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SKILLSOFT PUBLIC LIMITED CO

Form 10-K

April 15, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

(Mark One)

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

FOR THE FISCAL YEAR ENDED JANUARY 31, 2004

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE: 0-25674

SKILLSOFT PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

REPUBLIC OF IRELAND
(State or other jurisdiction of
incorporation or organization)

NONE
(I.R.S. Employer
Identification No.)

107 NORTHEASTERN BOULEVARD
NASHUA, NEW HAMPSHIRE
(Address of principal executive offices)

03062
(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

(TITLE OF CLASS)
ORDINARY SHARES, E0.11
SUBSCRIPTION RIGHTS

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the

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

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

The approximate aggregate market value of voting shares held by non-affiliates of the registrant as of July 31, 2003 was \$466,094,399

On March 31, 2004, the registrant had outstanding 103,524,579 Ordinary Shares (issued or issuable in exchange for the registrant's outstanding American Depository Shares ("ADSs")).

DOCUMENTS INCORPORATED BY REFERENCE

The registrant intends to file with the Securities and Exchange Commission a definitive proxy statement with respect to the Annual General Meeting of Shareholders for the fiscal year ended January 31, 2004. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

SKILLSOFT PUBLIC LIMITED COMPANY

FORM 10-K

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PART I

Any statements in this Form 10-K about future expectations, plans and prospects for SkillSoft, including statements containing the words "believes," "anticipates," "plans," "expects," "will" and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including those set forth in Item 7 under the heading "Future Operating Results".

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

ITEM 1. BUSINESS

GENERAL

SkillSoft is a leading global provider of e-learning content and technology products for business and information technology (IT) professionals primarily within the Global 5000. SkillSoft's SkillChoice multi-modal learning solutions support and enhance the speed and effectiveness of both formal and informal learning processes and integrate SkillSoft's in-depth courseware-learning content, learning management platform technology and support services. Content offerings include our SkillChoice Multi-Modal Learning Solutions, Business Skills Library and IT Skills and Certification Library; ITPro, BusinessPro, FinancePro, and OfficeEssentials Referenceware collections by Books24x7; and health and safety compliance courseware by GoTrain.

We focus on a variety of business and professional effectiveness and IT topics that we believe represent the critical skills required of employees in increasingly dynamic and complex work environments. We partner with some of the world's technology leaders to co-develop sound, standardized content that delivers rich, comprehensive learning and performance support experiences. Our IT skills courses give learners the ability to gain the technical knowledge they need to perform their jobs. Our business skills (also known as soft skills) courses concentrate on the skills and knowledge that are relevant to the various areas of functional responsibility in today's business organizations. These skills are important to a business professional's ability to work better with business associates and customers, make better business decisions, and more effectively achieve his or her most important work-related and career oriented objectives. Our products and services are designed to accelerate the ability of today's workforce to master the business and technology skills required for competitive success, enable our customers to address training and performance support issues that support their business objectives and provide a system of continuous support to working employees. Our solutions are based on open standards Web technologies and flexible, low bandwidth architecture, enabling

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users to access the material they need via computer, with the specificity or breadth that they require, anytime or anywhere that they may need it.

We currently have thousands of customers worldwide spanning business, government and education, and more than 5.0 million licensed users. We focus on meeting the comprehensive business skills and IT learning needs of professionals in Global 5000 organizations through a comprehensive range of content-centered, e-learning solutions. The integration of our e-learning offerings delivers a comprehensive Multi-Modal Learning (MML) solution that includes the following major content modalities:

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

SkillPort: SkillPort, our learning management platform, provides a reliable, flexible and cost-effective way for organizations to deploy and manage their e-learning programs. Using SkillPort, customers can leverage the benefits of the multi-modal learning approach and deploy complex solutions rapidly, on a global basis. With Search-and-Learn, employees view all e-learning assets on the system

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with a single, unified search. SkillPort is available as a hosted solution, supporting the growing demand for reliable, scalable and secure e-learning with a low-cost, low IT-burden model. Alternatively, customers may choose to deploy SkillPort on their own intranet infrastructure.

Business Skills Library: This includes more than 2,100 courseware titles and simulations encompassing professional effectiveness, management/leadership, project management, sales and customer-facing skills, business strategy/operations, finance, human resources, safety/health and financial services. Our courses feature strong visual design; a focus on instructional objectives at the application and analysis levels; learner interactivity; reinforcement through RolePlays, SkillSimulations, and case studies; and transfer of learning through online Job Aids, Follow-On Activities and SkillBriefs.

IT Skills and Certification Library: This includes more than 2,000 courseware titles encompassing software development, operating systems and server technologies, Internet and network technologies, enterprise database systems, Web design, and desktop computer skills. Our IT skills library also supports more than 70 current industry certification exams. The IT courses also feature strong visual design, interactivity, and reinforcement of learning transfer via frequent practice questions, simulations and mentored and self-assessed exercises.

Online Mentoring: This service is offered for over 70 current major certification exams for IT professionals, end user technologies and project management skills. Our approximately 50 on-staff mentors, averaging over 20 certifications each, are available 24 hours a day, 7 days a week. Through online chats and e-mail, learners can ask questions, receive clarification, and request additional information to help them get the answers and understanding they need.

Books24x7 Referenceware: This includes more than 5,500 unabridged IT

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and business books and reports that are available to online subscribers through our subsidiary, Books24x7. A unique, patent-pending search engine gives subscribers the ability to perform multi-level searches to pinpoint information needed for on-the-job performance support and problem-solving.

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

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

INDUSTRY BACKGROUND

The corporate training market is large. We believe that a substantial majority of the corporate training market is comprised of business skills and IT skills training. We believe that the growth in corporate training in general and business skills training in particular is being driven by:

- the evolution of our economy to a service-based and knowledge-based economy, in which the skills of the workforce often represent the most important corporate assets;
- the increasing recognition by businesses that it is imperative to continually improve the skills of their employees in order to remain competitive;
- the rapidly evolving business environment, which necessitates continual training and education of the employee base; and

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

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

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We believe that e-learning solutions present a significant opportunity for business organizations to effectively train and support the productivity of their workforce. Like traditional technology-based training solutions, such as CD-ROMs and client/server applications, e-learning solutions alleviate the inefficiencies associated with classroom training, including travel costs, scheduling difficulties and the opportunity costs of employees' time. In addition, e-learning provides benefits beyond other technology-based training methods that make it more flexible, effective and cost-efficient. For example, e-learning solutions provide more timely and simplified deployment, the flexibility of self-directed and personalized learning, improved ease of use, and enhanced product/user support and administrative functionality. Furthermore, through the use of Web-based technologies, e-learning solutions provide access via computer to content anytime, anywhere over the Internet and in the exact amount required.

