SKILLSOFT PUBLIC LIMITED CO
Form 10-Q
June 06, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2008

OR

o **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	N/A
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
107 NORTHEASTERN BOULEVARD NASHUA, NEW HAMPSHIRE	03062
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(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 þ No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes o No þ

On May 31, 2008, the registrant had outstanding 113,393,171 Ordinary Shares (issued or issuable in exchange for the registrant s outstanding American Depositary Shares).

SKILLSOFT PLC
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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SKILLSOFT PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	APRIL 30, 2008 (Unaudited)	JANUARY 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,882	$ 76,059
Short-term investments	13,893	13,525
Restricted cash	4,030	3,963
Accounts receivable, net	97,861	171,708
Prepaid expenses and other current assets	26,491	29,061
Deferred tax assets	11,189	13,476
Total current assets	244,346	307,792
Property and equipment, net	6,997	7,210
Intangible assets	25,150	29,887
Goodwill	260,343	256,196
Deferred tax assets	86,528	87,866
Other assets	5,002	7,730
Total assets	$ 628,366	$ 696,681
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long term debt	$ 1,758	$ 2,000
Accounts payable	2,913	2,139
Accrued compensation	13,429	24,577
Accrued expenses	26,580	29,507
Deferred revenue	185,569	219,161
Total current liabilities	230,249	277,384
Long term debt	172,742	197,000
Other long term liabilities	8,620	9,209
Total long term liabilities	181,362	206,209
Commitments and contingencies (Note 12)		
Stockholders equity:		
Ordinary shares, 0.11 par value: 250,000,000 shares authorized; 112,889,816 and 111,663,813 shares issued at April 30, 2008 and January 31, 2008, respectively	12,609	12,397
Additional paid-in capital	599,092	591,303
Treasury stock, at cost, 7,745,784 and 6,533,884 ordinary shares at April 30, 2008 and January 31, 2008, respectively	(36,677)	(24,524)

Accumulated deficit	(354,591)	(361,663)
Accumulated other comprehensive loss	(3,678)	(4,425)
Total stockholders equity	216,755	213,088
Total liabilities and stockholders equity	$ 628,366	$ 696,681

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

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SKILLSOFT PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(UNAUDITED, IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED April 30,	
	2008	2007
Revenue	$ 81,643	$ 57,140
Cost of revenue (1)	8,808	6,828
Cost of revenue amortization of intangible assets	1,740	198
Gross profit	71,095	50,114
Operating expenses:		
Research and development (1)	13,480	10,242
Selling and marketing (1)	29,700	22,548
General and administrative (1)	8,892	7,128
Amortization of intangible assets	2,997	579
Merger and integration related expenses	520	
Restructuring		34
SEC investigation	62	872
Total operating expenses	55,651	41,403
Operating income	15,444	8,711
Other expense, net	(687)	(26)
Interest income	617	1,501
Interest expense	(3,702)	(51)
Income before provision for income taxes from continuing operations	11,672	10,135
Provision for income taxes	4,506	2,646
Income from continuing operations	$ 7,166	$ 7,489
Loss from discontinued operations, net of income tax benefit of $60	(93)	
Net income	$ 7,073	$ 7,489
Net income per share (Note 10):		
Basic continuing operations	$ 0.07	$ 0.07
Basic discontinued operations	$	$
	$ 0.07	$ 0.07
Basic weighted average shares outstanding	105,290,444	103,277,076
Diluted continuing operations	$ 0.07	$ 0.07
Diluted discontinued operations	$	$
	$ 0.06	$ 0.07

Diluted weighted average shares outstanding	109,937,385	107,065,456

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

	THREE MONTHS ENDED April 30,	
	2008	**2007**
Cost of revenue	$ 44	$ 17
Research and development	237	208
Selling and marketing	578	498
General and administrative	745	633

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

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SKILLSOFT PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	THREE MONTHS ENDED APRIL 30,	
	2008	2007
Cash flows from operating activities from continuing operations:		
Income, continuing operations	$ 7,166	$ 7,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	1,604	1,356
Depreciation and amortization	1,476	1,667
Amortization of intangible assets	4,737	777
Recovery of bad debts	(123)	(32)
Provision for income tax non-cash	3,565	1,875
Non-cash interest expense	284	
Changes in current assets and liabilities, net of acquisition:		
Accounts receivable, net	71,508	43,832
Prepaid expenses and other current assets	2,913	2,705
Accounts payable	497	(1,585)
Accrued expenses, including long-term	(13,039)	(27,470)
Deferred revenue	(33,902)	(24,861)
Net cash provided by operating activities	46,686	5,753
Cash flows from investing activities:		
Purchases of property and equipment	(1,258)	(433)
Cash used in purchase of business, net of cash acquired	(250)	(3,933)
Purchases of investments	(9,750)	
Maturity of investments	9,425	24,619
Release of restricted cash, net	(65)	15,865
Net cash (used in) provided by investing activities	(1,898)	36,118
Cash flows from financing activities:		
Exercise of stock options	4,213	4,106
Proceeds from employee stock purchase plan	2,185	1,088
Principal payment on long term debt	(24,500)	
Acquisition of treasury stock	(12,153)	
Net cash (used in) provided by financing activities	(30,255)	5,194
Change in cash from discontinued operations	(33)	
Effect of exchange rate changes on cash and cash equivalents	323	972
Net increase in cash and cash equivalents	14,823	48,037
Cash and cash equivalents, beginning of period	76,059	48,612
Cash and cash equivalents, end of period	$ 90,882	$ 96,649

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

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SKILLSOFT PLC AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY

SkillSoft PLC (the Company or SkillSoft), was incorporated in Ireland on August 8, 1989. The Company is a leading software as a service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps companies to maximize business performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is the surviving corporation in a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the SmartForce Merger). On May 14, 2007, the Company acquired NETg from The Thomson Corporation for approximately $254.7 million in cash (see Note 6).

2. BASIS OF PRESENTATION

The accompanying, unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all material adjustments (consisting only of those of a normal and recurring nature) which are necessary to present fairly the consolidated financial position of the Company as of April 30, 2008 and the results of its operations and cash flows for the three months ended April 30, 2008 and 2007. 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, 2008. 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.

3. CASH, CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At April 30, 2008 and January 31, 2008, cash equivalents consisted mainly of commercial paper and federal agency notes.

