SKILLSOFT PUBLIC LIMITED CO

Form 10-K

April 18, 2005

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

Form 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

þ   **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2005

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: 0-25674

SkillSoft Public Limited Company
(Exact name of registrant as specified in its charter)

Republic of Ireland	**None**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
107 Northeastern Boulevard	**03062**
Nashua, New Hampshire	*(Zip Code)*
(Address of principal executive offices)	

Registrant s telephone number, including area code:
(603) 324-3000
Securities registered pursuant to section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
(Title of Class)
Ordinary Shares,   0.11
Subscription Rights

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   o

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).   Yes þ   No o

The approximate aggregate market value of voting shares held by non-affiliates of the registrant as of July 31, 2004 was $489,941,475

On March 31, 2005, the registrant had outstanding 106,230,076 ordinary shares (issued or issuable in exchange for the registrant s outstanding American Depository Shares (ADSs)).

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Any statements in this Form 10-K about future expectations, plans and prospects for SkillSoft, 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 in Item 7 under the heading Future Operating Results .

As used in this Form 10-K, we , us , our , SkillSoft and the Company refer to SkillSoft Public Limited Company and its subsidiaries.

Item 1. *Business*
General

SkillSoft is a leading global provider of e-learning content and technology products for business and information technology (IT) professionals primarily within the Global 5000. SkillSoft s multi-modal learning solutions support and enhance the speed and effectiveness of both formal and informal learning processes and integrate SkillSoft s in-depth courseware-learning content, learning management platform, virtual classroom technology and support services. Content offerings include our SkillChoice Solutions, Business Skills Courseware Collection, IT Skills and Certification Courseware Collection, compliance and health and safety courseware and Referenceware®collections by Books24x7®, such as ITPro[tm], BusinessPro[tm], FinancePro[tm], OfficeEssentials[tm], FinancePro[tm], EngineeringPro[tm], ExecSummaries[tm] and ExecBlueprints[tm]. SkillSoft s complementary technologies include SkillPort®, our learning management platform with its powerful Search-and-Learn[tm] capabilities, and SkillSoft Dialogue[tm], our newly introduced virtual classroom offering that helps customers rapidly create and deliver effective live and on-demand learning sessions. Our products and services are designed to link learning strategy to business strategy and to maximize human capital investments. With a comprehensive learning solution, comprised of high-quality learning resources and flexible technology approaches, we help our customers achieve sustainable and measurable business results. These solutions are designed to support all levels of the organization and can easily be adapted to meet strategic business initiatives, on-demand information needs and individual job roles.

On the content side of our business, we focus on a variety of business, professional effectiveness, IT and compliance topics that we believe represent the critical skills required of employees in increasingly dynamic and complex work environments. We also provide informal learning products through our Books24x7 business unit that support on demand learning and daily information gathering needs. Our IT skills courses give learners the ability to gain the technical knowledge they need to perform their jobs. Our business skills courses (also known as soft skills courses) concentrate on the skills and knowledge that are relevant to various general competencies and functional responsibilities in today s business organizations. These skills are important to a business professional s ability to work effectively with business associates and customers, make sound business decisions and more rapidly achieve his or her most important work-related and career objectives. Our Books24x7 Referenceware collections cover broad business and technical areas of interest, as well as focused areas, such as engineering and finance. Generally, our content solutions are based on open standards Web technologies and flexible, low bandwidth architecture, enabling users to access the material they need via computer, with the specificity or breadth that they require, any time or anywhere that they may need it.

Our technology solutions are designed to support a broad range of corporate learning needs and respond quickly to business demands. Our learning management system (LMS), SkillPort, is designed to be a flexible, scalable platform that can be rapidly implemented and will meet the needs of the majority of business enterprises. We also work actively with other LMS vendors to ensure interoperability of our content and technology with their systems. In addition to SkillPort, we offer customization and authoring tools that allow our customers to tailor our content to be a better fit with their business. Finally, in fiscal 2005, we announced plans to introduce SkillSoft Dialogue, a virtual classroom technology that is focused on the rapid creation and delivery of effective online learning sessions.

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We have a worldwide customer base spanning business, government and education, and more than 5.5 million licensed users. Our major products include:

SkillChoice Multi-Modal Learning Solutions: These integrated solutions provide a rich array of resources (including courseware, Referenceware, online mentoring, test preparation exams, SkillSimulations (SkillSims) and Blended Learning Toolkits) to support formal training and informal performance support needs. Available as four offerings (Complete, IT, Business and Desktop), SkillChoice Solutions provide the necessary depth, breadth, quality and currency to encompass a wide range of corporate learning objectives.

SkillPort: SkillPort, our learning management platform, provides a reliable, flexible and cost-effective way for organizations to deploy and manage their e-learning programs. Using SkillPort, customers can leverage the benefits of the multi-modal learning approach and deploy complex solutions rapidly, on a global basis. With Search-and-Learn, employees view all e-learning assets on the system with a single, unified search. SkillPort is available as a hosted solution, supporting the growing demand for reliable, scalable and secure e-learning with a low-cost, low IT-burden model. Alternatively, customers may choose to deploy SkillPort on their own intranet infrastructure. Recently introduced add-on modules for our Instructor-Led Training (ILT) Management and Credentialing extend SkillPort s capability in supporting complex, blended learning programs. We have also announced plans for an Advanced Reporting Module to support large installations and more sophisticated metrics.

SkillSoft Dialogue: SkillSoft Dialogue is a virtual classroom platform that has been designed for the rapid creation and delivery of effective live and on-demand learning sessions. SkillSoft Dialogue will provide customers access to an online repository of hundreds of thousands of pages of SkillSoft learning content. This content can be used to enrich the live and on-demand learning sessions created in the tool. These sessions can also be launched and tracked from SkillPort and other standards-based LMS platforms. SkillSoft Dialogue is another example of SkillSoft leveraging its strong heritage of content development and learning technology to bring a new form of value to the market that directly addresses an unmet need of today s leading learning organizations.

Business Skills Collection: This includes more than 2,300 courseware titles and simulations encompassing professional effectiveness, management/leadership, project management, sales and customer-facing skills, business strategy/operations, finance, human resources, safety/health and financial services. Our courses feature strong visual design; a focus on instructional objectives at the application and analysis levels; learner interactivity; reinforcement through RolePlays, SkillSims and case studies; and transfer of learning into practice through online Job Aids, Follow-On Activities, Blended Learning Toolkits and SkillBriefs.

IT Skills and Certification Collection: This includes more than 2,400 courseware titles encompassing software development, operating systems and server technologies, Internet and network technologies, enterprise database systems, Web design, and desktop computer skills. Our IT skills collection also supports more than 100 current industry certification exams. The IT courses also feature strong visual design, interactivity, and reinforcement of learning transfer via frequent practice questions, simulations and mentored and self-assessed exercises.

Online Mentoring: This service is offered for over 80 current certification exams for IT professionals, end user technologies and project management skills. Our approximately 50 on-staff mentors, averaging over 20 current certifications each, are available 24 hours a day, 7 days a week. Through online chats and e-mail, learners can ask questions, receive clarification, and request additional information to help them get the answers and understanding they need.

Books24x7 Referenceware: This includes more than 7,600 unabridged IT and business books and reports from more than 100 publishers that are available to online subscribers through our subsidiary, Books24x7. Exclusive assets such as Referencepoints^{tm}, White Papers from SkillSoft Press and Instant Code Books fill gaps not covered

by traditional book publishers. A unique, patent-pending search engine

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gives subscribers the ability to perform multi-level searches to pinpoint information needed for on-the-job performance support and problem-solving.

Executive Content: Books24x7 executive level offerings give busy executives the information they value in a form that fits their busy schedules. ExecSummaries™ offers concise, 8-page summaries of today s best-selling business books. Launched in March 2005, ExecBlueprints™ provides near-term actionable business plans written by leading C-level executives from prominent global companies.

We were incorporated in Ireland on August 8, 1989. On September 6, 2002, we completed a merger with SkillSoft Corporation, a Delaware corporation, and, on November 19, 2002, changed our corporate name from SmartForce PLC to SkillSoft PLC. Our registered office is located at Belfield Office Park, Clonskeagh, Dublin 4, Ireland, and our telephone number at that address from the United States is (011) 353-1-2181000. Our principal office in the United States is located at 107 Northeastern Boulevard, Nashua, New Hampshire 03062, USA, and our telephone number at that address is (603) 324-3000.

We maintain a Web site with the address www.skillsoft.com. We are not including the information contained on our Web site as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission.

Industry Background

The corporate training market is large. We believe that a substantial majority of the corporate training market is comprised of business skills and IT skills training, as well as the complementary technologies for the development and delivery of learning programs. We believe that the growth in corporate training is being driven by:

the evolution of our economy to a service-based and knowledge-based economy, in which the skills of the workforce often represent the most important corporate assets;

the increasing recognition by businesses that it is imperative to continually improve the skills of their employees in order to remain competitive;

the rapidly evolving business environment, which necessitates continual training and education of the employee base; and

the increased competition in today s economy for skilled employees and the recognition that effective training can be used to recruit and retain employees.

Although corporate training has historically been dominated by traditional classroom instruction, e-learning solutions are changing the manner in which business enterprises improve the skills of their workforce. By providing real-time accessibility and user-focused specificity, e-learning is changing the training and education process from a distinct event often off-site and limited in scope to a process of continuous learning for employees. Often, we find that our customers combine e-learning resources with traditional classroom training or virtual classroom events. These blended learning programs meet the rising need for training in increasingly complex working environments, and, when properly designed and deployed, blended solutions can effectively address the needs of business organizations seeking to provide comprehensive, enterprise-wide learning solutions to their employees. These solutions can support both the planned formal learning priorities and the day-to-day informal learning activities that comprise the primary means by which business professionals learn the skills needed to do their job and grow their careers.

We believe that e-learning solutions present a significant opportunity for business organizations to cost-effectively train their employees while maintaining a higher level of productivity of their workforce. Like traditional technology-based training solutions, such as CD-ROMs and client/server applications, e-learning solutions alleviate the inefficiencies associated with classroom training, including travel costs, scheduling difficulties and the opportunity costs of employees time. In addition, e-learning provides benefits beyond other

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technology-based training methods that make it more flexible, effective and cost-efficient. For example, e-learning solutions provide more timely and simplified deployment, the flexibility of self-directed and personalized learning, improved ease of use, and enhanced product/user support and administrative functionality. Furthermore, through the use of Web-based technologies, e-learning solutions provide access via computer to content any time, anywhere over the Internet and in the exact amount required.

Content Products

With over 4,800 courses spanning IT, cross-functional business skills, functional area expertise and workplace compliance subjects, we are an industry leader in e-learning content solutions for today s critical business and IT skills. Through our focus on these critical skills and our track record in fast and effective execution, we strive to deliver e-learning content that excels in terms of depth, breadth, currency, interactive learning design and Web deployment flexibility. Also, through our Books24x7 professional Referenceware offering, we can offer users access to over 7,600 unabridged business and IT titles from more than 100 of the world s best-known publishing companies, as well as summaries of leading business books and reports authored by C-level executives on pressing business topics. Together, these multi-modal e-learning components offer organizations an array of both formal and informal learning based on user needs whether students need to immerse themselves in the subject matter or need to quickly reference content for five to ten minutes of on-the-job performance support.

We regularly add new courses to cover new skills and technologies and new subjects requested by our customers or that we believe our customers will want. We also regularly retire courses from our active library as certain skills, subjects or technologies become outdated or used less frequently by our customers, and as we replace older courses with newer and higher quality versions. This combination of adding and retiring courses, which is part of our continuous effort to ensure the currency, relevancy and high quality of our active library, will cause the overall active library size to fluctuate.

Business Skills Courseware and Simulations

Our comprehensive business skills library of e-learning courses, simulations and learning objects encompasses a wide array of professional effectiveness skills and business topics. As of January 31, 2005, our business skills library included over 2,300 business skills course and simulation offerings. Our business skills courses and simulations are divided into the following major Solution Areas:

Professional Effectiveness	Business Strategy & Operations
Management & Leadership	Safety & Health
Project Effectiveness	Workplace Compliance
Sales & Customer-Facing Skills	Financial Services Industry
Finance, HR & Administration	

We have more than 815 current English language business skills courses, and over 1,500 versions of these courses that have been localized into a number of languages including UK English, Italian, German, French, Castilian Spanish, Polish, Japanese, Mandarin Chinese, Traditional Chinese, Cantonese, Latin American Spanish and Brazilian Portuguese to support other geographic markets.

