

SKILLSOFT PUBLIC LIMITED CO  
Form PREM14A  
February 19, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |  |  |
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| <input type="checkbox"/> Preliminary Proxy Statement                 | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
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| <input type="checkbox"/> Definitive Additional Materials             |  |
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**SKILLSOFT PUBLIC LIMITED COMPANY**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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- (1) Title of each class of securities to which transaction applies:

Ordinary Shares, par value 0.11 per share, of SkillSoft PLC ( Ordinary Shares )

- (2) Aggregate number of securities to which transaction applies:

105,185,118 Ordinary Shares, comprised of (A) 94,803,778 Ordinary Shares outstanding as of 15 February 2010, (B) 94,799,515 Ordinary Shares represented by American Depositary Shares ( ADSs ), which are traded on the NASDAQ Global Market, (C) 210,000 ADSs authorized under the current period of the Employee Share Purchase Plan, ending 31 March 2010 and (D) options to purchase 10,171,340 ADSs with an exercise price of less than \$10.80 per share.

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The maximum aggregate value was determined based on the sum of: (a) 95,013,778 SkillSoft Ordinary Shares multiplied by \$10.80 per share; and (b) 10,171,340 SkillSoft Ordinary Shares underlying outstanding stock options with exercise prices less than \$10.80 per share multiplied by \$5.03 (which is the difference between \$10.80 per share and the weighted average exercise price per share). The filing fee was determined by multiplying \$0.00007130 by the maximum aggregate value of the transaction as determined in accordance with the preceding sentence.

- (4) Proposed maximum aggregate value of transaction:  
\$1,077,310,642.60

- (5) Total fee paid:

\$76,813

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**PRELIMINARY COPY SUBJECT TO COMPLETION**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended to immediately seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional financial advisor who, if you are taking advice in Ireland, is authorised or exempted under the Investment Intermediaries Act 1995 of Ireland (as amended) or the European Communities (Markets in Financial Instruments Directive) Regulations 2007 of Ireland (as amended).

If you have sold or otherwise transferred all of your SkillSoft ADSs and/or SkillSoft Shares please send this document and the accompanying documents at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold or otherwise transferred some of your SkillSoft ADSs and/or SkillSoft Shares you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected. Such documents should, however, not be distributed, forwarded or transmitted in or into or from any Restricted Jurisdiction.

**RECOMMENDED ACQUISITION FOR CASH  
OF  
SKILLSOFT PUBLIC LIMITED COMPANY  
BY  
SSI INVESTMENTS III LIMITED  
BY MEANS OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 201 OF THE COMPANIES ACT 1963 OF IRELAND**

SkillSoft ADS holders will find enclosed with this document the ADS Voting Instruction Card. SkillSoft ADS holders are asked to submit their ADS Voting Instruction Card either through the Internet or by telephone or complete the enclosed ADS Voting Instruction Card in accordance with the instructions printed on the card and return it by post as soon as possible but in any event so as to be received by the Depositary, at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA, by [ ] 2010. If the ADS Voting Instruction Card for the Meetings is not received by [ ] 2010, the Depositary will not vote your SkillSoft ADSs.

SkillSoft Shareholders will find enclosed with this document Forms of Proxy for the Meetings. Whether or not SkillSoft Shareholders wish to attend the Meetings, they are asked to complete the enclosed Forms of Proxy in accordance with the instructions printed on the forms and return them either by post, by hand or by fax as soon as possible but in any event so as to be received by SkillSoft's Registrar, Computershare Investor Services (Ireland) Limited, P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, not less than 48 hours before the relevant Meeting. If returning the Forms of Proxy by fax, please send the fax to 01 216 3183 (if dialing within Ireland) or +353 1 216 3183 (if dialing from outside Ireland). If the Form of Proxy for the Court Meeting is not lodged by the relevant time, it may be handed to the Chairman of the Court Meeting before the start of the Court Meeting.

The completion and return of a Form of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the EGM (as appropriate) or any adjournment thereof if you so wish and are so entitled.

This document should be read as a whole. Your attention is drawn to the letter from Charles E. Moran, Chairman of the Board of SkillSoft, in Part I (Letter of Recommendation from the Board of SkillSoft) of this document, which contains a unanimous recommendation from the Board of SkillSoft that you vote in favour

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of the resolutions to be proposed at the Court Meeting and the EGM. A letter from Credit Suisse explaining the Scheme appears in Part III (Explanatory Statement) of this document.

Capitalised words in this document are defined in Part IX (Definitions).

Notices convening the Court Meeting and the EGM, both of which will be held at [ ], Ireland on [ ] 2010, are set out in Part X (Notice of Court Meeting) and Part XI (Notice of Extraordinary General Meeting of SkillSoft Public Limited Company), respectively, of this document. The Court Meeting will start at [ ] (Irish Standard Time) and the EGM will start at [ ] (Irish Standard Time) (or, if later, as soon thereafter as the Court Meeting, convened for the same date and place, has concluded or been adjourned).

*Record Date for SkillSoft ADS holders.* The Depositary has fixed [ ] 2010 as the record date for the determination of SkillSoft ADS holders entitled to receive notice of the Court Meeting and EGM or any adjournment or postponement thereof.

*Record Date for SkillSoft Shareholders.* Holders of record of SkillSoft Shares on [ ] 2010, whose names are registered in the Register of Members of the Company will receive notice of the Court Meeting and EGM and any adjournments thereof; however, holders of Scheme Shares as of the Voting Record Time will be entitled to attend and vote at the Court Meeting and holders of only SkillSoft Shares as of the

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Voting Record Time will be entitled to attend and vote at the EGM in respect of the number of SkillSoft Shares registered in their name at such time. During each week up to [ ] 2010, the Registrar and the Company will review the Register of Members of the Company and will mail to any new SkillSoft Shareholders a copy of this document together with the Forms of Proxy.

**The action to be taken by SkillSoft Securityholders in respect of the Meetings and the Acquisition is set out on page 25.**

This document is dated [ ] 2010 and was first mailed to SkillSoft Securityholders on or about [ ] 2010.

The directors of SkillSoft accept responsibility for the information contained in this document, other than that relating to SSI Investments, Berkshire, Advent, Bain Capital Partners, the Investor Group, Stockbridge, Stockbridge Partners, their respective associates and the directors of SSI Investments and members of their immediate families, related trusts and persons connected with them. To the best of the knowledge and belief of the directors of SkillSoft (who have taken all reasonable care to ensure such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

The directors of SSI Investments accept responsibility for the information contained in this document relating to SSI Investments, the Investor Group, Berkshire, Advent, Bain Capital Partners, Stockbridge, Stockbridge Partners, their respective associates and the directors of SSI Investments and members of their immediate families, related trusts and persons connected with them. To the best of the knowledge and belief of the directors of SSI Investments (who have taken all reasonable care to ensure such is the case), the information contained in this document for which they accept responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

Credit Suisse Securities (USA) LLC, or Credit Suisse, which is regulated under the laws of the United States of America, is acting for SkillSoft and for no one else in connection with the Acquisition and will not be responsible to any person other than SkillSoft for providing the protections afforded to clients of Credit Suisse, nor for providing advice in relation to the Acquisition, the content of this document or any transaction or any matter referred to herein. Neither Credit Suisse nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Credit Suisse in connection with this document, any transaction, any statement contained herein or otherwise.

Morgan Stanley, which is regulated under the laws of the United States of America, is acting as lead financial advisor to SSI Investments and the Investor Group and no one else in connection with the Acquisition and will not be responsible to anyone other than SSI Investments and the Investor Group for providing the protections afforded to clients of Morgan Stanley or for providing advice in relation to the Acquisition, the contents of this document or any transaction or arrangement referred to herein.

Barclays Capital, which is regulated under the laws of the United States of America, is acting as financial advisor to SSI Investments and the Investor Group and no one else in connection with the Acquisition and will not be responsible to anyone other than SSI Investments and the Investor Group for providing the protections afforded to clients of Barclays Capital or for providing advice in relation to the Acquisition, the contents of this document or any transaction or arrangement referred to herein.

Wilmer Cutler Pickering Hale and Dorr LLP and William Fry are acting as legal advisors to SkillSoft.

Ropes & Gray LLP and Mason Hayes+Curran are acting as legal advisors to SSI Investments and the Investor Group.

This document does not constitute an offer or an invitation to purchase, sell, subscribe for or exchange or the solicitation of an offer to purchase, sell, subscribe for or exchange any securities or the solicitation of any vote of approval in any jurisdiction in which such offer, invitation or solicitation would be unlawful.

The distribution of this document in or into certain jurisdictions may be restricted by the laws of those jurisdictions. Accordingly, copies of this document and all other documents relating to the Acquisition are not being, and must not be, mailed or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction. Persons receiving such documents (including, without limitation, nominees, trustees and custodians) should observe these restrictions. Failure to do so may constitute a violation of the securities laws of any such jurisdiction.

Any action taken in relation to the Acquisition should be taken only on the basis of all of the information contained in this document.

**If you are a SkillSoft ADS holder and have any questions relating to this document or how to complete and return the ADS Voting Instruction Card, please call SkillSoft's proxy solicitor, Georgeson, toll-free at 1-866-357-4029 (if calling within the United States) or at +001 212-806-6859 (if calling from outside the United States) between 9.00 a.m. and 5.00 p.m. (United States Eastern Time) on any Business Day. If calling from outside the United States, please call collect. Banks and brokers should contact Georgeson at 1-212-440-9800. Georgeson cannot provide advice on the benefits of the Acquisition or the Scheme or recommend how you vote or give any financial or tax advice.**

**If you are a SkillSoft Shareholder and have any questions relating to this document or how to complete and return the Forms of Proxy, please call SkillSoft's Registrar, Computershare Investor Services (Ireland) Limited at 01 447 5518 (if calling within Ireland) or at +353 1 447 5518 (if calling from outside Ireland) between 9.00 a.m. and 5.00 p.m. (Irish Standard Time) on any Business Day. SkillSoft's Registrar cannot provide advice on the benefits of the Scheme or the Acquisition or recommend how you vote or give any financial advice or tax advice.**

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Under the provisions of Rule 8.3 of the Takeover Rules, if any person is, or becomes, interested (directly or indirectly) in one per cent. or more of any class of relevant securities of SkillSoft, all dealings in any relevant securities of SkillSoft (including by means of an option in respect of, or a derivative referenced to, any such relevant securities) by such person must be publicly disclosed by not later than 3.30 p.m. (Irish Standard Time) on the business day following the date of the relevant transaction. This requirement will continue until the date on which the Scheme becomes effective or on which the Offer Period otherwise ends. If two or more persons co-operate on the basis of any agreement, either express or tacit, either oral or written, to acquire an interest in relevant securities of SkillSoft, they will be deemed to be a single person for the purpose of Rule 8.3 of the Takeover Rules.

Under the provisions of Rule 8.1 of the Takeover Rules, all dealings in relevant securities of SkillSoft by SSI Investments or SkillSoft, or by any of their respective associates, must also be disclosed by no later than 12 noon (Irish Standard Time) on the business day following the date of the relevant transaction.

The attention of SkillSoft Securityholders, who are resident in, or citizens of, or who have a contractual or legal obligation to forward this document to, Restricted Jurisdictions, is drawn to paragraph 11 in Part III (Explanatory Statement) of this document.

## **Information concerning forward-looking statements**

This document includes information that constitutes forward-looking statements made pursuant to the safe harbour provision of the United States Private Securities Litigation Reform Act of 1995. Statements in this document regarding the proposed transaction between SSI Investments and SkillSoft, the expected timetable for completing the transaction and any other statements about SSI Investments and SkillSoft's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements. Any such forward-looking statements involve risk and uncertainties that could cause actual results to differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include competitive pressures, changes in customer demands or industry standards, adverse economic conditions, loss of key personnel, litigation and other risk factors disclosed under the heading "Risk Factors" in SkillSoft's Quarterly Report on Form 10-Q for the quarterly period ended 31 October 2009, as filed with the Securities and Exchange Commission. The forward-looking statements provided by SSI Investments and SkillSoft in this document represent the views of SSI Investments and SkillSoft as of the date of this document. SSI Investments and SkillSoft anticipate that subsequent events and developments may cause their views to change. However, while SSI Investments and SkillSoft may elect to update these forward-looking statements at some point in the future, SSI Investments and SkillSoft specifically disclaim any obligation to do so. These forward-looking statements should not be relied upon as representing SSI Investments or SkillSoft's views as of any date subsequent to the date of this document.

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**QUESTIONS AND ANSWERS ABOUT THE ACQUISITION, THE SCHEME OF ARRANGEMENT, THE COURT MEETING, THE EXTRAORDINARY GENERAL MEETING AND THE COURT HEARING**

*The following questions and answers are provided for your convenience, and briefly address some commonly asked questions about the Acquisition, the Scheme of Arrangement, the Court Meeting, the Extraordinary General Meeting and the Court Hearing. These questions and answers may not address all questions that may be important to you as a SkillSoft Securityholder. You should still read this entire document carefully, including each of the Annexes.*

**Overview**

**Q1: What is the proposed transaction?**

A: SSI Investments, a company formed by funds sponsored by each of Berkshire, Advent and Bain Capital Partners, proposes to acquire SkillSoft for US\$10.80 in cash per SkillSoft ADS or SkillSoft Share. To become effective this proposal is subject to various conditions including shareholder approval. As further described below, the transaction is proposed to be structured as a scheme of arrangement under Irish law, under which SSI Investments will effectively acquire all of the outstanding SkillSoft Shares and SkillSoft ADSs. The Board of SkillSoft unanimously recommends that SkillSoft Securityholders vote in favour of the acquisition of SkillSoft by SSI Investments and the Scheme of Arrangement, as the members of the SkillSoft Board who are SkillSoft Securityholders have irrevocably undertaken (subject to certain exceptions) to do in respect of their own beneficial holdings, amounting to, in aggregate 5,877 SkillSoft Shares, which represents approximately 0.006 per cent. of the issued share capital of SkillSoft, and any SkillSoft Shares that such directors may acquire or subscribe for upon exercise of their SkillSoft Options.

**Q2: How do I vote in favour of the proposed transaction?**

A: If you hold SkillSoft ADSs, then (unless you are an Investor Group Associate) you should complete and sign the ADS Voting Instruction Card by following the instructions appearing below in this document. If you are a direct shareholder of SkillSoft, then (unless you are an Investor Group Associate) you should complete and sign two Forms of Proxy both the PINK Form of Proxy and the BLUE Form of Proxy, in each case by following the instructions appearing in the answers to Q13 and Q14 below on pages 3 and 4 of this document. You will need to complete both Forms of Proxy in order to vote in favour of the Acquisition. There are two Forms of Proxy in this transaction because Irish law requires that two separate shareholder meetings be held, the Court Meeting and the Extraordinary General Meeting. Investor Group Associates will not vote their Scheme Shares at the Court Meeting but they will instead instruct the Depositary to vote the SkillSoft Shares represented by their SkillSoft ADSs at the Extraordinary General Meeting.

**Q3: What is the difference between a Scheme Shareholder and a SkillSoft Shareholder?**

A: Whether a holder of SkillSoft Shares is a Scheme Shareholder or a SkillSoft Shareholder depends on who holds the SkillSoft Shares in question and when the shares were issued by SkillSoft. Any holder of SkillSoft Shares outstanding on the date of this document will be a Scheme Shareholder. In addition, SkillSoft Shares issued after the Scheme Record Time do not constitute Scheme Shares. It is expected that the only SkillSoft Shares issued after the Scheme Record Time will be SkillSoft Shares issued pursuant to the exercise of options granted under the SkillSoft Share Option Plans or issued under the SkillSoft Employee Share Purchase Plan, and this is explained further in paragraph 11 in Part I (Letter of Recommendation from the Board of SkillSoft) of this document.