PRODUCTS

PRODUCT LIBRARY OVERVIEW

With over 4,100 courses spanning IT, cross-functional business skills, functional area expertise and workplace compliance subjects, we are an industry leader in e-learning content solutions for today's critical business and IT skills. Through our focus on these critical skills and our track record in fast and effective execution, we strive to deliver e-learning content that excels in terms of depth, breadth, up-to-date relevance, interactive learning design and Web deployment flexibility. Also, through our Books24x7 professional Referenceware offering, we offer users over 5,500 unabridged IT and business titles from more than 100 of the world's best-known publishing companies. Together, these multi-modal e-learning components offer organizations an array of both formal and informal learning based on user needs -- whether students need to immerse themselves in the subject matter or need to quickly reference content for five to ten minutes of on-the-job performance support.

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

BUSINESS SKILLS COURSEWARE AND SIMULATIONS

Our comprehensive business skills library of e-learning courses, simulations and learning objects encompasses a wide array of professional effectiveness skills and business topics. As of January 31, 2004, our

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business skills library included over 2,100 business skills course and simulation offerings. Our business skills courses and simulations are divided into the following major Solution Areas:

Professional Effectiveness
Management & Leadership
Project Effectiveness
Sales & Customer-Facing Skills
Finance, HR & Administration

Business Strategy & Operations
Safety & Health
Workplace Compliance
Financial Services Industry

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We have more than 800 current English language business skills courses, and over 1,300 business skills courses that have been localized into a number of languages including UK English, Italian, German, French, Castilian Spanish, Japanese, Mandarin Chinese, Traditional Chinese, Cantonese and Latin American Spanish to support other geographic markets.

IT SKILLS COURSEWARE

Our comprehensive IT skills library of e-learning courses and learning objects encompasses a wide array of technologies used by IT professionals and business end-users. As of January 31, 2004, our IT skills library included over 2,000 IT skills course offerings that are divided into six major Solution Areas:

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

The courseware in these Solution Areas address over 70 of the current technical certification programs sought by technical professionals and enterprises providing technical products and services to their customers, including:

MICROSOFT	COMPTIA	LOTUS NOTES	ORACLE
MOS	A+	R5 CLS Admin	OCA 9i
MCP	Net+	R5 CLS Developer	OCF 9i
MCSA 2000	INet+	R5 CLP Admin.	
MCSE 2000	Server+	R5 CLP Developer	
MCSA VB 6.0	Linux+		
MCSA .NET (VB)			
MCDBA			
MCSA 2003 MCSE 2003	CICSO	SECURITY	CIW
	CCNA	Sans Geac	CIW Associate
	CCDA	CompTIA Security+	Master Enterprise Developer
	CCNP	CISSP (ISC(2))	CIW Site Designer
	CCDP		
MACROMEDIA	ECDL	PROJECT MGMT INSTITUTE	
Coldfusion MX Developer	ECDL	PMP	
Dreamweaver MX Developer	ICDL		
Flash MX Developer			

We have more than 1,200 current English language IT skills courses, and over 900 IT skills course titles that have been localized into a number of languages including German, French, Spanish, Italian, Japanese, Dutch, Greek, Portuguese and Korean to support other geographic markets.

BOOKS24X7

Books24x7, a SkillSoft company, offers a suite of core, unabridged and topically organized Referenceware collections that provide online subscribers the ability to perform multi-level searches to pinpoint information needed for

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on-the-job performance support and problem-solving. Referenceware products draw upon leading professional reference books, journals, research reports and documentation. Books24x7 delivers Referenceware via a Web-based platform that enables paying subscribers to browse, read, search, and collaborate anytime, anywhere with a simple Web connection. The Referenceware collections include:

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

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

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

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

EXPRESS GUIDES

Our Express Guides are targeted at IT professionals who need information immediately upon release of new technologies. Express Guides complement other learning options, such as e-learning courses and books, both of which require longer development cycles to bring to market. Express Guides can be searched, launched and managed through SkillPort 6, SkillSoft's learning management platform, as well as other third-party learning management systems.

Our initial focus for the development of Express Guides has been for Cisco Systems technologies, with 24 Express Guides for Cisco Systems certification program support introduced in the first quarter of fiscal 2005. Based on Cisco's own instructional materials, these electronically-delivered instructional guides support new and enhanced Cisco technologies and the corresponding new certification requirements. Included in the first set of Express Guides are titles to support changes in Cisco's CCNA, CCNP, CCDA, CCDP, CCIE, and CCSP certification programs. SkillSoft currently plans to deliver additional Express Guides for Cisco, as well as those supporting other technology vendors, in the future. Currently, 8 Express Guides to support MCSA and MCSE certification programs for Microsoft Windows Server 2003 are also available.

GOTRAIN

Acquired in June 2003, GoTrain provides an extensive library of compliance-based e-learning solutions that address standards mandated by the occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), and the Department of Transportation (DOT). As a cost-effective

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alternative to traditional instructor-led training, GoTrain courses help reduce the risks and liability for non-compliance in the workplace. In addition, they also reduce risks associated with worker's compensation claims, lawsuits and the expense of increased insurance costs.

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

THE SKILLSOFT INSTRUCTIONAL DESIGN MODEL

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

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

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

- learning outcomes specified by performance goals and objectives;
- content and learning activities based on specified objectives;
- assessment based on the knowledge and skills specified in the objectives;
- options to take assessments in either pre- or post-test mode;
- instructional strategies and multimedia elements tailored to the specific course content;
- tools to promote the transfer of learning into the workplace, such as online Job Aids and Follow-On Activities;
- instructional strategies appropriate for the content and learning level, such as examples, behavior modeling, guided practice, and simulations; and
- levels of learning appropriate for the content and the target audience.

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

- friendly, intuitive graphical user interface;
- course structure and navigation that supports self-paced, user-controlled instruction;
- unlimited access to instruction and assessments;
- standardized templates to create unified and predictable functionality;
- a variety of presentation, practice, and assessment templates supporting high levels of user interactivity and engagement; and
- standardized, yet flexible, flow of instruction.

Starting from this set of common elements and attributes, our courses then include the instructional strategies most suitable for the content and specified objectives. For instance, the approach to teaching

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communication skills is different from the approach to teaching finance or accounting skills, and the strategies used to teach these two business content areas differ from those used to teach computer and software skills.

