SKILLSOFT PUBLIC LIMITED CO
Form 10-Q
June 11, 2007

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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, 2007

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

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (603) 324-3000

Not Applicable

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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, 2007, the registrant had outstanding 111,009,350 Ordinary Shares (issued or issuable in exchange for the registrant s outstanding American Depository Shares).

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FOR THE QUARTER ENDED APRIL 30, 2007
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PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SKILLSOFT PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED, IN THOUSANDS)

	APRIL 30, 2007	JANUARY 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96,649	$ 48,612
Short-term investments	34,379	55,505
Restricted cash	4,230	20,095
Accounts receivable, net	51,846	94,343
Prepaid expenses and other current assets	19,453	22,215
Total current assets	206,557	240,770
Property and equipment, net	8,497	9,672
Intangible assets, net	2,720	2,638
Goodwill	84,444	83,171
Long-term investments		3,598
Deferred tax assets, net	159	159
Other assets	3,238	2,962
Total assets	$ 305,615	$ 342,970
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,905	$ 3,327
Accrued compensation	9,872	17,870
Accrued expenses	16,647	35,427
Deferred revenue	123,106	146,012
Total current liabilities	151,530	202,636
Long term liabilities	2,347	2,405
Commitments and contingencies (Note 12)		
Stockholders equity:		
Ordinary shares, 0.11 par value: 250,000,000 shares authorized; 110,443,212 and 109,255,366 shares issued at April 30, 2007 and January 31, 2007, respectively	12,212	12,039
Additional paid-in capital	579,771	573,394
Treasury stock, at cost, 6,533,884 ordinary shares	(24,524)	(24,524)
Accumulated deficit	(414,174)	(421,661)
Accumulated other comprehensive loss	(1,547)	(1,319)
Total stockholders equity	151,738	137,929
Total liabilities and stockholders equity	$ 305,615	$ 342,970

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, 2007	THREE MONTHS ENDED April 30, 2006
Revenue	$ 57,140	$ 54,653
Cost of revenue amortization of intangible assets	198	1,732
Cost of revenue (1)	6,828	6,451
Gross profit	50,114	46,470
Operating expenses:		
Research and development (1)	10,242	9,965
Selling and marketing (1)	22,548	23,257
General and administrative (1)	7,128	7,280
Amortization of intangible assets	579	416
Restructuring	34	
Restatement SEC investigation	872	252
Total operating expenses	41,403	41,170
Operating income	8,711	5,300
Other income / (expense), net	(26)	10
Interest income	1,501	805
Interest expense	(51)	(66)
Income before provision for income taxes	10,135	6,049
Provision for income taxes	2,646	1,996
Net income	$ 7,489	$ 4,053
Net income per share (Note 10):		
Basic	$ 0.07	$ 0.04
Basic weighted average shares outstanding	103,277,076	101,037,377
Diluted	$ 0.07	$ 0.04
Diluted weighted average shares outstanding	107,065,456	102,888,751

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

	THREE MONTHS ENDED April 30,	
	2007	**2006**
Cost of revenue	$ 17	$ 6
Research and development	208	383
Selling and marketing	498	769
General and administrative	633	623

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, 2007	2006
Cash flows from operating activities:		
Net income	$ 7,489	$ 4,053
Adjustments to reconcile net income to net cash provided by operating activities -		
Stock-based compensation	1,356	1,781
Depreciation and amortization	1,667	1,484
Amortization of intangible assets	777	2,148
Recovery of bad debts	(32)	(303)
Provision for income tax non-cash	1,875	1,754
Changes in current assets and liabilities, net of acquisition:		
Accounts receivable, net	43,832	38,546
Prepaid expenses and other current assets	2,705	2,625
Accounts payable	(1,585)	(1,541)
Accrued expenses, including long-term	(27,470)	(12,949)
Deferred revenue	(24,861)	(19,507)
Net cash provided by operating activities	5,753	18,091
Cash flows from investing activities:		
Purchases of property and equipment	(433)	(1,270)
Cash used in purchase of business, net of cash acquired	(3,933)	
Purchases of investments		(24,509)
Maturity of investments	24,619	8,370
Release of restricted cash, net	15,865	132
Net cash provided / (used in) provided by investing activities	36,118	(17,277)
Cash flows from financing activities:		
Exercise of stock options	4,106	605
Proceeds from employee stock purchase plan	1,088	1,703
Net cash provided by financing activities	5,194	2,308
Effect of exchange rate changes on cash and cash equivalents	972	406
Net increase in cash and cash equivalents	48,037	3,528
Cash and cash equivalents, beginning of period	48,612	51,937
Cash and cash equivalents, end of period	$ 96,649	$ 55,465

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

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 provider of 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 PLC is the result of a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the Merger).

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, 2007 and the results of its operations and cash flows for the three months ended April 30, 2007 and 2006. 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, 2007. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

Certain reclassifications have been made to the consolidated financial statements for the period ended April 30, 2006 to conform to current year classifications. Included in cost of revenues is amortization of intangible assets, related to acquired technology and capitalized software development costs, of approximately $1.7 million for the three months ended April 30, 2006. These costs were previously recorded within operating expense under the caption amortization of intangible assets.

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, 2007 and January 31, 2007, cash equivalents consisted mainly of commercial paper. The Company considers the cash held in certificates of deposit with a commercial bank (i) to secure certain facility leases and (ii) to secure funds to defend named former executives and board members of SmartForce PLC for actions arising out of the SEC investigation to be restricted cash. At April 30, 2007, the Company had approximately $4.2 million of restricted cash: approximately $3.2 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 $1.0 million is held to secure certain facilities leases. In the quarter ended April 30, 2007, the Company made the final payment of the 2002 securities class action settlement for approximately $15.5 million, which had previously been recorded as restricted cash.