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**Q4: What is a scheme of arrangement ?**

A: A scheme of arrangement is an Irish transaction structure that is similar in effect to a merger in the United States. If the Scheme of Arrangement becomes effective, then:

SSI Investments will pay US\$10.80 in cash per SkillSoft Share to each Scheme Shareholder and SkillSoft ADS holder;

all outstanding Scheme Shares will either be cancelled or transferred to SSI Investments;

SkillSoft will issue New SkillSoft Shares to SSI Investments in place of the Cancellation Shares, so that SkillSoft becomes a wholly owned subsidiary of SSI Investments; and

the Scheme will be binding on all SkillSoft Shareholders, whether or not they voted in support of the Scheme.

As SkillSoft is an Irish incorporated company, it and the SkillSoft Board (and compliance with its fiduciary duties) are subject to the laws of Ireland. As is explained in the succeeding questions and answers, the Acquisition is subject to approval by SkillSoft Shareholders and by the High Court of Ireland and the proposed transaction cannot be consummated without these approvals. The Acquisition, by way of the Scheme, will be approved by SkillSoft Shareholders if a simple majority (more than 50 per cent.) in number of the Scheme Shareholders who vote (in person or by proxy), vote in favour of the Scheme and if Scheme Shares representing three-fourths (75 per cent.) in value of the total number of Scheme Shares voted at the Court Meeting are voted in favour of the Scheme. So, in effect what is currently being presented in this document is a proposal, to be considered and voted on by SkillSoft Shareholders, for the acquisition of SkillSoft by SSI Investments on the terms set out in this document.

**The Court Hearing, the Court Meeting and the Extraordinary General Meeting**

**Q5: What are the Court Hearing and the Court Meeting?**

A: In order for the Scheme to become effective, the sanction of the Scheme by the High Court at a hearing is required. This hearing is referred to as the Court Hearing. Subject to the approval of the resolutions proposed at the Meetings, the Court Hearing will take place on [ ] 2010.

In addition, prior to the sanction of the High Court, and in order for the Scheme to become effective, the approval of the Scheme by the Scheme Shareholders is required. This approval is obtained at a shareholder meeting referred to as the Court Meeting. The purpose of the Court Meeting is to allow the High Court to ascertain whether Scheme Shareholders are in favour of the Scheme. All SkillSoft Shareholders, other than the holders of Designated Shares, are Scheme Shareholders. The Court Meeting will be held at [ ] (Irish Standard Time) on [ ] 2010, and the Notice of the Court Meeting is set out in Part X (Notice of Court Meeting) of this document.

**Q6: What is the Extraordinary General Meeting?**

A: In addition to the approval of the Scheme at the Court Meeting, the Scheme cannot become effective unless a number of additional resolutions are approved at a second meeting of the SkillSoft Shareholders, which is referred to as the Extraordinary General Meeting. These resolutions are discussed in paragraph 4.2 of Part III (Explanatory Statement) of this document, and all serve to implement the Scheme and SSI Investments' Acquisition of SkillSoft. The Extraordinary General Meeting will be held at [ ] (Irish Standard Time) on [ ] 2010 or, if later, immediately after the conclusion or adjournment of the Court Meeting. The Notice of the

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Extraordinary General Meeting is set out on in Part XI (Notice of Extraordinary General Meeting of SkillSoft Public Limited Company) of this document.

**Q7: Why are there multiple shareholder meetings?**

A: Irish law requires that two separate shareholder meetings be held, the Court Meeting and the Extraordinary General Meeting. Both meetings are necessary to cause the Scheme to become effective.

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The Investor Group Associates will not vote their Scheme Shares at the Court Meeting but they will instead instruct the Depositary to vote the SkillSoft Shares represented by their SkillSoft ADSs at the Extraordinary General Meeting.

### **Q8: When and where is the Court Meeting?**

A: The Court Meeting will be held at [ ], Ireland, on [ ] 2010, at [ ] (Irish Standard Time).

### **Q9: When and where is the Extraordinary General Meeting?**

A: The Extraordinary General Meeting will be held at [ ], Ireland, on [ ] 2010, at [ ] (Irish Standard Time) or, if later, immediately after the conclusion or adjournment of the Court Meeting.

### **Q10: Who is entitled to vote at the Court Meeting and the Extraordinary General Meeting?**

A: Only Scheme Shareholders will be entitled to vote at the Court Meeting whereas all SkillSoft Shareholders will be entitled to vote at the Extraordinary General Meeting. SkillSoft ADS holders will be represented at the Court Meeting and the Extraordinary General Meeting through the Depositary, who will vote the SkillSoft Shares represented by their SkillSoft ADSs as instructed by SkillSoft ADS holders through the ADS Voting Instruction Card.

### **Q11: What vote is required at the Court Meeting?**

A: At the Court Meeting, the Scheme will be approved if a simple majority (more than 50 per cent.) in number of the Scheme Shareholders who vote (in person or by proxy), vote in favour of the Scheme and if Scheme Shares representing three-fourths (75 per cent.) in value of the total number of Scheme Shares voted at the Court Meeting are voted in favour of the Scheme.

**In considering its approval of the Scheme, the High Court will consider whether there has been a sufficiently large (in the High Court's judgment) number of Scheme Shares included in the vote in favour of the Scheme to fairly represent the opinion of Scheme Shareholders, in addition to whether the required majority (as described above) is obtained. As a result, it is important that as many votes as possible are cast at the Court Meeting.**

**SkillSoft urges SkillSoft ADS holders to complete, sign, date and return the enclosed ADS Voting Instruction Card or to submit their ADS Voting Instruction Card via the Internet, by telephone or by post to ensure that the Depositary represents their SkillSoft ADSs and votes the corresponding Scheme Shares at the Court Meeting.**

**SkillSoft urges Scheme Shareholders to complete, sign, date and return their PINK Form of Proxy to ensure the representation and voting of their Scheme Shares at the Court Meeting.**

The failure to vote (by proxy or in person) will increase the likelihood of the Scheme being defeated at the Court Meeting and the Acquisition not proceeding.

**Q12: What vote is required at the Extraordinary General Meeting?**

A: At the Extraordinary General Meeting, the ordinary resolutions must be approved by a simple majority (more than 50 per cent.) of the votes cast (in person or by proxy) and the special resolutions must be approved by not less than three-fourths (75 per cent.) of the votes cast (in person or by proxy).

**SkillSoft urges SkillSoft ADS holders to complete, sign, date and return the enclosed ADS Voting Instruction Card or to submit their ADS Voting Instruction Card via the Internet, by telephone or by post to ensure that the Depositary represents their SkillSoft ADSs and votes the corresponding SkillSoft Shares at the Extraordinary General Meeting.**

**SkillSoft urges SkillSoft Shareholders to complete, sign, date and return the enclosed BLUE Form of Proxy to ensure the representation and voting of their SkillSoft Shares at the Extraordinary General Meeting.**

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**Q13: How do I vote at the Court Meeting?**

A: For SkillSoft ADS holders:

Complete, date and sign the ADS Voting Instruction Card accompanying this document in accordance with the instructions printed thereon and return it to the Depository at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA as soon as possible but, in any event, by [ ] 2010. Alternatively, you may submit your ADS Voting Instruction Card via telephone by calling the number printed at the top of your ADS Voting Instruction Card or via the Internet by accessing the Depository's website at www.[ ].com. To dial in or log in please make sure that you have your ADS Voting Instruction Card available. If the ADS Voting Instruction Card for the Court Meeting is not received by [ ] 2010, the Depository will not vote the Scheme Shares represented by your SkillSoft ADSs. It is important that, for the Court Meeting, as many votes as possible are cast (whether in person or by proxy) so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign, date and return your ADS Voting Instruction Card as soon as possible to ensure that the Depository votes the Scheme Shares represented by your SkillSoft ADSs at the Court Meeting.

For Scheme Shareholders:

Complete, date and sign the PINK Form of Proxy accompanying this document in accordance with the instructions printed thereon and return it to SkillSoft's Registrar, Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, as soon as possible but, in any event, so as to be received by post or, during normal business hours, by hand, by [ ] (Irish Standard Time) on [ ] 2010. It is important that, for the Court Meeting, as many votes as possible are cast (whether in person or by proxy) so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign, date and return your PINK Form of Proxy as soon as possible.

**Q14: How do I vote at the Extraordinary General Meeting?**

A: For SkillSoft ADS holders:

Complete, date and sign the ADS Voting Instruction Card accompanying this document in accordance with the instructions printed thereon and return it to the Depository at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA as soon as possible but, in any event, by [ ] 2010. Alternatively, you may submit your ADS Voting Instruction Card via telephone by calling the number printed at the top of your ADS Voting Instruction Card or via the Internet by accessing the Depository's website at www.[ ].com. To dial in or log in please make sure that you have your ADS Voting Instruction Card available.

For SkillSoft Shareholders:

Complete, date and sign the BLUE Form of Proxy accompanying this document in accordance with the instructions printed thereon and return it to Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, as soon as possible but, in any event, so as to be received by post or, during normal business hours, by hand, by [ ] (Irish Standard Time) on [ ] 2010.

**Q15: If my SkillSoft ADSs or SkillSoft Shares are held in street name by my broker, will my broker vote my SkillSoft ADSs or SkillSoft Shares for me?**

- A: Depending on any relevant arrangements in respect of such matters, your broker will be permitted to vote your SkillSoft ADSs or SkillSoft Shares only if you instruct your broker how to vote. If you are a SkillSoft Shareholder (but not a SkillSoft ADS holder) and have previously provided your broker with absolute discretion to vote at all times on SkillSoft Shareholder votes, then your broker will be able to



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vote your SkillSoft Shares unless you instruct your broker otherwise. If your broker does not have absolute discretion to vote on your behalf, or if you are a SkillSoft ADS holder and you wish to instruct your broker to vote on your behalf, you should follow the procedures provided by your broker regarding the voting of your SkillSoft ADSs or SkillSoft Shares. **If your broker does not have absolute discretion and you do not provide instructions to your broker to vote in favour of the Scheme, your SkillSoft ADSs or SkillSoft Shares (as the case may be) will not be voted, which will increase the likelihood of the Scheme being defeated and the Acquisition not proceeding.**

**Q16: If I am a SkillSoft ADS holder, do I need to present my SkillSoft ADSs to the Depositary for cancellation and delivery of SkillSoft Shares in order to be able to vote in favour of the Scheme or to receive the Consideration?**

A: No, as a SkillSoft ADS holder you may vote in favour of the Scheme by completing and signing the ADS Voting Instruction Card and, if the Scheme is made effective, and you continue to hold your SkillSoft ADSs, you will receive the Consideration.

**Q17: May I vote in person?**

A: For SkillSoft ADS holders:

No. SkillSoft ADS holders will not be entitled to attend and vote or speak at the Meetings or to be represented at the Court Hearing. However, SkillSoft ADS holders may instruct the Depositary how to vote such holders' SkillSoft ADSs at the Meetings and the Depositary will vote in accordance with the instructions it receives. Details of how SkillSoft ADS holders can instruct the Depositary to vote at the Court Meeting and the Extraordinary General Meeting are contained in the enclosed ADS Voting Instruction Card.

SkillSoft ADS holders who wish to attend and vote or speak at the Court Meeting and/or the Extraordinary General Meeting or to be represented at the Court Hearing should take steps to present their SkillSoft ADSs to the Depositary for cancellation and delivery of SkillSoft Shares so as to become holders of record of SkillSoft Shares on the Register of Members prior to the relevant Voting Record Time for the Court Meeting or the Extraordinary General Meeting or prior to the Court Hearing (as the case may be).

For Scheme Shareholders and SkillSoft Shareholders:

Yes. If you are a holder of Scheme Shares you may attend and vote or speak at the Court Meeting in person. If you are a holder of SkillSoft Shares you may attend and vote and speak at the Extraordinary General Meeting and vote your SkillSoft Shares in person. If you hold your Scheme Shares or SkillSoft Shares (as the case may be) in street name, you must provide a legal proxy executed by your bank or broker to vote your Scheme Shares or SkillSoft Shares in person at the Court Meeting and/or the Extraordinary General Meeting.

**Q18: What if I do not vote?**

A: The failure to vote in favour of the Scheme and the resolutions to be considered at the Extraordinary General Meeting (by proxy or in person) will increase the likelihood of the Scheme being defeated at the Court Meeting, the resolutions to be considered at the Extraordinary General Meeting not being approved and the Acquisition not proceeding. If the Scheme is defeated and the Acquisition does not proceed, you will not receive the Consideration of US\$10.80 in cash per SkillSoft ADS or SkillSoft Share that is payable pursuant to the terms of the Acquisition and Scheme. Your vote is important regardless of the number of SkillSoft ADSs or SkillSoft Shares that you own.



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**Q19: Who is soliciting my proxy?**

A: This proxy is being solicited by the Board of SkillSoft. The Board of SkillSoft considers the terms of the Acquisition to be fair and reasonable. The Board of SkillSoft unanimously recommends that SkillSoft Securityholders vote in favour of the Acquisition and Scheme.

**Q20: May holders of SkillSoft ADSs or SkillSoft Shares be represented at the Court Hearing?**

A: SkillSoft ADS holders will not be entitled to be represented at the Court Hearing. SkillSoft ADS holders who wish to be represented at the Court Hearing should take steps to present their SkillSoft ADSs to the Depository for cancellation and delivery of SkillSoft Shares so as to become holders of record of SkillSoft Shares in the Register of Members prior to the Court Hearing. All SkillSoft Shareholders (but not SkillSoft ADS holders) are entitled to be represented by counsel or a solicitor (at their own expense) to support or oppose the sanctioning of the Scheme at the Court Hearing.

**Q21: What should I do now?**

A: For SkillSoft ADS holders:

After carefully reading and considering the information contained in this document, please vote your SkillSoft ADSs by returning the enclosed ADS Voting Instruction Card to the Depository or by submitting your ADS Voting Instruction Card via the Internet or by telephone.

Do **not** enclose or return your SkillSoft ADSs with your ADS Voting Instruction Card.

For Scheme Shareholders and SkillSoft Shareholders:

After carefully reading and considering the information contained in this document, please vote your SkillSoft Shares by returning the enclosed PINK Form of Proxy and BLUE Form of Proxy to SkillSoft's Registrar by post, by hand or by fax. SkillSoft Shareholders (but not SkillSoft ADS holders) may also attend the Court Meeting and/or the Extraordinary General Meeting and vote in person.

Do **not** enclose or return your share certificate(s) with your Forms of Proxy.

**Q22: When should I send in my ADS Voting Instruction Card and/or Forms of Proxy?**

A: SkillSoft ADS holders should complete, sign, date and return their ADS Voting Instruction Card as soon as possible, and in any event by [ ] 2010, so that their SkillSoft ADSs will be voted at the Court Meeting and/or Extraordinary General Meeting.

SkillSoft Shareholders should complete, sign, date and return their Forms of Proxy as soon as possible, and in any event by [ ] 2010, so that their SkillSoft Shares will be voted at the Court Meeting and/or Extraordinary General Meeting.