LEARNING DESIGN FOR BUSINESS SKILLS

Our business skills courses cover a broad range of business and professional effectiveness curriculum areas. Some content is factual with predictable, non-variable outcomes, such as finance; other content areas, such as communication skills, are "softer", or more behavioral-oriented, and have highly variable implementation options and outcomes that require a different set of instructional presentation and practice strategies. In addition, we have a strong commitment to reach the highest possible levels of learning in each course -- including as much application and analysis level content as possible, supported by strong foundational learning at the knowledge and comprehension levels.

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

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

AUDIO-ENABLED LEARNING -- Our business skills instruction is

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audio-enabled. This feature can easily be turned on or off based on user preference and greatly enhances engagement and retention for many users. Audio can be especially key to the instructional effectiveness of behavior modeling, RolePlay exercises and SkillSimulations.

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

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

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

ONLINE JOB AIDS -- All of our business skills courses include online Job Aids that help support the use of newly learned skills and knowledge in the workplace. Job Aids are courseware "take-aways" that can be used as-is, or tailored to meet a user's needs. Each Job Aid can easily be edited to reflect a

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user's organization-specific information, and users can add organization-specific Job Aids that they have independently developed.

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

SKILLBRIEFS -- SkillBriefs are one- to two- page text-based HTML documents that summarize the content in each topic of a course. SkillBriefs are now available as part of course content, as well as through SkillPort. SkillBriefs can be used to quickly "refresh" a learner's memory of key teaching points, as instant, "just-in-time" non-interactive learning when time doesn't allow for more typical instruction and/or as valuable take-aways from a course to support transfer of learning into the workplace. There are currently SkillBriefs for over 5,500 topics.

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

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

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

BLENDED LEARNING TOOLKITS -- Blended Learning Toolkits are our latest product offering in the business skills curriculum. Like SkillSimulations, the Blended Learning Toolkits are based on content drawn from multiple courses within a single learning path or series. However, this product is designed to provide our customers with tools for blending and/or transferring e-learning into the workplace as well as the classroom. Each Blended Learning Toolkit consists of multiple layers of content including a Users Guide, approximately 30 activities or tools, PowerPoint presentations that summarize the key teaching points from each lesson in all the courses within the learning path and short text-based summaries (SkillBriefs) of all the topic content. Blended Learning Toolkits are delivered electronically and can be used "as is" or customized to meet individual customer requirements. Customers have the freedom to "blend" the tools into traditional classroom settings, instructional events delivered via collaborative learning platforms, or to hand them over to managers, supervisors, facilitators, and anyone else interested in transferring learning into the workplace. The Blended Learning Toolkit provides multi-layered content with many options for use and implementation. It is adaptable and flexible to support a variety of audiences, content areas, and implementation environments and platforms. The goal of the Blended Learning Toolkit is to effectively reinforce the application of knowledge and skills from our courses. Most of all, it provides our customers with another opportunity to enhance and leverage their investment in e-learning.

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LEARNING DESIGN FOR IT SKILLS

Like our business skills courses, the instructional strategies chosen for use in an IT skills course are largely dependent on the course content and objectives. Learning the use or function of buttons, menu items and other familiar software elements is largely a knowledge and comprehension task. Learning the steps to complete a specific task is very procedural and best achieved via observation or guided practice, followed by opportunities for more

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independent practice, with varying degrees of guidance, feedback and support. In support of these and other IT skills-related learning goals, our IT skills courses include static and interactive explanations, step-by-step demonstrations of how to perform specific procedures, guided practice activities and sample coding solutions. Inclusion of frequent review questions in the instructional topics reinforces key teaching points. The availability of Assessments at both the topic and course level provides the learner with an option to assess their performance across the entirety of a course, or with more focused concentration on individual topic level content and objectives.

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

TEXT AND GRAPHICS -- Our IT skills courses use a variety of text and graphic-based strategies to present and explain software features and functions. Interactive text and graphics are particularly useful to explain buttons, menu items, coding or tagging parameters, and syntax. This strategy is also an effective method to break down complex concepts into smaller, graphically represented parts, or to separate lines of code into smaller sections. Clicking or selecting graphically portrayed "parts" produces additional information or explanation about that specific part. Another feature, "drill-downs", allow learners to navigate vertically in a topic by clicking meaningful graphics and icons. Drill-downs are a useful departure from the "page turning" linear approach to representation that characterizes much e-learning. All these features allow learners to review information as often as they want and to ignore something if they choose to.

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

PROMPTED ANIMATIONS -- The purpose of these is to help the learner visualize processes -- to draw his or her attention to an area on an interface or conceptual graphic. Because these animations are prompted (that is, after the learner is told about a process, he or she is prompted to launch an animation of it), they help to avoid split attention, which occurs when text displays and an animation initiates at the same time, with the result that the learner does not know what to concentrate on.

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

SkillChecks are a key practice strategy in GUI-based content where it is important for the learner to be able to "use" the software application. SkillChecks present learners with a task to perform on a simulated interface. If a learner performs all the required steps in the task correctly, the interface responds as it would in the real application. If learners decide not to perform the question, they can

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click forward or click a "Show-me" button, both of which launch an animated sequence of the correct step.

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

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

ONLINE MENTORING -- Is available for over 70 current major certification exams for IT professionals, end user technologies and project management skills. We have approximately 50 on-staff mentors, averaging over 20 certifications apiece, that are available 24 hours a day, 7 days a week. Through on-line chats and e-mail, learners can ask questions, receive clarification, and request additional information to help them get the answers and understanding they need.

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

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

- Software simulations, which consist of a series of tasks that learners perform in a simulated version of the application being discussed in the course.
- Coding simulations, which give learners the opportunity to analyze and write code or commands.
- Hardware simulations, which simulate hardware setup problems.
- Case-Studies, which consist of an interactive review of concepts and information, presented in a "real-world" scenario.

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

MENTORED EXERCISES AND SELF-ASSESSMENT EXERCISES. These exercises are designed to provide the user with an opportunity to apply new knowledge and skills within a live software application. Mentored exercises are designed to allow learners to carry out complex tasks and exercises and submit them to a

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mentor for review. Self-assessment exercises afford learners the opportunity to carry out similar tasks and exercises, on which they can then assess themselves from a provided solution. Both of these exercises involve the presentation of a real-world scenario requiring the learner to provide a solution or complete a series of tasks. After completing a series of these activities, users will have a set of documents or products demonstrating proficiency with the skills taught by the course.