The Company accounts for certain investments in accordance with 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, 2007, the Company s investments were classified as available for sale and had an average maturity of approximately 79 days. These investments are classified as current assets or long-term investments in the accompanying condensed consolidated balance sheets based upon maturity date.

4. REVENUE RECOGNITION

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

The Company follows the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition,* as amended by SOP 98-4 and SOP 98-9 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 cash becomes 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 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 cash has been received or collectibility is probable.

The Company provides professional services, including instructor led training, customized content, websites, 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 Emerging Issues Task Force (EITF) Issue No. 01-14, *Income Statement*

Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF 01-14 .)
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

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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 nonperformance. 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, 2007, 2,663,263 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 April 13, 2007 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, 2007 is as follows:

Share Options	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value (in thousands)**
Outstanding, January 31, 2007	20,188,177	$ 7.48	5.74	
Granted				
Exercised	(867,829)	4.08		
Cancelled	(146,916)	11.32		
Outstanding, April 30, 2007	19,173,432	$ 7.60	5.23	$ 40,382
Exercisable, April 30, 2007	13,377,182	$ 8.14	4.66	$ 30,388
Vested and Expected to Vest, April 30, 2007 (1)	18,132,555	$ 7.67	0.40	$ 38,601

(1) This represents the number of vested options as of April 30, 2007 plus the number of unvested options as of April 30, 2007 expected to vest

adjusted for an estimated forfeiture rate of 11.6%. 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.

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, 2007 of $8.07 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, 2007.

There were no options granted during the three months ended April 30, 2007. The total intrinsic value of options exercised during the three months ended April 30, 2007 and 2006 was approximately $3.1 million and $274,000, respectively.

6. ACQUISITIONS

On February 9, 2007, the Company acquired the assets of Targeted Learning Corporation (TLC), an on-line video library business, for approximately $4.1 million in cash plus liabilities assumed of $0.8 million. Additional consideration of up to $0.5 million is payable to the shareholders of TLC at various times prior to February 2008 contingent upon achievement of certain integration milestones. As of April 30, 2007, $0.1 million of this contingent consideration had been paid. The acquisition resulted in allocations of the purchase price to goodwill and identified intangible assets of $3.2 million and $0.9 million, respectively. Intangible assets consist of internally

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developed software, comprised of learning content valued at $510,000, which will be amortized over a period of 4 years, customer contracts and relationships valued at $330,000, which will be amortized over 3 years and the TLC Tradename valued at $20,000 which will be amortized over 2 years. Useful lives were determined based on Company estimates. The historical results of operations for TLC were not material to the results of operations of the Company.

7. SPECIAL CHARGES

MERGER AND EXIT COSTS

Activity in the Company s merger and exit costs, which are included in accrued expenses (see Note 14) and long-term liabilities, was as follows (in thousands):

	EMPLOYEE SEVERANCE AND RELATED COSTS	CLOSEDOWN OF FACILITIES	OTHER	TOTAL
Merger and exit accrual January 31, 2007	$ 878	$ 2,278	$ 121	$ 3,277
Payments made during the three months ended April 30, 2007		(50)		(50)
Merger and exit accrual April 30, 2007	$ 878	$ 2,228	$ 121	$ 3,227

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

Year ended January 31,	
2008 (remaining 9 months)	$ 1,751
2009	493
2010	332
2011	651
Total	$ 3,227

RESTRUCTURING

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

	EMPLOYEE SEVERANCE AND RELATED COST	CONTRACTUAL OBLIGATIONS	TOTAL
Total restructuring accrual as of January 31, 2007	$ 88	$ 1,333	$ 1,421
Payments made during the three months ended April 30, 2007	(105)	(67)	(172)
Restructuring charge for the three months ended April 30, 2007	34		34
Total restructuring accrual as of April 30, 2007	$ 17	$ 1,266	$ 1,283

The Company anticipates that the remainder of the restructuring accrual will be paid out by January 2010 as follows (in thousands):

Year ended January 31,	
2008 (remaining 9 months)	$ 521
2009	394
2010	368
Total	$ 1,283

8. GOODWILL AND INTANGIBLE ASSETS

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

	APRIL 30, 2007			JANUARY 31, 2007		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Internally developed software/courseware	$ 28,767	$ 28,035	$ 732	$ 28,257	$ 27,836	$ 421
Customer contracts	13,348	12,278	1,070	13,018	11,701	1,317
Trademarks and trade names	925	7	918	905	5	900
	43,040	40,320	2,720	42,180	39,542	2,638
Goodwill	84,444		84,444	83,171		83,171
	$ 127,484	$ 40,320	$ 87,164	$ 125,351	$ 39,542	$ 85,809

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The change in goodwill at April 30, 2007 from the amount recorded at January 31, 2007 was due primarily to the goodwill acquired as a result of the purchase of TLC as well as the Company s utilization of the tax benefit of net operating loss carryforwards assumed as part of the Merger.

	Total
Gross carrying amount of goodwill, January 31, 2007	$ 83,171
Utilization of tax benefit	(1,875)
Acquisition of TLC	3,233
Other	(85)
Gross carrying amount of goodwill, April 30, 2007	$ 84,444

Amortization expense for the remainder of fiscal 2008 and the following fiscal years is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
2008	$ 1,095
2009	360
2010	238
2011	127
Total	$ 1,820

The Company will be conducting its annual impairment test of goodwill for fiscal 2008 in the fourth quarter.