**Q23: May I change my vote after I have mailed my signed ADS Voting Instruction Card and/or Forms of Proxy?**

A: For SkillSoft ADS holders:

Yes. Holders of SkillSoft ADSs may change their vote at any time before [ ] (United States Eastern Time) on [ ] 2010. You may do this by sending a written, dated notice to the Depositary stating that you would like to revoke your voting instructions, which must be received by the Depositary by [ ] (United States Eastern Time) on [ ] 2010.

If you have questions regarding your ADS Voting Instruction Card after you have returned it to the Depositary, you should contact Georgeson or the Depositary at the addresses provided below.

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### **For Scheme Shareholders and SkillSoft Shareholders:**

Scheme Shareholders may change their vote at any time before the start of the Court Meeting in the case of the PINK Form of Proxy and SkillSoft Shareholders may change their vote at any time up to [ ] (Irish Standard Time) on [ ] 2010 in the case of the BLUE Form of Proxy for the Extraordinary General Meeting. You may do this in one of three ways. First, you may send a written, dated notice to the Registrar of SkillSoft stating that you would like to revoke your proxy. Second, you may complete, sign, date and submit a new Form of Proxy. Third, you may attend the Court Meeting and/or the Extraordinary General Meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your SkillSoft Shares, you must follow the directions received from your broker relating to changing those instructions.

If you have questions regarding your Forms of Proxy after you have returned them to the Registrar, you should contact the Registrar at the address provided below.

### **Q24: When and where is the Court Hearing?**

A: Subject to the approval of the resolutions proposed at the Meetings, the Court Hearing will be held at The Four Courts, Inns Quay, Dublin, Ireland on [ ] 2010.

### **The Acquisition and the Scheme of Arrangement**

### **Q25: What is the Scheme of Arrangement?**

A: The Scheme of Arrangement is an arrangement made between SkillSoft and the Scheme Shareholders under Irish law and is subject to the approval of the High Court. If the Scheme of Arrangement becomes effective, all Scheme Shares currently held by Scheme Shareholders will be cancelled or transferred to SSI Investments. SkillSoft will then issue New SkillSoft Shares to SSI Investments in place of the Scheme Shares cancelled pursuant to the Scheme of Arrangement and SSI Investments will pay US\$10.80 per SkillSoft Share in cash (without interest and less any applicable withholding taxes) to the former Scheme Shareholders. As a result of these arrangements, SkillSoft will become a wholly owned subsidiary of SSI Investments.

### **Q26: What will I receive in the Acquisition?**

A: For SkillSoft ADS holders:

As a SkillSoft ADS holder, you will receive US\$10.80 in cash (without interest and less any applicable withholding taxes and ADS cancellation fees, if applicable) for each SkillSoft ADS that you own. For example, if you own 100 SkillSoft ADSs, after the Scheme becomes effective, you will receive US\$1,080.00 in cash (without interest and less any withholding taxes and ADS cancellation fees, if applicable).

For SkillSoft Shareholders:

As a SkillSoft Shareholder, you will receive US\$10.80 in cash (without interest and less any applicable withholding taxes) for each SkillSoft Share that you own. For example, if you own 100 SkillSoft Shares, within 14 days of the Scheme becoming effective, you will

receive US\$1,080.00 in cash (without interest and less any applicable withholding taxes).

**Q27: What rights do I have if I oppose the Acquisition and the Scheme of Arrangement?**

A: For SkillSoft ADS holders:

You can vote against approval of the Scheme by completing, signing, dating and returning your ADS Voting Instruction Card or by submitting your ADS Voting Instruction Card via the Internet, by telephone or by post to the Depositary for the Court Meeting and/or the Extraordinary General Meeting.

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### **For Scheme Shareholders and SkillSoft Shareholders:**

You can vote against approval of the Scheme by completing, signing, dating and returning your Forms of Proxy or voting in person at the Court Meeting and/or the Extraordinary General Meeting. Each SkillSoft Shareholder is entitled to be represented by counsel or a solicitor (at their own expense) at the Court Hearing to support or oppose the sanctioning of the Scheme.

#### **Q28: Am I entitled to appraisal rights in connection with the Scheme?**

A: If the Scheme is approved by the Scheme Shareholders and sanctioned by the High Court, then, subject to the Scheme becoming effective in accordance with its terms and the right of a Scheme Shareholder to appeal the High Court's decision to sanction the Scheme, the Scheme will be binding on all SkillSoft Shareholders, including those Scheme Shareholders who did not vote or who voted against it at the Court Meeting. Only those Scheme Shareholders who attend and are heard at the Court Hearing will have the right to appeal the High Court's decision to sanction the Scheme to the Irish Supreme Court. SkillSoft Shareholders will have no right to seek a court appraisal of the value of SkillSoft Shares. **If the Scheme becomes effective, all SkillSoft ADS holders will receive US\$10.80 per SkillSoft ADS and all SkillSoft Shareholders will receive US\$10.80 per SkillSoft Share.**

#### **Q29: If the Acquisition is consummated, when can I expect to receive the Consideration for my SkillSoft Shares?**

A: After the Scheme becomes effective, the Depositary will forward to each SkillSoft ADS holder the Consideration to which he/she/it is entitled under the terms of the Scheme.

After the Scheme becomes effective, SkillSoft Shareholders will receive the Consideration to which they are entitled under the terms of the Scheme within 14 days of the Effective Date. For more information on the details related to the payment of the Consideration, please see paragraph 10.1 of Part III (Explanatory Statement) of this document.

#### **Q30: Why is the Board of SkillSoft recommending the Acquisition?**

A: The Board of SkillSoft, which has been so advised by Credit Suisse, considers the terms of the Acquisition to be fair and reasonable. In providing its advice, Credit Suisse has taken into account the commercial assessments of the Board of SkillSoft. Accordingly, the Board of SkillSoft intends unanimously to recommend to SkillSoft Securityholders to vote in favour of the Acquisition and Scheme, as the directors of SkillSoft who are SkillSoft Securityholders have irrevocably undertaken (subject to certain exceptions) to do in respect of their own beneficial holdings, amounting to, in aggregate 5,877 SkillSoft Shares, which represents approximately 0.006 per cent of the issued share capital of SkillSoft, and any SkillSoft Shares such directors may acquire or subscribe for upon exercise of their SkillSoft Options. To review the SkillSoft Board's reasons for recommending the Acquisition, see paragraph 4 of Part I (Letter of Recommendation from the Board of SkillSoft) of this document entitled Background to and Reasons For Recommending the Acquisition.

#### **Q31: What are the tax consequences of the Acquisition to me?**

A: Your receipt of the Consideration will be a taxable transaction for US federal income tax and Irish CGT purposes. For a more detailed explanation of the tax consequences, see paragraphs 8 and 9 of Part VIII (Additional Information) of this document entitled Irish Taxation and US Federal Income Tax Consequences, respectively. Your tax consequences will depend on your personal situation. You should consult your personal tax advisors for a full explanation of the tax consequences of the Scheme to you.

**Q32: When does the Board of SkillSoft expect the Acquisition to be consummated?**

A: SkillSoft is working towards consummating the Acquisition as quickly as possible. SkillSoft currently expects the Acquisition and the Scheme to become effective during May 2010. SkillSoft cannot, however,



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require SSI Investments to proceed with the Scheme until all of the Conditions described in paragraph 3 of Part I (Letter of Recommendation from the Board of SkillSoft) and set out in full in Part V (Conditions of the Acquisition and the Scheme) are waived or satisfied at or prior to the Effective Date in accordance with their respective terms, including the approval of the Scheme at the Court Meeting and the Extraordinary General Meeting. The Scheme requires approval by the High Court and regulatory approvals, including the approval of Relevant Authorities pursuant to the HSR Act and the equivalent laws of Germany and Austria. SkillSoft cannot assure you as to when or if all of the Conditions of the Acquisition will be met, and it is possible the parties will not complete the Acquisition.

**Q33: What happens if I sell my SkillSoft ADSs and/or SkillSoft Shares before the Court Meeting and the Extraordinary General Meeting?**

A: The Voting Record Time for the Court Meeting and the Extraordinary General Meeting is earlier than the expected Effective Time of the Acquisition. If you hold your SkillSoft ADSs or SkillSoft Shares on the Voting Record Time ([ ] (Irish Standard Time) on the day which is 48 hours before the date of the Meetings) but transfer those SkillSoft ADSs or SkillSoft Shares after the Voting Record Time and before the Effective Time, you may retain your right to vote at the Court Meeting and the Extraordinary General Meeting but not the right to receive the Consideration. This right to receive the Consideration will pass to the person who owns the SkillSoft ADSs or SkillSoft Shares you transferred as of the Scheme Record Time ([ ] (Irish Standard Time) on the Business Day before the Effective Date of the Acquisition).

**Q34: What should I do if I have questions?**

A: For SkillSoft ADS holders:

If you have questions about the Acquisition, the Scheme of Arrangement, the Court Meeting, the Extraordinary General Meeting, the Court Hearing or this document, or would like additional copies of this document or the ADS Voting Instruction Card, you should contact SkillSoft's proxy solicitor, Georgeson, at 1-866-357-4029 (if calling within the United States) or at +001 212-806-6859 (if calling from outside the United States) between 9.00 a.m. and 5.00 p.m. (United States Eastern Time) on any Business Day. If calling from outside the United States, please call collect. Banks and brokers should contact Georgeson at 1-212-440-9800. For legal reasons, SkillSoft's proxy solicitor cannot provide advice on the benefits of the Acquisition or the Scheme or recommend how you vote or give any financial or tax advice.

For SkillSoft Shareholders:

If you have questions about the Acquisition, the Scheme of Arrangement, the Court Meeting, the Extraordinary General Meeting, the Court Hearing or this document, or would like additional copies of this document or the Forms of Proxy, you should contact SkillSoft's Registrar, Computershare Investor Services (Ireland) Limited, on 01 447 5518 (if calling within Ireland) or on +353 1 447 5518 (if calling from outside Ireland) between 9.00 a.m. and 5.00 p.m. (Irish Standard Time) on any Business Day. For legal reasons, SkillSoft's Registrar cannot provide advice on the benefits of the Scheme or Acquisition or recommend how you should vote or give any financial advice or tax advice.

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**SUMMARY**

*This summary highlights selected information from this document and may not contain all of the information that is important to SkillSoft Securityholders. To understand the Scheme fully, you should carefully read this entire document, as well as the other documents to which this document refers. Page references are included in parentheses to direct you to a more complete summary of the topics presented in this summary. The information incorporated by reference into this document may be obtained without charge by following the instructions in the paragraph entitled *Where You Can Find More Information* beginning on page 169 of this document.*

**Information on SkillSoft, SSI Investments and the Investor Group (Pages 48 and 49)**

**SkillSoft Public Limited Company**

**107 Northeastern Boulevard**

**Nashua, New Hampshire 03062, United States**

**+1 (603) 324-3000**

**[www.skillssoft.com](http://www.skillssoft.com)**

SkillSoft, an Irish incorporated public limited company, is a leading provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps its customers to maximize performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is the surviving corporation in a merger between SmartForce PLC and SkillSoft Corporation, which closed on 6 September 2002. SkillSoft is headquartered in Dublin, Ireland, with US headquarters in Nashua, New Hampshire, and offices worldwide. SkillSoft has approximately 1,100 employees worldwide.

SkillSoft ADSs, each of which represents one SkillSoft Share deposited with the Depository pursuant to the Deposit Agreement, have been traded in the United States on NASDAQ since 13 April 1995. SkillSoft ADSs are traded on NASDAQ under the symbol SKIL .

**SSI Investments III Limited**

**Block 3**

**The Harcourt Centre**

**Harcourt Road**

**Dublin 2, Ireland**

**00 353 1 4161290**

SSI Investments, a company formed by funds sponsored by each of Berkshire, Advent and Bain Capital Partners, was incorporated in Ireland on 3 February 2010. SSI Investments is not publicly traded and has no employees. SSI Investments has not conducted any business prior to the date of this document (except for entering into agreements relating to the Acquisition). The principal executive offices of SSI Investments are located in Dublin, Ireland.

**Berkshire Partners LLC**

**200 Clarendon Street, 35<sup>th</sup> Floor**

**Boston, Massachusetts 02116, United States**

**+1 617-227-0050**



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Berkshire Partners LLC, a Massachusetts limited liability company is an active investor in the private equity market, managing approximately US \$6.5 billion of capital over seven funds. The principal executive offices of Berkshire Partners LLC are located in Boston, Massachusetts.

### **Advent International Corporation**

**75 State Street**

**Boston, Massachusetts 02109, USA**

**+1 617-951-9400**

**[www.adventinternational.com](http://www.adventinternational.com)**

Advent International Corporation, a Delaware corporation is a leading global private equity firm with investment professionals in more than 16 countries. The principal executive offices of Advent International Corporation are located in Boston, Massachusetts.

### **Bain Capital Partners, LLC**

**111 Huntington Avenue**

**Boston, Massachusetts 02199, USA**

**+1 617-516-2000**

**[www.baincapital.com](http://www.baincapital.com)**

Bain Capital Partners, LLC, a Delaware limited liability company, is a private investment firm that manages several private equity funds. Bain Capital Partners, LLC is a subsidiary of Bain Capital, LLC, which is a global investment firm whose other affiliates manage pooled investment vehicles including venture capital, public equity, high-yield assets and mezzanine capital. In total, Bain Capital, LLC and its affiliates manage approximately \$65 billion in assets and have a team of over 300 professionals dedicated to investing and to supporting its portfolio companies. The principal executive offices of Bain Capital Partners, LLC are located in Boston.

## **The Acquisition (Page 55)**

On 12 February 2010, SkillSoft and SSI Investments announced that they had reached agreement on the terms of a recommended acquisition by SSI Investments of SkillSoft to be implemented by means of a scheme of arrangement under Irish law.

At the Effective Time, the Scheme Shares will be cancelled pursuant to Sections 72 and 74 of the Act or transferred to SSI Investments. SkillSoft will then issue New SkillSoft Shares to SSI Investments in place of those Scheme Shares cancelled pursuant to the Scheme, and SSI Investments will pay the Consideration to former Scheme Shareholders in consideration for the Acquisition. As a result of the Scheme, SkillSoft will become a wholly owned subsidiary of SSI Investments.

## **The Transaction Agreement (Page 42)**

SkillSoft and SSI Investments have entered into a Transaction Agreement which contains certain assurances in relation to the implementation of the Scheme and the conduct of SkillSoft's business up to the Effective Time.

Under the terms of the Transaction Agreement, SkillSoft and SSI Investments each have agreed, among other things, to use all of its reasonable efforts to:

take such steps as are necessary, proper or advisable and provide each other with such other cooperation and assistance as may reasonably be requested of it to implement the Acquisition and the Scheme;



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afford such cooperation as may reasonably be requested of it for the purposes of preparing documents for the Acquisition and the Scheme; and

achieve satisfaction of the Conditions as soon as practicable before 16 July 2010.

**The Consideration (Page 50)**

At the Effective Time, each Scheme Share will be cancelled or transferred to SSI Investments and SSI Investments will pay the Consideration to former Scheme Shareholders. Settlement of any Consideration due to SkillSoft Shareholders (without interest and less any applicable withholding taxes, if applicable, will be despatched by ordinary prepaid post (or by such other manner as the Panel may approve). The Depositary will then distribute directly to SkillSoft ADS holders the consideration to which they are entitled under the terms of the Scheme (without interest and less any applicable withholding taxes and ADS cancellation fees). All documents and remittances sent to SkillSoft ADS holders or SkillSoft Shareholders (or in accordance with their directions) will be despatched at their own risk.