At April 30, 2008, the Company had approximately $4.0 million of restricted cash: approximately $2.8 million is held voluntarily to defend named former executives and board members of SmartForce PLC for actions arising out of the SEC investigation and litigation related to the 2002 securities class action and approximately $1.2 million is held in certificates of deposits with a commercial bank pursuant to terms of certain facilities lease agreements.

The Company accounts for certain investments in commercial paper, corporate debt securities, certificates of deposit and federal agency notes in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). Under SFAS No. 115, securities that the Company does not intend to hold to maturity or for trading purposes are reported at market value, and are classified as available for sale. At April 30, 2008, the Company s investments were classified as available for sale and had an average maturity of approximately 21 days. These investments are classified as current assets or long-term investments in the accompanying condensed consolidated balance sheets based upon maturity date.

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4. REVENUE RECOGNITION

The Company generates revenue from the license of products and services and from providing hosting/application service provider (ASP) services.

The Company follows the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9, as well as Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* to account for revenue derived pursuant to license agreements under which customers license the Company s products and services. The pricing for the Company s courses varies based upon the number of course titles or the courseware bundle licensed 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). License agreements permit customers to exchange course titles, generally on the contract anniversary date. Additional product features, such as hosting and online mentoring services, are separately licensed for an additional fee.

The pricing for content licenses varies based on the content offering selected by the customer, the number of users within the customer s organization and the length of the license agreement. A license can provide customers access to a range of learning products including courseware, Referenceware®, simulations, mentoring and prescriptive assessment.

The Company offers discounts from its ordinary pricing, and purchasers of licenses for a larger number of courses, larger user bases or longer periods of time generally receive discounts. Generally, customers may amend their license agreements, for an additional fee, to gain access to additional courses or product lines and/or to increase the size of the user base. The Company also derives revenue from hosting fees for clients that use its solutions on an ASP basis and from the provision of online mentoring services and 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 users. Revenue derived from pay-for-use contracts has been minimal to date.

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 and online mentoring services. The Company recognizes revenue related to extranet hosting/ASP services and online mentoring services on a straight-line basis over the period the services are provided. Upfront fees are recorded 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 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

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at the expiration of the commitment period provided the Company has received payment. If a definitive service period can be determined, revenue is recognized ratably over the term of the minimum commitment period, provided that payment has been received or collectibility is probable.

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

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

The Company records revenue net of applicable sales tax collected and remitted to state and local taxing jurisdictions. Taxes collected from customers are recorded as a liability in the balance sheet.

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. In addition, deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the license period.

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 they become more 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 consolidated financial statements.

5. ACCOUNTING FOR SHARE-BASED COMPENSATION

The Company has several share-based compensation plans under which employees, officers, directors and consultants may be granted options to purchase the Company s ordinary shares, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years, and have a maximum term of up to ten years. As of April 30, 2008, 2,393,263 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 March 31, 2008 for a detailed description of the Company s share option plans.

A summary of share option activity under the Company s plans during the three months ended April 30, 2008 is as follows:

Share Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2008	16,630,763	$ 7.05	4.76	
Granted	20,000	10.90		
Exercised	(969,017)	4.35		
Cancelled	(16,511)	17.00		
Outstanding, April 30, 2008	15,665,235	$ 7.22	4.54	$ 58,551

Exercisable, April 30, 2008	11,710,222	$ 7.43	4.16	$ 44,803
Vested and Expected to Vest, April 30, 2008 (1)	15,050,371	$ 7.24	4.50	$ 56,401

(1) This represents the number of vested options as of April 30, 2008 plus the number of unvested options as of April 30, 2008 that are expected to vest adjusted for an estimated forfeiture rate of 12.9%. The Company recognizes expense incurred under SFAS 123(R) on a straight line basis. Due to the Company s vesting schedule, expense is incurred on options that have not yet vested but which are expected to vest in a future period. The options for which expense has been incurred but have not yet vested are included above as options expected to vest.

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the shares on April 30, 2008 of $10.05 and the exercise price of each in-the-money option) that would have been received by the option holders had all option holders exercised their options on April 30, 2008. The weighted average grant date fair value of options granted during the three months ended April 30, 2008 was $3.84 per share.

The total intrinsic value of options exercised during the three months ended April 30, 2008 was approximately $5.7 million.

6. ACQUISITIONS

(a) NETg

On May 14, 2007, the Company acquired NETg from The Thomson Corporation for approximately $254.7 million in cash. The combined entity offers a more robust multi-modal solution that includes online courses, simulations, digitized books and an on-line video library as well as complementary learning technologies. The acquisition supports SkillSoft s mission to deliver comprehensive and high quality learning solutions and positions the Company to serve the demands of this growing marketplace.

The acquisition of NETg was accounted for as a business combination under SFAS No. 141, *Business Combinations"*(SFAS No. 141) using the purchase method. Accordingly, the results of NETg have been included in the Company s consolidated financial statements since the date of acquisition.

The Company assumed certain liabilities in the acquisition including deferred revenue that was ascribed a fair value of $25.5 million using a cost-plus profit approach in accordance with EITF 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. The Company is amortizing deferred revenue over the average remaining term of the contracts, which reflects the estimated period to satisfy these customer obligations. In allocating the preliminary purchase price, the Company recorded an adjustment to reduce the carrying value of NETg s deferred revenue by $22.2 million. Approximately $0.1 million of unamortized acquired NETg deferred revenue remained at April 30, 2008.

SUPPLEMETAL PRO-FORMA INFORMATION (UNAUDITED)

The following unaudited pro forma information presents the consolidated results of operations of the Company and NETg as if the acquisition had occurred at the beginning of fiscal 2008 (February 1, 2007), with pro forma adjustments to give effect to amortization of intangible assets, an increase in interest expense on acquisition financing and certain other adjustments:

			THREE MONTHS ENDED APRIL 30, 2007 (in thousands except per share data)
Revenue		$	88,390
Net income/loss			(16,941)
Net income/loss per share	basic	$	(0.16)
Net income/loss per share	diluted	$	(0.16)

The unaudited pro forma results are not necessarily indicative of the results that the Company would have attained had the acquisition of NETg occurred at the beginning of the periods presented.