WEB-BASED ARCHITECTURE AND DEPLOYMENT

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

- Learning Management Platforms are a key enabling technology that permit users to access a wide variety of e-learning resources over the Web, including courseware, simulations, Referenceware, Online Mentoring, SkillBriefs, Job Aids and TestPrep Certification Practice Exams. Our SkillPort Learning Management System provides a rich feature set to support the full range of corporate learning needs with a high degree of reliability and scalability. Available as a hosted solution, SkillPort offers

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our customers a low-cost, low IT-burden option with fast "time-to-learning." We are currently migrating our customers using the MySmartForce platform and other SkillSoft platforms to SkillPort. In addition to our own platform, we continue to strive for convenient, easy integration of our content into third-party learning management systems through ongoing support of industry standards and business partnerships.

- SkillPort Search-and-Learn technology, a key component of SkillPort, allows the users to search and access learning resources topically with a single, unified search. For example, a learner searching for resources on Cisco networks can discover the various SkillSoft courses, books, TestPreps, Express Guides and online mentoring services available to the learner with a single search query. From the identified results, the learner can then choose the resource that best meets his or her specific needs, time requirements and learning preferences.
- SkillPort Extended Content Support allows customers to track, manage and search custom courses created by SkillSoft's authoring tools, as well as Microsoft Word, PowerPoint and Excel and Adobe PDF documents. This gives organizations the ability to incorporate important information resources such as white papers, launch plans, budget templates, and customized training within a comprehensive learning database. SkillPort also supports off-the-shelf and custom courseware from third-party providers, as long as the content is designed according to open standards and meets SkillSoft's custom content support guidelines.
- Course Customization Toolkit which offers a simple and comprehensive method of individually customizing our business skills courses by organizing specific content and examples, or combining topics or learning objects from different courses using a user-friendly template.
- Assistive Technology Support is designed to address the requirements of Section 508 of the Rehabilitation Act Amendments of 1998, which provides that as of June, 2001 computer software applications purchased or developed by federal agencies must be designed for accessibility by people who are blind, deaf or have poor motor skills. We have aggressively worked to adapt our online IT and business skills courseware to meet the requirements established by Section 508. This development

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work is consistent with our general corporate philosophy to help organizations "democratize" training and give all employees access to training and development opportunities anywhere, anytime through computers. Our North American English IT and business skills courseware now provides any user in a government or commercial organization with sight, hearing and/or mobility limitations, equal access to our courses through the use of assistive technologies such as screen readers.

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

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

PRODUCT PRICING

The pricing for our courses varies based upon the number of course titles or the courseware bundle licensed by a customer, the number of users and the length of the license agreement (generally one, two or three years). Our license agreements permit customers to exchange course titles, generally on the contract anniversary date. Some product features, such as SkillPort, the Course Customization Toolkit and course hosting, are separately licensed for an additional fee.

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

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

SALES AND MARKETING

In the fiscal year ended January 31, 2004, our products were sold in over 51 countries. We use a multi-prong sales strategy, consisting of

- a direct sales force for larger accounts;
- a telesales force to support the field sales organization
- a telesales organization (SmartCertify Direct, based in Clearwater, Florida) for selling directly to consumers; and
- resellers to address certain opportunities in the United States and some

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international markets.

We believe this strategy enables us to focus our resources on the largest sales opportunities, while simultaneously leveraging the contacts and employees of our resellers to address opportunities that may not be cost-effective for us to pursue directly.

As of January 31, 2004, we employed 227 sales professionals and sales operations, telesales, sales management and corporate development personnel (not including SmartCertify). Each account executive reports to either a regional sales director or a regional sales vice president who is responsible for revenue growth and expense control for his or her area. Our sales professionals have significant sales experience, as well as extensive contacts with the corporate customers that we target. The sales process for an initial sale to a large customer typically ranges from three to twelve months and often involves a coordinated effort among a number of groups within our organization.

In addition to the telesales personnel located in Nashua and the United Kingdom, we also engage in selling efforts through our telesales organization located in Clearwater, Florida, SmartCertify Direct, Inc. As of January 31, 2004, SmartCertify Direct employed 221 people in telesales, sales operations, sales management and marketing.

Our direct sales force uses sophisticated salesforce automation software to track each prospect and customer through a sales cycle covering the following seven stages: prospect, qualify, discovery, evaluation, proposal, negotiate and close. Each step of the sales cycle has certain exit criteria that must be satisfied before the prospect can progress to the next stage. Our senior sales executives hold review meetings throughout each quarter with our regional sales vice presidents and in some cases their account executives to assess their 90-day forecast, 120-day pipeline development and longer term territory strategy. Our regional sales vice presidents, regional sales directors and their account executives typically confer regularly throughout the quarter to review progress toward quarterly goals and longer term business objectives and for coaching sessions.

We have an office in the United Kingdom that serves as the hub of our Europe and Middle East operations. We also have an office in Sydney, Australia that serves as the hub for our Asia-Pacific operations. In order to accelerate our worldwide market penetration, our sales strategy includes developing relationships to access indirect sales channels such as reseller and distributor partners. Our indirect sales channels give us access to a more diverse client base, which we otherwise would not be able to reach in a cost-effective manner through our direct sales force. At January 31, 2004, we employed 11 indirect sales channel employees. Our

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development and marketing partners also generally have the right to resell products developed under their alliances with us.

Our marketing organization utilizes a variety of programs to support our global sales team. As of January 31, 2004, our marketing organization (excluding SmartCertify) consisted of 25 employees. Our marketing programs include:

- Customer Advisory Forum and user group events;
- product and strategy updates with industry analysts;
- public relations activities and speaking engagements;

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- articles in the trade press;
- printed promotional materials;
- promotional materials and events on our Web sites; and
- Events, "roadshow" tours, seminars and trade shows.

No customer accounted for more than 10% of our revenue for the fiscal year ended January 31, 2004. See Note 11 of the Notes to the Consolidated Financial Statements for a discussion of our revenue by geographic area.

CUSTOMER SERVICE AND SUPPORT

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

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

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

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

As of January 31, 2004, our customer service and support organization (excluding SmartCertify) consisted of 214 people globally

STRATEGIC ALLIANCES

We have entered into, and will continue to expand, our relationships with leading content partners, vendors of software products and learning partners in the markets of e-Business, business, interpersonal and professional skills, vertical education, training and IT.

We have entered into alliances with Cisco, PeopleSoft, Oracle, SAP, IBM Project Management Institute and the Wharton School of the University of Pennsylvania. These alliances encompass content co-development arrangements, platform integration programs and distribution partnerships through complimentary channels.