IT Skills Courseware

Our comprehensive IT skills library of e-learning courses and learning objects encompasses a wide array of technologies used by IT professionals and business end-users. As of January 31, 2005, our IT skills library included over 2,400 IT skills course offerings that are divided into the following major Solution Areas:

Software Development	Operating Systems & Server Technologies
Internet & Network Technologies	Enterprise Database Systems
Web Design	Desktop Computer Skills

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The courseware in these Solution Areas address over 50 current technical certifications sought by technical professionals and enterprises providing technical products and services to their customers, including:

Microsoft	**CompTIA**	**Cisco**	**Oracle**
MOS	A+	CCNA	OCA 9i
MCP	Net+	CCDA	OCP 9i
MCSA 2000	INet+	CCNP	OCA 10g
MCSE 2000	Server+	CCDP	OCP 10g
MCSD .NET	Linux+	CCSP	
MCDBA			
MCSA 2003			
MCSE 2003			
Macromedia		**Security**	**CIW**
Coldfusion MX Developer		Sans Geac	CIW Associate
Dreamweaver MX Developer		CompTIA Security+	Master Enterprise Developer
Flash MX Developer		CISSP (ISC²)	CIW Site Designer
		SSCP (ISC²)	
		ISSEP (ISC²)	
		CCSA (CheckPoint)	
ECDL	**Project Mgmt Institute**	**Linux Professional Institute**	
ECDL V4	PMP	LPI: Level 1	
ICDL V4			
ECDL v3			
ICDL v4			

We have more than 1,350 current English language IT skills courses, and over 1,050 IT skills course titles that have been localized into a number of languages including German, French, Spanish, Italian, Japanese, Dutch, Greek, Portuguese and Korean to support other geographic markets.

Books24x7

Books24x7, a SkillSoft company, offers a suite of core, unabridged and topically organized Referenceware collections that provide online subscribers the ability to perform multi-level searches to pinpoint information needed for on-the-job performance support and problem-solving. Referenceware products draw upon leading professional reference books, journals, research reports and documentation. Books24x7 delivers Referenceware via a Web-based platform that enables paying subscribers to browse, read, search, and collaborate anytime, anywhere with a simple Web connection. The Referenceware collections include:

ITPRO COLLECTION is geared toward technology professionals including developers, network administrators, technology executives, information services managers and technical support representatives. This collection consists of content from dozens of IT publishers including industry leaders such as Apress, Microsoft Press, MIT Press, Osborne/ McGraw-Hill, Sybex and John Wiley & Sons.

BUSINESSPRO COLLECTION is geared toward professionals whose role requires exercising strong business judgment. This collection contains over 30 business skills and professional development publishers including industry leaders such as AMACOM, ASTD, Berrett-Koehler, Harvard Business School Press, Jossey-Bass, Oxford University Press and John Wiley & Sons.

OFFICEESSENTIALS COLLECTION is a specialty collection geared toward non-technical users who require occasional real-time assistance with common office applications. This collection contains award winning content, including the for Dummies series, is written in a comfortable, easy-to-understand tone and can be deployed to desktops to relieve Help Desk congestion, or provided as an end-user safety-net during migration to applications such as Microsoft Office 2003.

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FINANCEPRO COLLECTION offers professionals access to relevant information on a variety of financial and accounting topics. FinancePro delivers fully searchable, online content from popular publishers such as AMACOM, John Wiley & Sons, McGraw-Hill and Oxford University Press, and is an essential tool for anyone needing immediate access to financial reference materials including such topics as Generally Accepted Accounting Principals (GAAP), International Accounting Standards, operations management, planning and taxation.

ENGINEERINGPRO COLLECTION is a professional information tool containing reference material covering a wide range of engineering disciplines, and general reference topics important to virtually all engineering professionals. This collection features books from publishers such as John Wiley & Sons, McGraw-Hill, The Institution of Electrical Engineers, EngineeringPress, Industrial Press, Noble Publishing, Artech House, Cambridge University Press, The MIT Press and others.

EXECSUMMARIES COLLECTION provides summaries of leading business books from today s foremost business authors. ExecSummaries expertly encapsulates the salient points and ideas of full-length books into concise, 8-page summaries. Unlike excerpts or reviews, designed for ease-of-use with short passages, bulleted lists, and other useful elements, these thorough, yet high-level overviews provide time-constrained executives with the leading ideas that are shaping today s business environment.

EXECBLUEPRINTS COLLECTION provides executives with easy-to-absorb, practical information and best practices to help provide them with a framework for taking near-term action on pressing business issues. Authored by top C-level business executives who are regarded as leaders and innovators in their fields, these reports are designed to succinctly convey key issues, metrics, lessons learned, milestones, timelines and action plans required for successful execution.

GOVESSENTIALS COLLECTION is an extensive reference tool targeted to meet the information needs of government workers, contractors and consultants. By combining the full text of government-focused books from major publishers with carefully selected public domain content, GovEssentials offers a variety of ready-access titles in a broad range of subjects such as Foundations of Government, Security & Homeland Defense, Acquisition & Contracting, E-Gov & Information Technology, and other topics of importance to government workers.

Express Guides

Our Express Guides are targeted at IT professionals who need information immediately upon release of new technologies. Express Guides complement other learning options, such as e-learning courses and books, both of which require longer development cycles to bring to market. Express Guides can be searched, launched and managed through SkillPort, as well as other third-party learning management systems.

Compliance Solutions

In June 2003, SkillSoft acquired GoTrain, a company providing an extensive library of compliance-based e-learning solutions that address standards mandated by the Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), and the Department of Transportation (DOT). As a cost-effective alternative to traditional instructor-led training, these courses help reduce the risks and liability for non-compliance in the workplace. In addition, they also reduce risks associated with worker s compensation claims, lawsuits and the expense of increased insurance costs.

Our Environmental Safety and Health (ES&H) courses are designed for use by the hardhat and safety glasses industries. As such, courses are based on sound adult-learning principles, with an easy-to-use interface that is designed for the needs of persons with a range of PC literacy and reading proficiencies. In addition, the Compliance Academy learning management system allows training administrators to track learner status, run up-to-the-minute training compliance reports and set consistent training and re-training requirements.

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The SkillSoft Instructional Design Model

Our instructional design model, which we have used in designing our business and IT skills courses, is based primarily on the concepts of performance-oriented instruction, mastery and the sequencing of instructional activities and strategies. The model draws heavily from adult learning principles that emphasize learner initiative, self-management, experiential learning and transfer of learning into the workplace. The design of each of our courses starts with the definition of user-focused performance objectives and then proceeds to the selection and implementation of instructional strategies and learning activities appropriate for those objectives. Frequent practice questions or exercises along with assessments measure users   achievement of those objectives. This robust, yet flexible, design methodology creates an instructionally sound framework for the design and development of highly interactive, engaging and instructionally effective courses   regardless of the content focus or level of learning.

Our instructional design model is intended to meet the challenge of creating effective and engaging instruction that is easily deployed on our corporate customers   global computer networks or over the Internet. Our design, development and quality assurance standards and processes are all geared toward insuring each course meets our expectations for the best instruction possible.

Our instructional design model is focused on producing courses in all content areas with:

learning outcomes specified by performance goals and objectives;

content and learning activities based on specified objectives;

assessment based on the knowledge and skills specified in the objectives;

options to take assessments in either pre- or post-test mode;

instructional strategies and multimedia elements tailored to the specific course content;

tools to promote the transfer of learning into the workplace, such as online Job Aids and Follow-On Activities;

instructional strategies appropriate for the content and learning level, such as examples, behavior modeling, guided practice, and simulations; and

levels of learning appropriate for the content and the target audience.

The theories and principles embedded within our instructional design model are actualized via:

a friendly, intuitive graphical user interface;

a course structure and navigation that supports self-paced, user-controlled instruction;

unlimited access to instruction and assessments;

a standardized templates to create unified and predictable functionality;

a variety of presentation, practice, and assessment templates supporting high levels of user interactivity and engagement; and

a standardized, yet flexible, flow of instruction.

Starting from this set of common elements and attributes, our courses then include the instructional strategies most suitable for the content and specified objectives. For instance, the approach to teaching communication skills is different from the approach to teaching finance or accounting skills, and the strategies used to teach these two business content areas differ from those used to teach computer and software skills.

Learning Design for Business Skills

Our business skills courses cover a broad range of business and professional effectiveness curriculum areas. Some content is factual with predictable, non-variable outcomes, such as finance; other content areas, such as communication skills, are softer, or more behavioral-oriented, and have highly variable implementa-

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tion options and outcomes that require a different set of instructional presentation and practice strategies. In addition, we have a strong commitment to reach the highest possible levels of learning in each course including as much application and analysis level content as possible, supported by strong foundational learning at the knowledge and comprehension levels.

The key instructional features and strategies in our business skills courses and library are:

ROLEPLAY EXERCISES   RolePlay exercises present users with opportunities for realistic practice of varying aspects of course content within everyday workplace scenarios. RolePlay exercises have multiple possible outcomes based on users responses to the simulations interactions. When integrated into course topics, RolePlay exercises allow users to freely explore the impact of handling realistic work situations in different ways. SkillSofts RolePlay design allows users to experience the exercise in score mode or explore mode. Using score mode lets learners assess their level of skill within the targeted content area. Using explore mode allows the learner to dynamically explore alternative responses to see the impact of those choices. This user-driven exploration is the key to real learning. People learn as much, or more, from their mistakes as from the things they do correctly. RolePlay brings this principle home to e-learning. With over 1,400 RolePlay simulations integrated into our courseware library, we are an industry leader in delivering simulation-enriched e-learning solutions.

AUDIO-ENABLED LEARNING   Our business skills instruction is audio-enabled. This feature can easily be turned on or off based on user preference and greatly enhances engagement and retention for many users. Audio can be especially key to the instructional effectiveness of behavior modeling, RolePlay exercises and SkillSims.

SIMULATED DIALOGS   The ability to observe behaviors and their outcomes (positive and negative) is a key strategy for teaching professional and behavioral skills. The simulated dialog strategy gives users an opportunity to observe and listen to the conversations of two or more people. The inclusion of character audio enhances the emotional and tonal qualities of the conversation, while the varying facial expressions and body language offer another layer of interpretation. These features, combined with the spoken words of the characters, provide realistic vignettes or scenarios in which varying aspects of a behavioral skill can be presented.

CASE STUDIES   A case study strategy describes a complex situation, often in the form of a story or scenario, and then asks the user to explore its characteristics and possible resolutions. Complexity is the primary difference between case studies and examples that can be easily presented and practiced through other types of strategies, such as multiple choice and matching. Case studies are used to achieve learning at the application and analysis levels and to present examples of content within appropriate business contexts.

ANIMATIONS   Animations are an important element of our leading visual design. We use animations when movement is an important part of the teaching point, when the content requires that the users eye be drawn to a specific area of the screen or when a key concept can be best presented via animated visuals. Examples of content areas where animations can enhance learning effectiveness include instruction on process and dataflow diagrams, hierarchical and dependency relationships and changes in state or perspective.

ONLINE JOB AIDS   All of our business skills courses include online Job Aids that help support the use of newly learned skills and knowledge in the workplace. Job Aids are courseware take-aways that can be used as-is, or tailored to meet a users needs. Each Job Aid can easily be edited to reflect a users organization-specific information, and users can add organization-specific Job Aids that they have independently developed.

LEARNING AIDS   Learning aids are tools or documents used in support of course content presentation and practice. They are designed to support specific course context or content, and, therefore, are not available for use outside of the course. Learning aids could appear as worksheets (interactive or passive), reference documents too large to include in a standard template, complex charts or graphs or a variety of other formats. Only the content

and the chosen instructional strategies limit the variations.

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SKILLBRIEFS   SkillBriefs are one- to two- page text-based HTML documents that summarize the content in each topic of a course. SkillBriefs are now available as part of course content, as well as through SkillPort. SkillBriefs can be used to quickly refresh a learner s memory of key teaching points, as instant, just-in-time non-interactive learning when time doesn t allow for more typical instruction and/or as valuable take-aways from a course to support transfer of learning into the workplace. There are currently SkillBriefs for over 5,500 topics.

PRE- AND POST-TESTING ASSESSMENTS   Assessments are available for use in both pre-and post-testing modes. When Assessments are used in pre-test mode, learners can use the results to tailor their initial path of instruction based on those results. Post-test Assessments can be used to help learners identify areas where review or remediation is necessary.

