SKILLSOFT PUBLIC LIMITED CO
Form 10-Q
December 15, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ______________

COMMISSION FILE NUMBER 000-25674

SKILLSOFT PUBLIC LIMITED COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

Not Applicable
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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

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

On December 1, 2003, the registrant had outstanding 100,988,796 Ordinary Shares (issued or issuable in exchange for the registrant's outstanding American Depository Shares).

SKILLSOFT PLC

FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 31, 2003
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PART I

ITEM 1. - FINANCIAL STATEMENTS

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

	OCTOBER 31, 2003	JANUARY 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,036	$ 45,990
Short-term investments	25,217	79,041
Restricted cash	25,000	-
Accounts receivable, net	46,160	66,892
Prepaid expenses and other current assets	21,222	19,401
Total current assets	151,635	211,324
Property and equipment, net	7,427	11,964
Goodwill	127,196	119,427
Acquired intangible assets, net	28,320	34,290

Other assets	692	1,132
	$ 315,270	$ 378,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,235	$ 10,672
Accrued expenses	80,852	59,821
Deferred revenue	107,229	109,009
Total current liabilities	196,316	179,502
Long term liabilities	10,263	7,548
Stockholders' equity:		
Ordinary Shares, E0.11 par value: 250,000,000 shares authorized at October 31, 2003 and January 31, 2003, respectively; 99,993,573 and 99,598,146 shares issued and outstanding at October 31, 2003 and January 31, 2003, respectively	10,906	10,737
Additional paid-in capital	535,722	530,929
Accumulated deficit	(435,304)	(347,642)
Deferred compensation	(2,981)	(4,345)
Notes receivable from stockholders	--	(58)
Accumulated other comprehensive income	348	1,466
Total stockholders' equity	108,691	191,087
	$ 315,270	$ 378,137

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

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

	THREE MONTHS ENDED OCTOBER 31,		NIN
	2003	2002	2003
Revenue	$ 49,992	$ 29,336	$ 138
Cost of revenue	4,557	4,739	14
Gross profit	45,435	24,597	124
Operating expenses:			
Research and development	15,171	7,702	40
Selling and marketing	20,830	16,320	67
General and administrative	6,946	7,578	20
Legal settlements	16,000	--	62
Amortization of intangible assets	2,574	1,825	7
Amortization of stock-based compensation (1)	676	438	1
Restructuring and other non-recurring charges	5,287	6,607	16

Total operating expenses	67,484	40,470	216
Operating loss	(22,049)	(15,873)	(91
Other income, net	251	(1)	
Interest income, net	87	504	
Gain on sale of investments, net	--	--	3
Loss before provision for income taxes	(21,711)	(15,370)	(87
Provision for income taxes	150	--	
Net loss	$ (21,861)	$ (15,370)	$ (87
Net loss per share (Note 10):			
Basic and diluted	$ (0.22)	$ (0.20)	$ (
Basic and diluted weighted average common shares outstanding	99,993,573	76,193,237	99,745

(1) The following summarizes the departmental allocation of the stock-based compensation

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDED OCTOBER 31,	
	2003	2002	2003	2002
Cost of revenue	$ 2	$ 1	$ 4	$ 3
Research and development	115	112	354	292
Selling and marketing	355	175	691	527
General and administrative	204	150	588	316
	$ 676	$ 438	$ 1,637	$ 1,138

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

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

	NINE MONTHS ENDED OCTOBER 31,	
	2003	2002
Cash flows from operating activities:		
Net loss	$ (87,662)	$ (14,051)
Adjustments to reconcile net loss to net cash used in operating activities -		

Stock-based compensation	1,637	1,138
Depreciation and amortization	6,948	3,399
Amortization of intangible assets	7,498	1,987
Provision for bad debts	266	--
Accretion of short term investments	(61)	--
Realized gain on sale of investments	(3,612)	--
Changes in current assets and liabilities:		
Accounts receivable, net	20,995	(3,838)
Prepaid expenses and other current assets	(3,667)	2,058
Other assets	11	--
Accounts payable	(2,480)	5,671
Accrued expenses	20,832	(19,851)
Deferred revenue	(2,431)	4,961
Net cash used in operating activities	(41,726)	(18,526)
Cash flows from investing activities:		
Merger of SkillSoft and SmartForce, net of cash acquired	--	49,333
Purchases of property and equipment	(2,253)	(5,124)
Purchases of investments	(74,127)	(11,540)
Maturity and sale of investments	130,177	11,453
Other assets	85	(2,661)
Purchase of business, net of cash acquired	(5,000)	--
Restricted cash	(25,000)	--
Net cash provided by investing activities	23,882	41,461
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	4,689	771
Payment on notes receivable	58	280
Net cash provided by financing activities	4,747	1,051
Effect of exchange rate changes on cash and cash Equivalents	1,143	(41)
Net increase (decrease) in cash and cash equivalents	(11,954)	23,945
Cash and cash equivalents, beginning of period	45,990	25,185
Cash and cash equivalents, end of period	$ 34,036	$ 49,130

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

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

1. THE COMPANY

SkillSoft PLC, formerly known as SmartForce PLC (the Company or SkillSoft), was incorporated in Ireland on August 8, 1989. The Company is a provider of web-based training resources that cover a variety of professional, effectiveness, business and information technology topics. On September 6, 2002, the Company completed its merger with SkillSoft Corporation (the Merger). Due to a number of factors, including composition of the board of directors, management team, and concentrated shareholder interest, all of which had SkillSoft Corporation being in a control or majority position, the Merger was accounted for as a reverse acquisition, with SkillSoft Corporation as the accounting acquirer. Accordingly, the historical financial statements of SkillSoft Corporation are the historical financial statements of the combined company, and the assets and liabilities of the Company are accounted for as required under the purchase method of accounting. The results of operations and cash flow of the former SmartForce PLC, the acquired entity for accounting purposes, are included in the financial statements of the combined company from September 6, 2002, the date on which the Merger was consummated. In connection with the Merger, the Company changed its name to SkillSoft PLC and its fiscal year end to January 31 (the fiscal year end of SkillSoft Corporation) from December 31 (the Company's historical fiscal year end).

2. BASIS OF PRESENTATION

The accompanying, unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. Nevertheless, the management of the Company believes that the disclosures herein are adequate to make the information presented not misleading. In the opinion of management, the condensed consolidated financial statements reflect all material adjustments (consisting only of those of a normal and recurring nature) which are necessary to present fairly the consolidated financial position of the Company as of October 31, 2003, the results of its operations for the three and nine months ended October 31, 2003 and 2002 and its cash flows for the nine months ended October 31, 2003 and 2002. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2003, as amended. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

3. CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND INVESTMENTS

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At October 31, 2003 and January 31, 2003, cash equivalents consisted mainly of commercial paper, short-term notes and money market funds. The Company considers the cash held in certificates of deposit with a commercial bank to secure its line of credit to be restricted cash. The Company accounts for its investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). Under SFAS No. 115, securities that the Company does not intend to hold to maturity are reported at market value, and are classified as available-for-sale. At October 31, 2003, the Company's investments had an average maturity of approximately 62 days. These investments are classified as current assets in the accompanying consolidated balance sheets as they mature within one year.

4. REVENUE RECOGNITION

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

The Company follows the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-4 and SOP 98-9 to account for revenue derived pursuant to license agreements under which customers license the Company's products and services. The pricing for the Company's courses varies based upon the number of course titles or the courseware bundle licensed by a customer, the number of users within the customer's organization and the length of the license agreement (generally one, two or three years). License agreements permit customers to exchange course titles, generally on the contract anniversary date. Additional product features, such as hosting and on-line mentoring services, are separately licensed for an additional fee.

Generally, the pricing for the Company's multi-modal learning (MML) licenses varies based on the choice of MML, the content offering selected by the customer, the number of users within the customer's organization and the length of the license agreement. A MML license provides customers access to a full range of learning products which could include 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.com, Inc. (Books). Generally, the pricing for the Company's 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.

The Company generally bills the annual license fee for the first year of a multi-year agreement in advance. The Company recognizes revenue with respect to courseware licenses either at the time of delivery of products or over the term of the contract, depending on the products included in the license and specific contract terms. In the event that the customer specifies all licensed courses to be delivered at the outset and those courses are available and delivered on or before the contract start date, the Company recognizes license revenue for the first year of the contract upon execution of the contract and delivery of the courses. The Company generally bills license fees for subsequent years of multi-year license arrangements on the anniversary date of the agreement, and if the customer exchanges courses and receives the exchanged courses by the renewal date, revenue is recognized in the manner described above.

In some circumstances, the Company offers 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, revenue is recognized as cash becomes due, assuming all of the other elements of revenue recognition have been satisfied.

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

The Company also derives revenue from extranet hosting/ASP services and online mentoring services. The Company recognizes revenue related to extranet hosting/ASP services and online mentoring services on a straight-line basis over the period in which the service agreements are provided to the extent the Company has VSOE for those services. If the Company does not have VSOE for these services, revenue from the entire arrangement, including any implementation fees, is recognized on a straight-line basis over the period in which the services are provided. For multi-element agreements where the Company provides these services, VSOE is the basis used to allocate the total fee to the elements of the arrangement.

The Company recognizes revenue on Referenceware and MML licenses ratably over the term of the agreement, which matches the period the future products or services are delivered.

The Company generally commences the recognition of revenue from resellers when both the final sale to the end user has occurred and the Company has received payment from the reseller. With respect to reseller agreements with minimum commitments, the Company recognizes revenue related to the portion of the minimum commitment that exceeds the end user sales at the expiration of the commitment period.

The Company provides professional services, including instructor led training, customized content, websites, and implementation services. The Company recognizes service revenue as the services are performed.

The cost of satisfying any post contract support (PCS), which essentially represents a warranty obligation, is accrued at the time license revenue is recognized, as PCS fees are included in the annual license fee. The estimated cost of providing PCS during the agreements is insignificant and the Company does not offer it separately. The accrued PCS costs are included in deferred revenue in the accompanying consolidated balance sheets.

The Company records deferred revenue when either cash is received or amounts have been billed in advance of products or services provided. Deferred revenue includes the unrecognized portion of revenue associated with license fees for which the Company has

received payment or for which amounts have been billed and are currently due for payment in 180 days or less. In addition, deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the license period. In addition, the Company acquired approximately $47 million of deferred revenue in connection with the Merger based upon the cost to fulfill the remaining contractual and performance obligations plus a normal operating profit on fulfilling such obligations. As of October 31, 2003, $2.7 million of deferred revenue relates to the remaining balance of acquired deferred revenue.

5. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for its stock-based employee compensation plans 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. The Company provides 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).