We believe our development alliances offer a number of advantages, which may include early access to business and IT content and partners pre-released products as well as software engineers and technical advisors for assistance in developing our learning solutions. With the approval of the development partner,

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products developed under the relationship can be identified as authorized by that content partner, which we believe may improve the marketability of such courses. In addition, these alliances may result in increased distribution channels for us by allowing each party to distribute courses to its respective customer base. We believe that these alliances also provide significant benefits to the content partner by allowing them to achieve additional market penetration generated by increasing the base of trained users.

COMPETITION

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

- The expected growth of this market.
- The low barriers to entry. In particular, we do not believe that proprietary technology is an important competitive factor in this market.
- Our course content providers are often not prohibited from developing courses on similar topics for other companies, provided that they do not use our toolkit or templates.
- The fragmented nature of the competitive landscape, including many small competitors in the technology-based segment of the market.

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

- Providers of traditional classroom instruction. Many of the companies in this category are attempting to adapt their courses to e-learning formats suitable for access via Web browsers and, in general, compete for the same training dollars in the customer's budget.
- Providers of CD-ROM training courses.
- suppliers of online corporate education and training courses, including Thomson Learning (through subsidiaries such as NETg and Course Technologies), Element K, KnowledgeNet and MindLeaders. Our Books24x7 business competes with companies such as Safari, a joint venture between Pearson Technology Group and O'Reilly & Associates, which offers aggregated content primarily restricted to its own titles on a subscription basis.

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

- the breadth, depth, currency and instructional design quality of the course content;
- informal performance support and other features of the training solution;
- adaptability, flexibility, reliability, scalability and performance of technology platforms offered;
- standards compliance and ease-of-integration with third party systems;
- the deployment options offered to customers, such as hosted, intranet and low bandwidth access;

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- customer service and support;
- price/value relationship;
- relationships with the customer; and
- corporate reputation.

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

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

PRODUCT DEVELOPMENT

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

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

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

Our approach to technology begins with the understanding that the ability

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of our customers to deploy our e-learning applications and content is a critical factor in their success with our products. To meet our customers' varied needs, we strive to enable our courses to be able to be delivered on-line, using standard Web browsers downloaded for off-line usage, or distributed via CDROM.

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

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

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

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

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Most of our research and development activities are conducted by internal teams located in our main product development centers in Dublin, Ireland; Nashua, New Hampshire; Belfast, Northern Ireland; and Fredericton, New Brunswick, Canada.

As of January 31, 2004, the number of employees in our product development organization totaled 415. We intend to continue to make substantial investments in research and development. Product development expenses were \$17.7 million, \$29.1 million, and \$53.6 million for the fiscal years ended January 31, 2002, 2003 and 2004, respectively.

PROPRIETARY RIGHTS

We do not believe that proprietary technology forms an important or valuable part of most of our business skills and IT skills courseware offerings. We believe that the creative skills of our personnel in developing new products and technologies, our ability to develop and introduce new products rapidly and our responsiveness to customer demands are more important than the availability of legal protections for proprietary rights. We nonetheless protect our technology by various means, including entering into agreements with employees to protect against disclosure of sensitive business information. We have one United States patent and 23 foreign patents with respect to computer-based training technologies and methods and 17 United States and foreign patent applications pending with respect to computer-based training technologies and methods. In addition, we currently have one patent application pending with respect to our Books24x7 product offerings.

We attempt to avoid infringing upon intellectual property and proprietary rights of third parties in our product development efforts. However, we do not conduct comprehensive patent searches to determine whether the technology used in our products infringes patents held by third parties. In addition, product development is inherently uncertain in a rapidly evolving technological environment in which there may be numerous patent applications pending, some of

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which are confidential when filed, with regard to similar technologies. If our products violate third-party proprietary rights, we could be liable for substantial damages. In addition, we may be required to reengineer our products or seek to obtain licenses to continue offering the products, and those efforts may not be successful.

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

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

EMPLOYEES

As of January 31, 2004, we employed 1,282 people. Of these employees, 473 were engaged in sales, sales operations, sales management, marketing and corporate development, 180 in management, MIS, administration and finance, 214 in customer service and support and 415 in product development and fulfillment. As of January 31, 2004, 729 employees were located in the United States and 553 in our international locations.

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None of our employees are subject to a collective bargaining agreement and we have not experienced any work stoppages. We believe that our employee relations are good.

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

ITEM 2. PROPERTIES

Our United States headquarters are located in an aggregate of 49,183 square feet of office space in Nashua, New Hampshire, of which 23,783 square feet of space is subject to a lease that currently runs on a month-to-month basis and 25,400 square feet of space is subject to a lease that expires in June 2006. In addition, we conduct our operations primarily out of facilities located in

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Dublin, Ireland; Norwood, Massachusetts; Fredericton, New Brunswick, Canada; and Clearwater, Florida.

In Ireland, we currently lease and occupy a 68,034 square foot facility in Dublin, which primarily houses our main product development center. Our SmartCertify direct sales group also leases a sales office in Dublin. In addition, we currently lease two other facilities in Dublin totaling approximately 25,000 square feet. These spaces have been vacated and the operations previously performed in these facilities have been consolidated into the 68,034 square foot facility.

In Norwood, Massachusetts and Clearwater, Florida, we currently lease and occupy 10,137 square feet and 22,129 square feet, respectively. The Clearwater facility houses our SmartCertify direct telesales operation and the lease expires in June 2004. The operations of our Books24x7.com subsidiary are located in Norwood under a lease that expires in December 2005. In addition, we currently lease approximately 41,000 square feet in Redwood City, California that is vacant. Operations previously performed in this location have been consolidated with our Nashua operations.

In Canada, we currently lease a total of 47,906 square feet in Fredericton, New Brunswick between two buildings. One building, totaling 17,706 square feet, is vacant. The Fredericton facility primarily houses our mentoring operations and certain customer service and support personnel and expires in August 2008.

We also lease sales offices in a number of other countries including the United Kingdom, Australia, the Benelux and Scandinavian countries, and Germany and a development office in Belfast, Northern Ireland. We believe that our existing facilities are adequate to meet our current needs and that suitable additional or substitute space will be available on commercially reasonable terms when needed. We are currently in negotiations to extend our lease in Clearwater and to secure additional space in Nashua, New Hampshire.