SKILLSIMS BUSINESS SKILLS SIMULATIONS   SkillSims are instructional resources that extend the learning advantages of RolePlay into larger, more complex e-learning experiences. SkillSims are designed to give users an opportunity to practice new skills in realistic work situations. Each SkillSims simulation, typically 20-to-40 minutes in duration, provides users with an opportunity to practice application level skills based on content drawn from multiple courses within one of our learning paths or series (a collection of related courses). Users practice these skills by navigating through different scenarios in which they encounter a variety of business problems. As in real life, users have the opportunity to select different courses of action, and the scenario unfolds according to the users choice of actions. Events such as telephone calls, meetings and interruptions add to the reality of each scenario.

SkillSims, with integrated links to their corresponding SkillSoft course series, provide a powerful learning experience that allows the user to immediately apply newly gained knowledge to challenging business situations in risk-free environments. This results in engaging learning experiences and real skill transfer.

BLENDED LEARNING TOOLKITS   Like SkillSims, the Blended Learning Toolkits are based on content drawn from multiple courses within a single learning path or series. However, this product is designed to provide our customers with tools for blending and/or transferring e-learning into the workplace as well as the classroom. Each Blended Learning Toolkit consists of multiple layers of content including a Users Guide, approximately 18 to 20 activities or tools, PowerPoint presentations that summarize the key teaching points from each lesson in all the courses within the learning path and short text-based summaries (SkillBriefs) of all the topic content. Blended Learning Toolkits are delivered electronically and can be used as is or customized to meet individual customer requirements. Customers have the freedom to blend the tools into traditional classroom settings, instructional events delivered via collaborative learning platforms, or to hand them over to managers, supervisors, facilitators, and anyone else interested in transferring learning into the workplace. The Blended Learning Toolkit provides multi-layered content with many options for use and implementation. It is adaptable and flexible to support a variety of audiences, content areas, and implementation environments and platforms. The goal of the Blended Learning Toolkit is to effectively reinforce the application of knowledge and skills from our courses. Most of all, it provides our customers with another opportunity to enhance and leverage their investment in e-learning.

Learning Design for IT Skills

Like our business skills courses, the instructional strategies chosen for use in an IT skills course are largely dependent on the course content and objectives. Learning the use or function of buttons, menu items and other familiar software elements is largely a knowledge and comprehension task. Learning the steps to complete a specific task is very procedural and best achieved via observation or guided practice, followed by opportunities for more independent practice, with varying degrees of guidance, feedback and support. In support of these and other IT skills-related learning goals, our IT skills courses include static and interactive explanations, step-by-step demonstrations of how to perform specific procedures, guided practice activities and sample coding solutions. Inclusion of frequent review questions in the instructional topics reinforces key teaching points. The availability of Assessments at both the topic and course level provides the learner with an

option to assess their performance across the entirety of a course, or with more focused concentration on individual topic level content and objectives.

The key instructional features and strategies in the IT skills courses and library are:

TEXT AND GRAPHICS   Our IT skills courses use a variety of text and graphic-based strategies to present and explain software features and functions. Interactive text and graphics are particularly useful to explain buttons, menu items, coding or tagging parameters, and syntax. This strategy is also an effective method to break down complex concepts into smaller, graphically represented parts, or to separate lines of code into smaller sections. Clicking or selecting graphically portrayed   parts   produces additional information or explanation about that specific part. All these features allow learners to review information as often as they want and to ignore something if they choose to.

DEMONSTRATIONS AND GUIDED PRACTICE   Demos   in our IT skills courses are demonstrations of software procedures and tasks. Most typically, the demonstration will divide the procedure or task into specific steps and then sequentially   show   those steps to the user. As the demo moves from one step to the next, a simulated representation of the software shows what happens next and additional text provides commentary. In addition, learners are frequently given the option of performing the salient steps of the procedure. This feature, called a   Try-It , prompts the user to perform specific steps, or enter code that achieves a specified end result. If learners decide not to perform the step, they can click forward, which launches an animated sequence of the correct step. A special animation feature, called a   Show Me , is used to demonstrate a specific sequence step or user action. The steps are outlined in advance, and then the learner is given the option of reviewing those steps in an animated sequence. The automated playback of the demo is optional   the learner can opt to view the demo or continue to the next section of instruction.

PROMPTED ANIMATIONS   Animations help the learner visualize content   to draw his or her attention to an area on an interface or conceptual graphic. Prompted animations are initiated by the learner after some other introduction to the content in the instruction. When the animation is launched, it extends or reinforces the instruction that has already taken place. The use of prompted versus   autoplay   animation helps avoid split attention, which can occur when text displays simultaneously with animation. Split attention means a learner is confused about where to focus or watch, and confounds learning.

INTERACTIVE EXERCISES   There are many types of interactive practice questions and exercises used in our IT skills courses.

SkillChecks are a key practice strategy in GUI-based content where it is important for the learner to be able to   use   the software application. SkillChecks present learners with a task to perform on a simulated interface. If a learner performs all the required steps in the task correctly, the interface responds as it would in the real application. If learners decide not to perform the question, they can click forward or click a   Show-me   button, both of which launch an animated sequence of the correct step.

User-input questions enable learners to complete a statement or segment of code by typing the answer into a blank area in the code or statement.

Multiple-choice, matching, and ranking questions are used to reinforce newly learned skills and knowledge within an instructional topic, and to practice or assess the huge body of conceptual information related to a complete understanding and implementation of many IT subject areas. Learners are   debriefed   on their performance on these questions via detailed feedback for every answer choice, regardless of whether they got the question right or wrong.

ONLINE MENTORING   Is available for over 80 current certification exams for IT professionals, end user technologies and project management skills. We have approximately 50 on-staff mentors, averaging over 20

certifications apiece, that are available 24 hours a day, 7 days a week. Through on-line chats and e-mail, learners can ask questions, receive clarification, and request additional information to help them get the answers and understanding they need.

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TESTPREP CERTIFICATION PRACTICE EXAMS   Addressing over 45 of the most popular current certification exams from Microsoft, Cisco, Oracle and CompTIA, TestPrep practice exams allow learners to test their knowledge in a simulated certification-testing environment. Tests can be taken in two modes   study and certification. The un-timed study mode is designed to maximize learning by providing feedback and mapping back to appropriate SkillSoft courses for further study, while the against-the-clock certification mode is designed to mimic a certification exam.

SIMULATIONS AND EXERCISES   Our IT skills courses contain standalone topics that give learners the opportunity to independently practice or consolidate the most critical procedures and learning taught in the preceding instruction. There are four types of simulations, each focused on developing different skills:

Software exercises, which consist of a series of tasks that learners perform in a simulated version of the application being discussed in the course.

Coding exercises, which give learners the opportunity to analyze and write code or commands.

Hardware exercises, which simulate hardware setup problems.

Case-Study exercises, which consist of an interactive review of concepts and information, presented in a real-world   scenario.

All of these instructional strategies provide the learner with the opportunity to practice his or her skills at higher learning levels. All types of exercises typically build on skills practiced previously in the course and are designed to cover multiple learning objectives.

MENTORED EXERCISES AND SELF-ASSESSMENT EXERCISES   These exercises are designed to provide the user with an opportunity to apply new knowledge and skills within a live software application. Mentored exercises are designed to allow learners to carry out complex tasks and exercises and submit them to a mentor for review. Self-assessment exercises afford learners the opportunity to carry out similar tasks and exercises, on which they can then assess themselves from a provided solution. Both of these exercises involve the presentation of a real-world scenario requiring the learner to provide a solution or complete a series of tasks. After completing a series of these activities, users will have a set of documents or products demonstrating proficiency with the skills taught by the course.

Web-Based Architecture and Deployment Technology

Our Web-based architecture and deployment strategy enables us to provide a number of features to support users in their learning.

Learning Management Platforms are a key enabling technology that permit users to access a wide variety of e-learning resources over the Web, including courseware, simulations, Referenceware, Online Mentoring, SkillBriefs, Job Aids and TestPrep Certification Practice Exams. Our SkillPort Learning Management System provides a rich feature set to support a range of corporate learning needs with a high degree of reliability and scalability. Available as a hosted or intranet solution, SkillPort offers our customers a low-cost, low IT-burden option with fast   time-to-learning.   Over the course of fiscal 2005, we migrated over 95 percent of our customers using the MySmartForce platform and other SkillSoft platforms. Many of these customers chose SkillPort as their LMS, and today there are over 1,200 SkillPort installations. In addition to our own platform, we continue to strive for convenient, easy integration of our content into third-party learning management systems through ongoing support of industry standards and initiatives such as our Strategic Alliance for Integrated Learning (SAIL). In fiscal 2005, we announced our Integration Lab, which tests SkillSoft content for interoperability on third party platforms before it is released.

SkillPort Search-and-Learn technology, a key component of SkillPort, allows the users to search and access learning resources topically with a single, unified search. For example, a learner searching for resources on Cisco networks can discover the various SkillSoft courses, books, TestPreps, Express Guides and online mentoring

services available to the learner with a single search query. From the

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identified results, the learner can then choose the resource that best meets his or her specific needs, time requirements and learning preferences. In fiscal 2005, SkillSoft extended the benefits of Search-and-Learn to users of third party platforms with the addition of Search-and-Learn Connect, a technology integration initiative.

SkillPort Add-On Modules were announced in fiscal 2005 to expand the scope of blended learning capabilities supported by SkillPort and to allow customers to introduce new content types as an integrated part of their SkillPort learning programs. The four SkillPort add-on modules are:

Credentialing Module

Instructor-Led Training Module

Advanced Report Module

Customer Content Publishing Module

SkillPort Customer Content Support allows customers to track, manage and search custom courses created by SkillSoft s authoring tools, as well as Microsoft Word, PowerPoint and Excel and Adobe PDF documents. This gives organizations the ability to incorporate important information resources such as white papers, launch plans, budget templates, and customized training within a comprehensive learning database. SkillPort also supports off-the-shelf and custom courseware from third-party providers, as long as the content is designed according to open standards and meets SkillSoft s custom content support guidelines.

SkillSoft Dialogue has been developed in response to our customers need to rapidly create and deliver new content that ties to the organization and its goals. Many customers have added a virtual meeting component to their learning programs to deliver company-specific information. They have discovered that online meeting tools can be used to quickly create new materials and are using these tools to deliver information live, as well as recording their presentations for employees to play back on-demand. However, they have also encountered some common challenges. Most online meeting tools do little to support subject matter experts (SMEs) who may not be experienced in how to deliver sessions that are rich in interaction, which can result in sessions that generate a lower level of engagement and knowledge transfer. Additionally, editing these recordings is often cumbersome or impossible. SkillSoft Dialogue builds upon the foundation of this online meeting technology and adapts it to better fit the needs of the learning community. The product will aid SMEs in creating more interactive presentations, and provide access to SkillSoft content to enrich presentations.

Customization and Authoring Tools allow customers to fine-tune SkillSoft content to be a better fit with their business. At the most basic level, we help customers create and manage blended learning programs that combine internally created documents and our resources on SkillPort or third-party LMS platforms. Using SkillSoft s Course Customization Toolkit (CCT), customers can edit text, graphics and audio of all business skills and compliance courses, as well mixing and matching topics and lessons, to tailor our courseware to their needs. Finally, our Custom Solutions Services Group is available to assist customers who wish to develop completely custom courses from scratch in an outsourced model.

Assistive Technology Support is designed to address the requirements of Section 508 of the Rehabilitation Act Amendments of 1998, which provides that as of June, 2001 computer software applications purchased or developed by federal agencies must be designed for accessibility by people who are blind, deaf or have poor motor skills. We have aggressively worked to adapt our online IT and business skills courseware to meet the requirements established by Section 508. This development work is consistent with our general corporate philosophy to help organizations democratize training and give all employees access to training and development opportunities anywhere, anytime through computers. Our North American English IT and business skills courseware now provides any user in a government or commercial organization with sight, hearing and/or

mobility limitations, equal access to our courses through the use of assistive technologies such as screen readers.

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Our products incorporate high performing Web technologies that we believe substantially improve our product performance. Our courses and support tools are developed using cross-platform technologies such as HTML, XML, Java, JavaScript, Macromedia Flash and ColdFusion. Our products employ advanced compression and database management techniques, which allow our products to deliver high-quality performance within our customers bandwidth constraints. This enables us to provide our e-learning solutions to most users, not just those with the most powerful computers, quickest modems and highest resolution monitors.

