

SKILLSOFT PUBLIC LIMITED CO

Form 10-Q

December 10, 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 OCTOBER 31, 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  £

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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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(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

On December 7, 2009, the registrant had outstanding 98,887,476 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 OCTOBER 31, 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)

	OCTOBER 31, 2009 (Unaudited)	JANUARY 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,802	\$ 37,853
Short-term investments	3,651	1,099
Restricted cash	2,792	3,790
Accounts receivable, net	69,816	146,362
Prepaid expenses and other current assets	14,781	18,286
Deferred tax assets	30,295	26,444
Total current assets	181,137	233,834
Property and equipment, net	5,960	7,661
Intangible assets, net	6,687	13,472
Goodwill	238,550	238,550
Deferred tax assets	56,125	78,223
Other assets	9,585	3,360
Total assets	\$ 498,044	\$ 575,100
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long term debt	\$ 865	\$ 1,253
Accounts payable	4,175	5,648
Accrued compensation	9,916	13,513
Accrued expenses	18,163	23,760
Deferred revenue	140,424	201,518
Total current liabilities	173,543	245,692
Long term debt	83,716	122,131
Other long term liabilities	2,663	3,221
Total long term liabilities	86,379	125,352
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, €0.11 par value per share: 250,000,000 shares authorized; 95,222,637 and 98,892,249 shares issued at October 31, 2009 and January 31, 2009, respectively	10,033	10,600
Additional paid-in capital	484,545	509,177
Treasury stock, at cost, 197,200 and 830,802 ordinary shares at October 31, 2009 and January 31, 2009, respectively	(1,928)	(5,317)
Accumulated deficit	(255,294)	(310,874)
Accumulated other comprehensive income	766	470
Total shareholders' equity	238,122	204,056

Total liabilities and shareholders' equity	\$	498,044	\$	575,100
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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		NINE MONTHS ENDED	
	OCTOBER 31,		OCTOBER 31,	
	2009	2008	2009	2008
Revenue	\$ 80,402	\$ 83,064	\$ 235,767	\$ 248,039
Cost of revenue (1)	6,845	9,374	21,842	28,013
Cost of revenue – amortization of intangible assets	32	1,690	96	5,170
Gross profit	73,525	72,000	213,829	214,856
Operating expenses:				
Research and development (1)	12,508	12,138	31,212	38,136
Selling and marketing (1)	23,336	26,387	70,134	82,185
General and administrative (1)	7,857	9,130	25,014	27,454
Amortization of intangible assets	2,118	2,738	6,690	8,475
Merger and integration related expenses	-	-	-	761
Restructuring	-	-	56	-
SEC investigation	-	-	-	49
Total operating expenses	45,819	50,393	133,106	157,060
Operating income	27,706	21,607	80,723	57,796
Other (expense) income, net	(220)	1,013	(1,443)	616
Interest income	66	248	204	1,440
Interest expense	(1,633)	(3,364)	(6,110)	(11,014)
Income before provision for income taxes from continuing operations	25,919	19,504	73,374	48,838
Provision for income taxes	6,289	7,438	17,794	18,790
Income from continuing operations	19,630	12,066	55,580	30,048
(Loss) income from discontinued operations, net of income tax (benefit) expense of (\$25) thousand and \$1.3 million for the three and nine months ended October 31, 2008	-	(37)	-	1,937
Net income	\$ 19,630	\$ 12,029	\$ 55,580	\$ 31,985
Net income per share (Note 9):				
Basic – continuing operations	\$ 0.21	\$ 0.12	\$ 0.58	\$ 0.29
Basic – discontinued operations	\$ -	\$ -	\$ -	\$ 0.02
	\$ 0.21	\$ 0.12	\$ 0.58	\$ 0.31
Basic weighted average shares outstanding	95,374,749	104,182,736	96,489,795	104,779,876
Diluted – continuing operations	\$ 0.20	\$ 0.11	\$ 0.56	\$ 0.28
Diluted – discontinued operations	\$ -	\$ -	\$ -	\$ 0.02
	\$ 0.20	\$ 0.11	\$ 0.56	\$ 0.29†
Diluted weighted average shares outstanding	98,501,863	107,500,272	98,601,709	108,656,388

† Does not add due to rounding.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCTOBER 31,		OCTOBER 31,	
	2009	2008	2009	2008

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Cost of revenue	\$	17	\$	52	\$	66	\$	163
Research and development		226		227		742		695
Selling and marketing		486		412		1,725		1,434
General and administrative		701		731		2,108		2,212

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)

	NINE MONTHS ENDED OCTOBER 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 55,580	\$ 31,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation	4,641	4,504
Depreciation and amortization	3,419	3,921
Amortization of intangible assets	6,786	13,645
Provision for bad debts	(130)	(187)
Provision for income tax — non-cash	11,924	15,727
Gain on sale of discontinued operations	-	(3,386)
Non-cash interest expense	854	898
Tax (benefit) effect related to exercise of non-qualified stock options	169	(1,247)
Changes in current assets and liabilities:		
Accounts receivable	80,962	92,756
Prepaid expenses, other current assets and other assets	3,951	7,907
Accounts payable	(1,502)	(858)
Accrued expenses, including long-term	(10,809)	(21,663)
Deferred revenue	(68,029)	(68,608)
Net cash provided by operating activities	87,816	75,394
Cash flows from investing activities:		
Purchases of property and equipment	(1,703)	(4,066)
Cash paid for business acquisitions	-	(250)
Purchases of investments	(7,762)	(18,545)
Maturity of investments	5,212	23,337
Decrease in restricted cash, net	998	218
Cash received from sale of discontinued operations	-	6,903
Net cash (used in) provided by investing activities	(3,255)	7,597
Cash flows from financing activities:		
Exercise of share options	1,343	16,412
Proceeds from employee share purchase plan	2,192	3,063
Principal payments on long term debt	(38,802)	(55,303)
Acquisition of treasury stock	(29,817)	(56,495)
Tax (effect) benefit related to exercise of non-qualified stock options	(169)	1,247
Net cash used in financing activities	(65,253)	(91,076)
Effect of exchange rate changes on cash and cash equivalents	2,641	(3,210)
Net increase (decrease) in cash and cash equivalents	21,949	(11,295)
Cash and cash equivalents, beginning of period	37,853	76,059
Cash and cash equivalents, end of period	\$ 59,802	\$ 64,764