SFAS No. 123 requires the measurement of the fair value of stock options to employees to be included in the statements of operations or disclosed in the notes to financial statements. The Company elected the disclosure-only alternative under SFAS No. 123, which requires disclosure of the pro forma effects on earnings as if the fair-value-based method of accounting under SFAS No. 123 had been adopted, as well as certain other information. In accordance with SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS No. 148), the Company has computed the pro forma disclosures required under SFAS No. 123 for options granted using the Black-Scholes option-pricing model prescribed by SFAS No. 123. The weighted average information and assumptions used for the grants is as follows

	THREE MONTHS ENDED OCTOBER 31,		NINE MONT OCTOB
	2003	2002	2003
Risk-free interest rates	3.74% - 3.96%	3.50% - 3.88%	2.84% - 3.96%
Expected dividend yield	--	--	--
Volatility factor	89%	101%	98%
Expected lives	7 years	7 years	7 years
Weighted average fair value of options granted	$ 5.53	$ 3.46	$ 3.19
Weighted average remaining contractual life of options outstanding	7.80 years	8.55 years	7.80 years

Had compensation expense for its plans been determined consistent with SFAS No. 123, the Company's net loss and basic and diluted net loss per share would have been increased to the following pro forma amounts (in thousands, except per share data):

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDE OCTOBER 31,	
	2003	2002	2003	20
Net loss --				
As reported	$(21,861)	$(15,370)	$(87,662)	$ (1
Add: Stock-based compensation expense recognized under APB No. 25	676	438	1,637	
Less: Total stock-based compensation expense Determined under fair value based method for all awards	(1,558)	(20,776)	(8,037)	(5
Pro forma	$(22,743)	$(35,708)	$(94,062)	$(6
Basic and diluted net loss per share --				
As reported	$(0.22)	$(0.20)	$(0.88)	$(
Pro forma	$(0.23)	$(0.47)	$(0.94)	$(

Because additional option grants are expected to be made in future periods, the above pro forma disclosures may not be representative of pro forma effects on results for future periods.

6. BUSINESS COMBINATIONS

SKILLSOFT CORPORATION

On September 6, 2002, the Company completed the Merger with SkillSoft Corporation, a leading provider of e-Learning courseware and Referenceware for business and IT professionals. As a result of the Merger, each issued and outstanding share of common stock,

par value $0.001 per share, of SkillSoft Corporation (the SkillSoft Common Stock) was automatically converted into the right to receive 2.3674 (the Exchange Ratio) validly issued and fully paid ordinary shares, nominal value E0.11 per share, of the Company, with each ordinary share represented by an American Depository Share of the Company (ADS). The Company also assumed each outstanding option to purchase SkillSoft Common Stock, which had been granted under SkillSoft Corporation's existing stock option plans, under the same exchange ratio. As discussed in Note 1, the Company determined SkillSoft Corporation to be the acquirer for accounting purposes. Therefore, the calculation of the stock consideration is calculated based on SmartForce ordinary shares and options outstanding. Consequently, this transaction resulted in the issuance of approximately 57.4 million ordinary shares (represented by ADSs) of the Company with a fair value of approximately $317.4 million, the assumption of options to purchase approximately 15.7 million ordinary shares (represented by ADSs) with a Black-Scholes fair value of approximately $38.9 million, and estimated direct transaction costs of $15.4 million. The number of ordinary shares issued and options assumed was fixed in the agreement related to the Merger and was not subject to change prior to closing. The fair value of the Company's ADSs was derived using a market price per ADS of $5.53, which was based on an average of the closing prices for a range of six trading days around the announcement date (June 10, 2002) of the acquisition. The Company paid a premium to obtain a broader distribution channel and a stronger presence in the e-Learning sector. Immediately following the Merger, the former stockholders of SkillSoft Corporation owned approximately 42% of the outstanding ordinary shares (represented by ADS's) of the Company.

Subsequent to the Merger, certain accounting matters were identified relating to the historical financial statements of SmartForce PLC (which, following the Merger, are no longer the Company's historical financial statements - see Note 1). On November 19, 2002, the Company announced its intent to restate the SmartForce PLC historical financial statements for 1999, 2000, 2001 and the first two quarters of 2002. The aforementioned analysis has been completed, and the impact of revisions to the purchase price and its allocation did not have a material impact on the Company's consolidated financial position or results of operations.

GOTRAIN CORP.

In June 2003, the Company acquired the assets of GoTrain Corp. (GoTrain), an e-Learning business, for approximately $5.0 million in cash, which was paid during the quarter ended July 31, 2003. This acquisition resulted in allocations of purchase price to goodwill and intangible assets of $3.7 million and $1.5 million, respectively. Intangible assets allocated were the internally developed software, which is comprised of content valued at $498,000 that will be amortized over a period of 4 years and the platform valued at $512,000 that will be amortized over a period of 2 years. Intangible assets also include customer contracts valued at $518,000, which will be amortized over 4 years.

7. RESTRUCTURING AND OTHER NON-RECURRING CHARGES

MERGER AND EXIT COSTS

In connection with the Merger, the Company's management approved and initiated plans prior to December 31, 2002 to restructure the operations of pre-Merger SmartForce PLC to eliminate redundant facilities and headcount, reduce cost structure, and better align the Company's operating expenses with existing economic conditions. Consequently, the Company recorded $30.3 million of costs relating to exiting activities of pre-Merger SmartForce PLC, such as severance and related benefits, costs to vacate leased facilities and other pre-Merger liabilities. These costs were accounted for under Emerging Issues Task Force (EITF) 95-3, "Recognition of Liabilities in Connection with Purchase Business Combinations." These costs were recognized as a liability assumed in the purchase business combination and included in the allocation of the purchase price, and have increased goodwill.

The reductions in employee headcount totaled approximately 632 employees from the administrative, sales, marketing and development functions, and amounted to a charge of approximately $14.5 million. Approximately $11.5 million was paid out against the exit plan accrual through October 31, 2003, and the remaining amount of $890,000, net of an adjustment of $2.1 million, is expected to be paid by January 2004.

In connection with the exit plan, the Company decided to abandon or downsize certain leased facilities. For the year ended January 31, 2003, facilities consolidation charges of $12.7 million, consisting of sublease losses, broker commissions and other facility costs, were recorded in connection with the downsizing and closing of sites. As of October 31, 2003, 11 sites had been vacated and 4 sites had been downsized and actions related to the remaining identified sites are scheduled to occur by the end of fiscal 2004. To determine the sublease loss, which is the loss after the Company's cost recovery efforts from subleasing the building, certain assumptions were made related to the (1) time period over which the property will remain vacant, (2) sublease terms and (3) sublease rates. The lease loss is an estimate under SFAS No. 5 "Accounting for Contingencies" and represents the low end of the range and will be adjusted in the future upon triggering events including a change in estimate of time to sublease, actual sublease rates, etc. The Company has estimated that

the high end of the lease loss could be $16.4 million if operating lease rental rates continue to decrease in these markets or should it take longer than expected to find a suitable tenant to sublease the facility.

In the quarter ended October 31, 2003, the Company revised certain of its estimates made in connection with the original purchase price allocation pertaining to unoccupied facilities under lease as a result of the Merger. This adjustment to the exit plan accrual falls within the one year purchase price allocation period prescribed by SFAS No. 141 "Business Combinations" (SFAS No. 141). The Company has determined that an additional accrual of $2.9 million, which is included in long-term liabilities, for assumed lease obligations based on current market conditions and contractual limitation is necessary.

During the nine month period ended October 31, 2003, activity in the Company's merger and exit costs, which are included in accrued expenses (see Note 15) and long-term liabilities, was as follows (in thousands):

	EMPLOYEE SEVERANCE AND RELATED COSTS	CLOSEDOWN OF FACILITIES	OTHER	TOTAL
Merger and exit accrual January 31, 2003	$ 5,967	$ 11,383	$ 1,209	$ 18,559
Payments made during the three month period ended				

April 30, 2003	(2,039)	(1,085)	(83)	(3,207)
Adjustments to accrual	(2,125)			(2,125)
Merger and exit accrual April 30, 2003	1,803	10,298	1,126	13,227
Payments made during the three month period ended July 31, 2003	(618)	(647)	(107)	(1,372)
Adjustment to accrual	(63)	309	(946)	(700)
Merger and exit accrual July 31, 2003	1,122	9,960	73	11,155
Payments made during the three month period ended October 31, 2003	(232)	(1,076)	(19)	(1,327)
Adjustment to accrual	--	2,944	(15)	2,929
Merger and exit accrual October 31, 2003	$ 890	$ 11,828	$ 39	$ 12,757

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

Year ended January 31, 2004	$ 1,323
Year ended January 31, 2005	5,121
Year ended January 31, 2006	2,044
Year ended January 31, 2007	629
Year ended January 31, 2008	610
Thereafter	3,030
Total	$ 12,757

RESTRUCTURING AND OTHER NON-RECURRING CHARGES

The Company recorded a $14.2 million restructuring charge for the year ended January 31, 2003, which was included in the statement of operations. Approximately $10.2 million of this charge represents the compensation cost of terminated SmartForce PLC employees for services rendered from the date of the Merger through such employees' termination dates and certain other non-recurring compensation costs to terminated and continuing employees of the Company. Also included in the $14.2 million charge are certain other non-recurring costs incurred by SkillSoft Corporation as a result of the Merger. These costs primarily consist of employee severance and related costs and contractual obligations. Payments made under these obligations during fiscal year 2003 and the nine month period ended October 31, 2003 aggregated approximately $9.4 million and $2.6 million, respectively.

During the nine months ended October 31, 2003, the Company recorded an additional $1.8 million of restructuring and non-recurring charges related to further restructuring of the pre-Merger SmartForce PLC operations. These restructuring costs included additional compensation to pre-Merger SmartForce PLC employees as well as additional non-recurring costs as a result of the

Merger. During the nine month period ended October 31, 2003, activity in the Company's restructuring provision related to the Merger was as follows (in thousands):

	EMPLOYEE SEVERANCE AND RELATED COSTS	CONTRACTUAL OBLIGATIONS	TOTAL
Restructuring provision January 31, 2003	$ 1,129	$ 1,556	$ 2,685
Payments made during the quarter ended April 30, 2003	(1,479)	(735)	(2,214)
Restructuring charge for the quarter ended April 30, 2003	604	589	1,193
Restructuring provision April 30, 2003	254	1,410	1,664
Payments made during the quarter ended July 31, 2003	(577)	(1,367)	(1,944)
Restructuring charge for quarter ended July 31, 2003	323	41	364
Restructuring provision July 31, 2003	--	84	84
Payments made during the quarter ended October 31, 2003	(274)	--	(274)
Restructuring charge for quarter ended October 31, 2003	274	--	274
Restructuring provision October 31, 2003	$ --	$ 84	$ 84

The Company anticipates that the remainder of the restructuring accrual will be paid out by January 2004.

The restructuring charges for the three and nine months ended October 31, 2003 would have been allocated as follows had the Company recorded the expense within the functional department of the restructured activities (in thousands):

	THREE MONTHS ENDED OCTOBER 31, 2003	NINE MONTHS ENDED OCTOBER 31, 2003
Cost of sales	$ --	$ --
Research and development	39	126
Sales and marketing	218	635
General and administrative	17	1,070
Total	$ 274	$ 1,831

For the three and nine months ended October 31, 2003, the Company recorded approximately $5.0 million and $15.0 million, respectively, in expenses related to the restatement of the historical SmartForce PLC financial statements. These expenses consisted primarily of professional fees, including legal, accounting and consulting fees. The majority of these expenses were paid as incurred in the period. The Company expects to incur additional costs related to the restatement of the historical SmartForce PLC financial statements, which will be expensed as incurred.