9. COMPREHENSIVE INCOME/(LOSS)

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, 2007 and 2006 was as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2007	2006
Comprehensive income:		
Net income	$ 7,489	$ 4,053
Other comprehensive income/(loss) -		
Foreign currency adjustment	(150)	(298)
Unrealized (losses)/gains on available-for-sale securities	(78)	76
Comprehensive income	$ 7,261	$ 3,831

Accumulated other comprehensive income as of April 30, 2007 and January 31, 2007 was as follows (in thousands):

	AS OF APRIL 30, 2007	AS OF JANUARY 31, 2007

Unrealized holding gains/(losses)	$	(11)	$	67
Foreign currency adjustment		(1,536)		(1,386)
Total accumulated other comprehensive loss	$	(1,547)	$	(1,319)

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,	
	2007	2006
Basic weighted average shares Outstanding	103,277,076	101,037,377
Effect of dilutive shares outstanding	3,788,380	1,851,374
Weighted average common shares outstanding, as adjusted	107,065,456	102,888,751

The following share equivalents have been excluded from the computation of diluted weighted average shares outstanding for the three months ended April 30, 2007 and 2006, respectively, as they would be anti-dilutive:

	THREE MONTHS ENDED APRIL 30,	
	2007	2006
Options excluded	15,385,052	14,112,294

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, 2007 was approximately $2.6 million. Of this amount, approximately $1.9 million relates to the expected utilization of acquired NOL carryforwards, which does not alleviate tax burden in the statement of income and is recorded as an adjustment to goodwill. The $1.9 million of utilized acquired NOL carryforwards do not require cash payments to the taxing authorities. In addition, there is income generated in foreign countries that cannot be offset through NOL carryforwards.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on February 1, 2007. On the date of adoption of FASB Interpretation No. 48, the Company had total unrecognized tax benefits of approximately $3.6 million (including interest and penalties of $1.1 million) that, if recognized, would impact the Company s effective tax rate. At April 30, 2007 the Company had $4.0 million of unrecognized tax benefits. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expense. As of April 30, 2007 the Company had approximately $0.4 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.

12. COMMITMENTS AND CONTINGENCIES

Six class action lawsuits have been filed against the Company and certain of its current and former officers and directors captioned: (1) Gianni Angeloni v. SmartForce PLC d/b/a SkillSoft, William McCabe and Greg Priest; (2) Ari R. Schloss v. SkillSoft PLC f/k/a SmartForce PLC, Gregory M. Priest, Patrick E. Murphy, David C. Drummond and William G. McCabe; (3) Joseph J. Bish v. SmartForce PLC d/b/a SkillSoft, Gregory M. Priest, William G. McCabe, David C. Drummond, John M. Grillos, John P. Hayes and Patrick E. Murphy; (4) Stacey Cohen v. SmartForce PLC d/b/a SkillSoft, William G. McCabe and Greg Priest; (5) Daniel Schmelz v. SmartForce PLC d/b/a SkillSoft, William G. McCabe and Greg Priest; and (6) John O Donoghue v. SmartForce PLC d/b/a SkillSoft, William G. McCabe and Greg Priest. Each lawsuit was filed in the United States District Court for the District of New Hampshire. In March 2004, the Company reached a settlement of this litigation for total settlement payments of $30.5 million, with one-half paid in August 2004 and the remainder paid in April 2007. In July 2005, the Company received

$19.5 million, which resulted from the final settlement with the insurance carriers regarding the 2002 securities class action lawsuit settlement of $30.5 million in March 2004 and the related litigation and ongoing SEC investigation. The Company recorded the aggregate settlement with the plaintiffs as a charge in its fiscal 2004 fourth quarter; and the settlement with its insurers has been recorded in the fiscal 2006 second quarter.

The Company is not a party to any other material legal proceedings.

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.

13. DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE

The Company previously viewed its operations and managed its business as principally two operating segments: multi modal learning (MML) and Retail Certification. However, on April 29, 2005, the Company sold certain assets and transferred certain liabilities related to its Retail Certification business and incurred a $608,000 loss on disposition in fiscal 2006. For fiscal 2008 the Retail Certification business will not generate material revenue or activity and as a result management has determined that the Company operates only in the MML business segment.

The following table set forth the Company s segment information for the fiscal quarter ended April 30, 2006:

	Quarter Ended April 30, 2006		
	Multi-Modal	Retail Certification (In thousands)	Combined
Revenue	$52,922	$ 1,731	$54,653
Net income	$ 3,980	$ 73	$ 4,053

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, 2007 and 2006 were as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2007	2006
Revenue:		
United States	$ 43,819	$ 42,864
United Kingdom	6,941	6,061
Canada	2,553	2,361
Europe, excluding UK	393	523
Australia/New Zealand	2,762	2,238
Other	672	606
Total revenue	$ 57,140	$ 54,653

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

14. ACCRUED EXPENSES

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

	APRIL 30, 2007	JANUARY 31, 2007
Course development fees	1,775	1,860
Professional fees	2,299	2,639
Accrued payables	380	415
Accrued miscellaneous taxes	377	385
Accrued merger related costs*	1,915	1,892
Sales tax payable/VAT payable	2,967	4,405
Accrued royalties	3,830	3,693

Accrued litigation settlements				15,250
Accrued restructuring		528		659
Other accrued liabilities		2,576		4,229
Total accrued expenses	$	16,647	$	35,427

* Includes $1,406 and $1,188 of accrued payroll income taxes in April 30, 2007 and January 31, 2007, respectively.

15. LETTER OF CREDIT

The Company had an outstanding letter of credit of $15.5 million, which expired on April 17, 2007 as a result of the final payment of the 2002 securities class action lawsuit. The letter of credit was subject to a commission fee of 0.75% as well as administrative costs. The Company paid approximately $33,000 in letter of credit fees in the three months ended April 30, 2007.