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 its customers to maximize 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). References in this Form 10-Q to our fiscal year refer to the fiscal year ended January 31 of that year (e.g., fiscal 2010 is the fiscal year ended January 31, 2010).

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 October 31, 2009 and the results of its operations and cash flows for the three and nine months ended October 31, 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.

The Company evaluated subsequent events through December 10, 2009, the date of issuance of these financial statements, to determine if any event since October 31, 2009, the date of these financial statements, required disclosure in these statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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 October 31, 2009, cash equivalents consisted mainly of high-grade commercial paper and corporate bonds. At January 31, 2009, cash equivalents consisted mainly of commercial paper and federal agency notes.

At October 31, 2009, the Company had approximately \$2.8 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 \$0.1 million is held in certificates-of-deposits with a commercial bank pursuant to terms of certain facilities lease agreements.

In accordance with the guidance of the Financial Accounting Standards Board (FASB), 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 October 31, 2009, the Company's investments were classified as available for sale and had an average maturity of approximately 62 days.

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Cash and cash equivalents and available for sale short-term investments as of January 31, 2009 were as follows (in thousands):

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:					
Cash	N/A	\$ 34,653	\$ -	\$ -	\$ 34,653
Commercial paper	0-3 months	2,199	1	-	2,200
Federal agency notes	2 months	1,000	-	-	1,000
		\$ 37,852	\$ 1	\$ -	\$ 37,853
Short-term investments:					
Commercial paper	4 months	\$ 1,099	\$ -	\$ -	\$ 1,099
		\$ 1,099	\$ -	\$ -	\$ 1,099

Cash and cash equivalents and available for sale short-term investments as of October 31, 2009 were as follows (in thousands):

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:					
Cash	N/A	\$ 59,054	\$ -	\$ -	\$ 59,054
Commercial paper	0-3 months	200	-	-	200
Corporate bonds	2-3 months	549	-	(1)	548
		\$ 59,803	\$ -	\$ (1)	\$ 59,802
Short-term investments:					
Commercial paper	6 months	\$ 200	\$ -	\$ -	\$ 200
Federal agency notes	5 months	350	-	-	350
Corporate bonds	4 months	202	-	(1)	201
Treasury bills	6 months	2,298	1	-	2,299
Certificates of deposit	4-6 months	601	-	-	601
		\$ 3,651	\$ 1	\$ (1)	\$ 3,651

Realized gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are included in investment income. Gross realized gains and losses for the nine months ended October 31 2009 were nominal. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in other income.

#### 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 FASB Accounting Standards Codification (ASC) 605 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.

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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 customers 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.

The Company typically recognizes revenue from resellers over the commitment period 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.

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.

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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 October 31, 2009, 10,183,705 shares remain available for repurchase, subject to certain limitations, under the shareholder approved repurchase program.

During the nine months ended October 31, 2009, the Company repurchased a total of 3,718,980 shares for a total purchase price, including commissions, of \$29.8 million. The Company retired 4,352,582 shares during the nine months ended October 31, 2009, including 830,802 shares repurchased in the prior fiscal year. As of October 31, 2009, 197,200 of the repurchased shares had not yet been retired or canceled and were held as treasury shares at cost. The Company intends to retire these shares in the near future.

(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 typically one or three years in the case of directors), and have a maximum term of ten years. As of October 31, 2009, 2,069,826 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.



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A summary of share option activity under the Company's plans during the nine months ended October 31, 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		
Granted	60,000	4.17		
Exercised	(293,952)	4.57		
Forfeited	(62,917)	4.35		
Expired	(336,941)	14.92		
Outstanding, October 31, 2009	12,390,346	\$ 7.41	3.26	\$ 40,058
Exercisable, October 31, 2009	10,429,083	\$ 7.73	3.11	\$ 32,378
Vested and Expected to Vest, October 31, 2009 (1)	12,190,762	\$ 7.45	3.25	\$ 39,109

(1) Represents the number of vested options as of October 31, 2009 plus the number of unvested options as of October 31, 2009 that are expected to vest, adjusted for an estimated forfeiture rate of 15.4%. The Company recognizes expense incurred on a straight line basis, in accordance with the FASB guidance. 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 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 October 31, 2009.

The aggregate intrinsic value of options exercised during the three and nine months ended October 31, 2009 was approximately \$0.7 million and \$1.2 million, respectively. The weighted average grant date fair value of options granted as calculated by Black-Scholes option pricing model during the nine months ended October 31, 2009 and 2008 was \$3.19 and \$3.81 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 nine month period ended October 31, 2009 is as follows (in thousands):

	Closedown of Facilities	Other	Total
Merger and exit accrual January 31, 2009	\$ 1,594	\$ 77	\$ 1,671

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Payments made	(867)	11	(856)
Adjustment to provision for merger and exit costs in connection with the acquisition of NETg	(31)	-	(31)
Adjustment to provision for merger and exit costs in connection with the SmartForce Merger	(355)	-	(355)
Merger and exit accrual October 31, 2009	\$ 341	\$ 88	\$ 429

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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 3 months)	\$	66
Year Ended January 31, 2011		363
Total	\$	429

## (b) Discontinued Operations

In connection with the acquisition of NETg from the Thomson Corporation on May 14, 2007, the Company discontinued certain businesses acquired from NETg.