We also offer a fully hosted model as a deployment option for companies that prefer to have users access courses from SkillSoft-managed servers via the Internet rather than host the courses on the customer s own intranet. For many customers, this option can significantly simplify and shorten the implementation process.

Product Pricing

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 and the length of the license agreement (generally one, two or three years). Our license agreements permit customers to exchange course titles, generally on the contract anniversary date. Some product features, such as SkillPort, the Course Customization Toolkit and course hosting, are separately licensed for an additional fee.

The pricing for our SkillChoice Solution license 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. Our SkillChoice Solution license provides customers access to a full range of learning products including courseware, Referenceware, simulations, mentoring and prescriptive assessment.

A Referenceware license gives users access to the full library within one or more collections (ITPro, BusinessPro, FinancePro and OfficeEssentials) from Books24x7. The pricing for our Referenceware licenses varies based on the collections specified by a customer, the number of users within the customer s organization and the length of the license agreement.

Sales and Marketing

In the fiscal year ended January 31, 2005, our products were sold in over 60 countries. Our primary sales channels consist of:

a direct field sales force for larger accounts; and

resellers that address certain opportunities in the United States and some international markets.

In addition, on March 14, 2005 we announced that we had established a relationship with a consulting firm with respect to the formation of a telesales organization in our Fredericton, New Brunswick, Canada location that will be focused on sales to small to mid-sized companies. We expect this sales channel to be operational in the third quarter of fiscal 2006.

We believe this strategy enables us to focus our resources on the largest sales opportunities, while simultaneously leveraging the telesales model and reseller channels to address opportunities that may not be cost-effective for us to pursue through the direct field sales organization.

As of January 31, 2005, we employed 255 sales professionals and sales operations, telesales, sales management and corporate development personnel (not including SmartCertify). In the field sales organization, each account executive reports to either a regional sales director or a regional sales vice president who is responsible for revenue growth and expense control for his or her area. Our sales professionals have significant sales experience, as well as extensive contacts with the corporate customers that we target. The sales process for an initial sale to a large customer typically ranges from three to twelve months and often involves a coordinated effort among a number of groups within our organization.

SkillSoft uses sophisticated sales force automation software to track each prospect and customer through a sales cycle covering the following seven stages: prospect, qualify, discovery, evaluation, proposal, negotiate

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and close. Each step of the sales cycle has certain exit criteria that must be satisfied before the prospect can progress to the next stage. Our senior sales executives hold review meetings throughout each quarter with our regional sales vice presidents and in some cases their account executives to assess their 90-day forecast, 120-day pipeline development and longer term territory strategy. Our regional sales vice presidents, regional sales directors and their account executives typically confer regularly throughout the quarter to review progress toward quarterly goals and longer term business objectives and for coaching sessions.

We have an office in the United Kingdom that serves as the hub of our Europe and Middle East sales operations. We also have an office in Sydney, Australia that serves as the hub for our Asia-Pacific operations. In order to accelerate our worldwide market penetration, our sales strategy includes developing relationships to access indirect sales channels such as reseller and distributor partners. Our indirect sales channels give us access to a more diverse client base, which we otherwise would not be able to reach in a cost-effective manner through our direct sales force. Our development and marketing partners also generally have the right to resell products developed under their alliances with us.

Our marketing organization utilizes a variety of programs to support our global sales team. As of January 31, 2005, our marketing organization (excluding SmartCertify) consisted of 31 employees. Our marketing programs include:

customer advisory forums and user group events;

product and strategy updates with industry analysts;

public relations activities resulting in articles in trade press and speaking engagements;

print advertising in trade publications;

printed promotional materials;

promotional materials and events on our Web sites; and

events, seminars and trade shows.

No customer accounted for more than 10% of our revenue for the fiscal year ended January 31, 2005. See Note 11 of the Notes to the Consolidated Financial Statements for a discussion of our revenue by geographic area.

Customer Service and Support

We offer a broad range of support and services to our customers across the e-learning lifecycle through our customer service and support organization. We believe that providing a high level of customer service and support is necessary to achieve rapid product implementation, customer satisfaction and continued revenue growth.

Installation support We have application engineers available to assist customers with the technical aspects of installing and deploying our products. These engineers test the software and courses within the customer s network to ensure that they run successfully both on the network and at employees computers.

Account consulting We employ account consultants to assist customers in planning and implementing best practices for e-learning program success. These individuals assist with the implementation of pilot programs and offer expertise in establishing training success criteria, planning internal marketing programs and communicating with e-learning end users. Our account consultants work in close coordination with our application engineers and sales representatives and are an important component of our efforts to monitor and ensure customer satisfaction and success.

Customer support. We also provide Web-based, telephone, e-mail and chat support to our customers through our customer service and support organization. They are available to assist customers 7 days per week, 24 hours per day.

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As of January 31, 2005, our customer service and support organization (excluding SmartCertify) consisted of 183 people globally.

Competition

The market for corporate education and training products is fragmented and highly competitive. We expect that competition in this market will remain intense in the future for the following reasons:

The expected growth of this market.

Our course content providers are often not prohibited from developing courses on similar topics for other companies, provided that they do not use our toolkit or templates.

The fragmented nature of the competitive landscape, including many small competitors in the technology-based segment of the market.

One source of competition for our products is the internal educational and technological personnel of our potential customers. If an organization decides to use external providers to supply some or all of its training, our principal sources of competition in the corporate education and training market are:

Providers of traditional classroom instruction. Many of the companies in this category are attempting to adapt their courses to e-learning formats suitable for access via Web browsers and, in general, compete for the same training dollars in the customer s budget.

Providers of CD-ROM training courses.

Suppliers of online corporate education and training courses, including Thomson Learning (through subsidiaries such as NETg and Course Technologies), ElementK and MindLeaders. Our Books24x7 business competes with companies such as Safari, a joint venture between Pearson Technology Group and O Reilly & Associates, which offers aggregated content primarily restricted to its own titles on a subscription basis.

With our entrance into the virtual classroom market, we will be competing with companies such as WebEx, Centra and Interwise.

We believe that the principal competitive factors in the corporate education and training market include:

the breadth, depth, currency and instructional design quality of the course content;

informal performance support and other features of the training solution;

adaptability, flexibility, reliability, scalability and performance of technology platforms offered;

standards compliance and ease-of-integration with third party systems;

the deployment options offered to customers, such as hosted, intranet and low bandwidth access;

customer service and support;

price/value relationship;

relationships with the customer; and

corporate reputation.

Although we believe that we currently compete favorably with respect to those factors, we may not be able to maintain or improve our competitive position. Some of our current and potential competitors have greater financial

resources than we do. Increased competition may result in lost sales and may force us to lower prices, which may adversely affect our business and financial performance.

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Product Development

We believe that the development of effective training content requires the convergence of source material, instructional design methodologies and computer technology. When developing a new learning path or product, we first obtain content from our content partners or other subject matter experts, existing courses and product reference materials. Our design and development teams then define the user-focused performance objectives and select the content, instructional strategies, learning activities and assessments appropriate for the intended learning outcomes. This process includes the creation of design documents, scripts, and in some cases storyboards to document the planned content sequence, instructional flow and interactive presentation and practice strategies. The design and development team includes subject matter experts, learning designers, technical writers and developers, graphic designers, animators, and content editors and quality assurance reviewers. After final assembly or integration of all course components into a completed course, we test to ensure all functional capabilities work as designed and deliver the desired learning experience and result.

The core element of our learning solution development process is our design and development process and the tools we use to support that process. Our design, development and production tools are comprised of our own proprietary software and off-the-shelf tools. Our combination of development toolsets allows us to quickly and efficiently create and continually update modular learning events and enhance, on an ongoing basis, the multimedia content of such learning events. Our research and development goal is to further enhance our product development process and tools to facilitate the continual evolution of our offerings and ensure that our instructional products incorporate a wide variety of meaningful and effective instructional elements. We use internal developers as well as external content development partners to produce content for our business and IT skills curriculums. Our current network of external content development partners use the same methods, processes, and tools to develop content as our internal developers, and are held to the same set of instructional design and content quality standards. Course content is supplied by us, by other companies from which we have licensed content, or by the developer, based on an outline jointly defined by the developer and us.

Our research and development efforts also include a focus on the design, development and integration of other key product elements, including online IT mentoring by certified content experts 24 hours a day, 7 days a week, task-based IT simulations and labs, business skills focused SkillSimulations, Certification TestPrep for IT, and online Referenceware for business and IT skills.

Our approach to technology begins with the understanding that the ability of our customers to deploy our e-learning applications and content is a critical factor in their success with our products. To meet our customers varied needs, we strive to enable our courses to be able to be delivered on-line, using standard Web browsers downloaded for off-line usage, or distributed via CD-ROM.

Through careful technology selection, product design, and exhaustive compatibility testing, we ensure our products can be deployed on the vast majority of corporate desktop computers and without requiring the installation of specialized plug-ins whenever possible, and can be delivered over the varied and complex network infrastructures in existence today. As technologies and standards evolve, we continuously review those changes and consider adapting our products when possible to ensure compatibility.

We employ compression technologies for our media components and design our products to operate effectively over low bandwidth network environments. In this way, we reach a broader number of users with our products and minimize the load on our customers networks.

Deployment flexibility is also achieved by adhering to industry standards such as AICC and SCORM. Our e-learning course content is designed for integration with third party learning management systems as well as with our e-learning platform products.

The majority of the content for our Referenceware is licensed from third party publishers.

Certain research and development activities are conducted by internal teams located in our main product development centers in Dublin, Ireland; Nashua, New Hampshire; Belfast, Northern Ireland; and Fredericton, New Brunswick, Canada. In addition to our internal efforts, we outsource various aspects of our content development process to third parties.

As of January 31, 2005, the number of employees in our product development organization totaled 320. This figure does not include employees terminated as part of the restructuring of our content development organization announced on November 30, 2004. We intend to continue to make substantial investments in research and development. Product development expenses were $29.1 million, $53.6 million and $45.6 million for the fiscal years ended January 31, 2003, 2004 and 2005, respectively.

Proprietary Rights

We believe that proprietary technology forms an important or valuable part of most of our business skills and IT skills courseware offerings. We further believe that the creative skills of our personnel in developing new products and technologies, our ability to develop and introduce new products rapidly and our responsiveness to customer demands are equally important. We protect our technology by various means, including entering into agreements with employees to protect against disclosure of sensitive business information. We have one United States patent and 23 foreign patents with respect to computer-based training technologies and methods and 20 United States and foreign patent applications pending with respect to computer-based training technologies and methods. In addition, we currently have one patent application pending with respect to our Books24x7 product offerings.

We attempt to avoid infringing upon intellectual property and proprietary rights of third parties in our product development efforts. However, we do not conduct comprehensive patent searches to determine whether the technology used in our products infringes patents held by third parties. In addition, product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, some of which are confidential when filed, with regard to similar technologies. If our products violate third-party proprietary rights, we could be liable for substantial damages. In addition, we may be required to reengineer our products or seek to obtain licenses to continue offering the products, and those efforts may not be successful.

We currently license certain technologies from third parties   including data compression technologies and tools for developing Web applications   and some course content that we incorporate into our products. We also license content for our Referenceware from third party publishers. This technology and content may not continue to be available to us on commercially reasonable terms. The loss of this technology or content could result in delays in development and introduction of new products or product enhancements, which could have a material adverse effect on our business and financial performance. Moreover, we may face claims from others that the third-party technology or content incorporated in our products violates proprietary rights held by those claimants. We may also face claims for indemnification from our customers resulting from infringement claims against them based on the incorporation of third-party technology or content in our products. Although we are generally indemnified against such claims, in some cases the scope of that indemnification is limited. Even if we receive broad indemnification, third parties contractually obligated to indemnify us are not always well capitalized and may not be able to indemnify us in the event of infringement. In addition, such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources in addition to potential product redevelopment costs and delays, all of which could materially adversely affect our business.

SkillSoft, SkillPort, RolePlay, Search-and-Learn and Referenceware are registered trademarks or service marks of SkillSoft.

Employees

As of January 31, 2005, we employed 1,140 people. This figure includes 242 people employed by our SmartCertify business unit based in Clearwater, Florida at January 31, 2005 and excludes the employees terminated in connection with the reorganization of the content development organization.

At January 31, 2005, excluding SmartCertify and the employees terminated in connection with the reorganization of the content development organization, 255 employees were engaged in sales, sales operations, sales management, marketing and corporate development, 140 employees were in management,

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business applications, IT, administration and finance, 183 employees were in customer service and support and 320 were in product development and fulfillment.