**Treatment of SkillSoft ADSs (Page 65)**

Each SkillSoft ADS represents one SkillSoft Share. The Depositary holds the SkillSoft Shares underlying the SkillSoft ADSs on behalf of the SkillSoft ADS holders. Accordingly, the Depositary, as a SkillSoft Shareholder, will be entitled to US\$10.80 for every SkillSoft Share held by it at the Scheme Record Time. After the Effective Date, the Depositary will distribute directly to SkillSoft ADS holders the Consideration to which they are entitled under the terms of the Scheme (without interest and less any withholding taxes and ADS cancellation fees, if applicable) for every SkillSoft ADS held by SkillSoft ADS holders at the Scheme Record Time.

**The Court Meeting (Page 57)**

The Court Meeting has been convened for [ ] (Irish Standard Time) on [ ] 2010 to enable Scheme Shareholders to consider and, if thought fit, approve the Scheme. The Court Meeting will be held at [ ], Ireland.

**It is important that as many votes as possible are cast at the Court Meeting so that the appropriate resolution proposing the Scheme can be passed and that the High Court may be satisfied that there is a fair representation of Scheme Shareholder opinion when it is considering whether to sanction the Scheme. If you are the holder of any SkillSoft ADSs, you are strongly urged to complete and return your ADS Voting Instruction Card as soon as possible to ensure that the Depositary represents your ADSs and votes the corresponding Scheme Shares at the Court Meeting. If you are the registered holder of any Scheme Shares, you are strongly urged to complete and return your PINK Form of Proxy for the Court Meeting as soon as possible.**

**The Extraordinary General Meeting (Page 57)**

The EGM has been convened for [ ] (Irish Standard Time) on [ ] 2010 (or, if later, as soon thereafter as the Court Meeting is concluded or adjourned) to enable SkillSoft Shareholders to consider and, if thought fit, pass the following resolutions:

to approve the Scheme and to authorise the directors of SkillSoft to take such action as they consider necessary or appropriate to carry the Scheme into effect;

to approve the cancellation of the Cancellation Shares and the application of the reserve in SkillSoft's books arising upon such cancellation in paying up in full at par the new SkillSoft Shares;

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to approve certain amendments to SkillSoft's Articles of Association designed to avoid any person (other than SSI Investments) being left with SkillSoft Shares after dealings in SkillSoft ADSs and SkillSoft Shares have ceased on NASDAQ; and

to approve a proposal to adjourn the EGM, if necessary, to solicit additional proxies in favour of approval of the resolutions to be considered at the EGM.

The EGM will be held at [ ], Ireland.

**It is important that as many votes as possible are cast at the EGM. If you are the holder of any SkillSoft ADSs, you are strongly urged to complete and return your ADS Voting Instruction Card as soon as possible to ensure that the Depositary represents your SkillSoft ADSs and votes the corresponding SkillSoft Shares at the EGM. If you are the registered holder of any SkillSoft Shares, you are strongly urged to complete and return your BLUE Form of Proxy for the EGM as soon as possible.**

### **The Court Hearing (Page 58)**

In order for the Scheme to become effective, the sanction of the High Court at the Court Hearing is required in addition to the approval by Scheme Shareholders at the Court Meeting and the passing of the necessary resolutions by SkillSoft Shareholders at the EGM. All Scheme Shareholders (but not SkillSoft ADS holders) are entitled to be represented by counsel or a solicitor (at their own expense) at the Court Hearing to support or oppose the sanctioning of the Scheme.

Subject to the approval of the resolutions proposed at the Meetings, it is expected that the Court Hearing will take place on [ ] 2010 at the Four Courts, Inns Quay, Dublin, Ireland.

### **SkillSoft ADS Holders May Not Attend the Meetings or the Court Hearing (Page 65)**

SkillSoft ADS holders will not be entitled to attend or vote at the Meetings or to be represented at the Court Hearing. However, SkillSoft ADS holders may instruct the Depositary how to vote such holders' SkillSoft ADSs at the Meetings and the Depositary will vote in accordance with the instructions it receives. Details of how SkillSoft ADS holders can instruct the Depositary to vote at the Meetings are contained in the enclosed ADS Voting Instruction Card.

Holders of SkillSoft ADSs who wish to attend the Court Meeting and/or the EGM or to be represented at the Court Hearing should take steps to present their SkillSoft ADSs to the Depositary for cancellation and delivery of SkillSoft Shares so as to become holders of record of SkillSoft Shares prior to the relevant Voting Record Time for the Court Meeting and/or the EGM or prior to the Court Hearing (as the case may be).

### **Voting Record Time and Voting Procedures (Page 56)**

#### **SkillSoft ADS holders:**

SkillSoft ADS holders may not attend or vote at the Court Meeting or the EGM; however, the Depositary is required by the Deposit Agreement to vote the SkillSoft Shares deposited thereunder in accordance with the instructions of the SkillSoft ADS holders. Details of how SkillSoft ADS holders can instruct the Depositary to vote at the Meetings are contained in the enclosed ADS Voting Instruction Card.

#### **Holders of Scheme Shares and SkillSoft Shares:**

Only Members whose names are registered in the Register of Members of SkillSoft as of the Voting Record Time will be entitled to attend and vote at the Court Meeting and the EGM in respect of the number of Scheme Shares and SkillSoft Shares, respectively, registered in their name at such time.

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**Quorum and Vote Required (Pages 57-59)**

**The Court Meeting:**

In order to conduct business at the Court Meeting, a quorum must be present. The presence at the Court Meeting (either in person or by proxy) of three persons entitled to vote at such meeting who together hold not less than one-third ( $33\frac{1}{3}$  per cent.) of SkillSoft's voting share capital in issue, each being a holder of SkillSoft Shares, a proxy for a holder of SkillSoft Shares, or a duly authorised representative of a corporate holder of SkillSoft Shares, will constitute a quorum for the transaction of business at the Court Meeting. At the Court Meeting, voting will be by poll and not a show of hands and each holder of Scheme Shares who is present (in person or by proxy) will be entitled to one vote for each Scheme Share held. The approval required at the Court Meeting is that those voting in favour of the Scheme must represent a simple majority (more than 50 per cent.) in number of those Scheme Shareholders present and voting (in person or by proxy) and also represent three-fourths (75 per cent.) in value of the Scheme Shares held by those Scheme Shareholders present and voting (in person or by proxy).

Failure to vote in favour of the Scheme or failure to vote your proxy by post, hand, fax, or in person, in the case of the Scheme Shareholders, or failure to submit your vote by the Internet, telephone or post in the case of the SkillSoft ADS holders, will increase the likelihood of the Scheme being defeated at the Court Meeting and the Acquisition not proceeding.

**The Extraordinary General Meeting:**

A quorum must be present in order to conduct any business at the EGM. SkillSoft's Articles of Association provide that the presence at the EGM (either in person or by proxy) of three persons entitled to vote at such meeting who together hold not less than one-third ( $33\frac{1}{3}$  per cent.) of SkillSoft's voting share capital in issue, each being a holder of SkillSoft Shares, a proxy for a holder of SkillSoft Shares, or a duly authorised representative of a corporate holder of SkillSoft Shares, constitutes a quorum for the transaction of business.

A majority (more than 50 per cent.) of the votes cast is required to pass an ordinary resolution, and three-fourths (75 per cent.) or greater of the votes cast are required to pass a special resolution. A special resolution is required to effect certain actions, including alterations to SkillSoft's Articles of Association and the cancellation of the Cancellation Shares.

SSI Investments has received voting undertakings, in respect of approximately 0.020 per cent. of the entire issued share capital of SkillSoft (subject to certain exceptions), and any SkillSoft Shares that may be acquired upon the exercise of their SkillSoft Options, to vote, or to procure that voting instructions are given to vote, in favour of the Acquisition and the Scheme from:

(i) the members of the Board of SkillSoft who are SkillSoft Securityholders;

(ii) Gregory J. Porto (Vice President (Administration) of SkillSoft); and

(iii) Susan Moran (the spouse of SkillSoft's CEO and President, Charles E. Moran); in respect of the 18,765 SkillSoft Shares, in aggregate, they own or control. In addition, each of the Directors, Gregory J. Porto and Susan Moran has also undertaken that, if SSI Investments requests that he do so, he will serve the necessary notices on the Depositary (within one Business Day of being requested to do so) so as to procure that the SkillSoft Shares underlying his SkillSoft ADSs are vested in nominees of each such director.

Stockbridge, an affiliate of Berkshire, owns or controls 170,625 SkillSoft Shares in total, representing approximately 0.180 per cent. of the entire issued share capital of SkillSoft. Stockbridge has irrevocably undertaken (subject to certain exceptions) to SSI Investments and SkillSoft, in respect of the SkillSoft Shares which it owns or controls, not to vote such SkillSoft Shares at the Court Meeting but to vote such SkillSoft Shares in favour of the resolutions to be considered at the Extraordinary General Meeting. Stockbridge Partners,



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an affiliate of Berkshire, manages investments for its clients and has limited discretionary voting power in respect of 110,319 SkillSoft Shares, representing approximately 0.117 per cent. of the entire issued share capital of SkillSoft. Stockbridge Partners has similarly undertaken (subject to certain exceptions) so to vote, subject to the prior rights of those clients to exercise voting power themselves.

### **Proxies and Voting (Pages 25-26)**

#### **The Court Meeting:**

##### *SkillSoft ADS holders*

To vote at the Court Meeting, SkillSoft ADS holders are requested to complete and return the ADS Voting Instruction Card to the Depositary at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA as soon as possible and, in any event, by [ ] 2010. Alternatively, you may submit your ADS Voting Instruction Card via telephone by calling the number printed at the top of your ADS Voting Instruction Card or via the Internet by accessing the Depositary's website at [ ]. To dial in or log in please make sure that you have your ADS Voting Instruction Card available. If the Depositary does not receive your ADS Voting Instruction Card by such date, the Depositary will not vote the Scheme Shares represented by your SkillSoft ADSs. It is important that, for the Court Meeting, as many votes as possible are cast so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign and return your ADS Voting Instruction Card as soon as possible to ensure that the Depositary represents your SkillSoft ADSs and votes the corresponding Scheme Shares at the Court Meeting.

##### *Scheme Shareholders*

To vote at the Court Meeting, Scheme Shareholders are requested to submit the PINK Form of Proxy to the Registrar, Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland as soon as possible and, in any event, not less than 48 hours before the time appointed for the Court Meeting but, if forms are not so lodged, they may be handed to the Chairman of the Court Meeting before the start of the Court Meeting and will still be valid. It is important that, for the Court Meeting, as many votes as possible are cast (whether in person or by proxy) so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign and return your PINK Form of Proxy as soon as possible.

Scheme Shares represented at the Court Meeting by properly executed proxies received prior to or at the Court Meeting, and not revoked, will be voted at the Court Meeting, and at any and all adjournments or postponements of that meeting, in accordance with the instructions on the proxies. **If a proxy is duly executed appointing the Chairman of the Court Meeting, and submitted without instructions, the Scheme Shares represented by that proxy will be voted in favour of approval of the Scheme.**

#### **The Extraordinary General Meeting:**

##### *SkillSoft ADS holders*

To vote at the EGM, SkillSoft ADS holders must complete the ADS Voting Instruction Card accompanying this document in accordance with the instructions printed thereon and return it to the Depositary at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA as soon as possible and, in any event, by [ ] 2010. Alternatively, you may submit your ADS Voting Instruction Card via telephone by calling the number printed at the top of your ADS Voting Instruction Card or via the Internet by accessing the Depositary's website at www.[ ].com. To dial in or log in please make sure that you have your ADS Voting Instruction Card available. If the Depositary does not receive your ADS Voting Instruction Card by the date above, the Depositary will not vote the SkillSoft Shares represented by your SkillSoft ADSs.

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### *SkillSoft Shareholders*

For the EGM, SkillSoft Shareholders must complete and sign the BLUE Form of Proxy, in accordance with the instructions printed thereon and return it to the Registrar, Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, as soon as possible and, in any event, not less than 48 hours before the time appointed for the Extraordinary General Meeting.

SkillSoft Shares represented at the EGM by properly executed proxies received prior to or at the EGM, and not revoked, will be voted at the EGM, and at any and all adjournments or postponements of that meeting, in accordance with the instructions on the proxies. **If a proxy is duly executed appointing the Chairman of the Extraordinary General Meeting, and submitted without instructions, the SkillSoft Shares represented by that proxy will be voted in favour of the resolutions to be considered at the EGM.**

### **Revocation of Proxies (Page 27)**

Holders of SkillSoft ADSs may change their vote at any time before [ ] (United States Eastern Time) on [ ] 2010. You may do this by sending a written, dated notice to the Depositary stating that you would like to revoke your voting instructions, which must be received by the Depositary by [ ] (United States Eastern Time) on [ ] 2010.

Scheme Shareholders may revoke or amend the PINK Form of Proxy at any time up to [ ] (Irish Standard Time) on [ ] 2010 in the case of the Court Meeting, or Scheme Shareholders may attend the Court Meeting and vote in person. SkillSoft Shareholders may revoke or amend the BLUE Form of Proxy at any time up to [ ] (Irish Standard Time) on [ ] 2010 in the case of the EGM, or SkillSoft Shareholders may attend the EGM and vote in person. You may do this in one of three ways. First, you may send a written, dated notice to the Registrar of SkillSoft stating that you would like to revoke your proxy. Second, you may complete, sign, date and submit a new Form of Proxy. Third, you may attend the Court Meeting and/or the Extraordinary General Meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your SkillSoft Shares, you must follow the directions received from your broker relating to changing those instructions.

If you wish to amend or revoke your Forms of Proxy after you have returned them to Computershare Investor Services (Ireland) Limited, you should contact the Registrar at the address given below.

Submission of a Form of Proxy does not preclude you from attending and voting in person at the Meeting in question.

### **Recommendation of the Board of SkillSoft and Reasons for the Scheme (Page 30)**

The Board of SkillSoft unanimously recommends to SkillSoft Shareholders and SkillSoft ADS holders to vote in favour of the Acquisition and the Scheme. In support of this recommendation, the members of the Board of SkillSoft who are SkillSoft Securityholders have irrevocably undertaken (subject to certain exceptions) to vote their own beneficial holdings, amounting to, in aggregate, 5,877 SkillSoft Shares, which represents approximately 0.006 per cent. of the issued share capital of SkillSoft, and any SkillSoft Shares such directors may acquire or subscribe for upon exercise of their SkillSoft Options, in favour of the Acquisition and the Scheme.

### **Appraisal Rights (Page 165)**

If the Scheme is approved by Scheme Shareholders at the Court Meeting and sanctioned by the High Court, then, subject to the Scheme becoming effective in accordance with its terms and the right of a Scheme Shareholder to appeal the High Court's decision to sanction the Scheme, the Scheme will be binding on all

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SkillSoft Shareholders, including those Scheme Shareholders who did not vote or who voted against it at the Court Meeting. Only those Scheme Shareholders who attend and are heard at the Court Hearing will have the right to appeal the High Court's decision to sanction the Scheme to the Irish Supreme Court. SkillSoft Shareholders will have no right to seek a court appraisal of the value of SkillSoft Shares. If the Scheme becomes effective, all Scheme Shareholders will receive the same Consideration per Scheme Share.