Discontinued operations did not affect our results of operations during the three or nine months ended October 31, 2009. Summarized results of operations for discontinued operations for the three and nine months ended October 31, 2008 is as follows (in thousands):

	Three Months Ended October 31, 2008	Nine Months Ended October 31, 2008
Revenue from discontinued operations	\$ (64)	\$ 224
(Loss) gain from discontinued operations before income taxes	(62)	3,243
Income tax (benefit) provision	(25)	1,306
(Loss) gain from discontinued operations	\$ (37)	\$ 1,937

The income from discontinued operations before income tax for the nine months ended October 31, 2008 consisted primarily of a \$3.4 million gain resulting from proceeds received from the Company's sale of the assets related to the NETg Press business in October 2007, which was partially offset by a \$0.2 million loss from discontinued operations.

## (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 \$56,000 restructuring charge in the nine months ended October 31, 2009, which is included in the consolidated statement of income as "restructuring", and is primarily 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 for the 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		(1,161)
Restructuring charges incurred		56
Restructuring accrual as of October 31, 2009	\$	7

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):

	October 31, 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	\$ 38,558	\$ 159	\$ 38,717	\$ 38,462	\$ 255
Customer contracts	36,848	31,220	5,628	36,848	26,938	9,910
Non-compete agreement	6,900	6,900	-	6,900	4,830	2,070
Trademarks and trade names	2,725	2,725	-	2,725	2,388	337
Books 24X7 trademark	900	-	900	900	-	900
	\$ 86,090	\$ 79,403	\$ 6,687	\$ 86,090	\$ 72,618	\$ 13,472

Trademarks of \$0.9 million relating to the Company's subsidiary, Books24X7, are considered indefinite-lived and accordingly no amortization expense is recorded.

There was no change in goodwill at October 31, 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 third quarter of fiscal 2010.

## 8. COMPREHENSIVE INCOME

Comprehensive income for the three and nine months ended October 31, 2009 and 2008 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Comprehensive income:				
Net income	\$ 19,630	\$ 12,029	\$ 55,580	\$ 31,985
Other comprehensive income (loss) income - Foreign currency adjustment	45	2,013	(570)	2,309
Change in fair value of interest rate hedge, net of tax	208	260	866	1,155
Unrealized losses on available-for-sale securities	-	-	-	(24)
Comprehensive income	\$ 19,883	\$ 14,302	\$ 55,876	\$ 35,425

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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		Nine Months Ended	
	October 31,		October 31,	
	2009	2008	2009	2008
Basic weighted average shares outstanding	95,374,749	104,182,736	96,489,795	104,779,876
Effect of dilutive shares outstanding	3,127,114	3,317,536	2,111,914	3,876,512
Weighted average shares outstanding, as adjusted	98,501,863	107,500,272	98,601,709	108,656,388

The following share equivalents have been excluded from the computation of diluted weighted average shares outstanding for the three and nine months ended October 31, 2009 and 2008, respectively, as they would be anti-dilutive because the sum of the exercise proceeds, windfall tax benefit and the deferred compensation cost per share was greater than the average market price of the Company's common stock for the relevant period:

	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2009	2008	2009	2008
Options to purchase shares excluded	2,290,257	2,907,621	3,039,764	2,936,591

## 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.

For the nine months ended October 31, 2009 and 2008, the Company's effective tax rates were 24.3% and 38.5%, respectively. The decrease in the current year effective tax rate is primarily due to a change in the geographical distribution of worldwide earnings as a result of the business realignment strategy that took place at the beginning of fiscal 2010. For the nine months ended October 31, 2009, the provision for income taxes consisted of a cash tax provision of \$5.9 million and a non-cash tax provision of \$11.9 million. Included in the non-cash tax provision of \$11.9 million is a \$0.7 million provision resulting from a remeasurement of the Company's state deferred tax assets due to a change in the Company's effective state tax rate, and a \$0.7 million provision due to an adjustment to the Company's net operating loss carryforward related deferred tax asset. For the nine months ended October 31, 2008, the provision for income taxes of \$18.8 million consisted of a cash tax provision of \$3.1 million and a non-cash tax provision of \$15.7 million.

The Company's unrecognized tax benefits, including interest and penalties totaled \$3.2 million at October 31, 2009, all of which, if recognized, would affect the Company's effective tax rate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expense. As of October 31, 2009, the Company had approximately \$0.7 million of accrued interest related to uncertain tax positions.

In the normal course of business, the Company and its subsidiaries are 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 based income tax examinations for years before fiscal 2004.

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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 has informed the Company that it has not determined whether to close the Option Granting Investigation.

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.

The Company's software license arrangements and hosting services are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and substantially in accordance with the Company's product documentation under normal use and circumstances. The Company's arrangements also include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights.

The Company has entered into service level agreements with some of its hosted application customers warranting certain levels of uptime reliability and permitting those customers to receive credits against monthly hosting fees or terminate their agreements in the event that the Company fails to meet those levels for an agreed upon period of time.

To date, the Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.