As of January 31, 2005, excluding SmartCertify and the employees terminated in connection with the reorganization of the content development organization, 715 employees were located in the United States and 425 in our international locations. None of our employees are subject to a collective bargaining agreement and we have not experienced any work stoppages. We believe that our employee relations are good.

Our future success will depend in large part on the continued service of our key management, sales, product development and operational personnel and on our ability to attract, motivate and retain highly qualified employees. We also depend on writers, programmers and graphic artists. We expect to continue to hire additional product development, sales and marketing, information services, accounting staff and other resources as we deem appropriate to meet our business objectives.

Item 2. *Properties*

Our United States headquarters are located in an aggregate of 62,816 square feet of office space in Nashua, New Hampshire, of which 37,416 square feet of space is subject to a lease that expires in June 2009 and 25,400 square feet of space is subject to a lease that expires in June 2006. In addition, we conduct our operations primarily out of facilities located in Dublin, Ireland; Norwood, Massachusetts; and Fredericton, New Brunswick, Canada.

Our SmartCertify Direct sales group currently leases 22,129 square feet in Clearwater, Florida and a small sales office in Dublin, Ireland.

In Ireland, we currently lease and occupy a 35,421 square foot facility in Dublin, which primarily houses our main product development center. In addition, we currently lease three other facilities in Dublin totaling approximately 57,000 square feet. These spaces have been vacated and the operations previously performed in these facilities have been consolidated into the 35,421 square foot facility.

In Norwood, Massachusetts, we currently lease and occupy 10,137 square feet. This facility houses the operations of our Books24x7.com subsidiary under a lease that expires in December 2005. We are in the process of negotiating an extension of this arrangement.

We currently lease approximately 41,000 square feet in Redwood City, California that is vacant. This lease expires in July 2005. Operations previously performed in this location have been consolidated with our Nashua operations.

In Canada, we currently lease a total of 47,906 square feet in Fredericton, New Brunswick between two buildings. A portion of one building is subleased. The Fredericton facility primarily houses our mentoring operations and certain customer service and support personnel and the lease expires in August 2008. It is also the location for the telesales operation that we are in the process of establishing.

We also lease sales offices in a number of other countries including the United Kingdom and Australia, and we lease a development office in Belfast, Northern Ireland. We are in the process of closing our German sales office. We believe that our existing facilities are adequate to meet our current needs and that suitable additional or substitute space will be available on commercially reasonable terms when needed.

Item 3. *Legal Proceedings*

SEC Investigation

On or about February 4, 2003, the Securities Exchange Commission (SEC) informed us that we are the subject of a formal order of private investigation relating to our November 19, 2002 announcement that we would restate the financial statements of SmartForce PLC for the period 1999 through June 2002. We understand that the SEC s investigation concerns SmartForce s financial disclosure and accounting during that period, other related matters, compliance with rules governing reports required to be filed with the SEC, and the conduct of those responsible for such matters. We continue to cooperate with the SEC in this matter.

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Lawsuits

On November 18, 2004, Jody Glidden, Michael LeBlanc and Trish Glidden filed a lawsuit against the Company, David C. Drummond, Gregory M. Priest, Patrick E. Murphy and Jack Hayes in the United States District Court for the Northern District of California. The plaintiffs had previously opted out of the class action settlement that received final approval from the court on September 29, 2004. The lawsuit sets forth substantially the same claims as were alleged in the class action litigation. In particular, the lawsuit alleges that the Company misrepresented or omitted to state material facts in its SEC filings and press releases regarding the Company s revenues and earnings and failed to correct such false and misleading SEC filings and press releases, which are alleged to have artificially inflated the price of the Company s ADSs in connection with its acquisition of IC Global in early 2001. The lawsuit seeks compensatory damages of approximately $3.7 million and other unspecified damages. We believe that we have meritorious defenses to this lawsuit and intend to defend ourselves vigorously.

We are not a party to any other material legal proceedings.

Item 4. *Submission of Matters to a Vote of Security Holders*

We did not submit any matters to a vote of our shareholders during the fiscal quarter ended January 31, 2005.

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Executive Officers of SkillSoft

Our executive officers are as follows:

Name	Age	Position
Charles E. Moran	50	President and Chief Executive Officer
Gregory M. Priest	41	Chairman and Chief Strategy Officer
Thomas J. McDonald	55	Chief Financial Officer, Executive Vice President and Assistant Secretary
Jerald A. Nine, Jr.	47	Chief Operating Officer
Mark A. Townsend	52	Executive Vice President, Technology
Colm M. Darcy	41	Executive Vice President, Content Development

Charles E. Moran has served as our President and Chief Executive Officer since our merger with SkillSoft Corporation in September 2002. Mr. Moran is a founder of SkillSoft Corporation and served as its Chairman of the Board, President and Chief Executive Officer from January 1998 until September 2002.

Gregory M. Priest was appointed Chairman of the Board of Directors on November 13, 2000. Mr. Priest has served as our Chief Strategy Officer since our merger with SkillSoft Corporation in September 2002. Mr. Priest served as our President and Chief Executive Officer from December 1998 to September 2002.

Thomas J. McDonald has served as our Chief Financial Officer and Executive Vice President and Assistant Secretary since our merger with SkillSoft Corporation in September 2002. Mr. McDonald is a founder of SkillSoft Corporation and served as its Chief Financial Officer, Vice President, Operations, Treasurer and Secretary since February 1998.

Jerald A. Nine, Jr. has served as our Chief Operating Officer since February 2004. Mr. Nine served as our Executive Vice President, Global Sales & Marketing and General Manager, Content Solutions Division from our merger with SkillSoft Corporation in September 2002 to February 2004. Mr. Nine is a founder of SkillSoft Corporation and served as its Executive Vice President, Sales and Marketing and General Manager, Books Division from December 2001 to February 2004. From April 1998 to December 2001, Mr. Nine served as Vice President, Worldwide Sales and Marketing.

Mark A. Townsend has served as our Executive Vice President, Technology since our merger with SkillSoft Corporation in September 2002. Mr. Townsend is a founder of SkillSoft Corporation and served as its Vice President, Product Development since January 1998.

Colm M. Darcy has served as our Executive Vice President, Content Development since our merger with SkillSoft Corporation in September 2002. From April 2002 to September 2002, Mr. Darcy served as our Executive Vice President, Research and Development. From January 2002 to April 7, 2002, Mr. Darcy served as Vice President of Solutions Management. From January 2001 to December 2001, Mr. Darcy served as Vice President, Strategic Alliances. From January 1999 to December 2000, he served as our Vice President, Content Solutions and from January 1997 to December 1998, he served as Director, Curriculum Development. Prior to joining us, Mr. Darcy held positions in Finance, Human Resources, Training and Information Technology in the Irish Government s Department of Health and Child Welfare.

There are no family relationships among any of the executive officers.

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PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Our ADSs are listed on the NASDAQ National Market under the symbol SKIL . The following table sets forth, for the periods indicated, the high and low intraday sale prices per share of our ADSs as reported on the NASDAQ National Market between February 1, 2003 and January 31, 2005.

Quarter Ended	High	Low
April 30, 2003	$ 3.85	$ 1.95
July 31, 2003	6.67	3.29
October 31, 2003	8.92	5.80
January 31, 2004	9.22	6.80
April 30, 2004	13.31	8.50
July 31, 2004	13.59	5.98
October 31, 2004	7.45	5.28
January 31, 2005	7.77	4.68

As of March 31, 2005, there were 11 holders of ordinary shares of record.

We have not paid any cash dividends on our ordinary shares and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to fund the growth of our business. Dividends may only be declared and paid out of profits available for distribution determined in accordance with accounting principles generally accepted in Ireland and applicable Irish Company Law. There are no additional material restrictions on the distribution of income or retained earnings by our consolidated group companies. Any dividends, if and when declared, will be declared and paid in United States dollars. We did not sell unregistered securities during fiscal 2005.

The following table provides information about purchases by the Company and our affiliated purchasers during the quarter ended January 31, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

	(a)	(b)	(c)	(d)
			Total Number of Shares (or Units) Purchased as Part of Publicly	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be
Period	Total Number of Shares (or Units) Purchased(1)	Average Price Paid per Share (or Unit)($)	Announced Plans or Programs(2)	Purchased Under the Plans or Programs
11/01/04-11/30/04				7,000,000
12/01/04-12/31/04	443,757	5.69	443,757	6,556,243
01/01/05-01/31/05				6,556,243

Total:	443,757	5.69	443,757	6,556,243

(1) We repurchased an aggregate of 443,757 ADSs pursuant to the repurchase program that was approved by our shareholders on September 24, 2004 (the Program).

(2) Our Board of Directors approved the repurchase by us of up to an aggregate of 7,000,000 ADSs at a per share purchase price which complies with the requirements of Rule 10b-18 pursuant to the Program. Unless terminated earlier by resolution of our Board of Directors, the Program will expire on March 24, 2006 or when we have repurchased all shares authorized for repurchase thereunder.

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Irish Stamp Duty

Stamp duty, which is a tax on certain documents, is payable on all transfers of ordinary shares in companies registered in Ireland wherever the instrument of transfer may be executed. In the case of a transfer on sale, stamp duty will be charged at the rate of 1 for every 100 (or part thereof) of the amount or value of the purchase price. Where the consideration for the sale is expressed in a currency other than Euro, the duty will be charged on the Euro equivalent calculated at the rate of exchange prevailing on the date of the transfer. In the case of a transfer by way of gift, subject to certain exceptions, or for considerations less than the market value of the shares transferred, stamp duty will be charged at the above rate on such market value.

A transfer or issue of ordinary shares for deposit under the deposit agreements among us, The Bank of New York, as Depositary, and the registered holders and the owners of a beneficial interest in book-entry American Depositary Receipts, or ADRs, in return for ADRs will be similarly chargeable with stamp duty as will a transfer of ordinary shares from the Depositary or the custodian under the deposit agreements upon surrender of an ADR for the purpose of the withdrawal of the underlying ordinary shares in accordance with the terms of the Deposit Agreement.

We received a ruling from the Irish Revenue Commissioners that transfers of ADRs issued in respect of our shares will not be chargeable with Irish stamp duty for so long as the ADRs are dealt in and quoted on the NASDAQ National Market. It has been confirmed in Section 207, Finance Act 1992 that transfers of ADRs will be exempt from stamp duty where the ADRs are dealt with in a recognized stock exchange. The NASDAQ National Market is regarded by the Irish authorities as a recognized stock exchange for these purposes.

The person accountable for payment of stamp duty is the transferee or, in the case of a transfer by way of gift or for a consideration less than the market value, both parties to the transfer. Stamp duty is normally payable within 30 days after the date of execution of the transfer. Late payment of stamp duty will result in liability to interest, penalties and fines.

Item 6. *Selected Financial Data*

Incorporated by reference from *Appendix A* attached hereto.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Any statement in this Annual Report on Form 10-K 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 in this Item 7 under the heading Future Operating Results.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes appearing in Appendix B of this Annual Report on Form 10-K.

Overview

We are the result of the merger of SmartForce PLC (SmartForce or SmartForce PLC) and SkillSoft Corporation. The new combined SkillSoft PLC is a global leader in corporate e-learning and brings together SmartForce s leading portfolio of information technology (IT) e-learning content with SkillSoft Corporation s extensive suite of business skills e-learning courseware, as well as its IT and business Referenceware libraries.

The merger of SmartForce PLC and SkillSoft Corporation (the Merger) closed on September 6, 2002. For accounting purposes, the Merger was accounted for as a reverse acquisition, with SkillSoft Corporation as the accounting acquirer. The historical financial statements of SkillSoft Corporation have become our historical financial statements, and the results of operations of SkillSoft PLC (formerly known as SmartForce

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PLC) are included in our results of operations only from September 6, 2002. For accounting purposes, the purchase price was approximately $371.7 million, which consisted of the value of stock and options issued, and transaction and merger costs. The excess purchase price over the net tangible assets was primarily allocated to goodwill, content and customer base.

We are a leading provider of multi-modal content resources and complementary technologies for integrated enterprise learning. SkillChoice multi-modal learning (SMML) solutions offer powerful tools to support and enhance the speed and effectiveness of both formal and informal learning processes. SMML solutions integrate our in-depth courseware, learning management platform technology and support services to meet our customers learning needs.

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.

The pricing for our SMML licenses varies based on the choice of SMML, content offering selected by the customer, the number of users within the customer s organization and the length of the license agreement. Our SMML license provides customers access to a full range of learning products including courseware, Referenceware, simulations, mentoring and prescriptive assessment.