### **Exchange of Share Certificates (Page 65)**

SkillSoft ADS holders who hold their SkillSoft ADSs in certificated form will need to surrender their certificates to the Depository prior to receiving their proportion of the Consideration. You will be notified when you are required to return your SkillSoft ADS certificates.<sup>1</sup> Under the terms of the Scheme, at the Effective Time, all Scheme Shares will be cancelled and cease to exist or be transferred to SSI Investments. Following the cancellation or transfer of the Scheme Shares, you may be required to return your share certificates. If you are required to return your share certificates, you will be notified.

### **Source of Funds (Page 51)**

The Acquisition will be financed from debt financing provided by Morgan Stanley Senior Funding, Inc. (an affiliate of Morgan Stanley) and Barclays Bank PLC, together with equity commitments from each member of the Investor Group. Full payment of the Consideration to SkillSoft Shareholders involves a maximum cash payment of approximately US\$1.1 billion. Morgan Stanley & Co. Limited, an affiliate of Morgan Stanley, is satisfied that resources are available to SSI Investments sufficient to satisfy in full the cash consideration payable under the Scheme.

### **Conditions of the Scheme (Page 71)**

The implementation of the Scheme is conditional, amongst other things, upon:

the approval by a majority in number of Scheme Shareholders representing three-fourths (75 per cent.) or more in value of the Scheme Shares held by such holders present and voting (either in person or by proxy) at the Court Meeting (or at any adjournment of such meeting);

the passing by the requisite majority of such resolutions as are required to approve or implement the Scheme at the Extraordinary General Meeting and are set out in the notice of the EGM;

the sanction of the Scheme and confirmation of the reduction of capital involved therein by the High Court and the delivery of an office copy of the Court Order and the minute required by Section 75 of the Act to the Registrar of Companies and the registration of such Court Order and minute by the Registrar of Companies;

the expiration of the applicable waiting periods under the HSR Act and the equivalent laws of Germany and Austria;

the Irish Revenue Commissioners not having confirmed in writing that they do not recognise that certain intellectual property rights transferred to SkillSoft Ireland Limited on 9 February 2009 attract Irish capital allowances on the entire acquisition price under (A) section 291 of the Taxes Consolidation Act 1997 as computer software or (B) sections 291 and 755 of that Act as computer software and patent rights, respectively. The Irish Revenue Commissioners issued a letter on 17 February 2010 confirming that the acquisition of [such intellectual property rights] will be treated as constituting part of SkillSoft Ireland Limited's continuing trade and that, on the basis of the information provided and subject to Revenue's usual right to audit or carry out an enquiry and anything which may arise therefrom, the [intellectual property rights] acquired will qualify for capital allowances under Section 291; and

the conditions, which are not otherwise identified above and which are set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document, being satisfied or waived on or before the sanction of the Scheme by the High Court pursuant to

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Section 201 of the Act.

Further, for the Acquisition to proceed, the Scheme must become effective by not later than 16 July 2010 or such later date, if any, as SkillSoft and SSI Investments may, with, if required, the consent of the Panel, agree and, if required, the High Court may allow.

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The conditions of the Acquisition and the Scheme are set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document.

### **Solicitation of Proposals from Other Parties (Page 47)**

Except in limited circumstances, the directors of SkillSoft have agreed not to withdraw or adversely modify their recommendation to SkillSoft Shareholders regarding the Scheme.

Notwithstanding the foregoing, during the period beginning on the date of the Transaction Agreement and continuing until 11.59 p.m. (United States Eastern Time) on 6 March 2010, SkillSoft and its Subsidiaries (and their respective Representatives, as defined in the Transaction Agreement) had the right to:

initiate, solicit and encourage, including by way of providing access to non-public information, any discussions with, or enquiries or proposals from, any person other than SSI Investments in respect of or in connection with a Third Party Transaction Proposal; and

enter into and maintain discussions or negotiations with respect to a Third Party Transaction Proposal or otherwise cooperate with or assist or participate in, or facilitate any such inquiries, proposals, discussions or negotiations.

SkillSoft agreed that, prior to 6 March 2010, it would give SSI Investments not less than four days' advance notice of any meeting of the SkillSoft Board or other forum or the occurring of any other means at which any withdrawal of the Scheme Recommendation would be considered.

### **Termination of the Transaction Agreement (Page 46)**

Either SSI Investments or SkillSoft may terminate the Transaction Agreement at or prior to the Effective Time of the Scheme if any of the following occurs:

the resolutions are not passed at the EGM (other than resolution 4) and the Court Meeting;

the Conditions are not satisfied or waived by 11.59 p.m. (United States Eastern Time) on 16 July 2010 (or such later date as SkillSoft and SSI Investments may agree to in writing subject to the consent of the Panel and/or the High Court (if required));

the High Court declines or refuses to sanction the Scheme, unless both SkillSoft and SSI Investments agree that the decision of the High Court will be appealed;

the Board of SkillSoft (or any member thereof) withdraws, adversely modifies or qualifies its recommendation to SkillSoft Shareholders to vote in favour of the Scheme; or

SkillSoft wilfully takes or omits to take any action, such as failing to post this Document, preventing SkillSoft Shareholders from voting at any meetings to approve the Scheme, unilaterally altering the terms and conditions of the Scheme, or failing to deliver the Court Order and minute of reduction of capital to the Registrar of Companies (in any such case without the consent of SSI Investments).

Either SSI Investments or SkillSoft may terminate the Transaction Agreement after the Effective Time of the Scheme if, prior to the Scheme being withdrawn by SkillSoft or lapsing in accordance with its terms, a Competing Offer (as defined in the Transaction Agreement) is announced and subsequently made and that Competing Offer or a Competing Offer in which that competing party is interested or participates subsequently becomes effective or unconditional within the 18 months of such lapse or withdrawal.



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### **Expenses Reimbursement Agreement (Page 41)**

Under the Expenses Reimbursement Agreement, SkillSoft has agreed to pay specific quantifiable third party costs and expenses incurred by SSI Investments in connection with the Scheme up to a maximum amount equal to 1 per cent. of the total value of the entire issued share capital (excluding any interest in such share capital of SkillSoft (including in the form of ADSs) held by Stockbridge) as ascribed in the terms of the Acquisition in the following circumstances:

the Board of SkillSoft (or any member thereof) withdraws, adversely modifies or qualifies its recommendation to SkillSoft Shareholders to vote in favour of the Scheme;

SkillSoft wilfully takes or omits to take any action, such as failing to post the Scheme Document, preventing SkillSoft Shareholders from voting at any meetings to approve the Scheme, unilaterally altering the terms and conditions of the Scheme, or failing to deliver the Court Order and minute of reduction of capital to the Registrar of Companies (in any such case without the consent of SSI Investments); or

prior to the Scheme being withdrawn by SkillSoft or lapsing in accordance with its terms, a Competing Offer is announced and subsequently made and that Competing Offer or a competing offer in which that competing party is interested or participates subsequently becomes effective or unconditional within the 18 months of such lapse or withdrawal.

### **SkillSoft Executive Officers and Non-Executive Directors and the Effects of the Scheme on their Interests (Page 61)**

In considering the recommendations of the Board of SkillSoft with respect to the approval of the Scheme, SkillSoft Shareholders should be aware that SkillSoft Non-Executive Directors and SkillSoft executive officers have interests in the Scheme that may be in addition to, or different from, the interests of SkillSoft Shareholders. These interests may create potential conflicts of interest but the Board of SkillSoft is satisfied they do not. The Board of SkillSoft was aware of these interests, which include those summarized below, and considered them, among other matters, in making its decision to recommend that SkillSoft Shareholders and ADS holders vote in favour of the Acquisition and the Scheme.

SkillSoft Options held by SkillSoft Non-Executive Directors and SkillSoft executive officers will be treated under the Scheme in the same manner as all other SkillSoft Options (including the vesting of all unvested SkillSoft Options in connection with the Scheme) save that SkillSoft Non-Executive Directors and SkillSoft executive officers for United States federal securities law purposes will not be permitted to avail themselves of the cashless exercise facility offered to other SkillSoft Optionholders should they elect to exercise their SkillSoft Options. As of the Latest Practicable Date, SkillSoft Non-Executive Directors and executive officers holding SkillSoft Options would receive cash payments upon the consummation of the Scheme in an aggregate amount (before withholding for applicable taxes) of approximately US\$37,050,464.

### **Voting Undertakings (Page 40)**

In connection with the Scheme, SSI Investments has received from the members of the Board of SkillSoft and from Susan Moran (the spouse of CEO and President Charles Moran) and Gregory J. Porto (Vice President (Administration) of SkillSoft) voting undertakings to (subject to certain exceptions) vote in favour of the Acquisition and the Scheme in respect of the 18,765 SkillSoft Shares, in aggregate, they own or control, representing approximately 0.020 per cent. of the issued share capital of SkillSoft, and any SkillSoft Shares they may acquire or subscribe for upon the exercise of their SkillSoft Options. In addition, each of the Directors and Gregory J. Porto and Susan Moran have also undertaken that, if SSI Investments requests that he or she do so, he or she will serve the necessary notices on the Depository (within one Business Day of being requested to do so) so as to procure that the SkillSoft Shares underlying his or her SkillSoft ADSs are vested in nominees of him or her. The form of voting undertakings of directors of SkillSoft is attached to this document as Annex C.

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Further, each of Stockbridge and Stockbridge Partners has irrevocably committed to SkillSoft and SSI Investments, in respect of the 170,625 SkillSoft Shares which Stockbridge owns or controls and in respect of the 110,319 SkillSoft Shares that Stockbridge Partners manages and over which (subject to certain exceptions), it exercises limited discretionary voting power, not to vote such SkillSoft Shares at the Court Meeting and to vote such SkillSoft Shares in favour of the resolutions to be considered at the Extraordinary General Meeting.

### **SkillSoft Share Option Plans and SkillSoft Employee Share Purchase Plan (Page 47)**

All unvested SkillSoft Options will become fully vested and exercisable in connection with the Scheme, in accordance with the provisions of the SkillSoft Share Option Plans. SkillSoft and SSI Investments will offer all SkillSoft Optionholders an opportunity to elect to exercise their SkillSoft Options immediately upon the making of the Court Order, and conditional upon the Scheme becoming effective. The SkillSoft Shares issued upon such exercise will then be transferred to SSI Investments under the Scheme. In so doing, SkillSoft Optionholders (other than SkillSoft Non-Executive Directors and executive officers for United States federal securities law purposes) may exercise their SkillSoft Options with a cashless exercise facility under which they may direct that the exercise price of their SkillSoft Options be paid to SkillSoft out of the proceeds of the sale to SSI Investments under the Scheme of the SkillSoft Shares issued to them upon exercise of their SkillSoft Options.

All SkillSoft Options that remain outstanding on the Effective Date will be cancelled with effect from the Effective Time in consideration for the payment to the relevant SkillSoft Optionholder of a cash payment per SkillSoft Share subject to a SkillSoft Option equal to the excess, if any, of the Consideration per SkillSoft Share over the exercise price per SkillSoft Share applicable to such SkillSoft Option (net of any applicable withholding taxes). Under the Transaction Agreement, SkillSoft has agreed, subject to certain conditions, to use all reasonable efforts to inform SkillSoft Optionholders who are resident in the United States of the advantages, subject to their individual circumstances, of electing to avail themselves of the cancellation of options.

SkillSoft Options outstanding on the Effective Date having an exercise price per SkillSoft Share that is equal to or greater than the Consideration per SkillSoft Share will terminate in accordance with the applicable provisions of the SkillSoft Share Option Plans, without payment of consideration.

The current offering period under the SkillSoft Employee Share Purchase Plan will end on or around 31 March 2010. No new offering periods will commence under the SkillSoft Employee Share Purchase Plan before the Effective Time. On the last day of the current offering period, each participant in the SkillSoft Employee Share Purchase Plan will be credited with the number of SkillSoft Shares purchased for his or her account under such plan in respect of the applicable offering period, in accordance with the terms of the SkillSoft Employee Share Purchase Plan, but provided that the aggregate number of SkillSoft Shares so purchased by all participants will not exceed 210,000. The SkillSoft Shares issued to participants under the SkillSoft Employee Share Purchase Plan will then be subject to the Scheme.

### **Effective Time of the Scheme (Page 56)**

Assuming the necessary approvals from the Scheme Shareholders and SkillSoft Shareholders (as the case may be) have been obtained and all conditions have been satisfied or (where applicable) waived, the Scheme will become effective upon delivery to the Registrar of Companies of an office copy of the Court Order together with the minute required by Section 75 of the Act confirming the capital reduction and registration of the Court Order and minute by the Registrar of Companies. Upon the Scheme becoming effective, it will be binding on all SkillSoft Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the EGM. Assuming as above, it is expected that the Scheme will become effective during May 2010.



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### **Irish Taxation (Page 161)**

Irish Holders who, under the Scheme, dispose of their SkillSoft ADSs or SkillSoft Shares will be subject to Irish CGT (in the case of individuals) or Irish corporation tax (in the case of companies) to the extent that the proceeds realised from such disposition exceed the base cost (indexation may apply to increase the base cost of acquisitions of shares made prior to 1 January 2003 of their SkillSoft ADSs or SkillSoft Shares) plus incidental expenses. The current rate of tax applicable to such chargeable gains is 25 per cent.

Irish Holders who have capital losses from other sources in current, or any previous, tax year can generally apply such losses to reduce gains realised on the disposal of their SkillSoft ADSs or SkillSoft Shares.

No Irish Stamp Duty will be payable by a holder of SkillSoft ADSs or SkillSoft Shares in relation to the disposal of SkillSoft ADSs or SkillSoft Shares under the Scheme.

US SkillSoft ADS holders and US SkillSoft Shareholders will not be subject to Irish CGT on the disposal of SkillSoft ADSs or SkillSoft Shares provided at the time of disposal: (i) SkillSoft ADSs are quoted on NASDAQ or (ii) SkillSoft Shares do not derive the greater part of their value from land, buildings, minerals, or mineral or exploration rights in Ireland.

Holders of SkillSoft ADSs or SkillSoft Shares are advised to consult their own tax advisers with respect to the application of Irish taxation laws to their particular circumstances in relation to the Scheme.

### **US Federal Income Tax Consequences (Page 162)**

A sale of SkillSoft ADSs or SkillSoft Shares (as the case may be) for cash pursuant to the Scheme will be treated as a taxable transaction for federal income tax purposes under the Internal Revenue Code, and may be taxable for US state and local purposes as well. Holders of SkillSoft ADSs or SkillSoft Shares (as the case may be) are advised to consult their own tax advisers with respect to the application of US federal, state, local and other laws to their particular circumstances in relation to the Scheme.

### **Regulatory Approvals (Page 165)**

Under the provisions of the HSR Act and the equivalent laws of Germany and Austria, SkillSoft and SSI Investments must not complete the Acquisition until SkillSoft and SSI Investments have made certain filings with the Federal Trade Commission and the United States Department of Justice and the equivalent entities in Germany and Austria, and the applicable waiting periods have expired or been terminated. SkillSoft and SSI Investments will file pre-merger notifications with the US antitrust authorities pursuant to the HSR Act and will make similar filings with the equivalent German and Austrian authorities. The parties will request early termination of the US HSR waiting period, and will work towards receiving clearances in Germany and Austria by or before the end of the applicable initial review periods. SkillSoft and SSI Investments will also make a notice filing in Brazil.

In addition, under the Act, the High Court must sanction the Scheme and confirm the reduction of SkillSoft's capital.