16. SHARE REPURCHASE PROGRAM

On March 23, 2006, the Company s shareholders approved a program for the repurchase by the Company of up to an aggregate of 3,500,000 ADSs. Currently, none of these shares have been repurchased and 3,500,000 remain available for repurchase, subject to certain limitations, under the shareholder approved repurchase program. On May 14, 2007, in connection with the closing of the NETg acquisition, the Company entered into a Credit Agreement that contains customary negative covenants that place limitations on the repurchase of the Company s shares.

17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently analyzing the effect, if any, SFAS No. 157 will have on its consolidated financial position and results of operations.

In February 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.* SFAS No. 159 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. The Company is in the process of evaluating the impact this pronouncement may have on its results of operations and financial condition and whether to adopt the provisions of SFAS No 159 for the fiscal year beginning February 1, 2007.

18. SUBSEQUENT EVENTS

On October 25, 2006 the Company signed a definitive agreement to acquire Thomson NETg from The Thomson Corporation and the Company closed the acquisition on May 14, 2007. Under the terms of the agreement the Company paid approximately $270 million in cash to Thomson, subject to customary post-closing adjustments. In connection with the closing of the Thomson NETg acquisition, the Company and its subsidiary SkillSoft Corporation entered into a Credit Agreement with Credit Suisse, as agent, and certain other parties. The Credit Agreement provides for a $225 million senior secured credit facility comprised of a $200 million term loan facility and a $25 million revolving credit facility. Proceeds of the Credit Agreement were used to finance the Thomson NETg acquisition and for general corporate purposes. In connection with the Thomson NETg acquisition, SkillSoft Corporation borrowed the entire $200 million available under the term loan facility. The term loan bears interest at a rate per annum equal to, at the Company s election, (i) an alternative base rate plus a margin of 1.75% or (ii) adjusted LIBOR plus a margin of 2.75%, and revolving loans bear interest at a rate per annum equal to, at the Company s election, (i) an alternative base rate plus a margin of 1.50% to 1.75% or (ii) adjusted LIBO plus a margin of 2.50% to 2.75%. The alternative base rate is the greater of Credit Suisse s prime rate and the federal funds effective rate plus 0.50%. Overdue amounts under the Credit Agreement bear interest at a rate per annum equal to 2.00% plus the rate otherwise applicable to such loan.

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 provider of e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps companies to maximize employee 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 SkillSoft s 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 services, such as hosting and online mentoring, are subject to additional fees.

Cost of revenue includes the cost of materials (such as storage media), packaging, shipping and handling, CD duplication, the cost of online mentoring and hosting services, royalties and certain infrastructure and occupancy expenses. We generally recognize these costs as incurred. Also included in cost of revenue is amortization expense related to capitalized software development costs and intangible assets related to technology 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 2008 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.

Legal settlements/(insurance recoveries) includes amounts incurred in connection with the settlement of various legal matters, such as the 2002 securities class action lawsuit, the NETg infringement lawsuit and other matters. Any insurance recoveries related to these legal settlements are recorded and, if appropriate, netted in legal settlements (insurance recoveries). Legal fees incurred in connection with the settlement of lawsuits are recorded as legal expenses within general and administrative expenses in our statement of operations, as incurred.

Amortization of intangible assets represents the amortization of customer value and content, from our acquisitions of Books and GoTrain Corp. (GoTrain) and the Merger.

Restructuring primarily consists of charges associated with international restructuring activities.

Restatement SEC investigation primarily consists of charges related to the ongoing SEC investigation relating to the restatement of SmartForce s financial statements for 1999, 2000, 2001 and the first two quarters of 2002, and more recently, the SEC s review of SmartForce s option granting practices prior to the Merger.

BUSINESS OUTLOOK

At this time, we are not in a position to share financial guidance on the combined operations of SkillSoft and NETg for fiscal 2008 or the second quarter of fiscal 2008 ending July 31, 2007. We are currently focused on validating our restructuring assumptions and developing a more comprehensive understanding as to how we will be able to leverage the strengths of both organizations while eliminating redundancy and underperforming operations and assets. We expect to complete our review of NETg operations and be in a position to provide financial targets for the remainder of fiscal 2008 no later than our earnings release for the fiscal 2008 second quarter ending July 31, 2007.

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In the three months ended April 30, 2007, we generated revenue of $57.1 million, an increase of $2.4 million compared to the revenue generated in the three months ended April 30, 2006 of $54.7 million. We reported net income in the three months ended April 30, 2007 of $7.5 million, an increase of $3.4 million compared to the net income generated in the three months ended April 30, 2006 of $4.1 million.

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 and our growth prospects are strongest in our product lines focused on or bundled with informal learning, such as those available from our Books24x7 subsidiary. As a result, we have increased our sales and marketing investment related to those product lines to help capitalize on the recent growth and potential continued growth for informal learning related products. 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.

During fiscal 2007, we continued to focus on revenue and earnings growth primarily by acquiring new customers, continuing to execute on our new product and telesales distribution initiatives, and by making a higher priority the evaluation of merger and acquisition opportunities that could contribute to our long-term objectives. As a result of this focus, on October 25, 2006, we signed a definitive agreement to acquire Thomson NETg from The Thomson Corporation and we closed the acquisition on May 14, 2007. Under the terms of the agreement we paid approximately $270 million in cash to Thomson, subject to customary post-closing adjustments. Approximately $200 million of the purchase price was funded through bank financing with Credit Suisse. The acquisition is expected to add to our existing offerings through the addition of complementary Thomson 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. Also, the addition of Thomson 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. In addition to our acquisition of Thomson NETg, we acquired Targeted Learning Corporation (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 up to $500,000 is payable to the shareholders of TLC upon achievement of certain integration milestones prior to February 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 3 to 5 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.