A Referenceware license from our subsidiary, Books24x7.com (Books), gives users access to the full library within one or more collections (examples of which are; ITPro, BusinessPro, FinancePro and OfficeEssentials). The pricing for our Referenceware licenses varies based on the collections specified by a customer, the number of users within the customer s organization and the length of the license agreement.

We offer discounts from our ordinary pricing in arrangements covering larger numbers of courses, for larger user bases or for longer periods. 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. We also derive revenue from hosting fees for clients that use our solutions on an application service provider (ASP) basis, online mentoring services and professional services. In selected circumstances, we derive 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.

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. Research and development expenses consist primarily of salaries and benefits, certain infrastructure and occupancy expenses, fees to consultants and course content development fees. 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. To date we have expensed all software development costs as incurred, as those costs, which would have otherwise qualified for capitalization, have been immaterial. Selling and marketing expenses consist primarily of salaries, commissions and benefits, advertising and promotion, travel and certain infrastructure and occupancy expenses. General and administrative expenses consist primarily of salaries and benefits, consulting and service expenses, legal expenses, other public company costs and certain infrastructure and occupancy expenses.

Deferred compensation consists of two components: (1) the value of unvested options assumed in the Books acquisition and the Merger, and (2) difference between the exercise or sale price of share options granted or restricted common stock sold during the year ended January 31, 2000 and the fair market value of the common stock as determined for accounting purposes. The deferred compensation is amortized over the vesting period of the underlying share option or shares.

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Amortization of intangibles represents the amortization of intangible assets, such as customer value and content, from the Books acquisition, the GoTrain acquisition and the Merger.

Restructuring primarily consists of charges associated with international restructuring activities as well as activities related to our recent content development restructure.

SEC investigation and other professional fees primarily consist of charges associated with, and as a result of, the restatement of SmartForce s financial statements for 1999, 2000, 2001 and the first two quarters of 2002, the re-filing of statutory tax returns as a result of the restatement and charges for the ongoing SEC investigation.

Business Outlook

In the fiscal year ended January 31, 2005 we generated revenues of $212.3 million, an increase compared to the prior fiscal year. However, we find ourselves in a challenging business environment. The overall market adoption rate for e-learning solutions continues to be relatively slow and we are seeing constraints on IT spending, by our current and potential customers. As a result, we are experiencing delays in customer orders and some non-renewals of contracts from existing customers. In addition, price competition in the e-learning market is having a negative impact on the revenue we are generating from the new contracts and the contract renewals we do succeed in obtaining.

On the positive side, our recent revenue growth and our growth prospects are strongest in our product lines focused on informal learning, such as our Books24x7 products. As a result we have increased our research and development spending in order to invest aggressively in those areas and accelerate the time by which our planned new products will be available to our customers.

In addition, during the fourth quarter of 2005, we restructured our content development organization to more efficiently manage costs and capitalize further on the flexibility inherent in our existing outsourcing model. The goal of the restructuring is to enable us to meet our existing content production targets at a reduced cost and with greater flexibility with respect to the product offerings in which we elect to make investments. The restructuring involved the elimination of 119 jobs in Dublin, Ireland and 12 in Nashua, New Hampshire, as well as facilities consolidation in Dublin. We will shift the remainder of our IT skills content development activities to our outsourcing suppliers, while continuing to maintain project management and quality control internally. This restructuring included a reduction of an additional 15 jobs in Nashua, New Hampshire for a rightsizing of our sales operation and 9 jobs in Germany related to the shutdown of our German facility. We incurred restructuring charges related to payments to terminated employees, facilities consolidation and the repayment of grants previously awarded by Irish agencies. These charges totaled approximately $13.0 million and were incurred in the fourth quarter of this fiscal year. We believe that the restructuring will result in content development cost savings of approximately $5.0 million per year at current production levels, beginning in the next fiscal year. This will afford us more flexibility to reinvest dollars that can be recaptured in an outsourcing model for other research and development initiatives and/or to increase the profitability of the organization.

In order to fully focus on the Multi-Modal Learning (MML) business we have entered into a non-binding letter of intent with respect to the sale of certain assets of our retail IT certification business, SmartCertify (the Retail Certification business). In the event the transaction is not consummated as anticipated, we will shut down the operation. The Retail Certification business is focused on direct-to-consumer business and has contributed less revenue than expected. This planned action will allow us to fully focus our attention and resources on our core enterprise business. We engaged an investment banker to assist us in eliciting acquisition proposals for this business. The process has progressed and we are now in discussions with a buyer to the point where we expect to consummate a transaction in the fiscal 2006 first quarter. We are now working to finalize sale terms with a potential purchaser. If SmartCertify is sold, we will maintain a reseller arrangement with the new organization. If we shut down the operation, a plan to do so would be established. Such a plan would outline a timeline and schedule of costs associated with the shutdown. We would not maintain a reseller arrangement under a shutdown scenario. In either a shutdown or a sale scenario, we will maintain the existing customer contracts and service those contracts until the contractual obligation is

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fulfilled. This decision process is expected to be finalized in the first quarter of fiscal 2006. Whether SmartCertify is sold or shut down, we anticipate recognizing revenue from the deferred revenue balance related to direct-to-consumer business over the succeeding 18 to 24 months following the sale or shutdown. Substantially all of the sales, marketing and administrative costs, on a going forward basis following a sale or shutdown, will be eliminated. We recorded a charge of approximately $19.3M in the fiscal quarter ended January 31, 2005 as a result of the impairment of the Goodwill asset allocated to the Retail Certification business.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 of the Notes to the Consolidated Financial Statements. However, we believe the accounting policies described below 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.

Revenue Recognition

We generate revenue from the license of products and services and from providing hosting/ application service provider (ASP) services.

We follow 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 our products and 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). 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 our SMML licenses varies based on the choice of SMML, content offering selected by the customer, the number of users within the customer s organization and the length of the license agreement. A SMML license provides customers access to a full range of learning products including courseware, Referenceware, simulations, mentoring and prescriptive assessment.

A Referenceware license gives users access to the full library within one or more collections (examples of which are: ITPro, BusinessPro, FinancePro and OfficeEssentials) Books. The pricing for our Referenceware licenses varies based on the collections specified by a customer, the number of users within the customer s organization and the length of the license agreement.

We offer discounts from its ordinary pricing, and purchasers of licenses for larger numbers of courses, for larger user bases or for longer periods 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. We also derive revenue from hosting fees for clients that use its solutions on an ASP basis, online mentoring services and professional services. In selected circumstances, we derive 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.

We recognize 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 we do 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. Nearly all of our contractual arrangements result in the recognition of revenue ratably over the license period.

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We 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.

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

We typically recognize 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, we recognize revenue related to the portion of the minimum commitment that exceeds the end user sales at the expiration of the commitment period provided we have received payment.

We provide professional services; including instructor led training, customized content, websites, and implementation services. We recognize professional service revenue as the services are performed.

We record reimbursable out-of-pocket expenses in both maintenance and services revenues and as a direct cost of maintenances and services in accordance with EITF Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF 01-14). EITF 01-14 requires reimbursable out-of-pocket expenses incurred to be characterized as revenue in the income statement.

We record 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 we have received payment or for which amounts have been billed and are due for payment in 90 days or less for resellers and 180 days or less for direct customers. In addition, deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the license period.

Amortization of Intangible Assets and Impairment of Goodwill

We record intangible assets as historical cost. We amortize our intangible assets which include customer contracts and internally developed software. We review these intangible assets at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in their remaining useful life. We also review our indefinite-lived intangible assets at least annually for impairment which includes trademarks and tradenames.

We test goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. In performing the test, we calculate the fair value of the reporting units as the present value of estimated future cash flows using a risk-adjusted discount rate. The selection and use of an appropriate discount rate requires significant management judgment with respect to revenue and expense growth rates. We obtain a valuation report from an independent third party as part of our assessment process.

Stock Based Compensation

We account for our stock-based employee compensation plans on the intrinsic value method under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related Interpretations under APB No. 25. We provide pro forma disclosures only of the compensation expense determined under the fair value provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123).

See Recent Accounting Pronouncements for a description of FASB Statement No. 123 (revised 2004), Share-Based Payment.

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Deferral of Commissions

We employ an accounting policy consistent with guidance provided by FASB technical bulletin 90-1 and SEC staff accounting bulletin 104, related to the concept of a direct and incremental relationship between revenue and expense. As such, we defer the recognition of commission expense until such time as the revenue related to the contract for which the commission was paid is recognized.

Restructuring Charges

We account for our restructuring activities under Statement of Financial Accounting Standards No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities . SFAS 146 states that a liability related to and exit or disposal activity should be recognized at fair value in the period in which it is incurred. Costs covered by SFAS 146 include, but are not limited to, the following: (1) one-time involuntary termination benefits provided to employees under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or a deferred compensation contract, (2) certain contract termination costs, including operating lease termination costs and (3) other associated costs. As such, when we identify restructuring charges that fulfill the requirements identified in SFAS 146 as incurred, we record the charges in our statement of operations.

Legal Contingencies

In connection with any material legal proceedings that we may become involved in, management periodically reviews estimates of potential costs to be incurred by us in connection with the adjudication or settlement, if any, of these proceedings. These estimates are developed in consultation with our outside counsel and are based on an analysis of potential litigation outcomes and settlement strategies. In accordance with SFAS No. 5, Accounting for Contingencies , loss contingencies are accrued if, in the opinion of management, an adverse outcome is probable and such outcome can be reasonably estimated. In accordance with SFAS No. 5, gain contingencies are accrued if, in the opinion of management, a favorable outcome is probable and such outcome can be reasonably estimated. Legal costs are expensed as incurred.

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Results of Operations

	Dollar Increase/(Decrease) 2004/2005	Percent Change Increase/(Decrease) 2004/2005	Percentage of Revenue 2005	2004	2003
	(In thousands)				
Revenue	$ 18,825	10%	100%	100%	100%
Cost of revenue	3,327	18%	10%	10%	11%
Gross profit	15,498	9%	90%	90%	89%
Research and development	(8,052)	(15)%	21%	28%	29%
Selling and marketing	5,954	7%	44%	45%	52%
General and administrative	(2,721)	(10)%	12%	14%	18%
Litigation settlement	(93,750)	(100)%		48%	
Amortization of stock-based compensation	(795)	(40)%	1%	1%	2%
Amortization of intangible assets	(497)	(5)%	5%	5%	5%
Impairment charge	19,268	100%	9%		246%
Restructuring	11,504	619%	6%	1%	14%
Restatement:					
SEC investigation	284	15%	1%	1%	
Other professional fees	(14,153)	(98)%		7%	5%
Total operating expenses	(82,958)	(28)%	99%	151%	370%
Operating loss	98,456	83%	(9)	(61)%	(281)%
Other (expense)/ income, net	(1,478)	(188)%			
Gain on sale of investments	(3,682)	(100)%		2%	
Interest income, net	(33)	(4)%			2%
Loss before provision for income taxes	93,263	83%	(9)	(58)%	(280)%
Provision for income taxes	102	(19)%			
Net loss	$ 93,161	82%	(9)	(59)%	(280)%

Comparison of the Fiscal Years Ended January 31, 2005 and 2004
Revenue

Revenue increased $18.8 million, or 10%, to $212.3 million in the fiscal year ended January 31, 2005 from $193.5 million in the fiscal year ended January 31, 2004. This increase was primarily due to revenue generated from new business primarily derived from our product lines focused on informal learning and an increase in revenue from

our Retail Certification segment due to sales to new customers as well as the full recognition of the segment s subscription based revenue recognition model. The segment defers revenue at the time of sale over 18 to 24 months. We exited the fiscal year ended January 31, 2005 with noncancellable backlog of approximately $168 million as compared to $170 million at January 31, 2004. This amount is calculated by combining the amount of deferred revenue at our fiscal year end with the amounts to be added to deferred revenue throughout the next twelve months as a result of committed customer contracts and determining how much of these amounts are scheduled to amortize into revenue over the next twelve months. The amount scheduled to amortize into revenue over the next twelve months is disclosed as backlog . Amounts to be added to deferred revenue throughout the next twelve months include subsequent billings for ongoing contract periods as well as billings for new or continuing contracts. Company management has 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

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into fiscal 2006 revenue. We expect revenues related to informal learning and tele-sales distribution initiatives to increase in fiscal 2006. However, due to market and pricing pressures on our core products we anticipate MML revenue to be flat or slightly down in fiscal 2006 compared to fiscal 2005. We publicly announced our intention to shutdown the Retail Certification business or sell certain assets related to the business. Either scenario would have a negative impact on revenue in fiscal 2006 compared to fiscal 2005.

| | **Fiscal Year Ended January 31,** | | |
	2005	**2004**	**Change**
Revenue:			
United States	$ 165,871	$ 156,121	$ 9,750
International	46,429	37,354	9,075
Total	$ 212,300	$ 193,475	$ 18,825

Revenue increased by 6% and 24% in the United States and internationally, respectively, in the fiscal year ended January 31, 2005 as compared to the fiscal year ended January 31, 2004. The international revenue increase was due, in addition to the factors discussed above, to increased reseller revenue due to the timing of receipt of sell-through reporting and cash from resellers. The United States represented 78% and 81% of revenue for the fiscal year ended January 31, 2005 and 2004, respectively.

| | **Fiscal Year Ended January 31,** | | |
	2005	**2004**	**Change**
Revenue:			
Multi-Modal Learning	$ 192,135	$ 180,098	$ 12,037
Retail Certification	20,165	13,377	6,788
Total	$ 212,300	$ 193,475	$ 18,825

Revenue increased by 7% and 51% in the MML and Retail Certification segments, respectively, in the fiscal year ended January 31, 2005 as compared to the fiscal year ended January 31, 2004. The revenue increase for MML was primarily due to revenue generated from new business primarily derived from our product lines focused on informal learning. The revenue increase for Retail Certification was primarily due to sales to new customers as well as the full recognition of the segment s subscription based revenue recognition model. The segment defers revenue at the time of sale over 18 to 24 months. The MML segment represented 91% and 93% of revenues for the fiscal years ended January 31, 2005 and 2004, respectively.