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## 12. GEOGRAPHICAL DISTRIBUTION OF REVENUE

The Company attributes revenue to different geographical areas on the basis of the location of the customer. Revenue by geographical area for the three and nine month periods ended October 31, 2009 and 2008 was as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Revenue:				
United States	\$ 60,284	\$ 61,998	\$ 179,036	\$ 181,807
United Kingdom	9,552	11,358	27,126	34,980
Canada	3,350	3,047	9,090	9,831
Europe, excluding United Kingdom	2,331	1,758	6,617	5,438
Australia/New Zealand	3,321	3,343	9,186	11,306
Other	1,564	1,560	4,712	4,677
Total revenue	\$ 80,402	\$ 83,064	\$ 235,767	\$ 248,039

Long-lived tangible assets at international locations are not significant.

## 13. ACCRUED EXPENSES

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

	October 31, 2009	January 31, 2009
Professional fees	\$ 2,983	\$ 4,237
Sales tax payable/VAT payable	1,201	3,806
Accrued royalties	1,446	1,650
Interest rate swap liability	138	1,581
Accrued tax	1,240	854
Other accrued liabilities	11,155	11,632
Total accrued expenses	\$ 18,163	\$ 23,760

## 14. OTHER ASSETS

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

	October 31, 2009	January 31, 2009
Debt financing cost – long term (See Note 17)	\$ 2,392	\$ 3,211
Deferred charge	6,977	-
Other	216	149
Total other assets	\$ 9,585	\$ 3,360

The deferred charge of \$7.0 million represents the deferred tax effects of the Company's business realignment and the transfer of its intellectual property between the U.S. and Ireland. The net tax effect of an intercompany transaction is deferred in consolidation. This deferred charge is amortized into tax expense over the useful life of the transferred asset, which is 5 years.



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## 15. OTHER LONG TERM LIABILITIES

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

	October 31, 2009	January 31, 2009
Merger accrual – long term	\$ 89	\$ 1,189
Uncertain tax positions; including interest and penalties – long term	2,451	1,714
Other	123	318
Total other long-term liabilities	\$ 2,663	\$ 3,221

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist mainly of cash and cash equivalents, derivative financial instrument contracts, investments, restricted cash, accounts receivable and debt. The Company determines fair value for short-term investments based on quoted market values. The carrying amount of accounts receivable is net of an allowance for doubtful accounts, which is based on historical collections and known credit risks. The Company believes the fair value of its variable rate debt approximates its carrying value based on comparable market terms and conditions.

In connection with the acquisition of NETg, the Company entered into an interest rate swap contract that is carried at fair value related to debt incurred to finance the acquisition. See Note 18 for further discussion.

The following table summarizes the Company's fair value hierarchy for its financial assets and liabilities measured at fair value as of October 31, 2009 (in thousands):

	October 31, 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)	\$ 748	\$ 748	\$ -	\$ -
Available for sale securities (2)	\$ 3,651	\$ 1,002	\$ 2,649	\$ -
<b>Financial Liabilities:</b>				
Interest rate swap agreement (Note 18)	\$ 138	\$ -	\$ 138	\$ -

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

(2) Consists of high-grade commercial paper, agency discount notes, corporate bonds, certificates of deposit and treasury bills 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.

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The term loan bears interest at a rate per annum equal to, at the Company's election, (i) a base rate (3.25% at October 31, 2009) plus a margin of 2.50% or (ii) adjusted LIBOR (0.28% at October 31, 2009) plus a margin of 3.50%. The Company is required to maintain certain financial covenants under the credit facility. The Company is in compliance with these covenants at October 31, 2009 and has been since the inception of the term loan.

In connection with the Credit Agreement, as amended, 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 and nine months ended October 31, 2009, the Company paid approximately \$1.0 million and \$3.9 million, respectively, 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 October 31, 2009 and 2008. The Company recorded \$0.9 million of amortized interest expense related to the capitalized debt financing costs for both the nine months ended October 31, 2009 and 2008. As of October 31, 2009, total unamortized debt financing costs of \$1.0 million and \$2.4 million are recorded within prepaid expenses and other current assets and non-current other assets, respectively, based on scheduled future amortization.

During the three and nine months ended October 31, 2009, the Company paid \$10.2 million and \$38.8 million, respectively, against the term loan amount. As a result, the balance outstanding under the term loan was \$84.6 million at October 31, 2009, with a weighted average interest rate for the three month period ended October 31, 2009 of 5.48%, which includes a portion of debt that has been fixed by an interest rate swap.

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

Fiscal 2010 (remaining 3 months)	\$	216
Fiscal 2011		865
Fiscal 2012		865
Fiscal 2013		865
Fiscal 2014		81,770
Total	\$	84,581

## 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 financial 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 a derivative financial instrument. Specifically, the Company entered into a derivative financial instrument to manage exposure related to a portion of the Company's borrowings which bear variable floating rate interest. The Company's derivative financial instrument is 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 a portion of the Company's 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.



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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 and nine months ended October 31, 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 and nine months ended October 31, 2009.

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 August 1, 2009 through December 31, 2009, the Company estimates that an additional \$0.1 million will be recorded as an increase to interest expense.

As of October 31, 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 3 Month	Strike Rate
Interest Rate Swap	\$ 17,200	May 14, 2007	2009	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 October 31, 2009, and January 31, 2009 (in thousands):

Balance Sheet Location	October 31, 2009	January 31, 2009
Liabilities:		
Derivative instruments designated as a cash flow instruments:		
Interest rate swap contracts	\$ 138	\$ 1,581
Total assets	\$ 138	\$ 1,581

The tables below present the effect of the Company's derivative financial instruments on the Consolidated Statement of Income for the three and nine months ended October 31, 2009 (in thousands):

	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from AOCI into Net Income	Location of Gain (Loss) Reclassified from AOCI into Net Income
For the three months ended October 31, 2009:			
Interest rate swap contracts	\$ (15)	\$ (362)	Interest Expense
Total	\$ (15)	\$ (362)	





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	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from AOCI into Net Income	Location of Gain (Loss) Reclassified from AOCI into Net Income
For the nine months ended October 31, 2009:			
Interest rate swap contracts	\$ (132)	\$ (1,575)	Interest Expense
Total	\$ (132)	\$ (1,575)	

As of October 31, 2009, the fair value of derivatives, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these instruments was a \$0.2 million net liability. As of October 31, 2009, the Company had not posted any collateral related to these instruments. If the Company had breached any of these provisions at October 31, 2009, it would have been required to settle its obligations under the instruments at their termination value of \$0.2 million.