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7. SPECIAL CHARGES

MERGER AND EXIT COSTS

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

In connection with the closing of the NETg acquisition on May 14, 2007, the Company s management effected an acquisition integration effort to eliminate redundant facilities and employees and reduce the overall cost structure of the acquired business to better align the Company s operating expenses with existing economic conditions, business requirements and the Company s operating model. Pursuant to this restructuring, the Company recorded $11.6 million of costs related to severance and related benefits, costs to vacate leased facilities and other pre-Acquisition liabilities. These costs were accounted for under EITF 95-3, *Recognition of Liabilities in Connection with Purchase Business Combinations*. These costs, which were recognized as a liability assumed in the purchase business combination, were included in the allocation of the purchase price.

The reductions in employee headcount will total approximately 360 employees from the administrative, sales, marketing and development functions, and amounted to a liability of approximately $8.9 million. Approximately $8.3 million was paid against the exit plan accrual through April 30, 2008, and the remaining amount of $0.6 million, net of adjustments for foreign currency translation, is expected to be paid by the end of the second quarter of fiscal 2009.

In connection with the exit plan, the Company abandoned certain leased facilities resulting in a facilities consolidation liability of $0.6 million as of April 30, 2008, consisting of lease termination costs, broker commissions and other facility costs. As part of the plan, two sites were vacated. The fair value of the lease termination costs was calculated with certain assumptions related to the Company s estimated cost recovery efforts from subleasing vacated space, including (i) the time period over which the property will remain vacant, (ii) the sublease terms and (iii) the sublease rates.

The Company s merger and exit liabilities which include previous merger and acquisition transactions are recorded in accrued expenses (see Note 14) and long-term liabilities. Activity in the three month period ended April 30, 2008 is as follows (in thousands):

	EMPLOYEE SEVERANCE AND RELATED COSTS	CLOSEDOWN OF FACILITIES	OTHER	TOTAL
Merger and exit accrual January 31, 2008	$ 1,646	$ 3,224	$ 1,370	$ 6,240
Adjustment to provision for merger and exit costs in connection with the acquisition of NETg	186	(78)	(969)	(861)
Payments made during the three months ended April 30, 2008	(332)	(461)	(40)	(833)
Merger and exit accrual April 30, 2008	$ 1,500	$ 2,685	$ 361	$ 4,546

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, 2009 (remaining 9 months)	$ 1,619
2010	603
2011	2,324
Total	$ 4,546

Certain of the former NETg employees continued employment during a transition period and certain of the former NETg facilities being vacated are being used as the Company transitions operations to other locations. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* such costs are being expensed as incurred and are included in merger and integration related expenses in the accompanying statements of income. The Company recorded $0.5 million of merger and integration related expenses in the three months ended April 30, 2008.

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(b) Discontinued Operations

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

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

	Financial Campus	NETg Press	Interact Now	Wave	Total
Revenues from discontinued operations	$ 0	$ 48	$ 98	$ 35	$ 181
(Loss) gain from discontinued operations before income taxes	(1)	(66)	(103)	16	(154)
Income tax (benefit)	(0)	(26)	(41)	6	(61)
(Loss) gain from discontinued operations	$ (1)	$ (40)	$ (62)	$ 10	$ (93)

(c) Restructuring

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

Total restructuring accrual as of January 31, 2008	$ 961
Payments made during the three months ended April 30, 2008	(98)
Restructuring charges incurred during the three months ended April 30, 2008	
Total restructuring accrual as of April 30, 2008	$ 863

The Company anticipates that the remainder of the restructuring accrual will be paid out in fiscal 2009.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are as follows (in thousands):

	APRIL 30, 2008			JANUARY 31, 2008		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Internally developed software/ courseware	$ 38,717	$ 35,000	$ 3,717	$ 38,717	$ 33,259	$ 5,458
Customer contracts	36,848	21,813	15,035	36,848	19,846	17,002
Non-compete agreement	6,900	2,760	4,140	6,900	2,070	4,830
Trademarks and trade names	2,725	1,367	1,358	2,725	1,028	1,697
Books trademark	900		900	900		900
	86,090	60,940	25,150	86,090	56,203	29,887
Goodwill	260,343		260,343	256,196		256,196

$ 346,433	$ 60,940	$ 285,493	$ 342,286	$ 56,203	$ 286,083

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The change in goodwill at April 30, 2008 from the amount recorded at January 31, 2008 is as follows:

	Total
Gross carrying amount of goodwill, January 31, 2008	$ 256,196
Payment of contingent TLC purchase price	250
Adjustments to allocation of purchase price for NETg acquisition	3,897
Gross carrying amount of goodwill, April 30, 2008	$ 260,343

The Company will be conducting its annual impairment test of goodwill for fiscal 2009 in the fourth quarter. Amortization expense for the remainder of fiscal 2009 and the following fiscal years is expected to be as follows, based on current intangible assets (in thousands):

Fiscal Year	Amortization Expense
2009 (remaining 9 months)	$ 16,415
2010	8,245
2011	3,712
2012	615
Total	$ 28,987

$900,000 of intangible assets within Books24X7 trademarks are considered indefinite-lived and accordingly no amortization expense is recorded.

9. COMPREHENSIVE INCOME

SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of all components of comprehensive income/(loss) on an annual and interim basis. Comprehensive income/(loss) is defined as the change in equity of a business enterprise during a period resulting from transactions, other events and circumstances related to non-owner sources. Comprehensive income for the three months ended April 30, 2008 and 2007 was as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2008	2007
Comprehensive income:		
Net income	$ 7,073	$ 7,489
Other comprehensive income/(loss) Foreign currency adjustment	390	(150)
Change in fair value of interest rate hedge	370	
Unrealized losses on available-for-sale securities	(15)	(78)
Comprehensive income	$ 7,818	$ 7,261

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Accumulated other comprehensive income as of April 30, 2008 and January 31, 2008 was as follows (in thousands):

	AS OF APRIL 30, 2008	AS OF JANUARY 31, 2008
Unrealized gains on available-for-sale securities	$ 8	$ 22
Change in fair value of interest rate hedge	(1,710)	(2,080)
Foreign currency adjustment	(1,976)	(2,366)
Total accumulated other comprehensive loss	$ (3,678)	$ (4,424)

10. NET INCOME PER SHARE

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

	THREE MONTHS ENDED APRIL 30,	
	2008	2007
Basic weighted average shares outstanding	105,290,444	103,277,076
Effect of dilutive shares outstanding	4,646,941	3,788,380
Weighted average common shares outstanding, as adjusted	109,937,385	107,065,456

The following share equivalents have been excluded from the computation of diluted weighted average shares outstanding for the three months ended April 30, 2008 and 2007, respectively, as they would be anti-dilutive:

	THREE MONTHS ENDED APRIL 30,	
	2008	2007
Options excluded	2,985,551	10,449,640

11. INCOME TAXES

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

The Company has significant net operating loss (NOL) carryforwards, some of which are subject to potential limitations based upon the change in control provisions of Section 382 of the United States Internal Revenue Code. The provision for income tax in the three months ended April 30, 2008 was $4.5 million, which consisted of a cash tax provision of $0.9 million and a non-cash tax provision of $3.6 million. Included in the non-cash tax provision of $3.6 million is approximately $0.3 million related to an adjustment made to the Company s deferred tax asset associated with FAS 123R stock-based compensation charges. The remainder of the non-cash tax provision ($3.3 million) relates to the expected utilization of U.S. NOL carryforwards and other net deferred tax assets in the current fiscal year.