CRITICAL ACCOUNTING POLICIES

We believe that our critical accounting policies are those related to revenue recognition, amortization of intangible assets and impairment of goodwill, share-based compensation, deferral of commissions, restructuring charges, legal contingencies and income taxes. We believe these accounting policies are particularly important to the portrayal and understanding of our financial position and results of operations and require application of significant judgment by our management. In applying these policies, management uses its judgment in making certain assumptions and estimates. Our critical accounting policies are more fully described under the heading 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 April 13, 2007. The policies set forth in our Form 10-K have not changed, except that the critical accounting policy for income taxes, which follows, is being modified as of this report as a result of the adoption of

FASB Interpretation (FIN) 48 in July 2006.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, which is an interpretation of SFAS No. 109, *Accounting for Income Taxes.* FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from SFAS No. 5, *Accounting for Contingencies.* FIN 48 is effective

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for fiscal years beginning after December 15, 2006. We implemented this interpretation in the fiscal year starting February 1, 2007. We have completed our preliminary assessment regarding the effect of the implementation of FIN 48 and have determined that the adoption of FIN 48 will not have a material impact on our consolidated financial position or results of operations.

As a result of the implementation of FIN 48, we recognized a $0.4 million increase in our liability for unrecognized tax benefits. On the date of adoption of FASB Interpretation No. 48, we had total unrecognized tax benefits of approximately $3.6 million (including interest and penalties of $1.1 million) that, if recognized, would impact our effective tax rate. At April 30, 2007 we have $4.0 million of unrecognized tax benefits. We recognize interest and penalties accrued related to unrecognized tax benefits as income tax expense. As of April 30, 2007 we had approximately $0.4 million of accrued interest related to uncertain tax positions.

RESULTS OF OPERATIONS

THREE MONTHS ENDED APRIL 30, 2007 VERSUS THREE MONTHS ENDED APRIL 30, 2006

	Three Months Ended April 30,			
	Dollar Increase/(Decrease) 2006/2007 (In thousands)	Percent Change Increase/(Decrease) 2006/2007	Percentage of Revenue 2007	2006
Revenue	$ 2,487	5%	100%	100%
Cost of revenue	377	6%	12%	12%
Cost of revenue amortization of intangible assets	(1,534)	(89)%		3%
Gross profit	3,644	8%	88%	85%
Research and development	277	3%	18%	18%
Selling and marketing	(709)	(3)%	39%	43%
General and administrative	(152)	(2)%	12%	13%
Amortization of intangible assets	163	39%	1%	1%
Restructuring	34	*		
Restatement SEC investigation	620	246%	2%	
Total operating expenses	233	1%	72%	75%
Operating income	3,411	64%	15%	10%
Other income/(expense), net	(36)	*		
Interest income	696	86%	3%	1%
Interest expense	15	(23)%		
Income before provision for income taxes	4,086	68%	18%	11%
Provision for income taxes	650	33%	5%	4%
Net income	$ 3,436	85%	13%	7%

* Not meaningful

REVENUE

(IN THOUSANDS)	QUARTERS ENDED APRIL 30, 2007	2006	CHANGE
Revenue:			
Multi-Modal Learning	$ 56,927	$ 52,922	$ 4,005
Retail Certification	213	1,731	(1,518)
Total	$ 57,140	$ 54,653	$ 2,487

The sale of certain assets related to SmartCertify, our Retail Certification business, resulted in a reduction in revenue of $1.5 million in our Retail Certification business for the three months ended April 30, 2007 as compared to the three months ended April 30, 2006. This reduction was more than offset by an 8% increase in MML revenue primarily due to growth in sales of our informal learning product lines and additional revenue earned under agreements with third party resellers of our products. We expect revenue from our Retail Certification business to be approximately $0.2 million in fiscal 2008 as compared to $5.0 million in fiscal 2007. We expect this decrease in revenue to be more than offset in fiscal 2008 by increased MML revenue generated from existing customers, new

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business, including additional revenue anticipated from the acquisitions of TLC in February 2007 and NETg in May 2007 and the telesales distribution operation focusing on small and mid-sized businesses.

	QUARTERS ENDED APRIL 30,		
(IN THOUSANDS)	**2007**	**2006**	**CHANGE**
Revenue:			
United States	$ 43,819	$ 42,864	$ 955
International	13,321	11,789	1,532
Total	$ 57,140	$ 54,653	$ 2,487

Revenue increased by 2% and 13% in the United States and internationally, respectively, in the three months ended April 30, 2007 as compared to the three months ended April 30, 2006. The reduction in Retail Certification revenue, which is primarily earned in the United States, was more than offset by an 8% increase in MML revenue globally, primarily due to growth in sales of our informal learning product lines and additional revenue earned under agreements with third party resellers of our products.

We exited the fiscal year ended January 31, 2007 with non-cancelable backlog of approximately $181 million compared to $171 million at January 31, 2006. 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 fiscal 2008. The amount scheduled to amortize into revenue during fiscal 2008 is disclosed as backlog as of January 31, 2007. Amounts to be added to deferred revenue during fiscal 2008 include subsequent installment billings for ongoing contract periods as well as billings for new or continuing contracts. As a result of the previously described sale of certain assets related to SmartCertify, the balance of non-cancelable backlog at January 31, 2007 reflects a reduction of approximately $5.0 million in SmartCertify backlog when compared to January 31, 2006, and SmartCertify will not contribute new contracts during fiscal 2008. We have included this non-GAAP disclosure due to the fact that 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 2008 revenue.

COSTS AND EXPENSES

The increase in cost of revenue in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to increased revenue from our royalty-bearing Books24x7 Referenceware offerings.

The decrease in cost of revenue amortization of intangible assets in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to certain intangible assets related to capitalized software development costs and technology acquired in business combinations becoming fully amortized during the previous fiscal year.

The increase in research and development expenses in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to an increase of $0.4 million related to our new Leadership Development Channel (LDC) operations for video content development acquired from TLC, which was partially offset by a reduction of $0.2 million in stock based compensation.