#### 19. RECENTLY ISSUED ACCOUNTING GUIDANCE

In June 2009, the FASB issued the FASB Accounting Standards Codification (ASC), which was effective for the Company in the third quarter ended October 31, 2009. The Codification became the single authoritative source for U.S. generally accepted accounting principles (GAAP). Accordingly, previous references to U.S. GAAP accounting standards are no longer used by the Company in its disclosures including these Notes to the condensed consolidated financial statements. The ASC does not change U.S. GAAP and does not affect the Company's consolidated financial position, cash flows, or results of operations.

In December 2007, the FASB issued updated guidance on business combinations, incorporated into ASC 805, which includes 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 this guidance on February 1, 2009 did not have a material impact on the Company's financial position or results of operations. The adoption of this guidance 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.

In December 2007, the FASB issued updated guidance on non-controlling interest in consolidated financial statements, incorporated into ASC 810-10-65-1, which includes 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, this guidance revises the accounting for both increases and decreases in a parent's controlling ownership interest. Adoption of this guidance 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 updated guidance on recognition and presentation of other-than-temporary impairments, incorporated into ASC 350-30-65-1, which 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 entity-specific factors. This guidance 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.



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In May 2009, the FASB issued updated guidance on subsequent events, incorporated into ASC 855, which does not require significant changes regarding recognition or disclosure of subsequent events, but does require disclosure of the date through which subsequent events have been evaluated for disclosure and recognition. This guidance is effective for financial statements issued after June 15, 2009. The implementation of this standard did not have a significant impact on the financial statements of the Company. Subsequent events through the filing date of this Quarterly Report on Form 10-Q have been evaluated for disclosure and recognition.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force to amend certain guidance in ASC 605-25, “Revenue Recognition, 25 Multiple-Element Arrangements.” The amended guidance in ASC 605-25 (1) modifies the separation criteria by eliminating the criterion that requires objective and reliable evidence of fair value for the undelivered item(s), and (2) eliminates the use of the residual method of allocation and instead requires that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price.

In October 2009, the FASB also issued ASU 2009-14, Certain Revenue Arrangements That Include Software Elements – a consensus of the FASB Emerging Issues Task Force, to amend the scope of arrangements under ASC 985-605, Software, 605, “Revenue Recognition” to exclude tangible products containing software components and non-software components that function together to deliver a product’s essential functionality.

The amended guidance in ASC 605-25 and ASC 985-605 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early application and retrospective application permitted. The Company expects to prospectively apply the amended guidance in ASC 985-605, concurrently with the amended guidance in ASC 605-25, beginning on February 1, 2010. The Company is in the process of evaluating the impact the amendments to ASC 605-25 and ASC 985-605 will have on its consolidated 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 2010 is the fiscal year ended January 31, 2010).

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 organizations to maximize 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.

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We generate revenue primarily from the license of our products, the provision of professional services and 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, hosting services, royalties, 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 by capitalizing certain computer software development costs incurred after technological feasibility is established. No software development costs incurred during the three and nine months ended October 31, 2009 met the requirements for capitalization.

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) and GoTrain Corp.

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's review of SmartForce's option granting practices prior to the merger between SmartForce PLC and SkillSoft Corporation (the SmartForce Merger).

## BUSINESS OUTLOOK

In the three and nine months ended October 31, 2009, we generated revenue of \$80.4 million and \$235.8 million, respectively, as compared to \$83.1 million and \$248.0 million in the three and nine months ended October 31, 2008, respectively. We reported net income in the three and nine months ended October 31, 2009 of \$19.6 million and \$55.6 million, respectively, as compared to \$12.0 million and \$32.0 million in the three and nine months ended October 31, 2008, respectively.

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While we have achieved increased operating income and net income from last fiscal year's comparable period, we have experienced during the last year 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 training and 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 placed further constraints on our customers' and potential customers' IT budgets and spending. We have not yet seen signs of an improving customer environment, but we are also not experiencing continued deterioration. We have also encountered longer sales cycles due to additional customer scrutiny on deals. This has given us less visibility into the overall timing of our sales cycles. Despite these challenges, our core business so far this fiscal year has performed in accordance with our expectations. We expect our revenue to decline approximately 4% to 5% 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 October 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 may continue to add, additional sales and development resources in response to the cautious customer spending environment.

In fiscal 2010, we have been focusing on revenue generation 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 OCTOBER 31, 2009 VERSUS THREE MONTHS ENDED OCTOBER 31, 2008

## Revenue

	THREE MONTHS ENDED		Dollar	Percent Change
	2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Revenue:				
United States	\$ 60,284	\$ 61,998	\$ (1,714)	(3)%
International	20,118	21,066	(948)	(5)%
Total	\$ 80,402	\$ 83,064	\$ (2,662)	(3)%

The decrease in total revenue was primarily due to a more cautious customer spending environment related to the current challenging global economic climate in fiscal 2010 versus fiscal 2009 as well as the negative effect foreign exchange rates had on our international subsidiaries' revenue when converted to U.S. dollars.