8. GOODWILL AND INTANGIBLE ASSETS

On February 1, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets." As a result, the Company annually evaluates goodwill for impairment. The Company also evaluates goodwill whenever events and changes in circumstances suggest that the carrying amount may not be recoverable from estimated future cash flows.

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

	OCTOBER 31, 2003			JANUARY 31, 2003		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	N CARR AMO
Internally developed software/courseware	$ 26,610	$ 7,873	$ 18,737	$ 25,600	$ 2,822	$ 2
Customer contracts	13,018	4,335	8,683	12,500	1,888	1
Trademarks and trade name	900	--	900	900	--	
	40,528	12,208	28,320	39,000	4,710	3
Goodwill	127,196	--	127,196	119,427	--	11
	$ 167,724	$12,208	$ 155,516	$ 158,427	$ 4,710	$ 15

The change in goodwill at October 31, 2003 from the amount recorded at January 31, 2003 was due to the settlement of certain liabilities at amounts less than initially recorded and collections of accounts receivable in excess of the estimated realizable value at the purchase date. In addition, the Company revised certain of its estimates made in connection with the original purchase price allocation pertaining to unoccupied facilities under lease as a result of the Merger. This adjustment to the exit plan accrual falls within the one year purchase price allocation period prescribed by SFAS No. 141. The Company has determined that an additional accrual of $2.9 million for assumed lease obligations based on current market conditions and contractual obligations is necessary.

Amortization expense for the three and nine months ended October 31, 2003 and the fiscal year ended January 31, 2003 is as follows (in thousands):

THREE MONTHS ENDED OCTOBER 31, 2003	NINE MONTHS ENDED OCTOBER 31, 2003	FISCAL YEAR ENDED JANUARY 31, 2003

Internally developed software/courseware	$ 1,740	$ 5,051	$ 2,805
Customer contracts	834	2,447	1,878
	$ 2,574	$ 7,498	$ 4,683

Amortization expense for the next five fiscal years is expected to be as follows (in thousands):

FISCAL YEAR	AMORTIZATION EXPENSE
2004	$ 10,073
2005	9,574
2006	8,592
2007	5,345
2008	1,321
Thereafter	12

The Company will be conducting its annual impairment test of goodwill in the fourth quarter of the fiscal year ending January 31, 2004.

9. COMPREHENSIVE INCOME (LOSS)

SFAS No. 130, "Reporting Comprehensive Income", requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period resulting from transactions, other events and circumstances related to non-owner sources. The components of comprehensive income (loss) for the three and nine months ended October 31, 2003 and 2002 are as follows:

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDE OCTOBER 31,	
	2003	2002	2003	200
Comprehensive loss:				
Net loss	$(21,861)	$(15,370)	$(87,662)	$(14,0
Other comprehensive loss -				
Foreign currency adjustment	30	(97)	581	(1
Unrealized holding gains during the period	76	--	285	
Less: reclassification adjustment for gains included in net income	--	--	(1,984)	
Comprehensive loss	$(21,755)	$(15,467)	$(88,780)	$(14,1

10. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share was computed using the weighted average number of shares outstanding during the period. Diluted net income (loss) per share was computed by giving effect to all dilutive, potential shares outstanding. Basic and diluted net loss per share for both the three and nine months ended October 31, 2003 are the same as outstanding options, and unvested restricted shares,

which aggregated 24,514,810, are antidilutive as the Company has recorded a net loss for the periods. Given the Company was in a loss position for the three and nine months ended October 31, 2003, the dilutive shares outstanding of 6,582,445 and 3,138,511, respectively, were excluded from the calculation of weighted average shares outstanding. As a result of the reverse acquisition, historical SkillSoft Corporation shares have been restated into SmartForce ADSs using the exchange ratio of one SkillSoft Corporation share per 2.3674 SmartForce ADSs. Historical SkillSoft Corporation shares for all periods presented have been adjusted to reflect this exchange ratio. The weighted average number of shares outstanding used to compute basic net loss per share and diluted net loss per share is as follows:

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDE OCTOBER 31,	
	2003	2002	2003	200
Basic and diluted weighted average shares outstanding	99,993,573	76,193,237	99,745,570	52,816

11. INCOME TAXES

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

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

The provision for income taxes in the three and nine month periods ended October 31, 2003 of $150,000 and $528,000, respectively, relates to income generated in foreign countries, which cannot be offset through NOL carryforwards.

12. COMMITMENTS AND CONTINGENCIES

See Part II - Item 1, entitled "Legal Proceedings", for a description of material litigation involving the Company.

13. DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE

The Company follows the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS No. 131). SFAS No. 131 established standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to shareholders. SFAS No. 131 also established standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions of how to allocate resources and assessperformance. The Company's chief operating decision makers, as defined under SFAS No. 131, are the Chief Executive Officer and the Chief Financial Officer. Prior to the Merger, the Company had viewed its operations and managed its business as principally one operating segment. Subsequent to the Merger, the Company has viewed its operations and manages its business as principally two operating segments -- multi-modal learning and retail certification.

Revenue for the three and nine months ended October 31, 2003 for the multi-modal learning and retail certification segments was approximately $46.0 million and $3.9 million and $129.2 million and $9.5 million, respectively. The net income and (loss) for the three and nine months ended October 31, 2003 for the multi-modal learning and retail certification segments was approximately ($22.0) million and $100,000 and ($85.4) million and ($2.3) million, respectively.

The Company attributes revenues to different geographical areas on the basis of the location of the customer. Revenues by geographical area for the three and nine month periods ended October 31,2003 were as follows (in thousands):

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDED OCTOBER 31,	
	2003	2002	2003	2002
Revenue:				
United States	$ 40,591	$ 23,623	$ 112,587	$ 48,188
United Kingdom	2,066	2,634	7,261	5,564
Canada	1,955	1,047	4,574	1,598
Europe, excluding UK	3,662	1,209	10,694	1,209
Australia/New Zealand	1,454	754	3,021	1,928
Other	264	69	577	69
Total revenue	$ 49,992	$ 29,336	$ 138,714	$ 58,556

Long-lived tangible assets at international facilities are not significant. There have been no material changes in total assets of either the multi-modal learning or retail certification segments from the amount reported at January 31, 2003.

14. OTHER MATTERS

In the six months ended July 31, 2003, the Company reached an agreement with IP Learn relating to an alleged infringement of certain patent related matters. Under the terms of the agreement, the Company made a cash payment and is required to issue ordinary shares (which will be represented by restricted ADSs) to IP Learn. The Company has recorded an expense of $2,250,000, which is net of expected insurance proceeds, in general and administrative expenses as of April 30, 2003. The cash payment due by the Company under this agreement was paid in the quarter ended July 31, 2003 and the shares to be issued under the agreement were issued in the quarter ended October 31, 2003

On July 31, 2003, the Company entered into a settlement agreement, which will result in a final dismissal and termination of the NETg litigation discussed in Part II - Item 1. Under the terms of the settlement agreement, the Company has agreed to pay a total of $44,000,000 in two equal installments of $22,000,000. The Company made the first payment of $22,000,000 on July 25, 2003. The second payment of $22,000,000 is due July 21, 2004 and is included in accrued expenses at October 31, 2003. The Company has expensed this settlement in the three months ended July 31, 2003.

On December 1, 2003, the Company agreed to settle the securities class action lawsuit filed against it, one of its subsidiaries and certain of its former and current officers and directors in 1998. The lawsuit, which was filed in the United States District Court for the Northern District of California, asserted violations of the federal securities laws. Under the terms of the settlement, we will make a $10 million cash payment within 30 days of December 1, 2003 and an additional $6 million payment in mid-2004. Our insurance carriers will pay an additional $16 million for total settlement payments of $32 million. The settlement is subject to court approval and there is no assurance that the court will approve the settlement. These amounts have been accrued for and expensed in the three months ended October 31, 2003.

15. ACCRUED EXPENSES

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

	OCTOBER 31, 2003	JANUARY 31, 2003
Accrued compensation and benefits	$ 13,414	$ 16,655
Professional fees	7,833	10,121
Accrued merger related costs	3,972	12,304
Accrued accounts payable	2,083	8,300
Accrued litigation settlements	38,000	--
Other	15,550	12,441
Total Accrued Expenses	$ 80,852	$ 59,821

16. LINE OF CREDIT

On June 24, 2003, the Company executed a $25 million one-year, secured line of credit from a bank. Under the terms of the line of credit, the facility is to be initially secured by $25 million in cash held in a certificate of deposit, plus a first security interest in all domestic business assets. The cash held in the certificate of deposit is to be released on a quarterly basis beginning the quarter following the achievement of two consecutive minimum levels of operating income. All borrowings under the line of credit bear interest at the lesser of the bank's prime rate or the 30 or 60-day LIBOR rate plus 2.75%. In addition, the line of credit contains certain financial and non-financial covenants. At October 31, 2003 the Company is in compliance with all financial and non - financial covenants. As of October 31, 2003 there were no borrowings on the line of credit.

17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). Under SFAS No. 145, gains and losses on extinguishments of debt are to be classified as income or loss from continuing operations rather than extraordinary items. The Company was required to

adopt SFAS No. 145 in the first quarter of the fiscal year ended January 31, 2004 and the adoption of this statement did not have a material impact on its financial condition or results of operations.

In July 2002, the FASB issued Statement of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to exit or disposal plan. Costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, branch closing, or other exit disposal activity. This statement is effective for exit or disposal activities initiated after December 31, 2002. SFAS No. 146 may affect the timing of the Company's recognition of future exit or disposal costs, if any.

In November 2002, the FASB issued Interpretation No. 45 (FIN No. 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to record certain guarantees at fair value and to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The interpretation and its disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees issued prior to December 31, 2002 should not be revised or restated due to the adoption of this interpretation. The adoption of FIN No. 45 did not have a material impact on the Company's financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities," which requires the consolidation of a variable interest entity, as defined, by its primary beneficiary. Primary beneficiaries are those companies that are subject to a majority of the risk of loss or entitled to receive a majority of the entity's residual returns, or both. In determining whether it is the primary beneficiary of a variable interest entity, an entity with a variable interest shall treat variable interests in that same entity held by its related parties as its own interests. The Company is currently evaluating the existence of variable interest entities, if any, and the impact of adopting the interpretation on the consolidated financial statements.

In January 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," (SFAS No. 148) an amendment of SFAS No. 123, which provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has elected to continue to account for stock-based compensation under APB No. 25, and related Interpretations under Interpretation No. 44 (FIN No. 44) "Accounting for Certain Transactions Involving stock Compensation, an Interpretation of APB No. 25" and elect the disclosure-only alternative under SFAS No. 123 and the enhanced disclosures as required by SFAS No. 148.