ITEM 3. LEGAL PROCEEDINGS

SEC INVESTIGATION

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

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

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lawsuits were 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. In March 2004, we reached a settlement, subject to court approval, of this litigation for total settlement payments of \$30.5 million, with one-half to be paid soon after preliminary approval by the court (which may occur in approximately 30 days) and the balance in approximately one year. We are in discussions with our insurers to determine how much, if any, of this settlement amount will be paid by them. We have recorded the aggregate settlement as a charge in our fiscal 2004 fourth quarter; any reimbursement from our insurers will be recorded in the period in which it is finalized.

As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended October 31, 2003, we reached a settlement of the class action litigation filed in 1998 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. Under the terms of the settlement, we made a \$10 million cash payment in January 2004 and will make an additional \$6 million payment in mid-2004. Our insurance carriers paid an additional \$16 million for total settlement payments of \$32 million. The court granted final approval of the settlement and the litigation was dismissed with prejudice on February 27, 2004.

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

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

We did not submit any matters to a vote of our shareholders during the fiscal quarter ended January 31, 2004.

EXECUTIVE OFFICERS OF SKILLSOFT

Our executive officers are as follows:

NAME ----	AGE ---	POSITION -----
Charles E. Moran.....	49	President and Chief Executive Officer
Gregory M. Priest.....	40	Chairman and Chief Strategy Officer
Thomas J. McDonald.....	54	Chief Financial Officer, Executive Vice President, Operations, and Assistant Secretary
Jerald A. Nine, Jr.....	46	Chief Operating Officer
Mark A. Townsend.....	51	Executive Vice President, Technology
Colm M. Darcy.....	40	Executive Vice President, Content Development

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

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Gregory M. Priest was appointed Chairman of the Board of Directors on November 13, 2000. Mr. Priest has served as our Chief Strategy Officer since our merger with SkillSoft Corporation in September 2002. Mr. Priest served as our President and Chief Executive Officer from December 1998 to September 2002. From February 1998 until December 1998, Mr. Priest was President and Chief Executive Officer of Knowledge Well Group Limited and of Knowledge Well Limited. Mr. Priest served as SmartForce's Vice President, Finance and Chief Financial Officer from December 1995 to January 1998. Mr. Priest has been a director since June 1996. Prior to joining SmartForce, Mr. Priest was an attorney with Wilson Sonsini Goodrich & Rosati, Professional Corporation, a private law firm representing technology companies, where he was elected to the partnership in 1995. From June 1989 to July 1990, Mr. Priest served as a law clerk to Justice Thurgood Marshall of the United States Supreme Court.

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

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

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

Colm M. Darcy has served as our Executive Vice President, Content Development since our merger with SkillSoft Corporation in September 2002. From April 8, 2002 to September 6, 2002, Mr. Darcy served as our Executive Vice President, Research and Development. From January 2002 to April 7, 2002, Mr. Darcy served as Vice President of Solutions Management. From January 2001 to December 2001, Mr. Darcy served as Vice President, Strategic Alliances. From January 1999 to December 2000, he served as our Vice President, Content Solutions and from January 1997 to December 1998, he served as Director, Curriculum Development. Prior to joining us, Mr. Darcy held positions in Finance, Human Resources, Training and Information Technology in the Irish Government's Department of Health and Child Welfare.

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

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PART II

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ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our ADSs are listed on the NASDAQ National Market under the symbol "SKIL". The following table sets forth, for the periods indicated, the high and low intraday sale prices per share of our ADSs as reported on the NASDAQ National Market between January 1, 2002 and January 31, 2004.

QUARTER ENDED -----	HIGH -----	LOW -----
March 31, 2002.....	\$28.00	\$9.57
June 30, 2002.....	10.89	3.24
October 31, 2002*.....	5.26	2.70
January 31, 2003.....	4.80	2.08
April 30, 2003.....	3.85	1.95
July 31, 2003.....	6.67	3.29
October 31, 2003.....	8.92	5.80
January 31, 2004.....	9.22	6.80

* As of the closing of our merger with SkillSoft Corporation, we changed our fiscal year end from December 31 to January 31.

As of March 31, 2004, there were 11 holders of ordinary shares of record.

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

IRISH STAMP DUTY

Stamp duty, which is a tax on certain documents, is payable on all transfers of ordinary shares in companies registered in Ireland wherever the instrument of transfer may be executed. In the case of a transfer on sale, stamp duty will be charged at the rate of E1 for every E100 (or part thereof) of the amount or value of the purchase price. Where the consideration for the sale is expressed in a currency other than Euro, the duty will be charged on the Euro equivalent calculated at the rate of exchange prevailing on the date of the transfer. In the case of a transfer by way of gift, subject to certain exceptions, or for considerations less than the market value of the shares transferred, stamp duty will be charged at the above rate on such market value.

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

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

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

PART II

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference from Appendix A attached hereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

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

The merger of SmartForce 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 fiscal year ended January 31, 2003 to the fiscal year ended January 31, 2004 is the inclusion of the operating results of SkillSoft PLC for the full-year ended January 31, 2004. 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

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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 primarily derive revenue from 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.

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.

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Our MML license provides customers access to a full range of learning products including courseware, Referenceware, simulations, mentoring and prescriptive assessment.

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

We offer discounts from our ordinary pricing, 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 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; consequently, substantially all of our revenue is recognized on a ratable basis.

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 the services are provided.

We generally bill the annual license fee for the first year of a multi-year

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agreement in advance and license fees for subsequent years of multi-year license arrangements are billed on the anniversary date of the agreement. 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 on Referenceware and MML licenses ratably over the term of the agreement, which matches the period the future products or services are delivered.

We commence the recognition of revenue from resellers upon both the final sale to the end user and the receipt of cash 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 provided we have received payment.

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

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

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a normal operating profit on fulfilling such obligations. The remaining amount of the acquired deferred revenue as of January 31, 2004 was approximately \$749,000.

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 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 common stock options granted or

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restricted common stock sold during the year ended January 31, 2000 and the fair market value of the common stock as determined for accounting purposes. The deferred compensation is amortized over the vesting period of the underlying stock option or stock.

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

Restructuring and other non-recurring charges consist of compensation costs of severed SmartForce employees for services rendered from the date of the Merger through January 31, 2003 and prior to such employees' termination dates and certain other non-recurring compensation costs to terminated and continuing employees. In addition, in fiscal 2003 and 2004, these charges related primarily to the restatement of SmartForce's historical financial statements and related SEC investigation (See "Risks Related to Legal Proceedings" section) and consist primarily of professional fees, including legal, accounting and consulting fees. See Note 4 of the Notes to the 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. 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 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 (SAB) No. 104 "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;

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- 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 the majority of our revenue is recognized ratably over the term of the respective license. Please see the discussion under the "Overview" section concerning how we recognize revenue.