## Costs and Expenses

	THREE MONTHS ENDED		Dollar	Percent Change
	2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Cost of revenue	\$ 6,845	\$ 9,374	\$ (2,529)	(27)%
As a percentage of revenue	9%	11%		
Cost of revenue – amortization of intangible assets	32	1,690	(1,658)	(98)%
As a percentage of revenue	0%	2%		

The decrease in cost of revenue in the three months ended October 31, 2009 versus the three months ended October 31, 2008 was partially due to a reduction in royalty fees of \$0.9 million as a result of both the decrease in revenue and a shift in product mix away from royalty-bearing products. Also contributing to the decrease in cost of revenue was a \$0.4 million decrease related to reductions in personnel and \$1.1 million in lower expenses for hosting, outside contractor, maintenance and facility charges as a result of both our recent cost-saving initiatives carried out in the fourth quarter of fiscal 2009 and the substantial completion of certain NETg integration initiatives in fiscal 2009.

The decrease in cost of revenue - amortization of intangible assets in the three months ended October 31, 2009 versus the three months ended October 31, 2008 was primarily due to certain intangible assets becoming fully amortized during fiscal 2009.

	THREE MONTHS ENDED		Dollar	Percent Change
	2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Research and development	\$ 12,508	\$ 12,138	\$ 370	3%
As a percentage of revenue	16%	15%		

The increase in research and development expense in the three months ended October 31, 2009 versus the three months ended October 31, 2008 was primarily due to increased costs related to outside service contractors and outsource partners of \$0.8 million which was primarily a result of incremental international content development to help support future revenue growth. These costs were partially offset by a decrease in compensation and benefits expense of \$0.2 million attributed to our cost-saving initiatives.



	THREE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Selling and marketing	\$ 23,336	\$ 26,387	\$ (3,051)	(12)%
As a percentage of revenue	29%	32%		

The decrease in selling and marketing expense in the three months ended October 31, 2009 versus the three months ended October 31, 2008 was primarily due to net reductions of \$2.6 million in sales compensation and benefits, which included a reduction of non-field sales personnel partially offset by increased sales incentive expenses. In addition we had a \$0.5 million decrease in marketing expenses attributed to our cost-savings initiatives.

	THREE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
General and administrative	\$ 7,857	\$ 9,130	\$ (1,273)	(14)%
As a percentage of revenue	10%	11%		

The decrease in general and administrative expense in the three months ended October 31, 2009 versus the three months ended October 31, 2008 was primarily due to a reduction of \$0.8 million in consulting fees related to our cost-savings initiative as well as a reduction in costs related to our business realignment strategy, which was substantially completed in fiscal 2009, and a reduction in insurance premiums and tax expenses (other than income tax) of \$0.3 million.

	THREE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Amortization of intangible assets	\$ 2,118	\$ 2,738	\$ (620)	(23)%
As a percentage of revenue	3%	3%		

The decrease in amortization of intangible assets for the three months ended October 31, 2009 versus the three months ended October 31, 2008 was primarily due to certain assets becoming fully amortized during fiscal 2009.

	THREE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Other (expense) income, net	\$ (220)	\$ 1,013	\$ (1,233)	*
As a percentage of revenue	0%	1%		
Interest income	\$ 66	\$ 248	\$ (182)	(73)%
As a percentage of revenue	0%	0%		
Interest expense	\$ (1,633)	\$ (3,364)	\$ 1,731	(51)%
As a percentage of revenue	(2)%	(4)%		

\* Not meaningful

The shift from other income to other (expense) in the three months ended October 31, 2009 when compared to the three months ended October 31, 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.

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The reduction in interest income in the three months ended October 31, 2009 versus the three months ended October 31, 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 October 31, 2009 versus the three months ended October 31, 2008 was due to \$59.1 million in principal debt repayments made against our long-term debt as well as a reduction in the interest rate since October 31, 2008.

## Provision for Income Taxes

	THREE MONTHS ENDED		Dollar	Percent
	OCTOBER 31,		Increase/(Decrease)	Change
	2009	2008		
(In thousands, except percentages)				
Provision for income taxes	\$ 6,289	\$ 7,438	\$ (1,149)	(15)%
As a percentage of revenue	8%	9%		

For the three months ended October 31, 2009 and 2008, our effective tax rates were 24.3% and 38.1%, respectively. The decrease in the current year effective tax rate is primarily due to a change in the geographical distribution of worldwide earnings as a result of our business realignment strategy that took effect at the beginning of fiscal 2010. For the three months ended October 31, 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.

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## NINE MONTHS ENDED OCTOBER 31, 2009 VERSUS NINE MONTHS ENDED OCTOBER 31, 2008

## Revenue

	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
Revenue:				
United States	\$ 179,036	\$ 181,807	\$ (2,771)	(2)%
International	56,731	66,232	(9,501)	(14)%
Total	\$ 235,767	\$ 248,039	\$ (12,272)	(5)%

The decrease in both total and international revenue for the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily the result of the negative effect foreign exchange rates had on our international subsidiaries' revenue when converted to U.S. dollars. In addition, we experienced a more cautious customer spending environment related to the current challenging global economic climate in fiscal 2010 versus fiscal 2009.

## Costs and Expenses

	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
Cost of revenue	\$ 21,842	\$ 28,013	\$ (6,171)	(22)%
As a percentage of revenue	9%	11%		
Cost of revenue – amortization of intangible assets	96	5,170	(5,074)	(98)%
As a percentage of revenue	0%	2%		

The decrease in cost of revenue in the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was partially due to a reduction in royalty fees of \$1.8 million as a result of both the decrease in revenue and a shift in product mix away from royalty-bearing products. Also contributing to the decrease in cost of revenue was a \$1.2 million decrease related to reductions in personnel and \$3.0 million in lower expenses for hosting, outside contractor, maintenance and facility charges as a result of both our recent cost-saving initiatives carried out in the fourth quarter of fiscal 2009 and the substantial completion of certain NETg integration initiatives in fiscal 2009.