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

Any statement in this Quarterly Report on Form 10-Q about our future expectations, plans and prospects, including statements containing the words "believes," "anticipates," "plans," "expects," "will" and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including those set forth in this Item 2 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 financial statements and notes appearing elsewhere in this Quarterly Report on Form 10-Q.

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 IT e-Learning content with SkillSoft Corporation's extensive suite of business skills e-Learning courseware, as well as its information technology (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 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.

A primary reason for the increase in our revenue and operating expenses from the three and nine months ended October 31, 2002 to the three and nine months ended October 31, 2003 is the inclusion of the operating results of SkillSoft PLC. We operate as two reporting segments: multi-modal learning and retail certification. These reporting units are not discussed separately as the impact on the comparison of financial results from period to period is not significant.

We are a leading global provider of comprehensive, multi-modal e-Learning content and software products for business and IT professionals. Multi-modal learning (MML) solutions offer powerful tools to support and enhance the speed and effectiveness of both formal and informal learning processes. MML solutions integrate our in-depth courseware, learning management platform technology and support services to meet our customers' learning needs.

We derive revenue primarily 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). Our license agreements permit customers to exchange course titles, generally on the contract anniversary date. Additional product features, such as hosting and on-line mentoring services, are separately licensed for an additional fee.

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

A Referenceware license from our subsidiary Books24x7.com, Inc. (Books) gives users access to the full library within one or more collections (ITPro, BusinessPro, FinancePro and OfficeEssentials). Generally, 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, 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 our solutions on an application service provider (ASP) basis, on-line 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 generally bill the annual license fee for the first year of a multi-year agreement in advance. We recognize revenue with respect to courseware licenses either at the time of delivery of products or over the term of the contract, depending on products included in the license and specific contract terms. In the event that the customer specifies all licensed courses to be delivered at the outset and those courses are available and delivered on or before the contract start date, we recognize license revenue for the first year of the contract upon execution of the contract and delivery of the courses. We generally bill license fees for subsequent years of multi-year license arrangements on the anniversary date of the agreement, and if the customer exchanges courses and receives the exchanged courses by the renewal date, revenue is recognized in the manner described above.

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 our customers. To the extent that a customer is given extended payment terms, revenue is recognized as cash becomes due, assuming all of the other elements of revenue recognition have been satisfied.

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.

We also derive revenue from extranet hosting/ASP services and online mentoring services. We recognize revenue related to extranet hosting/ASP services and online mentoring services on a straight-line basis over the period in which the service agreements are provided to the extent we have VSOE for those services. If we do not have VSOE for these services, revenue from the entire arrangement, including any implementation fees, is recognized on a straight-line basis over the period in which the services are provided. For multi-element agreements where we provide these services, VSOE is the basis used to allocate the total fee to the elements of the arrangement.

We recognize revenue on Referenceware and MML licenses ratably over the term of the agreement, which matches the period the future products or services are delivered.

We generally commence the recognition of revenue from resellers when both the final sale to the end user has occurred and we have received payment from the reseller. With respect to reseller agreements with minimum commitments, we recognize revenue related to the portion of the minimum commitment that exceeds end user sales at the expiration of the commitment period.

We provide professional services, including instructor led training, customized content, websites and implementation services. We recognize professional service revenue as the services are performed. The cost of satisfying any post contract support (PCS), which essentially represents a warranty obligation, is accrued at the time license revenue is recognized, as PCS fees are included in the annual license fee. The estimated cost of providing PCS during the agreements is insignificant and we do not offer it separately. The accrued PCS costs are included in deferred revenue in the accompanying consolidated balance sheets.

We record deferred revenue when either cash is received or amounts have been billed in advance of products or services provided. Deferred revenue includes the unrecognized portion of revenue associated with license fees for which we have received payment or for which amounts have been billed and are currently due for payment in 180 days or less. In addition, deferred revenue includes amounts, which have been billed and not collected, for which revenue is being recognized ratably over the license period. In addition, in connection with the Merger, we acquired approximately $47 million of deferred revenue which was valued based upon the estimated cost to fulfill the remaining contractual and performance obligations plus a normal operating profit on fulfilling such obligations.

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, development costs after establishment of technological feasibility have been immaterial, and we have expensed all software development costs as incurred. 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) the aggregate difference between the exercise or sale price of share options granted or restricted shares 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.

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

Restructuring and other non-recurring charges primarily consist of compensation cost of severed SmartForce employees for services rendered from the date of the Merger through October 31, 2003 and prior to such employees' termination dates and certain other non-recurring compensation costs to terminated and continuing employees. Additionally, these charges include expenses associated with the restatement of SmartForce's financial statements for 1999, 2000, 2001 and the first two quarters of 2002. See Note 6 of the Notes to the Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are more fully described in Note 2 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K. 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 recognize revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 97-2 "Software Revenue Recognition," as amended by SOP No. 98-4 and SOP No. 98-9. Additionally, for agreements under which we are selling licenses and services, we recognize revenue under Emerging Issues Task Force (EITF) 00-3 "Application of AICPA Statement of Position 97-2 to Arrangements That Include the Right to Use Software Stored on Another's Hardware" and Staff Accounting Bulletin No. 101 "Revenue Recognition." These statements require that four basic criteria must be satisfied before revenue can be recognized:

- Persuasive evidence of an arrangement between us and a third party exists;

- Delivery of our product has occurred;

- The sales price for the product is fixed or determinable; and

- Collection of the sales price is probable.

Our management uses its judgment concerning the satisfaction of these criteria, particularly the criteria relating to the determination of when delivery has occurred and the criteria relating to the collectibility of the receivables relating to such sales. Should changes and conditions cause management to determine that these criteria are not met for certain future transactions, revenue recognized for any period could be adversely affected. However, this is mitigated by the fact that nearly all of our revenue is recognized ratably over the term of the respective license. Please see the discussion under the "Overview" section of this Item 2 concerning how we recognize revenue.

IMPAIRMENT OF GOODWILL

We review the carrying value of goodwill periodically based upon the expected future and discounted operating cash flows of our business. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future markets and operating conditions. Actual results may differ materially from these estimates. The timing and size of impairment charges involves the application of management's judgment and could significantly affect our operating results. As a result of the Merger, one of our largest assets is goodwill. In response to several factors in the fourth quarter of fiscal 2003, we re-evaluated the fair value of the goodwill established in connection with the Merger and the Books acquisition and recorded an impairment charge of approximately $250.1 million.

LEGAL CONTINGENCIES

We are currently involved in certain legal proceedings. In connection with these legal proceedings, which we discuss in Part II -- Item 1, our 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 our management, an adverse outcome is probable and such outcome can be reasonably estimated. We do not currently have a basis for concluding that these proceedings will have a material adverse effect on our financial position; however, it is possible that future results for any particular quarter or annual period may be materially adversely affected by changes in our assumptions or the effectiveness of our strategies relating to these proceedings.

RESULTS OF OPERATIONS

THREE MONTHS ENDED OCTOBER 31, 2003 VERSUS THREE MONTHS ENDED OCTOBER 31, 2002

Revenue increased $20.7 million, or 70%, to $50.0 million in the three months ended October 31, 2003 from $29.3 million in the three months ended October 31, 2002. This increase was due in part to the addition of revenue from SmartForce's historical customer base

as well as revenue generated from new business. As combined company revenue is included after the closing of the Merger on September 6, 2002, the three months ended October 31, 2002 does not include a full quarter of combined Company revenue.

Cost of revenue decreased $182,000, or 4%, to $4.6 million in the three months ended October 31, 2003 from $4.7 million in the three months ended October 31, 2002. Cost of revenue as a percentage of total revenue was 9% for the three months ended October 31, 2003 compared to 16% for the three months ended October 31, 2002. These decreases were primarily due to cost efficiencies achieved as a result of the Merger and a lower mix of revenue from royalty-bearing product lines.

Research and development expenses increased $7.5 million, or 97%, to $15.2 million in the three months ended October 31, 2003 from $7.7 million in the three months ended October 31, 2002. Research and development expenses as a percentage of total revenue increased to 30% in the three months ended October 31, 2003 from 26% in the three months ended October 31, 2002. These increases were primarily due to the addition of SmartForce's development organization and the ongoing efforts of modifying the SmartForce content to be compliant with SkillSoft standards and practices. We believe our outsourcing strategy for some of our courses provides us significant flexibility to control these costs and we expect that such costs will decrease as a percentage of revenue. In addition, we incurred $3.0 million in incremental research and development costs in the three months ended October 31, 2003, which are costs related to our initiative for content offerings and improvements and platform improvements. We anticipate these incremental costs will continue through the end of fiscal year 2004.

Selling and marketing expenses increased $4.5 million, or 28%, to $20.8 million in the three months ended October 31, 2003 from $16.3 million in the three months ended October 31, 2002. Selling and marketing expenses as a percentage of total revenue decreased to 42% in the three months ended October 31, 2003 from 56% in the three months ended October 31, 2002. Selling and marketing expenses increased due to the addition of SmartForce's sales and marketing organization and related costs. We believe that a significant investment in selling and marketing to expand our distribution channels worldwide is required to remain competitive, and we therefore expect selling and marketing expenses to increase in amount but decrease as a percentage of revenue.

General and administrative expenses decreased $632,000, or 8%, to $6.9 million in the three months ended October 31, 2003 from $7.6 million in the three months ended October 31, 2002. General and administrative expenses as a percentage of total revenue decreased to 14% in the three months ended October 31, 2003 from 26% in the three months ended October 31, 2002. General and administrative expenses decreased primarily as a result of efficiencies and synergies achieved following the Merger. We anticipate that general and administrative expenses savings achieved in recent periods as a result of the Merger in absolute dollars will increase due to the increased costs of operations being faced by public companies and Sarbanes-Oxley compliance. We are currently evaluating the Sarbanes-Oxley costs and their potential impact on future operations.

Litigation settlement expenses were $16.0 million in the three months ended October 31, 2003. This related to the settlement of the 1998 securities class action litigation. Please see "Legal Proceedings" in Part II - Item 1.

Amortization of intangible assets was $2.6 million in the three months ended October 31, 2003 and $1.8 million in the three months ended October 31, 2002. The primary reason for the increase was the additional amortization related to intangibles acquired in both the Merger and the acquisition of GoTrain Corp. (GoTrain), an e-Learning business, in June 2003.

Stock-based compensation expense increased to $676,000 in the three months ended October 31, 2003 from $438,000 in the three months ended October 31, 2002. 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 sale 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 deferred compensation charge of $273,000 in the three months ended October 31, 2003. This charge was 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.

Restructuring and other non-recurring charges were $5.3 million in the three months ended October 31, 2003 and $6.6 million in the three months ended October 31, 2002. See Note 7 to the consolidated financial statements for a description of these charges.

Interest income, net decreased to $87,000 in the three months ended October 31, 2003 from $504,000 in the three months ended October 31, 2002. This decrease was primarily due to less funds available for investment and lower interest rates on our cash and cash equivalents and investments.