Costs and Expenses

Cost of revenue increased $3.3 million, or 18%, to $21.7 million in the fiscal year ended January 31, 2005 from $18.4 million in the fiscal year ended January 31, 2004. This increase was primarily due to higher sales volumes as well as increased use of contract services and infrastructure charges incurred in connection with our efforts to consolidate hosting sites. Cost of revenue as a percentage of total revenue was 10% in both the fiscal year ended January 31, 2005 and the fiscal year ended January 31, 2004.

Research and development expenses decreased $8.0 million, or 15%, to $45.6 million in the fiscal year ended January 31, 2005 from $53.6 million in the fiscal year ended January 31, 2004. Research and development expenses

as a percentage of total revenue decreased to 21% in the fiscal year ended January 31, 2005 from 28% in the fiscal year ended January 31, 2004. Research and development for the fiscal year ended January 31, 2005 included expenses of $3.8 million to modify and enhance the technology we purchased that will underlie our virtual classroom product offering, SkillSoft Dialogue. The decrease in expenses compared to fiscal 2004 was primarily due to our completion of the initiative for content and platform improvements in the quarter ended January 31, 2004. We plan to incur incremental costs in fiscal 2006 to pursue informal learning opportunities and accelerate their market introduction.

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Selling and marketing expenses increased $6.0 million, or 7%, to $93.5 million in the fiscal year ended January 31, 2005 from $87.5 million in the fiscal year ended January 31, 2004. The increase was primarily due to increased compensation and benefit costs of approximately $7.0 million as a result of increased commissions derived from increased bookings in fiscal 2005 as compared to fiscal 2004. We also incurred additional expenses associated with building the SkillSoft Dialogue direct sales channel. This increase was partially offset by a decline in certain infrastructure and occupancy charges of $0.8 million. Selling and marketing expenses as a percentage of total revenue decreased to 44% in the fiscal year ended January 31, 2005 from 45% in the fiscal year ended January 31, 2004, due to the increase in revenue between fiscal years. We anticipate incurring incremental selling and marketing expenses over the next fiscal year in relation to bringing our virtual classroom offerings to the market. We believe that a significant investment in selling and marketing to expand our distribution channels worldwide is required to remain competitive and we will be investing in our new tele-sales distribution capabilities. However, due to the anticipated reduction in revenue and related commission expense we expect our selling and marketing costs to decrease in absolute dollars in fiscal 2006 compared to fiscal 2005 and remain flat as a percentage of revenue. The dollar decrease in Selling and marketing expenses will also be supported by the shutdown or sale of certain assets of the Retail Certification business.

General and administrative expenses decreased $2.7 million, or 10%, to $25.2 million in the fiscal year ended January 31, 2005 from $27.9 million in the fiscal year ended January 31, 2004. General and administrative expenses as a percentage of total revenue decreased to 12% in the fiscal year ended January 31, 2005 from 14% in the fiscal year ended January 31, 2004. These decreases were primarily due to a reduction of litigation costs of $3.0 million in the fiscal year ended January 31, 2005 compared to the fiscal year ended January 31, 2004. We anticipate that general and administrative expenses will increase in absolute dollars and as a percentage of revenue over the next fiscal year due primarily to continued increases in the costs of operating as a public company such as costs related to compliance with Section 404 of the Sarbanes-Oxley Act, advisory services, legal representation and insurance coverage.

We had no litigation settlement expenses in the fiscal year ended January 31, 2005. We recorded $93.8 million in the fiscal year ended January 31, 2004. This related primarily to the settlements of the 1998 securities class action litigation ($16.0 million), the NETg litigation ($44.0 million), the 2002 class action litigation ($31.5 million) and the IPLearn litigation ($2.0 million).

Stock-based compensation expense decreased $795,000, or 40% to $1.2 million in the fiscal year ended January 31, 2005 from $2.0 million in the fiscal year ended January 31, 2004. The expense relates to amortization of deferred compensation resulting from granting of stock options to employees at exercise prices below the fair market value of the stock and the sales of restricted common stock with sales prices below the fair market value of the stock. The stock options granted and restricted stock sold at prices below fair market value of the stock were granted by SkillSoft Corporation prior to its initial public offering and by Books prior to its acquisition by SkillSoft Corporation in December 2001. In addition, we recorded a one time compensation charge of $274,000 in the fiscal year ended January 31, 2004 due to the extension of certain option agreements.

Amortization of intangible assets decreased $497,000, or 5%, to $9.6 million in the fiscal year ended January 31, 2005 from $10.1 million in the fiscal year ended January 31, 2004. See Note 5 of the Notes to the Consolidated Financial Statements.

In the fourth quarter of fiscal 2005 we evaluated the fair value of goodwill. In November of 2004 we hired an investment banker to actively market the Retail Certification reporting unit to third party buyers. However by January 31, 2005 the investment banker reported the efforts to sell the business were unsuccessful. On March 14, 2005, we entered into a non-binding letter of intent with respect to the sale of our retail IT certification business and if the transaction is not consummated we will shut down the operation. The terms of the potential sale involve the transfer of certain assets and liabilities of the business in exchange for nominal consideration and the execution of a reseller agreement with the buyer. Consequently, based on our attempts to sell the business and the results of a valuation done by an independent third party valuation firm, it is our conclusion that the Retail Certification reporting unit has no goodwill. We recorded an impairment charge of approximately $19.3 million in the fiscal year ended January 31, 2005. We prepared a cash flow analysis for

the MML segment comparing the discounted cash flows to the net book values of the direct assets, goodwill and intangible assets. The discounted cash flows supported the direct assets, goodwill and intangible assets of the MML learning business unit. At January 31, 2005, we concluded there was no impairment of goodwill for the MML business unit.

The key assumptions utilized in the preparation of forecasted statements of operations for the MML segment, which reflect certain new initiatives were as follows:

	Multi-Modal Learning
Revenue	Compound annual growth of 7.0%
Gross profit	89.0%
Research and development	15.0%
Selling and marketing	36.0%
General and administrative	9.0%
Other income/ (expense)	$2.4 million for all years
Working capital	15.00% of gross revenue

An independent third party utilized the aforementioned forecasted statements of operations in order to develop an analysis of discounted cash flows for the MML segment.

Restructuring charges increased $11.5 million, or 619%, to $13.4 million in the fiscal year ended January 31, 2005 from $1.9 million in the fiscal year ended January 31, 2004. This increase was due to the fiscal 2005 fourth quarter restructuring related to content development which included charges related to payments to terminated employees, facilities consolidation, the repayment of grants previously awarded by Irish agencies as a result of the headcount reduction and the closing of our German facility. We do not anticipate incurring any significant additional charges in fiscal 2006 as a result of these restructuring activities.

SEC investigation charges increased $0.3 million, or 15%, to $2.2 million in the fiscal year ended January 31, 2005 from $1.9 million in the fiscal year ended January 31, 2004.

Other professional fees decreased $14.2 million, or 98%, to $0.3 million in the fiscal year ended January 31, 2005 from $14.5 million in the fiscal year ended January 31, 2004. The decrease is due to the completion of the restatement of the SmartForce historical financial statements in the fiscal year ended January 31, 2004. Charges for the fiscal year ended January 31, 2005 consist primarily of the re-filing of certain international tax returns and statutory financial statements as a result of the restatement. There remain certain historical statutory and income tax filings in certain international jurisdictions that are required to be filed in connection with the aforementioned restatement. We expect this process to continue throughout fiscal year 2006.

Interest Income, net

Interest income decreased to $754,000 in the year ended January 31, 2005 from $787,000 in the year ended January 31, 2004. This decrease was primarily due to fewer funds available for investment and lower interest rates on our cash and cash equivalents and investments.

Other (Expense)/ Income, net

Other income/(expense), net decreased to ($692,000) in the year ended January 31, 2005 from $786,000 in the year ended January, 31, 2004. This decrease was primarily due to foreign currency fluctuations. Due to our multinational operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies used in our business.

Gain on Sale of Investments, net

We recorded no net gain on sale of investments in the fiscal year ended January 31, 2005. We recorded a one-time gain of $3.6 million from the sale of an equity investment in fiscal 2004.

Provision for Income Taxes

   The provision for income taxes was $631,000 and $529,000 in the fiscal years ended January 31, 2005 and 2004, respectively. The provision consists of income taxes payable in certain foreign locations, which cannot be offset by net operating loss carryforwards.

Comparison of the Fiscal Years Ended January 31, 2004 and 2003

Fiscal Year Ended January 31,

	Dollar Increase/(Decrease) 2003/2004	Percent Change Increase/(Decrease) 2003/2004	Percentage of Revenue 2004	2003
	(In thousands)			
Revenue	$ 92,005	91%	100%	100%
Cost of revenue	6,849	59%	10%	11%
Gross profit	85,156	95%	90%	89%
Research and development	24,523	84%	28%	29%
Selling and marketing	34,841	66%	45%	52%
General and administrative	9,969	56%	14%	18%
Litigation settlement	93,750	100%	48%	
Amortization of stock-based compensation	352	22%	1%	2%
Amortization of intangible assets	5,389	115%	5%	5%
Impairment charge	(250,107)	(100)%		246%
Restructuring	(12,322)	(87)%	1%	14%
Restatement:				
SEC investigation	1,898	100%	1%	
Other professional fees	9,366	183%	7%	5%
Total operating expenses	(82,341)	(22)%	151%	370%
Operating loss	167,497	59%	(61)%	(281)%
Other (expense)/ income, net	1,068	379%		
Gain on sale of investments	3,682	100%	2%	
Interest income, net	(1,378)	(64)%		2%
Loss before provision for income taxes	170,869	60%	(58)%	(280)%
Provision for income taxes	146	38%		
Net loss	$ 170,723	60%	(59)%	(280)%

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Revenue

Revenue increased $92.0 million, or 91% to $193.5 million in the fiscal year ended January 31, 2004 from $101.5 million in the fiscal year ended January 31, 2003. This increase was due to the addition of revenue from SmartForce s historical customer base as well as revenue generated from new business. As combined company revenue is only included after the closing of the Merger the fiscal year ended January 31, 2003 does not include a full year of combined company revenue. For the fiscal year ended January 31, 2004 renewal rates improved reflecting increased customer satisfaction, partially offset by a cautious corporate spending environment. We exited the year ended January 31, 2004 with noncancellable backlog, consisting of deferred revenue and committed contracts, of approximately $170 million as compared to $135 million a year ago. The increase in noncancellable backlog is due primarily to improved renewal rates, expanded offerings for MML customers and new customers.

	Fiscal Year Ended January 31,		
	2004	2003	Change
Revenue:			
United States	$ 156,121	$ 80,991	$ 75,130
International	37,354	20,479	16,875
Total	$ 193,475	$ 101,470	$ 92,005

Revenue increased by 93% and 82% in the year ended January 31, 2004 in the United States and internationally, respectively, as compared to the year ended January 31, 2003. The United States represented 81% and 80% of revenue for the years ended January 31, 2004 and 2003, respectively.