At April 30, 2008 the Company had $4.1 million of unrecognized tax benefits. If recognized, $0.9 million 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 April 30, 2008, the Company had approximately $0.6 million of accrued interest related to uncertain tax positions.

The Company conducts business globally and, as a result, the Company and its subsidiaries file income tax returns in the U.S. and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including but not limited to such major jurisdictions as Canada, the United Kingdom and the United States. With few exceptions, the Company is no longer subject to U.S. and international income tax examinations for years before 2002.

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12. COMMITMENTS AND CONTINGENCIES

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

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, SkillSoft 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 SkillSoft s financial statements.

The Company continues to cooperate 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 other material legal proceedings.

13. GEOGRAPHICAL DISTRIBUTION OF REVENUES

The Company attributes revenues to different geographical areas on the basis of the location of the customer. Revenues by geographical area for the three month periods ended April 30, 2008 and 2007 were as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2008	**2007**
Revenue:		
United States	$ 59,052	$ 43,819
United Kingdom	11,832	6,941
Canada	3,492	2,553
Europe, excluding United Kingdom	1,838	393
Australia/New Zealand	3,883	2,762
Other	1,546	672
Total revenue	$ 81,643	$ 57,140

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

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14. ACCRUED EXPENSES

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

	APRIL 30, 2008	JANUARY 31, 2008
Professional fees	4,632	5,308
Sales tax payable/VAT payable	869	4,366
Accrued royalties	5,358	6,892
Other accrued liabilities	15,721	12,941
Total accrued expenses	$ 26,580	$ 29,507

15. OTHER ASSETS

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

	APRIL 30, 2008	JANUARY 31, 2008
Note receivable long term	1,096	3,507
Debt financing cost long term (See Note 18)	3,824	4,126
Other	82	97
Total other assets	$ 5,002	$ 7,730

16. OTHER LONG TERM LIABILITIES

Accrued expenses in the accompanying consolidated balance sheets consist of the following (in thousands):

	APRIL 30, 2008	JANUARY 31, 2008
Merger accrual long term	2,927	2,914
Interest rate swap liability (See Note 19)	2,864	3,467
Other	2,829	2,828
Total other long-term liabilities	$ 8,620	$ 9,209

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. As defined in SFAS No. 157, fair value is the amount that would be received if an asset was sold or a liability transferred in an orderly transaction between market participants at the measurement date.

Effective February 1, 2008, the Company adopted SFAS No. 157. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS No.157 did not have a material impact on the Company s financial position, results of operations or cash flows. The Company has only adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities that are measured at fair value within the condensed consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions*, (FSP SFAS No. 157-1) and FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS No. 157-2). FSP SFAS No. 157-1 removes leasing from the scope of SFAS No. 157, *Fair Value Measurements*.

FSP SFAS No. 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP SFAS No. 157-1, effective February 1, 2008, did not impact the Company s financial position, results of operations or cash flows. The Company has deferred the application of the provisions of this statement to its non-financial assets and liabilities in accordance with FSP SFAS No. 157-2. The Company does not expect that its adoption of the provisions of FSP SFAS 157-2 will have a material effect on its financial condition, results of operations or cash flows.

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SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The three levels of the fair value hierarchy established by SFAS No. 157 in order of priority are as follows:

Level 1: Quoted prices in active markets for identical assets as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the Company s assumptions about the assumptions that market participants would use in pricing the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

The Company s commercial paper, corporate debt securities, certificates of deposit and federal agency notes are classified as cash equivalents or available for sale securities based on the original maturity period and carried at fair value. These assets are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company recognizes all derivative financial instruments in its consolidated financial statements at fair value in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities.* The Company determines the fair value of these instruments using the framework prescribed by SFAS No. 157 by considering the estimated amount the Company would receive to terminate these agreements at the reporting date and by taking into account current interest rates and the creditworthiness of the counterparty. In certain instances, the Company may utilize financial models to measure fair value. Generally, the Company uses inputs that include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability and inputs derived principally from, or corroborated by, observable market data by correlation or other means. The Company has classified its derivative liability within Level 2 of the fair value hierarchy because these observable inputs are available for substantially the full term of the derivative instrument.

The following table summarizes the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of April 30, 2008 (in thousands):

	April 30, 2008	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Financial Assets:				
Cash equivalents (1)	$ 43,347	$ 43,347	$	$
Available for sale securities (2)	$ 13,893	$ 13,893	$	$
Financial Liabilities:				
Interest rate swap agreement (Note 19)	$ 2,864	$	$ 2,864	$

(1)

Consists of high-grade commercial paper and federal agency notes with original and remaining maturities of less than 90 days.

(2) Consists of high-grade commercial paper, corporate debt securities, certificates of deposit and federal agency notes with original maturities of 90 days or more and remaining maturities of less than 365 days.

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18. CREDIT FACILITIES

In connection with the closing of the NETg acquisition on May 14, 2007, the Company entered an Agreement (the Credit Agreement) 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.

In connection with the Credit Agreement, the Company incurred debt financing costs of $5.9 million, which were capitalized and are being amortized as additional interest expense over the term of the loans using the effective-interest method. During the three months ended April 30, 2008, the Company paid approximately $3.8 million in interest. The Company recorded $0.3 million of amortized interest expense related to the capitalized debt financing costs for the three months ended April 30, 2008. As of April 30, 2008, total unamortized debt financing costs of $1.0 and $3.8 million are recorded within prepaid expenses and other current assets and non-current other assets, respectively, based on scheduled future amortization.