The decrease in cost of revenue - amortization of intangible assets in the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to certain intangible assets becoming fully amortized during fiscal 2009.

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	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
Research and development	\$ 31,212	\$ 38,136	\$ (6,924)	(18)%
As a percentage of revenue	13%	15%		

The decrease in research and development expense in the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to a reduction in outsourced development fees of \$4.3 million as well as a decrease in compensation and benefits expense of \$1.5 million primarily due to the cost-saving initiatives we instituted in the fourth quarter of fiscal 2009, which was partially offset by incremental international content development in the third quarter of fiscal 2009 to help support future revenue growth. The reduction in outsource development fees was also due to the inclusion of costs attributable to the NETg acquisition in the nine months ended October 31, 2008, which included maintaining multiple platforms and product commitments assumed prior to the completion of the integration.

	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
Selling and marketing	\$ 70,134	\$ 82,185	\$ (12,051)	(15)%
As a percentage of revenue	30%	33%		

The decrease in selling and marketing expense in the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to a decrease in compensation and benefits expense of \$9.4 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 attributed to when certain commissions were earned in fiscal 2008 as a result of a one-time change to the structure of our compensation plan that year. We also had a reduction in marketing expenses of \$1.5 million and a reduction in travel expenses of \$0.9 million as a result of our cost-saving initiatives.

	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
General and administrative	\$ 25,014	\$ 27,454	\$ (2,440)	(9)%
As a percentage of revenue	11%	11%		

The decrease in general and administrative expense in the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to a reduction of \$2.7 million in legal and professional fees associated with our cost savings initiative as well as a reduction in costs related to our business realignment strategy, which was substantially completed during fiscal 2009. In addition, we had decreases in facility and rent expense of \$0.4 million as well as decreases in banking fees and insurance expense of \$0.5 million. These reductions in cost were partially offset by an increase in compensation and benefits of \$1.6 million primarily due to executive bonuses recognized in the three months ended July 31, 2009.

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	NINE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Amortization of intangible assets	\$ 6,690	\$ 8,475	\$ (1,785)	(21)%
As a percentage of revenue	3%	3%		
Merger and integration related expenses	\$ -	\$ 761	\$ (761)	(100)%
As a percentage of revenue	0%	0%		
Restructuring	\$ 56	\$ -	\$ 56	*
As a percentage of revenue	0%	0%		
SEC investigation	\$ -	\$ 49	\$ (49)	(100)%
As a percentage of revenue	0%	0%		

\* Not meaningful

The decrease in amortization of intangible assets for the nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to certain assets becoming fully amortized during fiscal 2009.

During the nine months ended October 31, 2008, we incurred merger and integration expenses related to the NETg acquisition. We completed our efforts to integrate NETg's operations during fiscal 2009.

	NINE MONTHS ENDED		Dollar Increase/(Decrease)	Percent Change
	OCTOBER 31, 2009	OCTOBER 31, 2008		
(In thousands, except percentages)				
Other (expense) income, net	\$ (1,443)	\$ 616	\$ (2,059)	*
As a percentage of revenue	(1)%	0%		
Interest income	\$ 204	\$ 1,440	\$ (1,236)	(86)%
As a percentage of revenue	0%	1%		
Interest expense	\$ (6,110)	\$ (11,014)	\$ 4,904	(45)%
As a percentage of revenue	(3)%	(4)%		

\* Not meaningful

The shift to other expense from other income in the nine months ended October 31, 2009 when compared to the nine months ended October 31, 2008 was primarily due to foreign currency exchange losses of \$1.4 million in the nine months ended October 31, 2009. 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 nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was primarily due to a reduction in our cash, cash equivalents and 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 nine months ended October 31, 2009 versus the nine months ended October 31, 2008 was due to \$59.1 million in principal debt repayments made against our long-term debt as well as a reduction in the interest rate since October 31, 2008.



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## Provision for Income Taxes

	NINE MONTHS ENDED OCTOBER 31,		Dollar	Percent
	2009	2008	Increase/(Decrease)	Change
(In thousands, except percentages)				
Provision for income taxes	\$ 17,794	\$ 18,790	\$ (996)	(5)%
As a percentage of revenue	8%	8%		

For the nine months ended October 31, 2009 and 2008, our effective tax rates were 24.3% and 38.5% respectively. The decrease in the current year effective tax rate is primarily due to a change in the geographical distribution of worldwide earnings as a result of the business realignment strategy that took place at the beginning of fiscal 2010. For the nine months ended October 31, 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 October 31, 2009, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled \$63.5 million. This compares to \$39.0 million at January 31, 2009.

Net cash provided by operating activities of \$87.8 million for the nine months ended October 31, 2009 was primarily due to a decrease in accounts receivable of \$81.0 million and a decrease in prepaid expenses, other current assets and other assets of \$4.0 million. Net cash provided by operating activities was also a result of net income of \$55.6 million, which included the impact of non-cash expenses for depreciation and amortization and amortization of intangible assets of \$10.2 million, non-cash provision for income taxes of \$11.9 million and share-based compensation expense of \$4.6 million. These amounts were partially offset by a decrease in accrued expenses and accounts payable of \$12.3 million as well as a decrease in deferred revenue of \$68.0 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 nine months ended October 31, 2009, the decrease in accounts receivable was \$81.0 million as compared to a decrease of \$92.8 million during the nine months October 31, 2008. This change is primarily due to the timing of collections.