NINE MONTHS ENDED OCTOBER 31, 2003 VERSUS NINE MONTHS ENDED OCTOBER 31, 2002

Revenue increased $80.2 million, or 137%, to $138.7 million in the nine months ended October 31, 2003 from $58.6 million in the nine months ended October 31, 2002. This increase was due in part to the addition of revenue from SmartForce's historical customer base as well as revenue generated from new business.

Cost of revenue increased $7.7 million, or 117%, to $14.2 million in the nine months ended October 31, 2003 from $6.6 million in the nine months ended October 31, 2002. This increase was primarily due to increased costs of supporting the SmartForce hosting business, royalty fees associated with SmartForce's IT product line and, to a lesser extent, our Referenceware product line. Cost of revenue as a percentage of total revenue was 10% for the nine months ended October 31, 2003 compared to 11% for the nine months ended October 31, 2002. This decrease was primarily due to cost efficiencies achieved as a result of the Merger and a lower mix of revenue from royalty-bearing product lines.

Research and development expenses increased $25.7 million, or 173%, to $40.6 million in the nine months ended October 31, 2003 from $14.9 million in the nine months ended October 31, 2002. Research and development expenses as a percentage of total revenue increased to 29% in the nine months ended October 31, 2003 from 25% in the nine months ended October 31, 2002. These increases were primarily due to the addition of SmartForce's development organization and the ongoing efforts of modifying the SmartForce content to be compliant with SkillSoft standards and practices. In addition, we incurred $3.0 million in incremental research and development costs, which are costs related to our initiative for content offerings and improvements and platform improvements.

Selling and marketing expenses increased $35.8 million, or 113%, to $67.4 million in the nine months ended October 31, 2003 from $31.6 million in the nine months ended October 31, 2002. Selling and marketing expenses as a percentage of total revenue decreased 49% in the nine months ended October 31, 2003 from 54% in the nine months ended October 31, 2002. Selling and marketing expenses increased in absolute dollars due to the addition of SmartForce's sales and marketing organization and related costs.

General and administrative expenses increased $8.9 million, or 79%, to $20.0 million in the nine months ended October 31, 2003 from $11.2 million in the nine months ended October 31, 2002. General and administrative expenses as a percentage of total revenue decreased to 15% in the nine months ended October 31, 2003 from 19% in the nine months ended October 31, 2002. General and administrative expenses increased in absolute dollars primarily as a result of the Merger. We anticipate that general and administrative costs will increase due to costs in connection with complying with Sarbanes-Oxley legal requirements. Currently we are evaluating these costs and their potential impact on future operations.

Litigation settlement expense was $62.3 million in the nine months ended October 31, 2003. Litigation settlement expenses were comprised of $44.0 million related to the settlement with NETg, $2.3 million related to the settlement with IP Learn, and $16.0 million related to the settlement of the 1998 securities class action suit. Please see "Legal Proceedings" in Part II - Item 1.

Amortization of intangible assets was $7.5 million in the nine months ended October 31, 2003 and $2.0 million during the nine months ended October 31, 2002. The primary reason for the increase was the additional amortization related to intangibles acquired in both the Merger and the acquisition of GoTrain.

Stock-based compensation expense increased to $1.6 million in the nine months ended October 31, 2003 from $1.1 in the nine months ended October 31, 2002. The expense primarily relates to the amortization of deferred compensation resulting from the granting of stock options to employees at exercise prices below the fair market value of the stock and the sale of restricted common stock with sales prices below the fair market value of the stock. The stock options granted and the 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 deferred compensation charge of $273,000 in the three months ended October 31, 2003. This charge was 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.

Restructuring and other non-recurring charges were $16.8 million in the nine months ended October 31, 2003 and $6.6 million in the nine months ended October 31, 2002. The charges in the nine months ended October 31, 2003 include an additional $1.8 million related to further restructuring of the pre-Merger SmartForce PLC operations and $15.0 million related to the restatement of the historical SmartForce PLC financial statements.

Interest income, net, decreased to $680,000 in the nine months ended October 31, 2003 from $1.5 million in the nine months ended October 31, 2002. This decrease was primarily due to less funds available for investment and lower interest rates on our cash and cash equivalents and investments.

Gain on sale of investments, net, was $3.7 million for the nine months ended October 31, 2003. This was primarily related to a gain of $3.6 million from the sale of an equity investment.

LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2003, our principal source of liquidity was our cash and cash equivalents and short-term investments, which totaled $59.3 million. This compares to $125.0 million at January 31, 2003. In addition we have $25.0 million in restricted cash securing our line of credit, against which no borrowings are outstanding.

Net cash used in operating activities was $41.7 million and $18.5 million for the nine months ended October 31, 2003 and 2002, respectively. Our net cash used for the nine months ended October 31, 2003 reflects primarily our net loss of $87.7 million, partially offset by a decrease of $21.0 million in accounts receivable as a result of increased collections, and an increase of $20.8

million in accrued expenses as a result of litigation settlements.

Net cash provided by investing activities was $23.9 million and $41.5 million for the nine months ended October 31, 2003 and 2002, respectively. Maturity and sales of investments, net of purchases (short and long-term), generated a net cash inflow of approximately $56.1 million in the nine months ended October 31, 2003. This was offset by the designation of $25.0 million as restricted cash to secure a line of credit and $5.0 million used to purchase GoTrain.

Net cash provided by financing activities was $4.7 million and $1.1 million for the nine months ended October 31, 2003 and 2002, respectively. For the nine months ended October 31, 2003, these proceeds related to the exercise of stock options and purchases under our 1995 Employee Stock Purchase Plan, as well as payments on notes receivable related to restricted stock.

Working capital was approximately ($44.7) million and $31.8 million as of October 31, 2003 and January 31, 2003, respectively. The decrease in working capital in the nine months ended October 31, 2003 was primarily due to the $22.0 million cash payment to NETg and the accrual of the final $22.0 million payment to NETg, which is scheduled to occur in the second quarter of fiscal year 2005. In addition, working capital decreased due to the accrual of our contribution of $16.0 million related to the settlement of the 1998 securities class action lawsuit, for which $10.0 million is scheduled to be disbursed in the three months ended January 31, 2004 and $6.0 million in mid 2004. Total assets were approximately $315.3 million and $378.1 million as of October 31, 2003 and January 31, 2003, respectively. As of October 31, 2003, goodwill and separately identifiable intangible assets were $127.2 million and $28.3 million, respectively.

On June 24, 2003, we executed a $25 million one-year, secured line of credit from a bank. Under the terms of the line of credit, the facility is to be initially secured by $25 million in cash held in a certificate of deposit in the amount of the line, plus a first security interest in all domestic business assets. The cash held in the certificate of deposit is to be released on a quarterly basis beginning the quarter following the achievement of two consecutive minimum levels of operating income. All borrowings under the line of credit bear interest at the lesser of the bank's prime rate or the 30 or 60-day LIBOR rate plus 2.75%. As of October 31, 2003 there were no amounts outstanding under the line of credit.

As of January 31, 2003, we had worldwide net operating loss carryforwards, which are subject to potential limitations based upon change in control provisions of Section 382 of the Internal Revenue Code, of approximately $359 million for income tax purposes available to reduce future taxable income, if any.

We lease certain of our facilities and certain equipment and furniture under operating lease agreements that expire at various dates through 2023. Future minimum lease payments, net of estimated rentals, under these agreements are as follow (in thousands):

FISCAL YEAR ENDING JANUARY 31:	FACILITIES	OTHER	TOTAL
2004	$ 6,051	$ 1,695	$ 7,746
2005	5,291	814	6,105
2006	4,098	77	4,175
2007	3,344	12	3,356
2008	3,199	2	3,201

Thereafter	11,366	--	11,366
TOTAL	$ 33,349	$ 2,600	$ 35,949

We have entered into long-term agreements with third parties to provide content and subject matter expertise. In connection with these agreements, our minimum obligations are approximately $5.8 million and $2.3 million for the fiscal years ending January 31, 2004 and 2005, respectively.

We expect to continue to experience significant growth in capital expenditures and operating expenses, particularly sales and marketing and product development expenses, for the foreseeable future in order to execute our business plan. To the extent that the execution of our business plan results in increased sales, we expect to experience corresponding increases in deferred revenue and prepaid expenses. Approximately $1.3 million of the $30.3 million exit plan accrual established to restructure the operations of pre-Merger SmartForce PLC is expected to be paid by January 2004, and the remaining value of approximately $11.5 million is expected to be disbursed through October 2011. We reached a litigation settlement agreement in July 2003, which requires a future cash payment of approximately $22.0 million. We also reached a litigation settlement agreement in December 2003, which requires future cash payments of approximately $16.0 million. We expect that the principal sources of funding for our operating expenses, capital expenditures and other liquidity needs will be a combination of our available cash equivalents and marketable securities (which totaled $59.3 million as of October 31, 2003) and funds generated from operations. We believe our current funds and expected cash flows from operating activities will be sufficient to fund our operations for at least the next 12 months. However, there are a number of factors that may negatively impact our available sources of funds including unfavorable outcomes or settlements of pending litigation. The amount of cash generated from operations will be dependent upon the successful execution of our business plan and worldwide economic conditions. In addition, our cash needs may increase due to factors such as unanticipated developments in our business or significant acquisitions.

FUTURE OPERATING RESULTS

RISKS RELATED TO LEGAL PROCEEDINGS

IN CONNECTION WITH OUR RESTATEMENT OF THE HISTORICAL FINANCIAL STATEMENTS OF SMARTFORCE, CLASS ACTION LAWSUITS HAVE BEEN FILED AGAINST US AND ADDITIONAL LAWSUITS MAY BE FILED, AND WE ARE THE SUBJECT OF A FORMAL ORDER OF PRIVATE INVESTIGATION ENTERED BY THE SEC.

While preparing the closing balance sheet of SmartForce as at September 6, 2002, the date on which we closed our merger with SkillSoft Corporation, certain accounting matters were identified relating to the historical financial statements of SmartForce (which, following the Merger, are no longer our historical financial statements -- see Note 1 of the Notes to the Consolidated Financial Statements). On November 19, 2002, we announced our intent to restate the SmartForce financial statements for 1999, 2000, 2001 and the first two quarters of 2002. Following this announcement, several lawsuits claiming to be class actions were commenced against us and certain of our current and former directors and officers, by or on behalf of persons claiming to be our shareholders and persons claiming to have purchased or otherwise acquired our securities at specified periods beginning as early as October 19, 1999 and continuing after September 6, 2002. These lawsuits have been consolidated. On October 31, 2003, plaintiffs filed two amended complaints in the consolidated lawsuit, one on behalf of a purported class of purchasers of our ADSs between April 27, 1999 through November 18, 2002, and another on behalf of a purported class of SkillSoft Corporation shareholders who acquired our ADSs in connection with the merger. Additional lawsuits may be filed against us. Regardless of the outcome of the consolidated action, it is likely that we will incur substantial defense costs and that such action will cause a diversion of our management's time and attention. If we do not prevail in the case we could be required to pay substantial damages or settlement costs, which could have a material adverse effect on our financial condition or results of operation. We are unable at this time to assess the validity of the claims or estimate the possible range of damages that might be incurred as a result of the consolidated lawsuit. We have not yet established any financial reserves relating to this lawsuit. We believe that we have meritorious defenses to this action and intend to defend ourselves vigorously.