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**EXPECTED TIMETABLE OF PRINCIPAL EVENTS\***

<b>Event</b>	<b>Time and/or Date(1)</b>
Date of this document	[12 March] 2010
Latest time for receipt by the Depository of completed ADS	
Voting Instruction Cards for the Court Meeting and the EGM	[ ] on [ ] 2010(2)
Latest time for receipt of PINK Forms of Proxy for the Court Meeting (3)	[ ] on [ ] 2010
Latest time for receipt of BLUE Forms of Proxy for the EGM	[ ] on [ ] 2010
Voting Record Time	[ ] on [ ] 2010
Court Meeting	[ ] on [6 April] 2010
Extraordinary General Meeting (4)	[ ] on [6 April] 2010
Intended date for Court Hearing (of the petition to sanction the Scheme)	[4 May] 2010
Last day of dealings in SkillSoft ADSs on NASDAQ	[17 May] 2010
Scheme Record Time	[ ] on [ ] 2010
Effective Date	[18 May] 2010
Despatch of cheques/electronic transfers in respect of the Consideration (as appropriate)	No later than [1 June] 2010
Notes:	

- (1) The dates and times are indicative only and will depend on, inter alia, the dates upon which the High Court sanctions the Scheme and confirms the reduction of capital that forms part of the Scheme. Unless otherwise noted, all time references are to Irish Standard Time.
- (2) United States Eastern Time.
- (3) If the PINK Form of Proxy for the Court Meeting is not returned by this time, a PINK Form of Proxy may be handed to the Chairman of the Court Meeting before the start of the Court Meeting and will still be valid.
- (4) To commence at [ ], or, if later, immediately after the conclusion or adjournment of the Court Meeting.

\* These dates are based on the expected timetable as at February 19, 2010 and will be affirmed or revised in the definitive proxy statement.

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**ENCLOSURES AND CONTACT INFORMATION**

**Enclosures**

*SkillSoft ADS holders will receive the following enclosures with a copy of this document:*

Depository's Notice of Court Meeting and Extraordinary General Meeting of SkillSoft, ADS Voting Instruction Card for the Court Meeting and the Extraordinary General Meeting

*SkillSoft Shareholders will receive the following enclosures with a copy of this document:*

PINK Form of Proxy for the Court Meeting

BLUE Form of Proxy for the Extraordinary General Meeting

**Contact Information**

**If you have any queries in relation to the ADS Voting Instruction Card, Forms of Proxy or actions to be taken at the Meetings, please contact:**

**IF A SKILLSOFT SHAREHOLDER**

SkillSoft's Registrar

**Computershare Investor Services (Ireland) Limited**

01 447 5518 (if calling within Ireland)

or

+353 1 447 5518 (if calling from outside Ireland)

between 9.00 a.m. and 5.00 p.m. (Irish Standard Time) on any  
Business Day

**IF A SKILLSOFT ADS HOLDER**

SkillSoft's Proxy Solicitor

**Georgeson**

1-866-357-4029 (if calling within the United States)

or

+001 212-806-6859 (if calling from outside the United States) between  
9.00 a.m. and 5.00 p.m. (United States Eastern Time) on any Business  
Day

If calling from outside the United States, please call collect.

Banks and brokers should call 1-212-440-9800.

**OR**

SkillSoft's Depository

**The Bank of New York Mellon Corporation**

The Bank of New York Mellon Corporation

101 Barclay Street

New York, New York 10286 United States

1-[ ] (if calling within the United States)

or

+001 [ ] (if calling from outside the United States) between  
9.00 a.m. and 5.00 p.m. (United States Eastern Time) on any Business  
Day

e-mail queries: [ ]

**For legal reasons, none of the Registrar, Georgeson, nor the Depositary will be able to provide advice on the benefits of the Acquisition or the Scheme or the merits of the Acquisition itself or give financial advice or tax advice.**

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**ACTION TO BE TAKEN**

**MEETINGS TO BE HELD ON [ ] 2010**

The Scheme requires approval by Scheme Shareholders at the Court Meeting to be held at [ ], Ireland, at [ ] (Irish Standard Time) on [ ] 2010. In addition to approval at the Court Meeting, implementation of the Scheme also requires various approvals by SkillSoft Shareholders at an EGM to be held at [ ], Ireland, at [ ] (Irish Standard Time) on [ ] 2010 or, if later, immediately after the conclusion or adjournment of the Court Meeting.

**SIGN AND RETURN THE ACCOMPANYING ADS VOTING INSTRUCTION CARD OR FORMS OF PROXY**

**For SkillSoft ADS holders:**

You are encouraged to sign and return the enclosed ADS Voting Instruction Card as soon as possible and in any event so as to be received by the Depository at The Bank of New York Mellon, 101 Barclay Street, New York, New York, 10286, USA by [ ] 2010. Alternatively, you may submit your ADS Voting Instruction Card via telephone by calling the number printed at the top of your ADS Voting Instruction Card or via the Internet by accessing the Depository's website at [www.\[ \].com](http://www.[ ].com). To dial in or log in please make sure that you have your ADS Voting Instruction Card available.

It is important that, for the Court Meeting, as many votes as possible are cast (whether in person or by proxy) so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign and return your ADS Voting Instruction Card as soon as possible.

If you have any questions relating to this document or the completion and return of the ADS Voting Instruction Card, please contact the helpline at the telephone numbers provided on page 29.

**For Scheme Shareholders and SkillSoft Shareholders:**

Scheme Shareholders are encouraged to sign and return the enclosed PINK Form of Proxy for the Court Meeting and SkillSoft Shareholders are encouraged to sign and return the enclosed BLUE Form of Proxy for the EGM as soon as possible and in any event so as to be received by SkillSoft's Registrar, Computershare Investor Services (Ireland) Limited, at Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, no later than [ ] (Irish Standard Time) and [ ] (Irish Standard Time), respectively, on [ ] 2010. The PINK Form of Proxy for the Court Meeting (but NOT the BLUE Form of Proxy for the EGM) may also be handed to the Chairman of the Court Meeting before the start of the Court Meeting on [ ] 2010 and will still be valid.

**The completion and return of the Forms of Proxy either for the Court Meeting or for the EGM will not prevent you from attending and voting at either Meeting (or any adjournment thereof) in person if you wish to do so.**

It is important that, for the Court Meeting, as many votes as possible are cast (whether in person or by proxy) so that the High Court may be satisfied that there is a fair and reasonable representation of Scheme Shareholder opinion. You are, therefore, strongly urged to complete, sign and return your Forms of Proxy as soon as possible.

If you have any questions relating to this document or the completion and return of the Forms of Proxy, please contact the helpline at the telephone numbers provided on page 29.

Overseas Shareholders should refer to paragraph 11 in Part III (Explanatory Statement) of this document. Details relating to settlement are included in paragraph 10 in Part III (Explanatory Statement) of this document.

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**RECOMMENDATION**

The directors of SkillSoft unanimously recommend that you vote in favour of all resolutions at the Meetings using the ADS Voting Instruction Card or Forms of Proxy (as the case may be) enclosed with this document.

**VOTING PROCEDURES**

**Voting of SkillSoft Shares Underlying SkillSoft ADSs pursuant to the Deposit Agreement**

*Generally.* Holders of SkillSoft ADSs representing SkillSoft Shares may not attend and speak and vote at the Meetings; however, subject to certain limitations set out in the Deposit Agreement, the Depositary has the right to vote all SkillSoft Shares deposited under the Deposit Agreement. The Depositary, however, is required by the Deposit Agreement to vote the SkillSoft Shares deposited thereunder in accordance with the instructions of the SkillSoft ADS holders and is prohibited from exercising voting discretion with respect to such SkillSoft Shares.

*Notice of Meetings.* As soon as practicable after receipt from SkillSoft of the Notice of Court Meeting and the Notice of Extraordinary General Meeting, the Depositary will mail to the SkillSoft ADS holders as of the close of business on [ ] 2010 a notification of the Meetings indicating: (a) the date, time and place of each of the Meetings, (b) that each SkillSoft ADS holder at the close of business on [ ] 2010 will be entitled to instruct the Depositary as to the exercise of voting rights pertaining to the SkillSoft Shares represented by the SkillSoft ADSs, and (c) the manner in which such instructions must be given.

*Voting of SkillSoft Shares Underlying SkillSoft ADSs.* Upon the timely receipt of voting instructions from a SkillSoft ADS holder, the Depositary will vote or cause to be voted the SkillSoft Shares represented by the relevant SkillSoft ADSs in accordance with such instructions.

**Voting of SkillSoft Shares**

*Voting at the Court Meeting.* Voting at the Court Meeting is on a poll (i.e., each holder of Scheme Shares who is present (in person or by proxy) will be entitled to one vote for each Scheme Share held). For the Scheme to be approved at the Court Meeting, Scheme Shareholders voting in favour of the Scheme must represent a simple majority (more than 50 per cent.) in number of those Scheme Shareholders present and voting (in person or by proxy) and must also represent three-fourths (75 per cent.) in value of the Scheme Shares held by those Scheme Shareholders present and voting (in person or by proxy). All PINK Forms of Proxy should be completed and returned so as to be received by the Registrar not less than 48 hours before the Court Meeting. If the PINK Form of Proxy for the Court Meeting is not lodged by the relevant time, it may be handed to the Chairman of the Court Meeting before the start of the Court Meeting.

*Voting at the Extraordinary General Meeting.* Votes may be given either in person or by proxy. Each Member will have one vote for each SkillSoft Share held by such Member. Where there is a tie, the Chairman of the meeting is entitled to cast the deciding vote in addition to any other vote the Chairman may have. Under Irish law, an abstention or a vote that is withheld will not be counted in the calculation of the proportion of the votes for or against a proposed resolution.

A majority (more than 50 per cent.) of votes cast is required to pass an ordinary resolution and three-fourths (75 per cent.) or greater of the votes cast are required to pass a special resolution. As of [ ] 2010, there were [ ] Members entitled to attend and vote at the Extraordinary General Meeting and, therefore, [ ] votes on a show of hands (or, if a poll is demanded, [ ] votes) capable of being cast at the Extraordinary General Meeting. The number of Members entitled to attend and vote at the Extraordinary General Meeting will be equal to the total number of Members as of [ ] (Irish Standard Time) on [ ] 2010. The maximum number of votes capable of being cast at the Extraordinary General Meeting will be equal to the total number of Members on a show of hands (or, if a poll is demanded, the number of SkillSoft Shares in issue) as of [ ] (Irish Standard Time) on [ ] 2010.



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*Voting by Proxy.* Each proxy which is properly executed and returned to the Registrar will be voted in the manner directed by the Member executing it or, if no directions are given, will be voted (or withheld) at the discretion of the Chairman of the relevant meeting or any other person duly appointed as proxy by the Member. All Forms of Proxy should be completed and returned so as to be received by the Registrar not less than 48 hours before the relevant Meeting.

**REVOCAION OF PROXIES**

**For SkillSoft ADS holders:**

SkillSoft ADS holders may change their vote at any time before [ ] (United States Eastern Time) on [ ] 2010. You may do this by sending a written, dated notice to the Depositary stating that you would like to revoke your voting instructions, which must be received by the Depositary by [ ] (United States Eastern Time) on [ ] 2010.

If you desire to send any notice of revocation of your ADS Voting Instruction Card or have questions regarding your ADS Voting Instruction Card after you have returned it to the Depositary, you should contact the Depositary at:

The Bank of New York Mellon Corporation

101 Barclay Street

New York, New York 10286 USA

Toll free tel.: [ ] (if calling within the United States) or

International tel.: [ ] (if calling from outside the United States)

e-mail queries: [ ]

**For Scheme Shareholders and SkillSoft Shareholders:**

Scheme Shareholders may change their vote at any time before the start of the Court Meeting in the case of the PINK Form of Proxy, and SkillSoft Shareholders may change their vote at any time up to [ ] (Irish Standard Time) on [ ] 2010 in the case of the BLUE Form of Proxy for the Extraordinary General Meeting. You may do this in one of three ways. First, you may send a written, dated notice to the Registrar stating that you would like to revoke your proxy. Second, you may complete, sign, date and submit a new Form of Proxy. Third, you may attend the Court Meeting and/or the Extraordinary General Meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your SkillSoft Shares, you must follow the directions received from your broker relating to changing those instructions.

If you desire to send any notice of revocation of your Forms of Proxy or have questions regarding your Forms of Proxy after you have returned them to the Registrar, you should contact the Registrar at the following address:

ComputerShare Investor Services (Ireland) Limited

Heron House

Corrig Road

Sandyford Industrial Estate

Dublin 18

Ireland

Tel.: 01 447 5518 (if calling within Ireland) or

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Tel.: +353 1 447 5518 (if calling from outside Ireland)

Fax: 01 216 3183 (if calling within Ireland) or

Fax: +353 1 216 3183 (if calling from outside Ireland)

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**SOLICITATION OF PROXIES AND EXPENSES**

The cost of preparing, assembling, printing and mailing this document, the Notice of Extraordinary General Meeting, ADS Voting Instruction Card, and the enclosed Forms of Proxy, as well as the cost of soliciting proxies relating to the Court Meeting and the Extraordinary General Meeting, will be borne by SkillSoft. SkillSoft will request banks, brokers, dealers and voting trustees or other nominees, including the Depository in the case of SkillSoft ADSs, to solicit their customers who are owners of SkillSoft ADSs and/or SkillSoft Shares listed of record and names of nominees, and will reimburse them for the reasonable out-of-pocket expenses of such solicitation. The original solicitation of proxies by mail may be supplemented by telephone, e-mail, telegram and personal solicitation by officers and other regular employees or agents of SkillSoft.

SkillSoft has retained Georgeson to assist in the solicitation of proxies from SkillSoft ADS holders by mail, telephone or other electronic means, or in person, for a fee of approximately US\$[ ] plus reasonable out-of-pocket expenses relating to the solicitation. Original solicitation of proxies by mail may be supplemented by telephone or personal solicitation by directors, officers or other regular employees of SkillSoft. No additional compensation will be paid for such services.

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**HELPLINE**

If you are a SkillSoft ADS holder and have any queries in relation to actions to be taken at the Meetings, please contact **SkillSoft's proxy solicitor**, Georgeson, at 866-357-4029 (if calling within the United States) or at +001 212-806-6859 (if calling from outside the United States) between 9.00 a.m. and 5.00 p.m. (United States Eastern Time) on any Business Day. If calling from outside the United States, please call collect. For legal reasons, Georgeson will not be able to provide advice on the merits of the Acquisition itself or give financial or tax advice.

If you are a SkillSoft ADS holder and have any queries in relation your ADS Voting Instruction Card, please contact **SkillSoft's Depository**, The Bank of New York Mellon toll free tel.: [ ] (if calling within the United States) or International tel.: [ ] (if calling from outside the United States). For legal reasons, the Depository will not be able to provide advice on the merits of the Acquisition itself or give financial advice or tax advice.

If you are a SkillSoft Shareholder and have any queries in relation to actions to be taken at the Meetings, please contact **SkillSoft's Registrar**, Computershare Investor Services (Ireland) Limited, on 01 447 5518 (if calling within Ireland) or on +353 1 447 5518 (if calling from outside Ireland) between 9.00 a.m. and 5.00 p.m. (Irish Standard Time) on any Business Day. For legal reasons, the Registrar will not be able to provide advice on the merits of the Acquisition itself or give financial advice or tax advice.