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IMPAIRMENT OF GOODWILL

We review the carrying value of goodwill on an annual basis based upon the expected future 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, under FAS 142 we 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 as part of our annual impairment test. In the fourth quarter of fiscal 2004, we evaluated the fair value of goodwill and determined that there was no further impairment. See Note 5 of the Notes to the Consolidated Financial Statements.

LEGAL CONTINGENCIES

We are currently involved in certain legal proceedings. In connection with these legal proceedings, which we discuss in Part I -- Item 3, and in Note 8 of the Notes to the Consolidated Financial Statements, management periodically reviews estimates of potential costs to be incurred by us in connection with the adjudication or settlement, if any, of these proceedings. These estimates are developed in consultation with our outside counsel and are based on an analysis of potential litigation outcomes and settlement strategies. In accordance with SFAS No. 5, "Accounting for Contingencies", loss contingencies are accrued if, in the opinion of management, an adverse outcome is probable and such outcome can be reasonably estimated. In accordance with SFAS No. 5, gain contingencies are accrued if, in the opinion of management, a favorable outcome is probable and such outcome can be reasonably estimated. We note that legal costs are expensed as incurred.

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RESULTS OF OPERATIONS

	FISCAL YEAR ENDED JANUARY 31,			
	DOLLAR	PERCENT CHANGE	PERCENTAGE	
	INCREASE/ (DECREASE) 2003/2004	INCREASE/ (DECREASE) 2003/2004	2004	2003
	(IN THOUSANDS)			
Revenue.....	\$ 92,005	91%	100%	100%
Cost of revenue.....	6,849	59%	10%	10%
	-----	-----	-----	-----
Gross margin.....	85,156	95%	90%	88%
	-----	-----	-----	-----
Research and development.....	24,523	84%	28%	28%
Sales and marketing.....	34,841	66%	45%	50%
General and administrative.....	9,969	56%	14%	14%
Litigation settlement.....	93,750	100%	48%	--
Amortization of stock-based compensation.....	352	22%	1%	--
Amortization of intangible assets.....	5,389	115%	5%	--
Impairment charge.....	(250,107)	(100)%	--	24%

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Restructuring and other non-recurring charges.....	(1,058)	(5)%	9%	1
	-----	----	---	---
Total operating expenses.....	(82,341)	(22)%	150%	37
	-----	----	---	---
Operating loss.....	(167,497)	(59)%		
	-----	----	---	---
Other income, net.....	1,068	379%	--	
Interest income, net.....	(1,378)	(64)%	--	
Gain on sale of investments.....	3,682	100%	2%	
	-----	----	---	---
Loss before provision for income taxes.....	(170,869)	(60)%	58%	28
Provision for income taxes.....	146	38%	--	
	-----	----	---	---
Net loss.....	\$ (170,723)	(60)%	58%	28
	=====	=====	====	====

COMPARISON OF THE FISCAL YEARS ENDED JANUARY 31, 2004 AND 2003

REVENUE

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

	FISCAL YEAR ENDED JANUARY 31,		
	2004	2003	CHANGE
	-----	-----	-----
Revenue:			
United States.....	\$156,121	\$ 80,991	\$75,130
International.....	37,354	20,479	16,875
	-----	-----	-----
Total.....	\$193,475	\$101,470	\$92,005
	=====	=====	=====

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

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	FISCAL YEAR ENDED JANUARY 31,		
	2004	2003	CHANGE
Revenue:			
Multi-Modal Learning.....	\$180,098	\$ 94,402	\$85,696
Retail Certification.....	13,377	7,068	6,309
Total.....	\$193,475	\$101,470	\$92,005

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

COSTS AND EXPENSES

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

Research and development increased \$24.5 million, or 84% to \$53.6 million in the fiscal year ended January 31, 2004 from \$29.1 million in the fiscal year ended January 31, 2003. This increase was due in part to the addition of SmartForce's research and development organization. In addition, we incurred \$10.4 million in incremental costs associated with modifying the SmartForce content to be compliant with SkillSoft standards and practices and \$5.3 million in incremental research and development costs associated with our initiatives related to content offerings and improvements and platform improvements. We believe that these incremental costs are substantially complete at January 31, 2004. We believe our outsourcing strategy for some of our courses, which allows us to offer a broader set of content, provides us significant flexibility to control these costs. Research and development expenses as a percentage of total revenue decreased to 28% in the fiscal year ended January 31, 2004 from 29% in the fiscal year ended January 31, 2003. With the substantial completion of the incremental investment in research and development we expect research and development expenses to decrease in both absolute dollars and as a percentage of total revenue in the fiscal year ending January 31, 2005.

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

General and administrative expenses increased \$10.0 million, or 56% to \$27.9 million in the fiscal year ended January 31, 2004 from \$17.9 million in

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the fiscal year ended January 31, 2003. General and administrative expenses as a percentage of total revenue decreased to 14% in the fiscal year ended January 31, 2004 from 18% in the fiscal year ended January 31, 2003. General and administrative expenses increased in absolute dollars primarily due to approximately \$5.3 million of increased costs associated with being a public company, including legal, audit, insurance and Sarbanes-Oxley Act compliance. The remainder of the

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increase was primarily due to the impact of a full year of additional personnel related costs due to the Merger. The large percentage decrease from fiscal 2003 to fiscal 2004 was mainly due to a significant increase in revenue in fiscal 2004. We anticipate that general and administrative expenses will continue to increase in absolute dollars due primarily to increases in the costs of operating as a public company partially offset by a decrease in litigation related legal expenses over the next twelve months.

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

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

Amortization of intangible assets increased \$5.4 million, or 115%, to \$10.1 million in the fiscal year ended January 31, 2004 from \$4.7 million in the fiscal year ended January 31, 2003. See Note 5 of the Notes to the Consolidated Financial Statements

Restructuring and other non-recurring charges decreased \$1.1 million, or 5%, to \$18.2 million in the year ended January 31, 2004 from \$19.3 million in the fiscal year ended January 31, 2003. The restructuring and non-recurring charges relate to the Merger. The restructuring costs primarily consist of compensation costs for certain terminated SmartForce employees. The other non-recurring charges primarily consist of costs directly related to the restatement of the SmartForce historical financial statements which was completed in the fiscal year ended January 31, 2004. In addition, other non-recurring charges include costs related to the ongoing SEC investigation and the 2002 securities class action lawsuits. See Note 4 of the Notes to the Consolidated Financial Statements.

