continue to experience significant fluctuations in the future, including fluctuations that are unrelated to our performance. As a result of these fluctuations in the price of our ADSs, it is difficult to predict what the price of our ADSs will be at any point in the future, and you may not be able to sell your ADSs at or above the price that you paid for them.

**SALES OF LARGE BLOCKS OF OUR ADSs COULD CAUSE THE MARKET PRICE OF OUR ADSs TO DROP SIGNIFICANTLY, EVEN IF OUR BUSINESS IS DOING WELL.**

Some shareholders own 5% or more of our outstanding shares. We cannot predict the effect, if any, that public sales of these shares will have on the market price of our ADSs. If our significant shareholders, or our directors and officers, sell substantial amounts of our ADSs in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our ADSs, even if there is no relationship between such sales and the performance of our business.

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## ITEM 2. — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On April 8, 2008, our shareholders approved the repurchase of up to 10,000,000 of our ADSs. On September 24, 2008 our shareholders approved an increase in the number of shares that may be repurchased to 25,000,000. Under the approved share purchase program, we entered into a share purchase agreement, pursuant to which we and certain of our subsidiaries are entitled to purchase our ADSs. ADSs that are repurchased by us or our subsidiaries under the share purchase program shall, at the option of our Board of Directors, be either cancelled upon their purchase or held as treasury shares.

During the three months ended April 30, 2009, certain of our subsidiaries repurchased our ADSs as follows:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share \$	(c) Total Number of Shares Purchased as Part of Publicly Announced or Program (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program
February 1, 2009 – February 28, 2009	210,000	\$ 7.24	210,000	13,692,685
March 1, 2009 – March 31, 2009	355,200	6.22	355,200	13,337,485
April 1, 2009 – April 30, 2009	719,854	7.82	719,854	12,617,631
Total	1,285,054	\$ 7.28	1,285,054	12,617,631

(1) We repurchased ADSs pursuant to a share repurchase program that was approved by our shareholders on April 8, 2008 and amended on September 24, 2008.

(2) Our shareholders approved the repurchase by us of up to 25,000,000 ADSs at a per share purchase price which complies with the requirements of Rule 10b-18. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire on March 23, 2010 or when we have repurchased all shares authorized for repurchase thereunder.

## ITEM 3. — DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

## ITEM 5. — OTHER INFORMATION

Not applicable.

## ITEM 6. — EXHIBITS



See the Exhibit Index attached hereto.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKILLSOFT PUBLIC LIMITED COMPANY

Date: June 9, 2009

By:

/s/ Thomas J. McDonald  
Thomas J. McDonald  
Chief Financial Officer

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EXHIBIT INDEX

- 10.1 Lease agreement, dated June 9, 2004, as amended, by and between Hewlett-Packard Company and SkillSoft Corporation.
- 31.1 Certification of SkillSoft PLC's Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15(d)-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of SkillSoft PLC's Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15(d)-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of SkillSoft PLC's Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of SkillSoft PLC's Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