We are the subject of a formal order of private investigation entered by the SEC. We are cooperating with the SEC in connection with this investigation. We will likely incur substantial costs in connection with the SEC investigation, which could cause a diversion of management time and attention. In addition, we could be subject to substantial penalties, fines or regulatory sanctions, which could adversely affect our business.

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

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

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

WE ARE SUBJECT TO OTHER PENDING LEGAL PROCEEDINGS AND WE MAY BECOME SUBJECT TO ADDITIONAL LEGAL PROCEEDINGS. ADVERSE DETERMINATIONS IN THESE PROCEEDINGS COULD MATERIALLY HARM OUR BUSINESS.

Since the end of the third quarter of 1998, a class action lawsuit has been pending in the United States District Court for the Northern District of California against us, one of our subsidiaries, SmartForce USA, which has merged with and into our subsidiary, SkillSoft Corporation and certain of our former and current officers and directors, alleging violation of the federal securities laws. It has been alleged in this lawsuit that we misrepresented or omitted to state material facts regarding our business and financial condition and prospects in order to artificially inflate and maintain the price of our ADSs, and misrepresented or omitted to state material facts in our registration statement and prospectus issued in connection with our merger with Forefront.

In December 2003, we reached a settlement of this litigation. Under the terms of the settlement, we will make a $10 million cash payment within 30 days and an additional $6 million payment in mid-2004. Our insurance carriers will pay an additional $16 million for total settlement payments of $32 million. The settlement is subject to court approval and there is no assurance that the court will approve the settlement.

We may be from time to time involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. An adverse resolution of these matters could significantly negatively impact our financial position and results of operations.

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

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

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

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

RISKS RELATED TO THE MERGER BETWEEN SKILLSOFT CORPORATION AND SMARTFORCE

WE MAY NOT BE SUCCESSFUL IN COMPLETING FINAL ASPECTS OF THE INTEGRATION RELATED TO THE BUSINESSES OPERATED BY SKILLSOFT CORPORATION AND SMARTFORCE PRIOR TO THE MERGER AND, AS A RESULT, MAY NOT REALIZE BENEFITS FROM THE MERGER.

We have substantially completed many of the key aspects of the integration of the businesses operated by SkillSoft Corporation and SmartForce prior to the Merger, which was consummated on September 6, 2002. However, the ultimate successful integration of the two businesses will require, among other things, the following:

- completion of the integration of the two companies' products and services, information and software systems and other operations;

- coordination of ongoing and future research and development efforts and marketing activities;

- retention of existing customers of both companies and attraction of additional customers;

- retention of strategic partners of each company and attraction of new strategic partners;

- developing and maintaining uniform standards, controls, procedures and policies;

- identifying and eliminating redundant and underperforming operations and assets;

- effectively leveraging our indirect sales presence;

- capitalizing on cross-selling opportunities;

- the successful migration of the companies' platforms;

- minimization of disruption of each company's ongoing business and distraction of its management;

- limiting expenses related to integration; and

- improving its internal control environment due to challenges in the integration.

We may not succeed in addressing these risks or any other problems encountered in connection with the Merger. The diversion of the attention of management and any difficulties encountered in the process of combining the companies could cause the disruption of, or a loss of momentum in, the activities of our business or could cause the impairment of relationships with customers and business partners. Further, the process of combining the two companies' businesses could negatively affect employee morale and our ability to retain some key employees, and could cause customers to cancel existing license agreements or choose not to purchase new products from us. In addition, we intend to develop new products and services that combine both companies' assets. Difficulties in combining the technology, products and service offerings of the two companies could result in disruption of customer service and longer sales cycles and product implementations, which could cause existing customers to reduce or cease doing business with us altogether, and could cause revenue and operating income to fluctuate and fail to meet expectations.

CERTAIN ASPECTS OF THE MERGER COULD HARM OUR FINANCIAL RESULTS.

In connection with the Merger, certain aspects of the integration of the two companies moving forward could harm our financial results. For example, we have made certain changes in contracting practices, which will have attendant accounting implications. For example, prior to the Merger, SmartForce recorded license revenues with respect to contracts that provide for perpetual licenses to software at the time that it sold the perpetual licenses. Since the Merger, we have been delivering perpetual licenses as part of a bundled offering including services. As a result, the revenue from both the perpetual licenses and services will be recognized as revenues as the services are delivered over time. This means that rather than recognizing substantial license revenue at the time of the execution of these contracts, we will now recognize license revenue ratably over the term of these contracts. In addition, due to purchase accounting in connection with the Merger, a portion of the SmartForce deferred revenue as of September 6, 2002 was reclassified to goodwill and will therefore not be recognized as revenue.

As a result of the integration, we may not obtain some revenue we otherwise might have obtained. For example, although the products and customer bases of the two companies are complementary and should provide us with numerous cross selling opportunities, we do expect some degree of commercial overlap that could negatively impact revenue. Also, we intend to de-emphasize customer service revenue activities to focus on higher margin segments of the business, which we expect will result in lost revenue. In addition, volume discounting of mutual customers now combined as a result of the Merger may result in lower revenues.

If the benefits of the Merger do not exceed the associated costs, including costs associated with integrating the two companies, lost or deferred revenues and dilution of our shareholders resulting from the issuance of our ADSs in connection with the Merger, our financial results, including earnings per share, could be materially harmed.

IF WE ARE UNABLE TO TAKE ADVANTAGE OF OPPORTUNITIES TO MARKET AND SELL THE PRODUCTS AND SERVICES OF THE TWO COMPANIES TO EACH OTHER'S TRADITIONAL CUSTOMERS, DISTRIBUTION CHANNELS AND BUSINESS PARTNERS, WE MAY NOT REALIZE SOME OF THE EXPECTED BENEFITS OF THE MERGER.

Prior to the Merger, we and SkillSoft Corporation each maintained separate and distinct customer bases, distribution channels and business partners specific to our respective businesses. Following the Merger, we are attempting to take advantage of the customer bases and distribution channels of the formerly separate businesses in order to promote and sell the products and services of one company to the traditional customers and business partners of the other company. The products and services of the two companies are highly technical and the salespersons of one company may not be successful in marketing the products and services of the other company. In the event that the traditional customers and business partners of either company are not receptive to the products and services of the other, we may not realize some of the expected benefits of the merger, and our business may be harmed.

WE HAVE IDENTIFIED SIGNIFICANT DEFICIENCIES IN OUR DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS.

During the process of integrating the business processes, human resources, disclosure controls and procedures and internal controls of SmartForce PLC and SkillSoft Corporation following the Merger, significant deficiencies in disclosure controls and procedures and internal controls were identified predominantly with respect to financial reporting at non-U.S. subsidiaries of the former SmartForce PLC and our ability to process the consolidated financial closing cycle. Our independent auditors have informed us that they believe we have material weaknesses and reportable conditions in internal controls in certain of these areas. These deficiencies have resulted in a significant strain to the internal resources and on the infrastructure of the finance organization and adversely impacted both the year-end and quarter-end financial closing process. While permanent resources and account process improvements have been and will continue to be added and implemented to improve the non-U.S. finance operations, the financial closing process and the overall internal control environment, additional changes to the disclosure controls and procedures and internal controls will be on-going.

WE ARE OPERATING UNDER A NEW NAME, WHICH MAY ADVERSELY AFFECT OUR BUSINESS.

Following the consummation of the Merger, we changed our name from SmartForce PLC to SkillSoft PLC. The adoption of this new name may prevent us from taking advantage of certain goodwill existing customers and strategic partners associate with our former name. Further, we expect to incur an expense in effecting the name change and in marketing efforts to promote brand recognition of the new name.

RISKS RELATED TO THE OPERATION OF OUR BUSINESS

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

SmartForce incurred substantial net losses both recently and in the past, including net losses of $43.8 million in the three months ended June 30, 2002 and $6.3 million in the three months ended March 31, 2002. SkillSoft Corporation incurred substantial net losses in every fiscal quarter prior to its fiscal quarter ended January 31, 2002. In addition, the combined company recorded a net loss of $284 million for the fiscal year ended January 31, 2003 and $87.7 million for the nine months ended October 31, 2003. We expect to incur significant expenses in connection with the completion of the migration to a unified platform and the continued expansion of this combined business, and, as a result, the business will need to generate significant revenues to achieve and maintain profitability. We cannot guarantee whether our combined business will achieve or sustain profitability in any future period.

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

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

Our operating results have historically fluctuated, and our operating results may in the future continue to fluctuate, as a result of factors, which include:

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

- royalty rates;

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

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

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

- the loss of significant customers;

- delays in availability of new products;

- product or service quality problems;

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

- the spending patterns of our customers;

- litigation costs and expenses, including the costs related to the restatement of the SmartForce financial statements;

- non-recurring charges related to acquisitions;

- growing competition that may result in price reductions; and

- currency fluctuations.

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

DEMAND FOR OUR PRODUCTS AND SERVICES MAY BE ESPECIALLY SUSCEPTIBLE TO ADVERSE ECONOMIC CONDITIONS.

Our business and financial performance may be damaged by adverse financial conditions affecting our target customers or by a general weakening of the economy. Companies may not view training products and services as critical to the success of their businesses. If these companies experience disappointing operating results, whether as a result of adverse economic conditions, competitive issues or other factors, they may decrease or forego education and training expenditures before limiting their other expenditures or in conjunction with lowering other expenses.

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

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

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

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

WE RELY ON STRATEGIC ALLIANCES FOR MARKETING, WHICH ALLIANCES ARE NOT EXCLUSIVE, MAY BE TERMINATED OR MAY FAIL TO MEET OUR REQUIREMENTS IN THE FUTURE.

We have developed strategic alliances to market many of our products. However, these relationships are not exclusive, and our marketing partners could market other products in preference to, and in competition with, those developed by us. In addition, we may be unable to continue to market future products through these alliances or may be unable to negotiate additional alliances in the future on acceptable terms, if at all. The marketing efforts of our strategic partners may also disrupt our direct sales efforts.

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

The market for education and training software is characterized by rapidly changing technology, evolving industry standards, changes in customer requirements and preferences and frequent introductions of new products and services embodying new technologies. New methods of providing interactive education in a technology-based format are being developed and offered in the marketplace, including intranet and Internet offerings. In addition, multimedia and other product functionality features are being added to educational software. Our future success will depend upon the extent to which we are able to develop and implement products which address these emerging market requirements on a cost effective and timely basis. Product development is risky because it is difficult to foresee developments in technology, coordinate technical personnel and identify and eliminate design flaws. Any significant delay in releasing new products could have a material adverse effect on the ultimate success of our products and could reduce sales of predecessor products. We may not be successful in introducing new products on a timely basis. In addition, new products introduced by us may fail to achieve a significant degree of market acceptance or, once accepted, may fail to sustain viability in the market for any significant period. If we are unsuccessful in addressing the changing needs of the marketplace due to resource, technological or other constraints, or in anticipating and responding adequately to changes in customers' software technology and preferences, our business and results of operations would be materially adversely affected.