The decrease in selling and marketing expenses in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to a decrease of $0.3 million of stock-based compensation expense, as well as a reduction in consulting expense of $0.3 million.

The decrease in general and administrative expenses in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to a decrease of $0.4 million in business systems software development expense.

The increase in amortization of intangible assets in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to the amortization of intangible assets acquired as a result of the TLC acquisition.

Restatement SEC investigation charges increased in the three months ended April 30, 2007 versus the three months ended April 30, 2006 due to an increase in legal expenses related to the ongoing SEC investigation as a result of the recent notification from the SEC of its 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, 2007 versus the three months ended April 30, 2006 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 increase in interest income in the three months ended April 30, 2007 versus the three months ended April 30, 2006 was primarily due to more funds being available for investment and higher interest rates on our cash and cash equivalents and investments.

PROVISION FOR INCOME TAXES

We are using an effective tax rate of 22.5%, exclusive of any discrete charges, for fiscal 2008 compared to 33.0% for fiscal year 2007. The decrease in the rate reflects our increased utilization of operational NOL carryforwards in the U.S. in fiscal 2008 (as opposed to acquired NOL carryforwards in fiscal 2007). For the three months ended April 30, 2007, 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. The effective tax rate of 22.5% for fiscal 2008 does not contemplate the impact of the NETg acquisition and may be subject to material change.

LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 2007, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled $131.0 million. This compares to $104.1 million at January 31, 2007.

Net cash provided by operating activities of $5.8 million for the three months ended April 30, 2007 was primarily due to net income of $7.5 million, which included the impact of non-cash expenses for depreciation and amortization and amortization of intangible assets of $2.4 million, share-based compensation expense of $1.4 million and non-cash income tax provision of $1.9 million. Net cash provided by operating activities was also a result of a decrease in accounts receivable of $43.8 million. These amounts were partially offset by a decrease in accrued expenses of $27.5 million as well as a decrease in deferred revenue of $24.9 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.

Net cash provided by investing activities was $36.1 million for the three months ended April 30, 2007, which includes the maturity of investments generating a cash inflow of approximately $24.6 million in the three months ended April 30, 2007. In addition, approximately $15.9 million of cash was released from restricted cash as a result of making the final payment related to the settlement of the 2002 class action lawsuit. Prior to making that payment, we were required to place a restriction on this cash to secure an outstanding letter of credit of $15.5 million. These inflows were partially offset by cash used to acquire TLC of $3.9 million.

Net cash provided by financing activities was $5.2 million for the three months ended April 30, 2007. This was the result of proceeds we received from the exercise of share options under our various share option programs and share purchases under our 2004 Employee Share Purchase Plan.

We had working capital of approximately $55.0 million as of April 30, 2007 and approximately $38.1 million as of January 31, 2007. The increase in our working capital was primarily due to our net income of $7.5 million, which includes non-cash charges for depreciation and amortization of $2.4 million, share-based compensation expense of $1.4 million and a non-cash provision for income tax of $1.9 million. Additionally, the increase included $5.2 million of proceeds from the exercise of share options and share purchases under our 2004 Employee Share Purchase Plan as well as the maturity of long-term investments of $3.6 million. The impact of these items was partially offset by cash used to acquire TLC of $3.9 million and the purchase of property and equipment of $0.4 million.

As of January 31, 2007, we had U.S. federal net operating loss (NOL) carryforwards of approximately $284.2 million. 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 $284.2 million are approximately $157.1 million of U.S. NOL carryforwards that were acquired in the Merger and the purchase of Books. We will realize the benefits of these acquired NOL carryforwards through reductions to goodwill and non-goodwill intangibles. Also included in the $284.2 million at January 31, 2007 is approximately $31.3 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. We also acquired $365,000 of U.S. tax credit carryforwards in the Merger and the purchase of Books. As with the acquired NOL carryforwards, we will realize the benefits of these credit carryforwards through reductions to goodwill and non-goodwill intangibles. Additionally, we had approximately $93.5 million of NOL carryforwards in jurisdictions outside of the U.S. If not utilized, these NOL carryforwards expire at various dates through the year ending January 31, 2025. In addition, included in the $93.5 million is approximately $88.1 million of NOL carryforwards in jurisdictions outside the U.S. acquired in the Merger and the purchase of Books. We will realize the benefits of these acquired NOL carryforwards through reductions to goodwill and non-goodwill intangibles. We also had U.S. federal tax credit carryforwards of approximately $6.8 million at January 31, 2007.

We lease certain of our facilities and certain equipment and furniture under operating lease agreements that expire at various dates through 2023. Future minimum lease payments, net of estimated rentals, under these agreements 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	$ 29,677	$ 5,142	$ 8,290	$ 3,144	$ 13,101

On February 9, 2007, we acquired the assets of TLC for approximately $4.1 million with an additional consideration of up to $0.5 million payable to the shareholders of TLC upon achievement of certain integration milestones prior to February 2008.

We used approximately $79 million of our cash on May 14, 2007 for the purchase price and related expenses of the NETg acquisition. In connection with the closing of the Thomson NETg acquisition, we and our subsidiary SkillSoft Corporation entered into a Credit Agreement with Credit Suisse, as agent, and certain other parties. The Credit Agreement provides for a $225 million senior secured credit facility comprised of a $200 million term loan facility and a $25 million revolving credit facility. Proceeds of the Credit Agreement were used to finance the Thomson NETg acquisition and for general corporate purposes. In connection with the Thomson NETg acquisition, SkillSoft Corporation borrowed the entire $200 million available under the term loan facility. The term loan bears interest at a rate per annum equal to, at our election, (i) an alternative base rate plus a margin of 1.75% or (ii) adjusted LIBOR plus a margin of 2.75%, and revolving loans bear interest at a rate per annum equal to, at our election, (i) an alternative base rate plus a margin of 1.50% to 1.75% or (ii) adjusted LIBO plus a margin of 2.50% to 2.75%. The alternative base rate is the greater of Credit Suisse s prime rate and the federal funds effective rate plus 0.50%. Overdue amounts under the Credit Agreement bear interest at a rate per annum equal to 2.00% plus the rate otherwise applicable to such loan.