	Fiscal Year Ended January 31,		
	2004	2003	Change
Revenue:			
Multi-Modal Learning	$ 180,098	$ 94,402	$ 85,696
Retail Certification	13,377	7,068	6,309
Total	$ 193,475	$ 101,470	$ 92,005

The MML segment represented 93% of revenues for both the year ended January 31, 2004 and 2003, respectively.

Costs and Expenses

Cost of revenue increased $6.8 million, or 59% to $18.4 million in the fiscal year ended January 31, 2004 from $11.5 million in the fiscal year ended January 31, 2003. Cost of revenue as a percentage of total revenue was 10% in the fiscal year ended January 31, 2004 versus 11% in the fiscal year ended January 31, 2003. The increase in absolute dollars was primarily due to the increase in revenue from fiscal 2003 to fiscal 2004, increased costs of supporting the legacy SmartForce hosting business and royalty fees associated with the legacy SmartForce IT product line. The decrease in percentage of revenue was primarily due to cost efficiencies, primarily from reduced infrastructure costs, achieved as a result of the Merger.

Research and development increased $24.5 million, or 84% to $53.6 million in the fiscal year ended January 31, 2004 from $29.1 million in the fiscal year ended January 31, 2003. This increase was due in part to the addition of SmartForce s research and development organization. In addition, we incurred $10.4 million in incremental costs

associated with modifying the SmartForce content to be compliant with SkillSoft standards and practices and $5.3 million in incremental research and development costs associated with our initiatives related to content offerings and improvements and platform improvements. These incremental costs were substantially complete at January 31, 2004. We believe our outsourcing strategy for some of our courses, which allows us to offer a broader set of content, provides us significant flexibility to control these costs. Research and development expenses as a percentage of total revenue decreased to 28% in the fiscal year ended January 31, 2004 from 29% in the fiscal year ended January 31, 2003.

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Selling and marketing expenses increased $34.8 million, or 66% to $87.5 million in the fiscal year ended January 31, 2004 from $52.7 million in the fiscal year ended January 31, 2003. Selling and marketing expenses increased due to the addition of SmartForce s sales and marketing organization and related costs. Selling and marketing expenses as a percentage of total revenue decreased to 45% in the fiscal year ended January 31, 2004 from 52% in the fiscal year ended January 31, 2003. The large percentage decrease was primarily due to the significant increase in revenue from fiscal 2003 to fiscal 2004.

General and administrative expenses increased $10.0 million, or 56% to $27.9 million in the fiscal year ended January 31, 2004 from $17.9 million in the fiscal year ended January 31, 2003. General and administrative expenses as a percentage of total revenue decreased to 14% in the fiscal year ended January 31, 2004 from 18% in the fiscal year ended January 31, 2003. General and administrative expenses increased in absolute dollars primarily due to approximately $5.3 million of increased costs associated with being a public company, including legal, audit, insurance and Sarbanes-Oxley Act compliance. The remainder of the increase was primarily due to the impact of a full year of additional personnel related costs due to the Merger. The large percentage decrease from fiscal 2003 to fiscal 2004 was mainly due to a significant increase in revenue in fiscal 2004.

Litigation settlement expenses were $93.8 million in the fiscal year ended January 31, 2004. This related primarily to the settlements of the 1998 securities class action litigation ($16.0 million), the NETg litigation ($44.0 million), the 2002 class action litigation ($31.5 million) and the IPLearn litigation ($2.0 million).

Stock-based compensation expense increased $352,000, or 22% to $2.0 million in the fiscal year ended January 31, 2004 from $1.6 million in the fiscal year ended January 31, 2003. The expense relates to amortization of deferred compensation resulting from granting of stock options to employees at exercise prices below the fair market value of the stock and the sales of restricted common stock with sales prices below the fair market value of the stock. The stock options granted and restricted stock sold at prices below fair market value of the stock were granted by SkillSoft Corporation prior to its initial public offering and by Books prior to its acquisition by SkillSoft Corporation in December 2001. In addition we recorded a one time compensation charge of $274,000 in the fiscal year ended January 31, 2004 due to the extension of certain option agreements until the Registration Statement on Form S-8 covering such option agreements, which was suspended as a result of our delay in filing a Form 8-K/ A containing the historical SmartForce financial statements, was again available for use.

Amortization of intangible assets increased $5.4 million, or 115%, to $10.1 million in the fiscal year ended January 31, 2004 from $4.7 million in the fiscal year ended January 31, 2003.

Restructuring charges decreased $12.3 million, or 87%, to $1.9 million in the year ended January 31, 2004 from $14.2 million in the fiscal year ended January 31, 2003. The restructuring charges relate to the Merger and primarily consist of compensation costs for certain terminated SmartForce employees and facilities consolidation.

Professional fees related to the restatement of SmartForce historical financial statements charges increased $9.4 million, or 184%, to $14.5 million in the year ended January 31, 2004 from $5.1 million in the fiscal year ended January 31, 2003. These charges primarily consist of costs directly related to the restatement of the SmartForce historical financial statements which was completed in the fiscal year ended January 31, 2004.

In response to several factors in the fourth quarter of fiscal 2003 and as part of our annual impairment test, we re-evaluated the fair value of the goodwill established in connection with the Merger and the Books acquisition. Factors that contributed to our decision to re-evaluate the fair value of goodwill included:

(i) the determination that we would need to restate the historical financial statements of SmartForce PLC for the years ended December 31, 1999, 2000 and 2001 and the six-months ended June 30, 2002,

(ii) forecasted revenue decreased from the levels utilized prior to the Merger, and

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(iii) Upon the announcement of the restatement in November 2002, there was a dramatic decline in our share price in relation to the price utilized in the calculation of purchase price. The share price at time of the Merger was $4.69 per share, the share price on the day prior to the announcement of the restatement was $4.63 per share and the share price at the close of business on the day of the announcement was $3.07 per share, approximately a 34% decline in share price.

We prepared a cash flow analysis by reporting segment comparing the discounted cash flows to the net book values of the tangible assets, goodwill and identifiable intangible assets associated with the two reporting units: MML and retail certification. The key assumptions utilized in the preparation of forecasted statements of operations for each segment were as follows:

	Multi-Modal Learning	**Retail Certification**
Revenue	Compound annual growth of 10.6%	18% growth through 2008 3% growth through 2009 no growth thereafter
Gross profit	88.66%	88.85%
Research and development	18.75%, through 2009 16.00% thereafter	4.15%
Selling and marketing	45.5%, through 2008 39.00%, thereafter	59.00%, through 2005 58.00%, through 2008 56.00%, thereafter
General and administrative	50.00% of sales growth, through 2013, 4.90%, thereafter	6.57%, through 2005 declining to 6.12% in 2009 and thereafter
Other income/(expense)	$2.4 million for all years	None
Working capital	15.00% of gross revenue	15.00% of gross revenue

An independent third party utilized the aforementioned forecasted statements of operations in order to develop an analysis of discounted cash flows for each segment. The discounted cash flows did not support the tangible assets, goodwill and identifiable intangible assets of the MML reporting unit. However, the discounted cash flows did support the value of the retail certification reporting unit. The discounted cash flow analysis reflected many factors including a reduction in expected revenues for the fiscal year ended January 31, 2004 due to the elimination of three non-core businesses   Telecom, Prokoda Services and Custom Global Services   and to a lesser extent, lower than anticipated revenues in relation to those revenues anticipated prior to the Merger. We have assumed growth in the e-learning sector to be lower than originally considered at the time of the Merger. We have also valued our current customer base, including the synergies from cross-selling our products, content, technology, trademarks and net operating loss carry forwards. The cash flow analysis indicated the discounted cash flows were not sufficient to recover the assets of the MML segment. Accordingly, we recorded a $250.1 million impairment to goodwill in the fourth quarter of fiscal 2003 related to this segment.

In connection with the Merger, we decided to exit the Telecom business and sold the business as of January 31, 2003. As more fully described in Note 3(b) of the Notes to the Consolidated Financial Statements, other income (expense) includes the results of operations for the period from September 6, 2002 through January 31, 2003 of the Telecom business. The assets and liabilities of the Telecom business were excluded from our opening balance sheet and therefore, were excluded from the calculation of purchase price and the valuation of the goodwill asset. The Prokoda business was   downsized   at the time of Merger and has only recently been eliminated. The downsizing of the Prokoda business at the time of Merger resulted in the creation of liabilities associated with the severance of those employees identified as redundant. The Custom Global Services business has not been eliminated, but has evolved from the form in which it was acquired. The acquiring entity, SkillSoft Corporation, had engaged in an outsourcing strategy to handle custom services requirements prior to the date of the Merger (September 6, 2002). At the time of

the Merger we downsized our direct custom services staff and now handle customer needs with a solution that incorporates employees and outsourcing partners. The downsizing of the Custom Global Services business at time of the Merger

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resulted in the creation of liabilities associated with the severance of those employees identified as redundant as well as for facilities idled as a result of the headcount reduction. All businesses were acquired as a part of the Merger. The Telecom business did not contribute any revenue and contributed approximately a $103,000 loss to our consolidated operations. The Prokoda business contributed approximately $2.2 million in revenue and a $1.2 million loss, to our consolidated operations. The Custom Global Services business contributed approximately $1.3 million in revenue and approximately a $261,000 loss, to our consolidated operations.

Interest Income/(Expense), net

Interest income, net decreased to $787,000 in the year ended January 31, 2004 from $2.2 million in the year ended January 31, 2003. This decrease was primarily due to less funds available for investment and lower interest rates on our cash and cash equivalents and investments.

Other Income/(Expense), net

Other income/(expense), net increased to $786,000 in the year ended January 31, 2004 from $(282,000) in the year ended January, 31, 2003. This increase was primarily due to foreign currency fluctuations and secondarily due to gains on sales of certain capital assets. Due to our multinational operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies used in our business.

Gain on Sale of Investments, net

Gain on sale of investments, net, was $3.7 million in the fiscal year ended January 31, 2004. This was primarily related to a gain of $3.6 million from the sale of an equity investment.

Provision for Income Taxes

The provision for income taxes was $529,000 and $383,000 in the fiscal years ended January 31, 2004 and 2003, respectively. The provision consists of income taxes payable in certain foreign locations, which cannot be offset through net operating loss carryforwards.

Quarterly Operating Results for Fiscal Years Ended January 31, 2005 and 2004 (unaudited)

The following table sets forth, for the periods indicated, certain financial data of SkillSoft PLC

	Q1 2005	Q2 2005	Q3 2005	Q4 2005
	(In thousands, except per share data)			
Revenues	$ 52,817	$ 50,625	$ 52,507	$ 56,351
Cost of revenues	5,078	5,257	5,597	5,792
Gross profit	47,739	45,368	46,910	50,559
Operating expenses:				
Research and development	9,444	12,639	10,505	12,987
Selling and marketing	24,362	22,664	22,441	24,019
General and administrative	6,054	6,182	6,388	6,538
Amortization of stock-based compensation	348	300	296	247
Amortization of intangible assets	2,422	2,390	2,390	2,373
Impairment charge				19,268
Restructuring	147	175	(7)	13,046
Restatement:				
SEC investigation	324	779	716	363
Other professional fees	114	136	87	(17)
Total operating expenses	43,215	45,265	42,816	78,824

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	Q1 2005	Q2 2005	Q3 2005	Q4 2005
	(In thousands, except per share data)			
Operating loss	4,524	103	4,094	(28,265)
Other (expense)/ income, net	(179)	(32)	75	(556)
Interest income, net	123	241	88	302
Loss before provision for income taxes	4,468	312	4,257	(28,519)
Provision for income taxes	1,265	(1,045)	142	269
Net income/ (loss)	$ 3,203	$ 1,357	$ 4,115	$ (28,788)
Basic and dilutive income/ (loss) per share	$ 0.03	$ 0.01	$ 0.04	$ (0.27)
Basic weighted average shares outstanding	103,163	105,422	105,936	105,973
Diluted weighted average shares outstanding	110,393	110,555	108,941	105,973

	Q1 2004	Q2 2004	Q3 2004	Q4 2004
	(In thousands, except per share data)			
Revenues	$ 43,613	$ 45,109	$ 49,992	$ 54,761
Cost of revenues	5,497	4,180	4,557	4,163
Gross profit	38,116	40,929	45,435	50,598
Operating expenses:				