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

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

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

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

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

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

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

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

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

OUR RESTRUCTURING PLANS MAY BE INEFFECTIVE OR MAY LIMIT OUR ABILITY TO COMPETE.

Since the Merger, we have recorded an aggregate of $30.3 million in merger and exit costs and an aggregate of $30.8 million of restructuring and other non-recurring charges. There are several risks inherent in these efforts to transition to a new cost structure.

These include the risk that we will not be successful in restoring profitability, and hence we may have to undertake further restructuring initiatives that would entail additional charges and create additional risks. In addition, there is the risk that cost-cutting initiatives will impair our ability to effectively develop and market products and remain competitive. Each of the above measures could have long-term effects on our business by reducing our pool of talent, decreasing or slowing improvements in our products, making it more difficult for us to respond to customers, limiting our ability to increase production quickly if and when the demand for our products increases and limiting our ability to hire and retain key personnel. These circumstances could cause our earnings to be lower than they otherwise might be.

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

Our success is largely dependent on the personal efforts and abilities of our senior management. Failure to retain these executives, or the loss of certain additional senior management personnel or other key employees, could have a material adverse effect on our business and future prospects. We are also dependent on the continued service of our key sales, content development and operational personnel and on our ability to attract, train, motivate and retain highly qualified employees. In addition, we depend on writers, programmers, Web designers and graphic artists. We may be unsuccessful in attracting, training, retaining or motivating key personnel. In particular, the negative consequences (including litigation) of having to restate SmartForce's historical financial statements, uncertainties surrounding the Merger, and our recent adverse operating results and stock price performance could create uncertainties that materially and adversely affect our ability to attract and retain key personnel. The inability to hire, train and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon our business, new product development efforts and future business prospects.

CHANGES IN ACCOUNTING STANDARDS REGARDING STOCK OPTION PLANS COULD LIMIT THE DESIRABILITY OF GRANTING STOCK OPTIONS, WHICH COULD HARM OUR ABILITY TO ATTRACT AND RETAIN EMPLOYEES, AND COULD ALSO REDUCE OUR PROFITABILITY.

The Financial Accounting Standards Board is considering whether to require all companies to treat the value of stock options granted to employees as an expense. The United States Congress and other governmental and regulatory authorities have also considered requiring companies to expense stock options. If this change were to become mandatory, we and other companies would be required to record a compensation expense equal to the value of each stock option granted. This expense would be spread over the vesting period of the stock option. Currently, we are generally not required to record compensation expenses in connection with stock option grants. If we were required to expense stock option grants, it would reduce the attractiveness of granting stock options because the additional expense associated with these grants would reduce our profitability. However, stock options are an important employee recruitment and retention tool, and we may not be able to attract and retain key personnel if we reduce the scope of our employee stock option program. Accordingly, in the event we are required to expense stock option grants, either our profitability, or our ability to use stock options as an employee recruitment and retention tool would be adversely impacted.

INCREASED COMPETITION MAY RESULT IN DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES, WHICH MAY RESULT IN REDUCED REVENUES AND GROSS MARGINS AND LOSS OR MARKET SHARE.

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

Our primary sources of direct competition are:

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

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

- internal education and training departments of potential customers; and

- value-added resellers and network integrators.

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

OUR BUSINESS IS SUBJECT TO CURRENCY FLUCTUATIONS THAT COULD ADVERSELY AFFECT OUR OPERATING RESULTS.

Due to our multinational operations, our operating results are subject to fluctuations based upon changes in the exchange rates between the currencies in which revenues are collected or expenses are paid. In particular, the value of the U.S. dollar against the euro and related currencies will impact our operating results. Our expenses will not necessarily be incurred in the currency in which revenue is generated, and, as a result, we will be required from time to time to convert currencies to meet our obligations. These currency conversions are subject to exchange rate fluctuations, and changes to the value of the euro, pound sterling and other currencies relative to the U.S. dollar could adversely affect our business and results of operations.

OUR CORPORATE TAX RATE MAY INCREASE, WHICH COULD ADVERSELY AFFECT OUR CASH FLOW, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our corporate tax rate may increase, which could adversely affect our cash flow, financial condition and results of operations. Some of our Irish operating subsidiaries are taxed at rates substantially lower than tax rates in effect in the United States and other countries in which we have operations. As we have substantial assets and properties located in, and our business operations are principally conducted in, the United States, we are in the process of exploring the reorganization of our operations and repatriating certain assets to Ireland in order to maintain an effective tax rate at the level currently applicable to us. If we are unable to effect such a reorganization, or if at any time our Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or later changed, our operating results could be materially adversely affected. Moreover, because we will incur income tax in several countries, an increase in our profitability in one or more of these countries could result in a higher overall tax rate. In addition, if U.S. or other foreign tax authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries' profits are currently recognized, our taxes could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected. In addition, there may be limitations imposed on the level and timing of the utilization of historic net operating losses for tax purposes as a result of the Merger. These limitations may adversely impact cash flow depending on the extent of any such limitation.

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

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

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

OUR NON-U.S. OPERATIONS ARE SUBJECT TO RISKS WHICH COULD NEGATIVELY IMPACT OUR FUTURE OPERATING RESULTS.

We expect that international operations will continue to account for a significant portion of our revenues. Operations outside of the United States are subject to inherent risks, including:

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

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

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

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

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

The period between our initial contact with a potential customer and the purchase of our products (not including SmartCertify) by that customer typically ranges from three to twelve months. Factors that contribute to our long sales cycle, include:

- our need to educate potential customers about the benefits of our products;

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

These long sales cycles, which typically range from three to twelve months or more, make it difficult to predict the quarter in which sales may occur. Delays in sales could cause significant variability in our revenues and operating results for any particular period.

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

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

THE CONVICTION OF ARTHUR ANDERSEN LLP ON OBSTRUCTION OF JUSTICE CHARGES MAY ADVERSELY AFFECT ARTHUR ANDERSEN LLP'S ABILITY TO SATISFY ANY CLAIMS ARISING FROM THE PROVISION OF AUDITING SERVICES TO SKILLSOFT CORPORATION AND MAY IMPEDE OUR ACCESS TO CAPITAL MARKETS AFTER THE MERGER.

Arthur Andersen LLP audited SkillSoft Corporation's financial statements for the fiscal years ended January 31, 2002, January 31, 2001 and January 31, 2000. On March 14, 2002, an indictment was unsealed charging it with federal obstruction of justice arising from the government's investigation of Enron Corp. On June 15, 2002, Arthur Andersen LLP was convicted of these charges. It is possible that the effect of this conviction on Arthur Andersen LLP's financial condition may adversely affect the ability of Arthur Andersen LLP to satisfy any claims arising from its provision of auditing services to SkillSoft Corporation.

Should we seek to access the public capital markets, SEC rules will require us to include or incorporate by reference in any prospectus three years of audited financial statements. The SEC's current rules would require us to present audited financial statements for one or more fiscal years audited by Arthur Andersen LLP and use reasonable efforts to obtain its consent until the audited financial statements for the fiscal year ending January 31, 2005 become available. If prior to that time the SEC ceases accepting financial statements audited by Arthur Andersen LLP, it is possible that the available audited financial statements for the fiscal years ended January 31, 2002, January 31, 2001 and January 31, 2000 audited by Arthur Andersen LLP might not satisfy the SEC's requirements. In that case, we would be unable to access the public capital markets unless Ernst & Young LLP, our current independent accounting firm, or another independent accounting firm, is able to audit the financial statements originally audited by Arthur Andersen LLP. Any delay or inability to access the public capital markets caused by these circumstances could have a material adverse effect on our business, profitability and growth prospects.

ITEM 3. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of October 31, 2003, we did not use derivative financial instruments for speculative or trading purposes.

INTEREST RATE RISK

Our general investing policy is to limit the risk of principal loss and to ensure the safety of invested funds by limiting market and credit risk. We currently use a registered investment manager to place our investments in highly liquid money market accounts and government-backed securities. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Interest income is sensitive to changes in the general level of U.S. interest rates. Based on the short-term nature of our investments, we have concluded that there is no significant market risk exposure.

FOREIGN CURRENCY RISK

Due to our multinational operations, our business is subject to fluctuations based upon changes in the exchange rates between the currencies in which we collect revenues or pay expenses and the U.S. dollar. Our expenses are not necessarily incurred in the currency in which revenue is generated, and, as a result, we are required from time to time to convert currencies to meet our obligations. These currency conversions are subject to exchange rate fluctuations, in particular changes to the value of the euro, Canadian dollar and pound sterling relative to the U.S. dollar, which could adversely affect our business and the results of operations.

ITEM 4. - CONTROLS AND PROCEDURES

Following the merger of SmartForce PLC and SkillSoft Corporation on September 6, 2002, we integrated the business processes, human resources, disclosure controls and procedures, and internal controls of the two companies. During this process, significant deficiencies in disclosure controls and procedures and internal controls were identified predominantly with respect to financial reporting at non-U.S. subsidiaries of the former SmartForce PLC and our ability to process the consolidated financial closing cycle. These deficiencies resulted in a significant strain to the internal resources and on the infrastructure of the finance organization and adversely impacted both the year-end and quarter-end financial closing process. External resources were engaged to assist

management in both the year-end and quarter-end financial closing process and in identifying areas for improvement. In addition, permanent resources and accounting process improvements have been and will continue to be added and implemented to improve the non-U.S. finance operations, the financial closing process, and the overall internal control environment.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, and with the assistance of outside consultants, we evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2003. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures needed significant improvements with respect to certain aspects of our financial reporting at predominantly the non-U.S. subsidiaries of the former SmartForce PLC and in our ability to process the consolidated financial closing cycle. Our independent auditors have informed us that they believe we have material weaknesses and reportable conditions in internal controls in certain of these areas. We have implemented interim mitigating control procedures as part of the process of preparing our financial statements for the quarter ended October 31, 2003 and the year ended January 31, 2003. Although the Company continues to make progress in these areas, the Company continues to utilize outside resources to support its accounting and finance department. The Company believes that further improvements in its processes will be required.

Except as noted above, no change in our internal control over financial reporting occurred during the fiscal quarter ended October 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. - 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.