During the three months ended April 30, 2008, the Company paid $24.5 million against the term loan amount. As a result, the balance outstanding under the term loan was $174.5 million at April 30, 2008 with a weighted average interest rate of 7.643%.

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

Fiscal 2009 (remaining 9 months)	$ 1,319
Fiscal 2010	1,758
Fiscal 2011	1,758
Fiscal 2012	1,758
Fiscal 2013	1,758
Thereafter	166,149
Total	$ 174,500

19. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

During fiscal 2008 and 2009, the Company used an interest rate swap to hedge the variable cash flows associated with existing variable-rate debt. As of April 30, 2008 the notional amount on the interest rate swap was $139.6 million. At April 30, 2008, the interest rate swap had a fair value of $(2.9) million which was included in other liabilities. No hedge ineffectiveness was recognized for the three months ended April 30, 2008. For the three months ended April 30, 2008, the change in net unrealized gains (losses) on the interest rate swap designated as a cash flow hedge and reported as a component of comprehensive income was a $0.4 million gain, net of tax. The change in net unrealized gains (losses) on cash flow hedges reflects a reclassification of $0.4 million of net unrealized losses from accumulated other comprehensive income to interest expense for the three months ended April 30, 2008. Amounts reported in accumulated other comprehensive income related to derivatives will be incurred as interest expense as payments are made on the Company s variable-rate debt. For the three months ending July 31, 2008, the Company estimates that it will incur an additional $0.8 million of interest expense.

20. SHARE 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. During the three months ended April 30, 2008, the Company repurchased a total of 1,211,900 shares for a total purchase price, including commissions, of $12.2 million. The repurchased shares were not retired or canceled but rather held as treasury stock at cost. As such the repurchased shares are included in the outstanding

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shares, but excluded from the EPS calculation. As of April 30, 2008, 8,788,100 remained available for repurchase, subject to certain limitations, under the shareholder approved repurchase program which expires on October 7, 2009. The Company s Credit Agreement discussed in Note 18 contains negative covenants that place limitations on the Company s ability to repurchase shares.

21. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB, issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value and is effective for fiscal years beginning after November 15, 2007, or February 1, 2008 for SkillSoft. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. Adoption of SFAS No. 159 did not have a material impact on the Company s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141(R)). SFAS 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for the Company for any business combinations for which the acquisition date is on or after February 1, 2009, with early adoption prohibited. The Company is currently evaluating the potential impact of adopting SFAS 141(R).

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS 160 is effective for the Company in fiscal 2009, with early adoption prohibited. Currently the Company does not anticipate that SFAS 160 will have a material impact on the Company s financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 applies to all derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of Statement 133 and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. SFAS 161 is effective for the Company on February 1, 2009. The Company is currently analyzing the effect, SFAS No. 161 will have on its disclosures related to the Company s interest rate swap agreement.

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

Any statement in this Quarterly Report on Form 10-Q about our future expectations, plans and prospects, including statements containing the words believes, anticipates, plans, expects, will and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including those set forth under Part II, Item 1A, Risk Factors.

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

OVERVIEW

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

We derive revenue primarily from agreements under which customers license our products and purchase our services. The pricing for our courses varies based upon the number of course titles or the courseware bundle licensed 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. Additional product features, such as hosting and online mentoring, are subject to additional fees.

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

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

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

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

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

Restructuring primarily consists of charges associated with international restructuring activities, including employee termination and exit of certain facilities.

SEC investigation expenses primarily consist of legal and consulting fees incurred related to the SEC s review of SmartForce s option granting practices prior to the SmartForce Merger, and historically, the SEC investigation

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relating to the restatement of SmartForce s financial statements for 1999, 2000, 2001 and the first two quarters of 2002.

BUSINESS OUTLOOK

In the three months ended April 30, 2008, we generated revenue of $81.6 million as compared to $57.1 million in the three months ended April 30, 2007. We reported net income in the three months ended April 30, 2008 of $7.1 million as compared to $7.5 million in the three months ended April 30, 2007.

While we have achieved increased revenues, we continue to find ourselves in a challenging business environment due to (i) the overall market adoption rate for e-learning solutions remaining relatively slow, (ii) budgetary constraints on information technology (IT) spending by our current and potential customers and (iii) price competition and value based competitive offerings from a broad array of competitors in the learning market generally. Despite these challenges, we have seen some stability in the marketplace and our core business has performed in accordance with our expectations. Our recent revenue growth was primarily derived from additional revenue realized from customers acquired in the NETg acquisition, third party resellers of our product and international sales. Our growth prospects are strongest in developing our expanded core business, which leverages our various product lines in a strategy of bundled product offerings, as well as continued distribution partnerships with third party resellers and international distribution growth. As a result, we have increased our sales and marketing investment related to these areas to help capitalize on the recent growth and potential continued growth. We have also invested aggressively in research and development in those areas to accelerate the time by which our planned new products will be available to our customers. In order to pursue the small and medium business markets we continue to invest in our telesales unit, but we need to see renewal rates consistent with those of our direct sales business to determine its growth potential. We plan to continue to invest in our new business direct field sales team and lead generators.

On May 14, 2007, we acquired NETg for approximately $254.7 million, after giving effect to certain customary post-closing adjustments. NETg is a global enterprise-learning company delivering integrated learning solutions for businesses, professional associations and government agencies that include instructional content, multiple delivery options, enabling technologies, and a range of expert consulting services. NETg offers many of the same financial and operating characteristics as our business model, including an annual recurring subscription-based licensing model for access to its learning resources library, a direct sales force distribution system complemented by resellers and telesales support, and a Global 2000 client base offering visibility through multi-year contracts and renewal rates. The acquisition added to our existing offerings through the addition of complementary NETg offerings such as live virtual instructor-led training, blended learning, learning content and custom development services among others. The acquisition supports our overall strategy to continually increase the quality, breadth and flexibility of the learning solutions we can make available to our corporate, government, education and small-to-medium size business customers and we anticipate the integrated assets and services will result in an increase in value to our customers. Also, the addition of NETg s capabilities strengthens our ability to compete for a greater share of the $13.2 billion corporate training market that includes many larger players with more comprehensive product offerings and broader distribution.