In the fourth quarter of fiscal 2004, we evaluated the fair value of goodwill related to the Merger. We prepared a cash flow analysis by reporting segment comparing the discounted cash flows to the net book values of the direct assets, goodwill and intangibles associated with the two reporting units:

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multi-modal learning and retail certification. The discounted cash flows supported the direct assets, goodwill and intangibles of the multi-modal learning business unit and the retail certification reporting unit. At January 31, 2004, we concluded there was no additional impairment of goodwill.

INTEREST INCOME/(EXPENSE), NET

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

OTHER INCOME/(EXPENSE), NET

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

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GAIN ON SALE OF INVESTMENTS, NET

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

PROVISION FOR INCOME TAXES

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

COMPARISON OF THE FISCAL YEARS ENDED JANUARY 31, 2003 AND 2002

REVENUE

Revenue increased \$57.2 million, or 129% to \$101.5 million in the fiscal year ended January 31, 2003 from \$44.3 million in the fiscal year ended January 31, 2002. This increase was due primarily to the addition of revenue from SmartForce's historical customer base. To a lesser extent, this increase resulted from our new customers and increased revenue from our existing customers and a full year of revenues from Books.

	FISCAL YEAR ENDED JANUARY 31,		
	2003	2002	CHANGE
Revenue:			
United States.....	\$ 80,991	\$38,959	\$42,032
International.....	20,479	5,312	15,167
	\$101,470	\$44,271	\$57,199
Total.....	\$101,470	\$44,271	\$57,199

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Revenue increased by 108% and 286% in the year ended January 31, 2003 in the United States and internationally, respectively, as compared to the year ended January 31, 2002. The United States represented 80% and 88% of revenue for the years ended January 31, 2003 and 2002, respectively primarily due to the historical SmartForce company's more significant international presence.

	FISCAL YEAR ENDED JANUARY 31,		
	2003	2002	CHANGE
Revenue:			
Multi-Modal Learning.....	\$ 94,402	\$44,271	\$50,131
Retail Certification.....	7,068	--	7,068
Total.....	\$101,470	\$44,271	\$57,199

The multi-modal learning segment represented 93% and 100% of revenues for the years ended January 31, 2003 and 2002, respectively. The year ended January 31, 2003 included the combined company revenues post Merger.

COSTS AND EXPENSES

Cost of revenue increased \$9.0 million, or 35.3%, to \$11.5 million in the fiscal year ended January 31, 2003 from \$2.6 million in the fiscal year ended January 31, 2002. Cost of revenue as a percentage of total revenue was 11% in the fiscal year ended January 31, 2003 versus 6% in the fiscal year ended January 31, 2002. These increases were primarily due to increased costs of supporting the SmartForce hosting business and royalty fees associated with SmartForce's IT product line and, to a lesser extent, our Referenceware product line.

Research and development increased \$11.4 million, or 64%, to \$29.1 million in the fiscal year ended January 31, 2003 from \$17.7 million in the fiscal year ended January 31, 2002. This increase was primarily due to the addition of SmartForce's research and development organization. Research and development expenses in the fiscal year ended January 31, 2003 include charges of \$1.5 million which represent expenses to modify

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the MySmartForce platform and content. Research and development expenses as a percentage of total revenue decreased to 29% in the fiscal year ended January 31, 2003 from 40% in the fiscal year ended January 31, 2002. This decrease was due to the lower research and development expenses as a percentage of revenues of SmartForce's research and development group compared to SkillSoft Corporation's.

Selling and marketing expenses increased \$25.1 million, or 91% to \$52.7 million in the fiscal year ended January 31, 2003 from \$27.6 million in the fiscal year ended January 31, 2002. Selling and marketing expenses increased due to the addition of SmartForce's sales and marketing organization and related costs. Selling and marketing expenses as a percentage of total revenue decreased to 52% in the fiscal year ended January 31, 2003 from 62% in the fiscal year ended January 31, 2002. The large percentage decrease was primarily due to the significant increase in revenue year over year.

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General and administrative expenses increased \$10.7 million, or 149% to \$17.9 million in the fiscal year ended January 31, 2003 from \$7.2 million in the fiscal year ended January 31, 2002. General and administrative expenses as a percentage of total revenue increased to 18% in the fiscal year ended January 31, 2003 from 16% in the fiscal year ended January 31, 2002. General and administrative expenses increased in absolute dollars and as a percentage of revenue primarily due to the Merger and related integration costs. These expenses also increased as a result of higher litigation costs in the quarter ended January 31, 2003.

Stock-based compensation expense increased \$800,000, or 100% to \$1.6 million in the fiscal year ended January 31, 2003 from \$800,000 in the fiscal year ended January 31, 2002. The increase reflects additional deferred compensation expense as a result of the Merger and the Books acquisition in December 2001. The remaining expense was primarily the result of 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 stock with sales prices below the fair market value of the stock. The stock options granted at exercise prices below fair market value of the stock were granted by SkillSoft Corporation prior to its initial public offering and by Books prior to it being acquired in December 2001.

Amortization of intangible assets increased to \$4.7 million in the fiscal year ended January 31, 2003 from \$27,000 in the fiscal year ended January 31, 2002. The increase was primarily due to the intangible assets acquired in the Merger and the Books acquisition in December 2001. See Note 5 of the Notes to the Consolidated Financial Statements.

Restructuring and other non-recurring charges were \$19.3 million for the year ended January 31, 2003. The restructuring and non-recurring charges were recorded in connection with the Merger and the Books acquisition. The restructuring costs primarily consist of compensation costs for certain terminated SmartForce employees. The other non-recurring charges primarily consist of costs directly related to the restatement of the SmartForce historical financial statements. See Note 4 of the Notes to the Consolidated Financial Statements.

In response to several factors in the fourth quarter of fiscal 2003 and as part of our annual impairment test, we re-evaluated the fair value of the goodwill established in connection with the Merger and the Books acquisition. We prepared a cash flow analysis by reporting segment comparing the discounted cash flows to the net book values of the direct assets, goodwill and intangibles associated with the two reporting units: multi-modal learning and retail certification. The discounted cash flows did not support the direct assets, goodwill and intangibles of the multi-modal learning reporting unit. However, the discounted cash flows did support the value of the retail certification reporting unit.

The enterprise value of the two reporting units and the identifiable intangible assets were based on valuations prepared by a third party appraisal firm using assum