We are required to pay the lenders a commitment fee at a rate per annum of 0.50% on the average daily unused amount of the revolving credit facility commitments of the lenders during the period for which payment is made, payable quarterly in arrears. The term loan is payable in 24 consecutive quarterly installments of (i) $500,000 in the case of each of the first 23 installments, on the last day of each of September, December, March, and June commencing September 30, 2007 and ending on March 31, 2013, and (ii) the balance due on May 14, 2013. The revolving credit facility terminates on May 14, 2012, at which time all outstanding borrowings under the revolving credit facility are due. We may optionally prepay loans under the Credit Agreement at any time, without penalty. The loans are subject to mandatory prepayment in certain circumstances.

The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants. Affirmative covenants include, among others, with respect to us and our subsidiaries, maintenance of existence, financial and other reporting, payment of obligations, maintenance of properties and insurance, maintenance of a credit rating, and interest rate protection. Negative covenants include, among others, with respect to us and our subsidiaries, limitations on incurrence or guarantees of indebtedness, limitations on liens, limitations on sale and lease-back transactions, limitations on investments, limitations on mergers, consolidations, asset sales and acquisitions, limitations on dividends, share redemptions and other restricted payments, limitations on affiliate transactions, limitations on hedging transactions, and limitations on capital expenditures. The Credit Agreement also includes a leverage ratio covenant and an interest coverage ratio covenant (the ratio of our consolidated EBITDA to our consolidated interest expense as calculated pursuant to the Credit Agreement).

The Credit Agreement contains customary events of default, including, among others, inaccuracy of representations and warranties in any material respect, non-payment of principal, interest or other amounts when due, violation of covenants, cross-defaults with other material indebtedness, certain undischarged judgments, the occurrence of certain ERISA or bankruptcy or insolvency events and the occurrence of a Change in Control (as defined in the Credit Agreement). Upon the occurrence and during the continuance of an event of default under the Credit Agreement, the lenders may declare the loans and all other obligations under the Credit Agreement immediately due and payable. A bankruptcy or insolvency event of default causes such obligations automatically to become immediately due and payable.

The loans and our other obligations under the Credit Agreement and related loan documents are secured by substantially all of our tangible and intangible assets.

In conjunction with the Credit Agreement we entered into a $160 million Hedge Contract at a rate of 5.1015% to limit our exposure to the possible fluctuations of the LIBOR. Under the terms of the Credit Agreement we are required to hedge a minimum of 50% of the Term Loan for a period of two years.

We expect to experience similar spending related to capital expenditures in the fiscal year ending January 31, 2008, as compared to the fiscal year ended January 31, 2007, excluding capital expenditures related to the acquisition of Thomson NETg. These expenditures cannot be accurately estimated at this time. In addition 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 ending January 31, 2008 are expected to be approximately $6.0 to $8.0 million.

We purchased 6,533,884 shares under our shareholder approved repurchase plan during fiscal 2005 and 2006. This plan expired on March 24, 2006 with 466,116 shares remaining available for repurchase under the original plan. Our shareholders have approved the renewal and extension of the plan, and as a result we currently have the ability to purchase, subject to certain limitations, up to 3,500,000 of our outstanding shares under the approved shareholder plan. Under the plan, there are limitations on our ability to purchase shares up to this level, which include, but are not limited to, the availability of distributable profits under Irish regulations and available cash. We have also incurred additional restrictions as a result of the term loan agreement with Credit Suisse we executed as part of the Thomson NETg acquisition. We expect that the principal sources of funding for our operating expenses, capital expenditures, litigation settlement payments 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 the debt repayment 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 significant acquisitions (in addition to and including Thomson 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 operations.

EXPLANATION OF USE OF NON-GAAP FINANCIAL RESULTS

In addition to our audited 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), 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 one-time charges. Our management recognizes that non-GAAP financial results are not a substitute for GAAP results, but believes that non-GAAP measures are helpful in assisting them in understanding and managing our business.

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

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, 2007, we did not use derivative financial instruments for speculative or trading purposes.

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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.

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, 2007 and 2006, we incurred foreign currency exchange losses of $143,000 and $30,000, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2007. 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, 2007, 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, 2007 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, 2007 for a discussion of legal proceedings. There were no material developments in these proceedings during the quarter ended April 30, 2007.

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, 2007, there have been no material changes to the risk factors included in that report.

RISKS RELATED TO LEGAL PROCEEDINGS

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

While preparing the closing balance sheet of SmartForce as at September 6, 2002, the date on which we closed our merger with SkillSoft Corporation (the Merger), certain accounting matters were identified relating to the historical financial statements of SmartForce (which, following the Merger, are no longer our historical financial statements). On November 19, 2002, we announced our intent to restate the SmartForce financial statements for 1999, 2000, 2001 and the first two quarters of 2002. We have settled several class action lawsuits that were filed following the announcement of the restatement.

We are the subject of a formal order of private investigation entered by the SEC relating to the restatement. On June 2, 2005, the Boston District Office of the SEC informed us that it had made a preliminary determination to recommend that the SEC bring a civil injunctive action against us. Under the SEC s rules, we are permitted to make a so-called Wells Submission in which we seek to persuade the SEC that no such action should be commenced. In the event we are unable to resolve the SEC s potential claims by agreement, we intend to make such a submission.