In addition to our acquisition of NETg, we acquired TLC on February 9, 2007. Under the terms of the acquisition, we paid approximately $4.1 million in cash to acquire TLC. Additional consideration of $0.5 million was paid to the shareholders of TLC upon achievement of certain integration milestones through April 2008. The acquisition provides us with a new offering that includes an on-line library of over 300 video-based programs featuring organizational and leadership experts, CEOs and best-selling authors. Programs range in length from two minutes to two hours, and much of this content is presented as three to five minute segments, or Quick Talks, for easy access. Selected programs as indicated on the course profile page are available for offline use with portable devices that support video, including the Apple iPod®. Users can search the content by Leadership Model category or by title, speaker/author or topic. This product offers many of the same financial and operating characteristics as our business model, including an annual recurring subscription-based licensing model for access to its video-based resource library to be sold through our direct sales force, complemented by resellers and telesales.

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In the three months ended April 30, 2008 and for the remainder of fiscal 2009, we will continue to focus on the integration of NETg into our operations. We also will continue to focus on revenue and earnings growth, excluding normal and anticipated acquisition and integration related expenses, primarily by:

- cross selling and up selling;
- looking at new markets;
- acquiring new customers;
- 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, income taxes and valuation of business combinations. 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 Critical 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 March 31, 2008. The policies set forth in our Form 10-K have not changed.

RESULTS OF OPERATIONS

THREE MONTHS ENDED APRIL 30, 2008 VERSUS THREE MONTHS ENDED APRIL 30, 2007

	Three Months Ended April 30,			
	Increase/(Decrease)	Percent Change Increase/(Decrease)	Percentage of Revenue	
	2007/2008 (In thousands)	2007/2008	2008	2007
Revenue	$ 24,503	43%	100%	100%
Cost of revenue	1,980	29%	11%	12%
Cost of revenue amortization of intangible assets	1,542	779%	2%	
Gross profit	20,981	42%	87%	88%
Research and development	3,238	32%	17%	18%
Selling and marketing	7,152	32%	36%	39%
General and administrative	1,764	25%	11%	12%
Amortization of intangible assets	2,418	418%	4%	1%
Merger related integration expenses	520	*	1%	
Restructuring	(34)	(100)%		
SEC investigation	(810)	(93)%		2%
Total operating expenses	14,248	34%	68%	72%

Operating income	6,733	77%	19%	15%
Other income expense, net	(661)	2,542%	(1)%	
Interest income	(884)	(59)%	1%	3%
Interest expense	(3,651)	7,159%	(5)%	
Income before income taxes	1,537	15%	14%	18%
Provision for income taxes	1,860	70%	6%	5%
Loss from continuing operations	(323)	(4)%	9%	13%
Loss from discontinued operations, net of income tax	(93)	*		
Net income	$ (416)	(6)%	9%	13%

* Not meaningful

Does not add due to rounding.

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Revenue

The primary reasons for the increase in revenue are the additional revenues realized from the acquisitions of NETg in May 2007 and additional revenue earned under agreements with third party resellers of our products. We expect revenue growth to continue through fiscal 2009.

	QUARTERS ENDED APRIL 30,		
(IN THOUSANDS)	**2008**	**2007**	**CHANGE**
Revenue:			
United States	$ 59,052	$ 43,819	$ 15,233
International	22,591	13,321	9,270
Total	$ 81,643	$ 57,140	$ 24,503

Revenue increased by 35% and 70% in the United States and internationally, respectively, in the three months ended April 30, 2008 as compared to the three months ended April 30, 2007 as a result of increased revenue generated from the NETg acquisition and from existing customers and new business.

We exited the fiscal year ended January 31, 2008 with non-cancelable backlog of approximately $255 million compared to $181 million at January 31, 2007. This amount is calculated by combining the amount of deferred revenue at each fiscal year end with the amounts to be added to deferred revenue throughout the next twelve months from billings under committed customer contracts and determining how much of these amounts are scheduled to amortize into revenue during the upcoming fiscal year. The amount scheduled to amortize into revenue during fiscal 2009 is disclosed as backlog as of January 31, 2008. Amounts to be added to deferred revenue during fiscal 2009 include subsequent installment billings for ongoing contract periods as well as billings for committed contract renewals. We have included this non-GAAP disclosure as it is directly related to our subscription based revenue recognition policy. This is a key business metric, which factors into our forecasting and planning activities and provides visibility into fiscal 2009 revenue.

Costs and Expenses

The increase in cost of revenue amortization of intangible assets in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to the amortization of the intangible assets acquired in the acquisition of NETg, which was partially offset by a reduction in the amortization of certain intangible assets related to capitalized software development costs and technology acquired in previous business combinations becoming fully amortized through the period ending April 30, 2008.

The increase in cost of revenue in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to increased revenue.

The increase in research and development expense in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to additional contractor and outsource partner costs of $2.0 million to support expanded product and software development initiatives resulting from our larger customer base. A portion of these incremental costs are attributable to NETg integration initiatives, which include maintaining multiple platforms, fulfilling obligations of acquired customer contracts and product commitments assumed in the acquisition of NETg. In addition, we incurred an increase in compensation and benefits of $1.0 million as a result of an increase in research and development headcount.

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The increase in selling and marketing expense in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to an increase in compensation and benefits of $4.5 million as a result of an increase in sales and marketing headcount, which includes additional direct sales, telesales and field support personnel required to service our increased customer base as a result of the NETg acquisition, as well as incremental commissions resulting from increased order intake and billings from our larger base business and from the acquired NETg customer base. In addition, we incurred incremental marketing costs of $1.5 million to support our larger customer base.

The increase in general and administrative expense in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to an increase of $1.3 million of professional fees primarily related to our share capital reduction initiative aimed at increasing distributable profits in our Irish parent entity as well as a feasibility analysis related to our business realignment strategy. In addition, we incurred an incremental $0.4 million in costs associated with the additional headcount required to support the increase in customer contracts and the transitional activities undertaken as a result of the NETg acquisition.

The increase in amortization of intangible assets in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to the amortization of intangible assets acquired in the NETg acquisition.

In the three months ended April 30, 2008, we incurred approximately $0.5 million of merger and integration related expenses as a result of efforts undertaken to integrate NETg s operations into ours. Included in these costs are approximately $0.2 million of salary and benefits for NETg employees conducting transition activities as well as approximately $0.3 million of charges related to facilities, systems and process integration activities. We do not expect to incur material additional merger-related expenses.