Net cash used in investing activities was \$3.3 million for the nine months ended October 31, 2009, which includes the purchases of capital assets of approximately \$1.7 million. In addition, the purchase of investments, net of maturities, resulted in a cash outflow of approximately \$2.6 million. These cash outflows in investing activities were partially offset by a decrease in restricted cash of \$1.0 million primarily related to the termination of a facility lease.

Net cash used in financing activities was \$65.3 million for the nine months ended October 31, 2009. During this period, we made principal payments on our debt of \$38.8 million and purchased our own shares having at a cost of \$29.8 million under our shareholder-approved share repurchase program. These uses of cash were partially offset by proceeds of \$3.4 million received from the exercise of share options under our various share option programs, net of related tax expense, and share purchases made under our 2004 Employee Share Purchase Plan.

We had working capital of approximately \$7.6 million as of October 31, 2009 compared to a working capital deficit of approximately \$11.9 million as of January 31, 2009. The increase in working capital was primarily due to net income from continuing operations of \$55.6 million, which includes non-cash charges for depreciation and amortization of \$10.2 million, share-based compensation expense of \$4.6 million and a non-cash tax charge of \$11.9 million. Additionally, current deferred tax assets increased by \$3.9 million which was primarily attributed to a long term deferred tax asset reclassification net of tax asset utilization, and proceeds received of \$3.5 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. We also purchased capital assets of approximately \$1.7 million in the nine months ended October 31, 2009. This was partially offset by principal debt payments of \$38.8 million and the purchase of treasury shares having a cost of \$29.8 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 \$209.8 million, as adjusted for the filing of the FY'09 tax return, which the Company believes is more likely than not to be realized prior to expiration. 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 have adjusted our U.S. federal NOL carryforwards accordingly. Included in the \$209.8 million of U.S. federal NOL carryforwards are \$99.8 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 \$54.6 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 4 years. Future minimum lease payments, net of estimated sub-rentals, under these agreements and the debt repayments schedule are as follows (in thousands):

Contractual Obligation	Total	Payments Due by Period			
		Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Operating Lease Obligations	\$ 11,829	\$ 4,104	\$ 5,507	\$ 2,218	\$ --
Debt Obligations	84,581	865	1,731	81,985	--
Total Obligations	\$ 96,410	\$ 4,969	\$ 7,238	\$ 84,203	\$ --

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 (0.69:1 at October 31, 2009) 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.



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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. 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 U.S. 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. When we provide non-GAAP financial results, we will also provide reconciliations of such results to GAAP financial measures.

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 October 31, 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 current notional amount of the interest rate swap as of October 31, 2009 is \$17.2 million. 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 nine months ended October 31, 2009 and 2008, we incurred foreign currency exchange losses of \$1.4 million and foreign currency exchange gains of \$0.3 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 October 31, 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 October 31, 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 October 31, 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 revenue 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.

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**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 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.



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**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. 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 customers' 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.





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**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.

**LEGISLATION HAS 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 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.



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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 revenue 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;
    - 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.

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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.

**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 SUBJECT 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.

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 ADSs 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.





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During the three months ended October 31, 2009, we 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
August 1, 2009 – August 31, 2009	396,903	\$ 8.58	396,903	10,880,605
September 1, 2009 – September 30, 2009	358,600	8.93	358,600	10,522,005
October 1, 2009 – October 31, 2009	338,300	9.70	338,300	10,183,705
Total	1,093,803	\$ 9.04	1,093,803	10,183,705

(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 the earlier of 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

We held our 2009 annual general meeting of shareholders (the “AGM”) on September 30, 2009. Under the terms of our arrangements with The Bank of New York, The Bank of New York is entitled to vote or cause to be voted all of our ordinary shares represented by ADSs on behalf of, and in accordance with the instructions received from, the ADS holders. There were no broker non-votes or votes withheld with respect to any matter submitted to a vote of the ordinary shareholders at the AGM.

The following is a brief description of each matter submitted to a vote of the ordinary shareholders and a summary of the votes tabulated with respect to each such matter at the AGM, as well as a summary of the votes cast by The Bank of New York based on the ADR facility:

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(1) Receipt and consolidation of the consolidated financial statements for the fiscal year ended January 31, 2009 and the Report of Directors and Auditors thereon.

	Votes "FOR"	"AGAINST"	"WITHHELD"	"ABSTAIN"
Ordinary Shareholders	3	0	0	0
ADS Holders	90,067,960	8,775	3,933,036	2,854

(2) Re-election of Mr. Howard P. Edelstein, who retired by rotation, as a director.

	Votes "FOR"	"AGAINST"	"WITHHELD"	"ABSTAIN"
Ordinary Shareholders	3	0	0	0
ADS Holders	90,050,542	26,592	3,933,030	2,461

(3) Election of Mr. William J. Boyce as a director.

	Votes "FOR"	"AGAINST"	"WITHHELD"	"ABSTAIN"
Ordinary Shareholders	3	0	0	0
ADS Holders	90,051,405	25,818	3,933,042	2,360

The term of office for each of Charles E. Moran, James S. Krzywicki, William F. Meagher, Jr. and Ferdinand von Prondzynski continued after the AGM.

(4) Authorization of the Audit Committee of the Board of Directors to fix the remuneration of our auditor for the fiscal year ending January 31, 2010.

	Votes "FOR"	"AGAINST"	"WITHHELD"	"ABSTAIN"
Ordinary Shareholders	3	0	0	0
ADS Holders	85,163,407	4,822,875	3,933,042	93,301

## 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 December 10, 2009

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

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EXHIBIT INDEX

- 10.1 2001 Outside Director Option Plan, as amended
- 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.