The Boston District Office of the SEC informed us in January 2007 that we are the subject of an informal investigation concerning options granting practices at SmartForce for the period beginning April 12, 1996 through July 12, 2002, which was prior to the Merger. We have received a document request from the SEC and are in the process of responding to the request. The SEC has also informed us that the investigation relating to the restatement of historical SmartForce financial statements cannot be concluded until the investigation relating to the option granting practices of SmartForce has been completed.

We continue to cooperate with the SEC in these matters. At the present time, we are unable to predict the outcome of these matters or their potential impact on our operating results or financial position. However, we may incur substantial costs in connection with the SEC investigations, and these investigations 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 investigations. 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 in the use of our products or require us to enter into royalty or licensing agreements. Licensing agreements, if required, may not be available on terms acceptable to the combined company or at all.

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

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

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

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.

RISKS RELATED TO THE OPERATION OF OUR BUSINESS

OUR QUARTERLY OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY. THIS LIMITS YOUR ABILITY TO EVALUATE HISTORICAL FINANCIAL RESULTS AND INCREASES 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):

- 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, including the costs related to the restatement of the SmartForce financial statements;
- 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 THE RECENT ACQUISITION OF THOMSON 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 Thomson 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 Thomson NETg acquisition, may not produce benefits commensurate with the purchase price we pay or our expectations for the acquisition. In addition, acquisitions, including the Thomson 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 of the acquired company;
- Diversion of management time and focus;
- The incurrence of unanticipated expenses associated with the acquisition or the assumption of unknown liabilities or unanticipated financial, accounting or other problems of the acquired company; and
- Accounting charges related to the acquisition, including restructuring charges, write-offs of in-process research and development costs, and subsequent impairment charges relating to goodwill or other intangible assets acquired in the transaction.

WE HAVE EXPERIENCED NET LOSSES IN THE PAST, AND WE MAY BE UNABLE TO MAINTAIN PROFITABILITY.

We recorded a net loss of $20.1 million for the fiscal year ended January 31, 2005, net income of $35.2 million for the fiscal year ended January 31, 2006 and net income of $24.2 million for the fiscal year ended January 31, 2007. While we achieved profitability in the last two fiscal years, we cannot guarantee that our business will sustain profitability in any future period.

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 HR 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.

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, Books 24x7.com (Books) 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.

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 is critical to our reputation and ability to attract and retain corporate customers, subscribers and commerce partners. We cannot accurately project the rate or timing of any increases in traffic to our Web site and, therefore, the integration and timing of any upgrades or enhancements required to facilitate any significant traffic increase to the Web site are uncertain. We have in the past experienced difficulties in upgrading our Web site infrastructure to handle increased traffic, and these difficulties could recur. The failure to expand and upgrade our Web site or any system error, failure or extended down time could materially harm our business, reputation, financial condition or results of operations.

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

Many of our 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 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 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 NON-U.S. 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 Operations outside of the United States are subject to inherent risks, including:

- difficulties or delays in developing and supporting non-English language versions of our products and services;
- political and economic conditions in various jurisdictions;
- difficulties in staffing and managing foreign subsidiary operations;
- longer sales cycles and account receivable payment cycles;
- multiple, conflicting and changing governmental laws and regulations;
- foreign currency exchange rate fluctuations;
- protectionist laws and business practices that may favor local competitors;
- difficulties in finding and managing local resellers;
- potential adverse tax consequences; and
- the absence or significant lack of legal protection for intellectual property rights.

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

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

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

- our need to educate potential customers about the benefits of our products;
- competitive evaluations by customers;
- the customers internal budgeting and approval processes;
- the fact that many customers view training products as discretionary spending, rather than purchases essential to their business; and
- the fact that we target large companies, which often take longer to make purchasing decisions due to the size and complexity of the enterprise.

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 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.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

The Company filed Form 10-K/A with the Securities and Exchange Commission on May 31, 2007. Under Item 14 Principal Accountant Fees and Services the Company had stated tax fees to be $625,283 for the fiscal year ended January 31, 2007. The Company has subsequently revised its tax fees to be $713,023 for the fiscal year ended January 31, 2007. As a result the previously stated total fees of $2,517,993 are now $2,605,733.

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 8, 2007

By: /s/ Thomas J. McDonald

Thomas J. McDonald
Chief Financial Officer

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EXHIBIT INDEX

2.2	Side Letter to Purchase Agreement, dated as of May 14, 2007, by and among SkillSoft Public Limited Company, SkillSoft Corporation, Thompson Learning Inc., Thomson Global Resources, T.N.H. France SARL, T.N.H. Holdings GmbH, The Thomson Corporation (Australia) Pty Ltd., and Thomson Information & Solutions Limited. (incorporated by reference to Exhibit 2.2 of SkillSoft PLC s Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 14, 2007 (File No. 000-25674)).
10.1	Credit Agreement, dated May 14, 2007, among the Company, SkillSoft Corporation, as borrower, Credit Suisse, as administrative agent and collateral agent, Credit Suisse Securities (USA) LLC, as sole bookrunner and sole lead arranger, Keybank National Association, as syndication agent, Silicon Valley Bank, as documentation agent, and the lenders party thereto. (incorporated by reference to Exhibit 10.1 of SkillSoft PLC s Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 14, 2007 (File No. 000-25674)).
10.2	Guarantee and Collateral Agreement, dated May 14, 2007, among the Company and the subsidiary guarantors party thereto. (incorporated by reference to Exhibit 10.2 of SkillSoft PLC s Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 14, 2007 (File No. 000-25674)).
10.3	Summary of Fiscal 2008 Executive Cash Incentive Compensation Program (incorporated by reference to Exhibit 99.1 to SkillSoft PLC s Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 25, 2007 (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.

Filed herewith.