SEC investigation expenses decreased in the three months ended April 30, 2008 versus the three months ended April 30, 2007 due to a decrease in legal expenses related to the SEC s informal inquiry into the pre-merger option granting practices at SmartForce.

Other Expense, Net

The change in other income expense, net in the three months ended April 30, 2008 versus the three months ended April 30, 2007 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.

Interest Income

The reduction of interest income in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to the reduction of funds available for investment as a result of cash used for the acquisition of NETg in May 2007 and more recently cash used to repurchase shares and a prepayment of our term loan.

Interest Expense

The increase in interest expense in the three months ended April 30, 2008 versus the three months ended April 30, 2007 was primarily due to the interest expense recognized as a result of the debt incurred for the acquisition of NETg as well as the amortization of deferred financing costs incurred as additional interest expense.

Provision for Income Taxes

For the three months ended April 30, 2008 and 2007, the Company s effective tax rates exclusive of any discrete charge were 35.9% and 22.5%, respectively. The increase in the current year effective tax rate is primarily due to the geographical distribution of worldwide earnings. For the three months ended April 30, 2008, the effective tax rate was higher then the Irish statutory tax rate of 12.5% due primarily to earnings in higher tax jurisdictions outside of Ireland.

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LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 2008, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled $104.8 million. This compares to $89.6 million at January 31, 2008.

Net cash provided by operating activities of $46.7 million for the three months ended April 30, 2008 was primarily due to a decrease in accounts receivable of $71.5 million and a decrease in prepaid expense and other current assets of $2.9 million. Net cash provided by operating activities was also a result of net income from continuing operations of $7.2 million, which included the impact of non-cash expenses for depreciation and amortization and amortization of intangible assets of $6.2 million, provision for income taxes of $3.6 million and share-based compensation expense of $1.6 million. These amounts were partially offset by a decrease in accrued expenses of $13.0 million as well as a decrease in deferred revenue of $33.9 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.

Net cash used in investing activities was $1.9 million for the three months ended April 30, 2008, which includes the purchases of capital assets of approximately $1.3 million as well as the purchase of investments, net of maturities, generating a cash outflow of approximately $0.3 million.

Net cash used in financing activities was $30.3 million for the three months ended April 30, 2008. During this period, we made a principal payment on our long-term debt of $24.5 million and purchased shares having a value of $12.2 million on the open market under our shareholder-approved share repurchase program. These uses of cash were partially offset by proceeds of $6.4 million we received from the exercise of share options under our various share option programs and share purchases made under our 2004 Employee Share Purchase Plan.

We had working capital of approximately $14.1 million as of April 30, 2008 and approximately $30.4 million as of January 31, 2008. The decrease in working capital was primarily due to a principal payment on debt of $24.5 million and the purchase of shares having a value of $12.2 million on the open market under our shareholder-approved share repurchase program. This was partially offset by net income from continued operations of $7.2 million, which includes non-cash charges for depreciation and amortization of $6.2 million, share-based compensation expense of $1.6 million and a non-cash tax charge of $3.6 million. Additionally, we received proceeds of $6.4 million from the exercise of share options under our various share option programs and from share purchases made under our 2004 Employee Share Purchase Plan.

As of January 31, 2008, we had U.S. NOL carryforwards of approximately $258.3 million. These NOLs represent the gross carrying value of the operating loss carryforwards. These NOL carryforwards, which are subject to potential limitations based upon change in control provisions of Section 382 of the Internal Revenue Code, are available to reduce future taxable income, if any, through 2025. Included in the $258.3 million at January 31, 2008 is approximately $36.3 million of NOL carryforwards in the United States resulting from disqualifying dispositions. We will realize the benefit of these losses through increases to shareholder s equity in the periods in which the losses are utilized to reduce tax payments. Additionally, we had approximately $193.0 million of NOL carryforwards in jurisdictions outside of the U.S. Included in the $193.0 million is approximately $142.2 million of NOL carryforwards in jurisdictions outside the U.S. which were acquired in the SmartForce Merger, the purchase of Books24x7 and the purchase of NETg foreign entities. We will realize the benefits of these acquired NOL carryforwards through reductions to goodwill and non-goodwill intangible assets during the period that the losses are utilized. We also had U.S. federal tax credit carryforwards of approximately $2.5 million at January 31, 2008.

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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 related to the acquisition of NETg which will be paid out over the next 6 years. Future minimum lease payments, net of estimated sub-rentals, under these agreements and the debt repayments schedule are as follows (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Lease Obligations	$ 19,644	$ 5,454	$ 4,952	$ 2,958	$ 6,280
Debt Obligations	174,500	1,758	3,516	3,516	165,710
Total Obligations	$ 194,144	$ 7,212	$ 8,468	$ 6,474	$ 171,990

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 certain lenders providing for a $225 million senior credit facility comprised of a $200 million term loan facility and a $25 million revolving credit facility. 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 March 31, 2008 for a detailed description of the credit agreement.

We will continue to invest in research and development and sales and marketing in order to execute our business plan and achieve expected revenue growth. To the extent that our execution of the business plan results in increased sales, we expect to experience corresponding increases in deferred revenue, cash flow and prepaid expenses. Capital expenditures for the fiscal year ended January 31, 2009 are expected to be approximately $6.0 million to $8.0 million.

We expect that the principal sources of funding for our operating expenses, capital expenditures, debt payment obligations 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 (in addition to and including NETg). 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 our audited and unaudited financial results in accordance with United States generally accepted accounting principles (GAAP), to assist investors we may 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 one-time 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 its results on a more consistent basis to the results of other companies in our industry. By excluding charges such as restructuring charges (benefits) and merger and integration related expenses, 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

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competitors as they relate to cash. Excluding one-time and non-cash charges may assist investors in this evaluation and comparisons.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of April 30, 2008, 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.

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

FOREIGN CURRENCY RISK

Due to our multi-national operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues 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 the results of operations. During the three months ended April 30, 2008 and 2007, we incurred foreign currency exchange losses of $580,000 and $143,000, respectively.

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ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2008. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of April 30, 2008, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended April 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

SEC Investigations

See Part I Item 3 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2008 for a discussion of legal proceedings. There were no material developments in these proceedings during the quarter ended April 30, 2008.

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, 2008, there have been no material changes to the risk factors included in that report.

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.

We have in the past 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:

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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.