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**PART I LETTER OF RECOMMENDATION FROM THE BOARD OF SKILLSOFT**

**SkillSoft Public Limited Company**

(Incorporated and registered in Ireland under the Companies Acts with registered number 148294)

<i>Board:</i> Charles E. Moran (Chairman)	<i>Registered Office</i> Belfield Office Park
James S. Krzywicki	Clonskeagh
Dr. Ferdinand von Prondzynski	Dublin 4
P. Howard Edelstein	Ireland
William F. Meagher, Jr.	
William J. Boyce	

[ ] 2010

*To SkillSoft Securityholders and, for information only, to SkillSoft Optionholders and the holders of purchase rights under the SkillSoft Employee Share Purchase Plan*

**RECOMMENDED ACQUISITION OF SKILLSOFT PUBLIC LIMITED COMPANY**

Dear SkillSoft Securityholder,

**1. INTRODUCTION**

On 12 February 2010, the Board of SkillSoft and the directors of SSI Investments announced that they had reached agreement on the terms of a recommended acquisition of SkillSoft by SSI Investments, a company formed by funds sponsored by each of Berkshire, Advent and Bain Capital Partners.

The Acquisition will be effected by way of a scheme of arrangement between SkillSoft and the Scheme Shareholders under Section 201 of the Act, the terms of which are set out in Part IV (The Scheme of Arrangement) of this document and an explanation of which is given by Credit Suisse in Part III (Explanatory Statement) of this document. The Acquisition and the Scheme are subject to the Conditions and further terms set out in Part V (Conditions of the Acquisition and the Scheme) of this document. It is anticipated that, subject to the satisfaction or waiver of these conditions, the Acquisition will become effective during May 2010.

I am writing to you to set out the background to the Acquisition and the reasons why the Board of SkillSoft considers the terms of the Acquisition to be fair and reasonable to SkillSoft Shareholders taken as a whole, and is unanimously recommending that SkillSoft Shareholders vote in favour of the Acquisition and the Scheme.

**2. SUMMARY OF THE TERMS OF THE ACQUISITION**

Subject to the conditions and further terms set out in Part V (Conditions of the Acquisition and the Scheme) of this document, under the terms of the Acquisition, Scheme Shareholders will receive:

**US\$10.80 in cash for each SkillSoft Share**

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After the Scheme becomes effective, SkillSoft ADS holders will receive the Consideration to which they are entitled directly from the Depositary. You should note that if there is insufficient Scheme Shareholder support for the Scheme at the Court Meeting, the Scheme will not become effective, the Acquisition will not proceed and the cash Consideration of US\$10.80 per SkillSoft Share will not become payable unless a majority in number of the SkillSoft Shareholders voting at the Scheme Meeting vote in favour of the proposed Acquisition and the Shares, voted by those Shareholders, represent at least 75% in value of the Share voted at that meeting.

The Acquisition values the entire issued and to be issued share capital of SkillSoft at approximately US\$1.1 billion.

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The Consideration represents a:

premium of approximately 26 per cent. over US\$8.56, being the average daily Closing Price of a SkillSoft ADS over the last 12 months up to and including 11 February 2010, being the last Business Day prior to the Rule 2.5 Announcement;

premium of approximately 11 per cent. over US\$9.76, being the Closing Price of a SkillSoft ADS on 11 February 2010; and

higher price than any Closing Price of a SkillSoft ADS over the last 12 months up to and including 11 February 2010.

### **3. THE CONDITIONS**

The implementation of the Scheme is conditional, amongst other things, upon:

the approval by a majority in number of Scheme Shareholders representing three-fourths (75 per cent.) or more in value of the Scheme Shares held by such holders present and voting (either in person or by proxy) at the Court Meeting (or at any adjournment of such meeting);

the passing by the requisite majority of such resolutions as are required to approve or implement the Scheme at the Extraordinary General Meeting and are set out in the notice of the EGM;

the sanction of the Scheme and confirmation of the reduction of capital involved therein by the High Court and the delivery of an office copy of the Court Order and the minute required by Section 75 of the Act to the Registrar of Companies and the registration of such Court Order and minute by the Registrar of Companies;

the expiration of the applicable waiting periods under the HSR Act and the equivalent laws of Germany and Austria;

the Irish Revenue Commissioners not having confirmed in writing that they do not recognise that certain intellectual property rights transferred to SkillSoft Ireland Limited on 9 February 2009 attract Irish capital allowances on the entire acquisition price under (A) section 291 of the Taxes Consolidation Act 1997 as computer software or (B) sections 291 and 755 of that Act as computer software and patent rights, respectively. The Irish Revenue Commissioners issued a letter on 17 February 2010 confirming that the acquisition of [such intellectual property rights] will be treated as constituting part of SkillSoft Ireland Limited's continuing trade and that, on the basis of the information provided and subject to Revenue's usual right to audit or carry out an enquiry and anything which may arise therefrom, the [intellectual property rights] acquired will qualify for capital allowances under Section 291; and

the Conditions, which are not otherwise identified above and which are set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document, being satisfied or waived on or before the sanction of the Scheme by the High Court pursuant to Section 201 of the Act.

### **4. BACKGROUND TO AND REASONS FOR RECOMMENDING THE ACQUISITION**

Background to the Acquisition

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The SkillSoft Board has on an ongoing basis considered the long-term strategy of SkillSoft and strategic opportunities that might be available to enhance shareholder value, including additional investments in new growth opportunities, potential acquisitions, recapitalization options, and the sale of SkillSoft. Acquisitions are viewed by the SkillSoft Board as an important part of SkillSoft's growth strategy, and SkillSoft has consummated several successful acquisitions, most recently NETg. The SkillSoft Board has also explored opportunities for investments in SkillSoft, which might be used to fund acquisitions, incremental investments in its business, or share repurchases or a leveraged recapitalization (subject to applicable legal requirements) to provide additional liquidity to shareholders. In addition, the Board has always been willing to entertain a proposal to acquire SkillSoft, which would be considered based not only on the purchase price



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offered but also on the Board's and management's views of SkillSoft's future earnings and growth prospects. As part of this process of exploring alternatives to enhance shareholder value, SkillSoft management has from time to time engaged in discussions with both private equity firms and operating companies to assess whether any of those parties had an interest in acquiring or investing in SkillSoft, and has kept the SkillSoft Board apprised of those discussions. In addition, the SkillSoft Board has at various times requested Credit Suisse and other financial advisors to assist in exploring opportunities for acquisitions by SkillSoft and opportunities for an acquisition of or an investment in SkillSoft.

At different times commencing in the fall of 2007, several different private equity firms contacted SkillSoft management and expressed an interest in exploring an acquisition of, or investment in, SkillSoft. The SkillSoft Board concluded that management should engage in exploratory discussions, on a sequential basis, to determine whether any of these might lead to a transaction proposal that the Board believed was in the best interests of SkillSoft shareholders. Mr. Moran and other members of SkillSoft management, with the assistance of financial advisory firms, held meetings and discussions with a number of different private equity firms over the next several months, to allow them to conduct due diligence on SkillSoft for the purpose of evaluating a potential acquisition of, or investment in, SkillSoft. All of those discussions were preliminary in nature, focusing on those firms' due diligence review of SkillSoft, and none led to a discussion of potential acquisition or investment terms. By the spring of 2008, each of the private equity firms with which SkillSoft had held discussions had informed SkillSoft that, due primarily to unfavourable debt market conditions and uncertainty regarding the broader economy, it was not interested in proceeding with a transaction with SkillSoft at that time.

At a Board meeting in March 2009, the SkillSoft Board considered whether it was advisable to again explore potential opportunities for an acquisition of, or an investment in, SkillSoft. The SkillSoft Board agreed that management should pursue such discussions.

Beginning in March 2009, Mr. Moran and other members of SkillSoft management, often with the participation of Mr. Boyce, a member of the SkillSoft Board, held several meetings and discussions with a private equity firm, which is referred to in this document as PEF #1. At a Board meeting in May 2009, management updated the SkillSoft Board on the status of discussions with PEF #1. The SkillSoft Board also discussed with Credit Suisse the merger and acquisition market in general, the views of the analyst and investment community on SkillSoft's market positioning and future prospects, and strategies for optimizing the purchase price in the event the Board elected to proceed with a proposal for the acquisition of SkillSoft. William Fry, SkillSoft's Irish counsel, advised the Board on the relevant provisions of Irish law that would apply to an acquisition of SkillSoft. WilmerHale, SkillSoft's US counsel, also reviewed with the Board relevant considerations under US law, including applicable SEC rules. After additional meetings and discussions over the next several months, in August 2009 the SkillSoft Board, after discussion with Credit Suisse and SkillSoft's legal advisors, decided to terminate discussions with PEF #1 based largely on difficulties PEF #1 was encountering in securing debt financing to proceed with an acquisition or investment proposal for SkillSoft as well as questions raised by PEF #1 regarding the broader economic environment and SkillSoft's performance. Discussions with PEF#1 largely ended at this time.

In May 2009, SkillSoft was contacted by another private equity firm, which is referred to in this document as PEF #2, which expressed an interest in learning more about SkillSoft's business to determine whether it was interested in an investment in SkillSoft. The SkillSoft Board elected not to pursue discussions with PEF #2 at that time, SkillSoft management commenced discussions with PEF #2 in August 2009 and held a series of meetings and discussions with PEF #2 (often with the participation of Mr. Boyce) over the next several months so that PEF #2 could conduct a due diligence review of SkillSoft's business. PEF #2 indicated to SkillSoft that its primary focus was an investment transaction. In early November 2009, PEF #2 proposed an investment in SkillSoft. The Board, after considering SkillSoft's financial position and cash needs and trading liquidity concluded that SkillSoft should not proceed with investment discussions with PEF #2 at that time.

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During this same period of time, SkillSoft continued to explore growth opportunities, including both organic growth and growth via acquisitions. In October 2009, SkillSoft entered into an engagement letter with a boutique investment banking firm under which that firm was charged with identifying acquisition opportunities for SkillSoft within a particular market segment. While SkillSoft has considered several acquisition candidates, it has not identified any companies that it could acquire on acceptable terms.

Throughout the fiscal year ended 31 January 2010 (referred to as fiscal 2010), SkillSoft's business continued to be affected by the weak global economic climate, increased price competition from a broad array of competitors and a slower overall market adoption rate for e-learning solutions. As a result of those challenges, SkillSoft's revenue during fiscal 2010 was slightly down from fiscal 2009 and its bookings (which SkillSoft does not publicly disclose) during fiscal 2010 were also down from fiscal 2009.

In early September 2009, Berkshire met with representatives from SkillSoft, including Mr. Moran and Mr. Boyce, to conduct a general discussion of SkillSoft's business, based entirely on public information. Several weeks later, in late October 2009, Berkshire contacted Mr. Moran and expressed an interest in conducting due diligence on SkillSoft for the purpose of evaluating a potential acquisition of or investment in SkillSoft. After consulting with Mr. Boyce, who was by that time the Lead Director of SkillSoft, and informing other members of the Board, Mr. Moran, Mr. Boyce and other members of SkillSoft management held a series of meetings and discussions with Berkshire, following execution of the Confidentiality Agreement on 2 November 2009. Mr. Moran and Mr. Boyce updated the other SkillSoft directors on the discussions with Berkshire at the 18 November 2009 Board meeting.

In mid-December 2009, Berkshire conveyed to Mr. Moran that, based on its due diligence to date, it was considering making an acquisition proposal for SkillSoft, but that it had more work to do with respect to obtaining financing and conducting additional due diligence before it would be in a position to make an acquisition proposal for SkillSoft. Mr. Moran reported this to the SkillSoft Board at a meeting held on 18 December 2009. At that meeting, the Board also received an update from management on SkillSoft's business performance. In addition, Credit Suisse participated in a discussion with the Board with respect to SkillSoft's valuation. Based on those discussions, the SkillSoft Board concluded that management, with Mr. Boyce's involvement, should continue its discussions with Berkshire to determine whether Berkshire was willing to make an acquisition proposal for SkillSoft and the price it was willing to offer. Credit Suisse and SkillSoft's legal advisors then provided input to the Board on process that the Board could elect to follow in those discussions, Credit Suisse further advised on the steps that could be taken to determine whether a purchase price offered by Berkshire was fair and the highest reasonably attainable acquisition price for SkillSoft.

Meetings and discussions between SkillSoft management and Berkshire continued into January 2010. The Panel Executive was consulted as to contacting potential participants in and debt providers to the Investor Group. Subsequently, at Berkshire's request, SkillSoft management met with Advent and Bain Capital Partners, which were considering partnering with Berkshire in making an acquisition proposal for SkillSoft. SkillSoft management also met, at Berkshire's request, with Morgan Stanley and Barclays Bank, potential providers of debt financing for the transaction. During this time period, numerous discussions also took place between Credit Suisse and Morgan Stanley.

At a meeting held on 11 January 2010, the SkillSoft Board received an update from management and Mr. Boyce on the discussions with Berkshire, and an update from management on SkillSoft's business. In addition, Credit Suisse participated in a discussion with the SkillSoft Board on considerations relating to the valuation of SkillSoft and potential processes to follow to optimize shareholder value in such a transaction. The SkillSoft directors requested that a subsequent Board meeting be held at which the directors could consider in more detail management's financial outlook for the fiscal year ending 31 January 2011 (referred to as fiscal 2011) as well as growth strategies available to SkillSoft, so the Board would be better prepared to evaluate any acquisition proposal that might be received by comparing it to the prospects for enhancing

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shareholder value if SkillSoft were not acquired; that meeting was subsequently scheduled for 29 January 2010. The SkillSoft Board also discussed the possibility of forming a special committee to oversee discussions with Berkshire in light of the potential conflict of interest of Mr. Moran, arising from the possibility that he and other members of the management team might receive an offer of employment or other compensatory arrangements from Berkshire if Berkshire were to acquire SkillSoft. After discussion, the SkillSoft directors (other than Mr. Moran) concluded that a special committee should not be established at that time, based primarily on their belief that this matter warranted the participation and input of all members of the SkillSoft Board and that Mr. Moran's potential conflict of interest could be addressed by excusing Mr. Moran from discussions and decisions where appropriate.

The SkillSoft Board met again on 18 January 2010. At that meeting, the Board again received an update on the discussions with Berkshire. In addition, management and Credit Suisse reported that PEF #1 and PEF #2 had each contacted either management or Credit Suisse and asked to again engage in due diligence discussions with SkillSoft to assess their interest in potentially making an acquisition proposal for SkillSoft. The SkillSoft directors discussed whether it was advisable to seek permission under the Takeover Rules to engage in discussions with one or both of such firms without the requirement for a public announcement, in addition to Berkshire and its investing partners. The SkillSoft Board decided that it was not in the best interests of SkillSoft and its shareholders, based primarily on the following factors:

The views of William Fry that such a request was unlikely to be granted under the Takeover Rules without the requirement for SkillSoft to publicly announce that it was in acquisition discussions, and the belief of the SkillSoft Board and management that such an announcement could cause the loss of key employees and customers due to concern over the uncertain future of SkillSoft;

The Board's view, after receiving input from SkillSoft management and discussion with Credit Suisse, that the results of the additional due diligence undertaken by those firms may be unlikely to satisfactorily assuage the concerns those firms were seeking to address in their due diligence; and

The Board's belief that if PEF #1 or PEF #2 had a legitimate interest in making an acquisition proposal for SkillSoft at a price in excess of what Berkshire was willing to pay, those firms would have the opportunity to do so after the announcement of an agreement with Berkshire regarding the proposed acquisition of SkillSoft, due in large part to the Takeover Rules which provide subsequent bidders with equal access to the information provided to Berkshire and significantly limiting the amount of the expense reimbursement that SkillSoft could agree to with Berkshire, and the fact the prior due diligence conducted by those two firms would permit them to react quickly if they so desired.