CLASS ACTION LAWSUITS

Following the November 19, 2002 announcement of our intent to restate the SmartForce financial statements for 1999, 2000, 2001, and the first two quarters of 2002, several class action lawsuits were filed against us and certain of our current and former officers and directors in the United States District Court for the District of New Hampshire. These lawsuits alleged, that we misrepresented or omitted to state material facts in our SEC filings and press releases regarding our 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 our ADSs. These lawsuits have all been assigned to Chief Judge Paul J. Barbadoro. On March 26, 2003, Judge Barbadoro consolidated the lawsuits under the caption "In re SmartForce Securities Litigation," Civil Action No. 02-544-B, appointed as lead plaintiffs the Teacher's Retirement System of Louisiana and the Louisiana Sheriff's Pension & Relief Fund, and approved the lead plaintiffs' choice of lead counsel and local counsel. On October 31, 2003, lead plaintiffs filed two amended complaints in this consolidated action, one on behalf of a purported class of purchasers of our ADSs between April 27, 1999 through November 18, 2002, naming as defendants SkillSoft PLC, Gregory M. Priest, Patrick E. Murphy, David C. Drummond and Jack Hayes; and another on behalf of a purported class of SkillSoft Corporation shareholders who acquired our ADSs in connection with the merger, naming as defendants SkillSoft PLC, Gregory M. Priest, Patrick E. Murphy, Ronald C. Conway, John M. Grillos, James S. Krzywicki, Patrick J. McDonough, Dr. Ferdinand von Prondzynski, Stewart K.P. Gross, William T. Coleman, P. Howard Edelstein and Charles E. Moran, as well as some additional entities. The complaints allege that we misrepresented or omitted to state material facts, which are alleged to have artificially inflated the price of our ADSs. The consolidated lawsuit seeks unspecified monetary damages together with interest, costs, fees and expenses. We believe that we have meritorious defenses to this action and intend to defend ourselves vigorously.

At the end of our fiscal third quarter of 1998, several purported class action lawsuits were filed in the United States District Court for the Northern District of California against us, one of our subsidiaries and certain of our former and current officers and directors alleging violations of the federal securities laws. It has been alleged in these lawsuits that we misrepresented or omitted to state material facts regarding our business and financial condition and prospects in order to artificially inflate and maintain the price of our ADSs, and misrepresented or omitted to state material facts in our registration statement and prospectus issued in connection with our merger with ForeFront. In December 2003, we reached a settlement of this litigation. Under the terms of the settlement, we will make a $10 million cash payment within 30 days and an additional $6 million payment in mid-2004. Our insurance carriers will pay an additional $16 million for total settlement payments of $32 million. The settlement is subject to court approval and there is no assurance that the court will approve the settlement.

NETG LITIGATION

Our subsidiary, SkillSoft Corporation, several of its executive officers and key employees, and a former major investor of SkillSoft Corporation are named as defendants in a lawsuit pending in the Circuit Court of Cook County, Illinois filed by National Education Training Group, Inc. (NETg), the former employer of several of those individuals (the NETg State Court Litigation). The claims seek injunctive relief against SkillSoft Corporation and Messrs. Moran, Nine, Townsend, Brown and Ritze and Ms. Hovis and demand the return, and no future use by SkillSoft Corporation and these defendants, of the alleged trade secrets. The claims also seek compensatory damages of $400 million, exemplary damages in the additional amount of $400 million, additional compensatory, incidental and consequential damages in an unspecified amount and punitive damages of $50 million or such other amount as the court deems just or appropriate. In addition, on October 26, 2000, NETg filed suit against SkillSoft Corporation in the United States District Court for the Northern District of Illinois alleging that SkillSoft Corporation's educational and training software products infringe United States Patent No. 6,039,575, which was issued on March 21, 2000 and is allegedly owned by NETg. The complaint seeks both monetary damages and injunctive relief (the NETg Patent Litigation). The details of the NETg State Court Litigation and the NETg Patent Litigation are set forth more fully in our Quarterly Report on Form 10-Q for the period ended April 30, 2003.

On July 21, 2003, the parties entered into a settlement agreement, which will result in a final dismissal and termination of the NETg State Court Litigation and the NETg Patent Litigation. Under the terms of the settlement agreement, we have agreed to pay NETg an aggregate of $44 million in two payments of $22 million each. We made the first payment on July 25, 2003. The second payment is due on July 21, 2004. We also agreed not to make certain specific modifications to our information technology training courseware for a limited period of time. In exchange, SkillSoft Corporation and the other defendants received complete but conditional releases from any liability relating to the subject matter of the NETg State Court Litigation or the NETg Patent Litigation, or with certain exceptions, based on or arising from the alleged use of any alleged NETg intellectual property. We also received a perpetual, non-transferable, non-exclusive license to develop, use, sell, offer for sale, lease or offer to lease products or services containing or embodying certain NETg technology or inventions disclosed or described in certain NETg patent applications. The Settlement Agreement provides that "it is specifically understood that two million dollars of the payments provided for under the Settlement Agreement, shall be in respect of" such license. Under the terms of the settlement agreement, if NETg was not compelled to return the first $22 million payment on or before October 28, 2003, then the releases would become unconditional, the NETg State Court Litigation would be dismissed with prejudice and the NETg Patent Litigation would not be pursued further. On October 29, 2003, the state court entered the parties' stipulation of dismissal, and the action was dismissed with prejudice. The above-referenced releases likewise became unconditional.

IP LEARN

On April 23, 2002, IP Learn, LLC (IP Learn) filed a complaint in the United States District Court for the Northern District of California against us. The complaint alleges that we infringed on five United States patents assigned to IP Learn. The complaint was subsequently amended to add an additional patent. The IP Learn patents in question are U.S. Patent Nos. 6,126,448; 6,118,973; 5,934,909; 5,779,486; 5,743,746; and 6,398,556. We believe that these patents are related primarily to computer-aided learning methods and systems. In the complaint, IP Learn asked the court for a preliminary and permanent injunction as well as unspecified damages. On June 27, 2002, we filed our answer to IP Learn's amended complaint, denying infringement and asserting counterclaims seeking declaratory relief that the patents-in-suit are invalid and that we have not infringed the patents-in-suit.

On October 1, 2002, IP Learn served our subsidiary SkillSoft Corporation with an amended complaint alleging that SkillSoft Corporation infringed U.S. Patent Nos. 6,126,448; 6,118,973; 5,934,909; 5,779,486; and 6,398,556. The complaint seeks both monetary damages and injunctive relief. In response to the amended complaint, SkillSoft Corporation filed a motion to dismiss or, in the alternative, for a more definite statement. The United States District Court for the Northern District of California granted SkillSoft Corporation's motion to dismiss on October 15, 2002, and on October 25, 2002, IP Learn filed its Second Amended Complaint alleging again that SkillSoft Corporation is infringing the five IP United States patents assigned to IP Learn listed above. The Second Amended Complaint seeks both monetary damages in an unspecified amount and injunctive relief. On November 8, 2002, SkillSoft Corporation filed its Answer to the Second Amended Complaint, in which it denied liability and asserted counterclaims seeking declaratory relief that the specified patents are invalid and that SkillSoft Corporation has not infringed the specified patents.

In June 2003, we reached an agreement with IP Learn regarding the settlement of the pending litigation pursuant to which we obtained a license to use certain of IP Learn's patents. Under the terms of the settlement agreement, we made a cash payment and issued ordinary shares (which are represented by ADSs). On or about November 18, 2003, pursuant to the settlement agreement and a stipulation filed by the parties, the court entered an order dismissing the lawsuits with prejudice.

LIONET

On June 13, 2002, Lionet Limited, a limited liability company incorporated and doing business in Ireland, filed a claim against us in Ireland, alleging, among other things, that we breached the terms of our software license agreement with Lionet Limited in that we permitted or failed to prevent the decompilation of the provided software products and that we have failed to cooperate in audits to determine the nature of such alleged copying or de-compilation. Lionet Limited sought damages for lost license fees of $6.8 million and other damages. On October 23, 2003, we entered into a settlement agreement with Lionet Limited.

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

ITEM 2. - CHANGES IN SECURITIES AND USE OF PROCEEDS

In connection with the settlement agreement we entered into with IP Learn regarding the litigation described in Part II - Item 1. Legal Proceedings, we made a cash payment to IP Learn and on October 3, 2003, we issued an aggregate of 100,000 ordinary shares (which

are represented by ADSs) to IP Learn and its designees. This issuance of ordinary shares was made in reliance on section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

We held our 2003 annual general meeting of shareholders on October 31, 2003. Under the terms of the deposit agreement, The Bank of New York is entitled to vote or cause to be voted on behalf of, and in accordance with the instructions received from, the ADS holders. Two individual shareholders, the proxy for the ordinary shareholders and a representative of AIB, the custodian for the ordinary shares representing the ADS's, were present for the vote. Voting was conducted on a show of hands in accordance with Irish law. There were no abstentions, broker non-votes or votes withheld with respect to any matter submitted to a vote of the ordinary shareholders at the annual general meeting. The following is a brief description of each matter submitted to a vote of the ordinary shareholders and a summary of the votes tabulated with respect to each such matter at the annual general meeting, as well as a summary of the votes cast by the Bank of New York based on the ADR facility:

(1) Re-election as a director of Gregory M. Priest, who retired by rotation and being eligible offered himself for re-election in accordance with our Articles of Association.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	90,115,810	9,423,409	74,484

(2) Election as directors, each of whom were appointed during the year:

(a) Charles E. Moran

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,261,401	277,523	74,779

(b) William T. Coleman III

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,263,391	274,498	75,814

(c) Stewart K.P. Gross

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,255,520	281,249	76,934

(d) P. Howard Edelstein

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,253,140	282,741	77,822

(3) Authorization of the Audit Committee of the Board of Directors to fix the remuneration of our auditors for the fiscal year ending January 31, 2004.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,013,491	458,482	141,730

(4) Amendment of our 1995 Employee Share Purchase Plan (the "ESPP") to increase the number of Ordinary Shares available for sale under the ESPP from 3,000,000 to 3,800,000.

	Votes "FOR"	"AGAINST"	"ABSTAIN"
Ordinary Shareholders	4	0	0
ADS Holders	99,055,524	408,154	150,025

ITEM 5. - OTHER INFORMATION

Not applicable.

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

See the Exhibit Index attached hereto.

(b) Reports.

On September 22, 2003, we filed Amendment No. 1 to a Current Report on Form 8-K under Item 7 containing financial statements and pro forma financial information in connection with our merger with SkillSoft Corporation on September 6, 2002. On December 4, 2003, we furnished a Current Report on Form 8-K under Item 12 containing a copy of our earnings release for the fiscal quarter ended October 31, 2003.

We previously disclosed the following Current Report on Form 8-K in our Quarterly Report on Form 10-Q for the quarter ended July 31, 2003:

On September 11, 2003, we furnished a Current Report on Form 8-K under Item 9 containing a copy of our earnings release for the fiscal quarter ended October 31, 2003 pursuant to Item 12 (Results of Operations and Financial Condition).

SIGNATURE

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

SKILLSOFT PUBLIC LIMITED COMPANY

Date: December 15, 2003

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

EXHIBIT INDEX

10.1	Stipulation of Settlement, dated November 26, 2003.
10.2	Indemnification Agreement, dated November 13, 2003, by and between the Company and P. Howard Edelstein.
31.1	Certification of the Company's CEO pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
31.2	Certification of the Company's CFO pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
32.1	Certification of the Company's CEO pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's CFO pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.