PAST AND FUTURE ACQUISITIONS, INCLUDING OUR ACQUISITION OF NETG, 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. On May 14, 2007, we acquired NETg from The Thomson Corporation. However, we may not be successful in identifying or consummating future attractive acquisition opportunities. Moreover, any acquisitions we do consummate, including the NETg acquisition, may not produce benefits commensurate with the purchase price we pay or our expectations for the acquisition. In addition, acquisitions, including the NETg acquisition, 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;

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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 MAY BE ESPECIALLY SUSCEPTIBLE TO ADVERSE ECONOMIC CONDITIONS.

Our business and financial performance may be damaged by adverse financial conditions affecting our target customers or by a general weakening of the economy. Companies may not view training products and services as critical to the success of their businesses. If these companies 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.

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 HR outsourcers of potential customers; and

value-added resellers and network integrators.

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.

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

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

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

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

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

The market for education and training software is characterized by rapidly changing technology, evolving industry standards, changes in customer requirements and preferences and frequent introductions of new products and services embodying new technologies. New methods of providing interactive education in a technology-based format are being developed and offered in the marketplace, including intranet and Internet offerings. In addition, multimedia and other product functionality features are being added to educational software. Our future success will depend upon the extent to which we are able to develop and implement products which address these emerging market requirements on a cost effective and timely basis. Product development is risky because it is difficult to foresee developments in technology coordinate technical personnel and identify and eliminate design flaws. Any significant delay in releasing new products could have a material adverse effect on the ultimate success of our products and could reduce sales of predecessor products. We may not be successful in introducing new products on 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.

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

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

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

NEW PRODUCTS INTRODUCED BY US MAY NOT BE SUCCESSFUL.

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

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

The success of our e-learning strategy is highly dependent on the consistent performance of our information systems and Internet infrastructure. If our Web site fails for any reason or if it experiences any unscheduled downtimes, even for only a short period, our business and reputation could be materially harmed. We have in the past experienced performance problems and unscheduled downtime, and these problems could recur. We currently rely on third parties for proper functioning of computer infrastructure, delivery of our e-learning applications and the performance of our destination site. Our systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, break-ins, earthquake, financial patterns of hosting providers and similar events. Any system failures could adversely affect customer usage of our solutions and user traffic results in any future quarters, which could adversely affect our revenue and operating results and harm our reputation with corporate customers, subscribers and commerce partners. Accordingly, the satisfactory performance, reliability and availability of our Web site and computer infrastructure are critical to our reputation and ability to attract and retain corporate customers, subscribers and commerce partners. We cannot accurately project the rate or timing of any increases in traffic to our Web site and, therefore, the integration and timing of any upgrades or enhancements required to facilitate any significant traffic increase to the Web site are uncertain. We have in the past experienced difficulties in upgrading our Web site infrastructure to handle increased traffic, and these difficulties could recur. 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.

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

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

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

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

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

OUR BUSINESS IS SUBJECT TO CURRENCY FLUCTUATIONS THAT COULD 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 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 the Euro, pound sterling and other currencies relative to the U.S. dollar could adversely affect our business and results of operations.

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

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to limit and protect the distribution of confidential information. However, we have not signed protective agreements in every case.

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

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

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

difficulties or delays in developing and supporting non-English language versions of our products and services;

political and economic conditions in various jurisdictions;

difficulties in staffing and managing foreign subsidiary operations;

longer sales cycles and account receivable payment cycles;

multiple, conflicting and changing governmental laws and regulations;

foreign currency exchange rate fluctuations;

protectionist laws and business practices that may favor local competitors;

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;

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the customers internal budgeting and approval processes;

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

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

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

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

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

RISKS RELATED TO LEGAL PROCEEDINGS

WE ARE THE SUBJECT OF AN INVESTIGATION BY THE SEC.

We had been the subject of a formal investigation by the United States Securities and Exchange Commission (SEC) into the events and circumstances giving rise to the 2003 restatement of SmartForce PLC s accounts (the Restatement Investigation). On July 19, 2007, the SEC announced that three former officers and one former employee of SmartForce had settled SEC claims in connection with the Restatement Investigation. (The former officers/employee have made payments in connection with their settlements. It is possible that they may seek to require us to indemnify them for such payments.) We understand that the Restatement Investigation has now been concluded without any claim being brought against us.

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 continue to cooperate 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.

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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.

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

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

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 not filed 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.

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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 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 Under the approved share purchase program, we entered into a share purchase agreement, pursuant to which we and certain of our subsidiaries are entitled to purchase our ADSs. ADSs that are repurchased by us or our subsidiaries under the share purchase program shall, at the option of our Board of Directors, be either cancelled upon their purchase or held as treasury shares.

During the three months ended April 30, 2008, certain of our subsidiaries repurchased our ADSs as follows:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share $	(c) Total Number of Shares Purchased as Part of Publicly Announced or Program (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program
February 1, 2008 February 29, 2008		$		
March 1, 2008 March 31, 2008				
April 1, 2008 April 30, 2008	1,211,900	10.0	1,211,900	8,788,100
Total	1,211,900	$ 10.0	1,211,900	8,788,100

(1) We repurchased 1,211,900 of our ADSs pursuant to a share repurchase program that was approved by our shareholders on

April 8, 2008.

(2) Our shareholders approved the repurchase by us of up to 10,000,000 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 October 7, 2009 or when we have repurchased all shares authorized for repurchase thereunder.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On April 8, 2008 we held an extraordinary general meeting of shareholders (EGM). At the EGM, our shareholders voted upon the following matter:

A share purchase program to allow us and certain of our subsidiaries to purchase our ADSs out of profits available for distribution.

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 the matter submitted to a vote of the ordinary shareholders at the EGM.

A summary of the votes tabulated with respect to the matter proposed at the EGM, as well as a summary of the votes cast by The Bank of New York based on the ADR facility, is set forth below:

	Votes FOR	AGAINST	ABSTAIN
Ordinary Shareholders	4	0	0
ADS Holders	110,347,003	214	103,286

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

See the Exhibit Index attached hereto.

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SIGNATURE

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

SKILLSOFT PUBLIC LIMITED COMPANY

Date: June 6, 2007

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

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EXHIBIT INDEX

10.1	Summary of Fiscal 2009 Executive Cash Incentive Compensation Program (incorporated by reference to Exhibit 99.1 of SkillSoft PLC s Current Report on Form 8-K as filed with the Securities and Exchange Commission as of April 17, 2008 (File No. 000-25674)).
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.