On the evening of Wednesday, 27 January 2010, the Investor Group sent a letter to SkillSoft stating that, subject to confirmatory due diligence, the Investor Group was willing to acquire SkillSoft for US\$10.50 per SkillSoft Share in cash. This letter also set out the primary terms and conditions of such an acquisition, including a covenant of SkillSoft not to solicit any competing acquisition proposals. The letter from the Investor Group stated that it was an indicative proposal only and not a firm intention to make an offer under the Irish Takeover Rules. The letter was forwarded to each member of the SkillSoft Board.

On Friday, 29 January 2010, the SkillSoft Board held a meeting that had been previously scheduled to consider various strategic alternatives. The directors agreed at the outset of the meeting that discussion of the Investor Group's proposal would be deferred until a subsequent Board meeting to be held over the weekend of 30/31 January 2010, to ensure there was adequate time at this meeting to cover the scheduled agenda items and to enable the SkillSoft directors to evaluate the Investor Group's proposal with the benefit of the information presented and discussions held at this meeting. During the 29 January 2010 Board meeting, SkillSoft management, with participation from Credit Suisse, made a presentation to the SkillSoft Board on the following topics:

The e-learning market and SkillSoft's positioning within that market;

Factors impacting the valuation of SkillSoft ADSs;

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Management's preliminary base operating plan for fiscal 2011, which indicated that fiscal 2011 will be a more challenging year than is reflected in consensus analysts' estimates, in part because SkillSoft's bookings (which SkillSoft does not publicly disclose) during fiscal 2010 were down from fiscal 2009;

Potential growth strategies for SkillSoft including more aggressive investments in its business, growth via acquisitions and entry into adjacent markets and illustrative short-term and long-term financial outlooks associated with each alternative; and

Analysis of the potential short-term and long-term trading prices of SkillSoft ADSs based on pursuing each of the growth strategies discussed.

Following this presentation and extensive discussion, the SkillSoft directors were concerned about a potential decrease in the near-term trading price of SkillSoft ADSs, and felt that while there were opportunities for enhancing shareholder value over the longer term, there were significant risks associated with each strategy identified and an extended period of time required to execute those strategies.

On Sunday, 31 January 2010, the SkillSoft Board met to discuss the Investor Group's proposal. The SkillSoft directors, with input from Credit Suisse, William Fry and WilmerHale, discussed the acquisition proposal put forward by the Investor Group, including the purchase price, along with the other terms and conditions of the Investor Group's proposal. At the conclusion of the discussion, the SkillSoft directors were in agreement that the proposal (including the US\$10.50 purchase price) was attractive on its current terms, but that SkillSoft should attempt to negotiate more favourable terms. The SkillSoft Board directed Credit Suisse to present a counterproposal to the Investor Group, through Morgan Stanley, that included a purchase price of US\$11.25 per share, a right to affirmatively solicit competing acquisition proposals for a specified period of time following announcement of an agreement with the Investor Group (referred to as a go-shop provision), and several other changes to the terms of the Investor Group's proposal. In addition, in response to another request from PEF #1 to re-engage in due diligence discussions with SkillSoft, the Board again decided against approaching the Panel with that request, primarily for the reasons cited at the 18 January 2010 Board meeting.

On Monday, 1 February 2010, Credit Suisse delivered to Morgan Stanley the SkillSoft Board's counterproposal to the Investor Group's letter.

On Tuesday, 2 February 2010, Morgan Stanley delivered a response on behalf of the Investor Group, which included a purchase price of US\$10.65 per share, acceptance of the go-shop concept (though not all of its terms) and certain other changes to the terms of SkillSoft's counterproposal, including a request for a contractual matching right in the event SkillSoft received a superior proposal.

After discussions among SkillSoft management, members of the SkillSoft Board, and SkillSoft's financial and legal advisors, SkillSoft directed Credit Suisse to respond with a proposed purchase price of US\$11.00 per share and other proposed modifications to the Investor Group's terms, including a rejection of the matching right. Credit Suisse delivered this response to Morgan Stanley on the morning of Wednesday, 3 February 2010.

Later in the day on 3 February 2010, Morgan Stanley informed Credit Suisse that the Investor Group would only agree to proceed to complete the steps necessary to make a formal offer, such as confirmatory due diligence and implementing financing arrangements, on the basis of receiving a SkillSoft Board recommendation at a price of US\$10.80 per share. Morgan Stanley also indicated that the Investor Group was generally in agreement with the other terms in SkillSoft's latest counterproposal (including the elimination of the matching right), subject to some of the finer points being worked out between the parties' respective legal advisors. SkillSoft communicated this response to the SkillSoft Board and scheduled a Board meeting for the following morning.

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The SkillSoft Board held a meeting on the morning of Thursday, 4 February 2010. At that meeting, the Board first discussed the potential conflicts of interest of three of its directors – Mr. Moran, Mr. Boyce and Mr. Edelstein. Mr. Moran might receive an offer of employment or other compensatory arrangement from the Investor Group if the Investor Group were to acquire SkillSoft. Mr. Boyce’s daughter is employed by Berkshire in its marketing department. She has no involvement in the Acquisition and had limited knowledge of it prior to its public announcement. Mr. Edelstein has been engaged by Advent to perform consulting services in connection with one of the companies in which Advent is considering making an investment. Mr. Edelstein’s consulting services are unrelated to Advent’s participation in the Acquisition. Mr. Edelstein began performing this consulting work in late January 2010, and it is unclear for how long it will continue. Mr. Edelstein’s total compensation for this consulting work through 15 February 2010 is less than US\$20,000.

Based on input from its legal advisors, the Board decided to form an independent committee (referred to as the Independent Committee). Although the Board felt that both Mr. Boyce and Mr. Edelstein could serve as effective, independent committee members, the Board determined that it was in the best interest of SkillSoft and the SkillSoft Shareholders, in order to avoid any appearance of a conflict of interest, for the Independent Committee to be comprised of Mr. Krzywicki, Mr. Meagher and Dr. von Prondzynski, the three Board members with no potential conflicts of interest. The SkillSoft Board delegated to the Independent Committee the authority to approve or disapprove and recommend to the Board approval or disapproval of the proposed acquisition of SkillSoft by the Investor Group, and resolved that the Board shall not approve the proposed acquisition by the Investor Group without the prior approval of such acquisition by the Independent Committee.

The SkillSoft Board then discussed the most recent proposal from the Investor Group, and also discussed it with Credit Suisse and SkillSoft’s legal advisors. Each member of the SkillSoft Board concluded that the latest proposal from the Investor Group was acceptable and was in the best interests of SkillSoft’s shareholders to have the opportunity to consider the proposal. The Board authorized Credit Suisse to communicate that to Morgan Stanley and directed its legal advisors to work as expeditiously as possible to prepare and negotiate the definitive acquisition documents. It was agreed that another meeting of the Board would be held to review the definitive acquisition documents, to discuss the proposal with Credit Suisse and to consider formal approval of the acquisition.

Over the course of the next week, SkillSoft management and the Investor Group continued to hold meetings and discussions concerning due diligence items and other acquisition-related matters. There were also numerous discussions between Credit Suisse and Morgan Stanley, as well as discussions between the respective legal advisors of SkillSoft and the Investor Group concerning the definitive acquisition documents.

On Tuesday, 9 February 2010, William Fry submitted the draft Expenses Reimbursement Agreement to the Panel for review and approval. On 10 February 2010, the Panel sent a letter to William Fry stating that it had approved the draft Expenses Reimbursement Agreement.

On Wednesday, 10 February 2010, the SkillSoft Board and the Independent Committee met to further consider and vote upon the proposed Acquisition and related matters. During that meeting:

Mr. Moran presented his views on the competitive environment and SkillSoft’s prospects as a stand-alone company, including two revised versions of management’s preliminary fiscal 2011 operating plan;

The William Fry representatives outlined the fiduciary duties and responsibilities of the SkillSoft Board under applicable law;

The William Fry representatives summarized the principal terms of the Transaction Agreement, the Expenses Reimbursement Agreement, the Director Voting Undertakings, the Conditions of the Acquisition and Scheme, and the Rule 2.5 Announcement;

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The SkillSoft Board discussed the terms of the acquisition documents;

The Credit Suisse representatives discussed with the Board the financial terms of the acquisition; and

Mr. Moran informed the SkillSoft Board that no equity or compensation arrangements had been discussed between the Investor Group and any member of SkillSoft management.

After discussion and deliberation, the Independent Committee, meeting in executive session, unanimously voted to approve the Acquisition by SSI Investments (the company formed by the Investor Group for purposes of the Acquisition) and the Acquisition agreements presented at that meeting, and to recommend that the full SkillSoft Board do the same. The Board then approved the Acquisition and Acquisition-related documents, contingent upon certain final open issues being resolved and the Acquisition agreements being executed before the opening of the US stock markets on Thursday, 11 February 2010. However, all open items were not resolved and the Acquisition agreements were not executed by such time.

On the afternoon of Thursday, 11 February 2010, the SkillSoft Board and the Independent Committee met to further consider and vote upon the proposed Acquisition and related matters. During that meeting:

Credit Suisse and SkillSoft's legal representatives updated the directors on the status of the Acquisition agreements and the resolution of open issues; and

The Credit Suisse representatives assisted the Board in the review of the financial terms of the Acquisition.

After discussion and deliberation, the Independent Committee, meeting in executive session, unanimously voted to approve the Acquisition by SSI Investments (the company formed by the Investor Group for purposes of the Acquisition) and the Acquisition agreements presented at that meeting, and to recommend that the full SkillSoft Board do the same. The Board then unanimously determined that the Acquisition was fair to and in the best interests of SkillSoft Securityholders to have the opportunity to consider the Acquisition proposal, unanimously voted to approve the Acquisition by SSI Investments and the Transaction Agreement, the Expenses Reimbursement Agreement, the Directors' Irrevocable Undertaking, the Rule 2.5 Announcement and other Acquisition-related documents and unanimously resolved to recommend that the SkillSoft Securityholders vote to approve the Acquisition in accordance with the applicable provisions of Irish law.

On the evening of Thursday, 11 February 2010, the parties executed the Transaction Agreement, the Expenses Reimbursement Agreement and the Directors' Irrevocable Undertakings. The parties issued both the Rule 2.5 Announcement and a press release announcing the Acquisition on the morning of Friday, 12 February 2010.

### Reasons for the Transaction and Recommendation of the SkillSoft Board

In reaching its determination to approve the Acquisition, the Board of SkillSoft consulted with SkillSoft management and its financial and legal advisors, drew on its knowledge of SkillSoft's business, assets, financial condition, operating results, prospects and historical share trading prices, and considered the following factors in particular:

Characteristics of the trading market for SkillSoft ADSs, including:

historical and current trading prices of SkillSoft ADSs;

the significant ownership concentration among SkillSoft's top institutional shareholders; and

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the limited liquidity of the trading market for SkillSoft ADSs, which has led to frustration among some significant SkillSoft shareholders and (in SkillSoft management's opinion) has dissuaded other institutional investors from purchasing SkillSoft ADSs.

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The e-learning market in which SkillSoft competes, including:

the characteristics and projected growth of the market, including a reduction in forecasted growth rates due to global economic conditions, thus impacting revenue growth of all market participants;

trends related to the recessionary environment, such as a more discretionary view on training, budget pressure and pricing sensitivity; and

a customary competitive analysis, including SkillSoft's strengths, weaknesses, opportunities and competitive threats.

SkillSoft's preliminary operating plan for fiscal 2011 anticipates that fiscal 2011 will be a more challenging year than is reflected in the fiscal 2011 mean estimates of securities analysts published with Institutional Brokers' Estimate System (I/B/E/S) in part because SkillSoft's bookings (which SkillSoft has not historically publicly disclosed) during fiscal 2010 were down from fiscal 2009, and SkillSoft recognizes revenue ratably in the periods following client bookings. As a result, the SkillSoft Board had concerns about the potential near-term trading price of SkillSoft ADSs.

The SkillSoft Board's review of strategies available to SkillSoft, and its conclusion following that review that:

each of the strategies, in the Board's judgment, involved risk and uncertain likelihood of success, and involved execution challenges as well as the potential to disrupt SkillSoft's existing business plan and prospects;

continuing to operate the business with a view to maximizing profitability, while a viable alternative, was unlikely to result in meaningful change to SkillSoft's existing growth profile;

each of the growth strategies considered could potentially have a negative impact on the trading price of SkillSoft ADSs in the short term due to the natural delay that occurs between when incremental investments are made and subsequent growth is achieved; and

those growth strategies that offered the greatest potential for a long-term positive impact on the trading price of SkillSoft ADSs involved increased levels of execution risk, long-term horizons, and lacked reasonable certainty in their ability to yield meaningful increases in the value of SkillSoft ADSs relative to the underlying risk.

The efforts undertaken by SkillSoft directly or by various investment banks and intermediaries over the past several years to determine whether any party was interested in making an acquisition proposal for SkillSoft, which did not yield any definitive acquisition proposal other than the one from the Investor Group.

The value of the purchase price to be received by SkillSoft Securityholders in the Acquisition, including:

the fact that the consideration of US\$10.80 per SkillSoft Share in cash represents approximately an 11 per cent. premium to the Closing Price of a SkillSoft ADS on 11 February 2010 (the last Business Day prior to the Rule 2.5 Announcement), approximately a 26 per cent. premium to the average closing price of a SkillSoft ADS over the one-year period ending on



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11 February 2010 and approximately a 49 per cent. premium to the average Closing Price of a SkillSoft ADS over the five-year period ending on 11 February 2010; and

the fact that SkillSoft Securityholders will receive the Consideration in cash, which provides certainty of value to SkillSoft Securityholders as compared to a transaction in which they would receive stock or other non-cash consideration.

The discussions undertaken with Credit Suisse.

The terms and conditions of the Acquisition, including:

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the conditions to the closing of the Acquisition and the likelihood of their being satisfied, including the absence of any financing condition to SSI Investments' obligation to consummate the Acquisition;

the right of SkillSoft to affirmatively solicit acquisition proposals from other parties during the 22-day period following the date of the Rule 2.5 Announcement, and the right of SkillSoft following the expiration of that period to furnish information to and conduct negotiations with third parties that make an unsolicited acquisition proposal, subject in either case to SkillSoft's obligation to make an expenses-reimbursement payment of up to 1 per cent. of the total value of the entire issued share capital (excluding any interest in such share capital of SkillSoft (including in the form of ADSs) held by Stockbridge) as ascribed by the terms of the Acquisition, under certain circumstances; and

the Board of SkillSoft's belief that the expenses-reimbursement payment to be made to SSI Investments in the circumstances set forth in the Expenses Reimbursement Agreement would not be likely to preclude another party from making a superior acquisition proposal.

In the course of its deliberations, the Board of SkillSoft also considered a variety of risks and other countervailing factors with respect to the Acquisition, including:

The fact that SkillSoft will no longer exist as an independent, publicly-traded company and that SkillSoft Securityholders will no longer benefit from the future financial performance or any appreciation in the value of SkillSoft;

The risk that the Acquisition might not be completed due to failure to satisfy the Conditions, some of which are outside of SkillSoft's control;

If the Acquisition is not completed, the potential adverse effect of the public announcement of the Acquisition on SkillSoft's business, including its customer and partner relationships, SkillSoft's ability to attract and retain key personnel and SkillSoft's overall competitive position; and

The fact that gains from an all-cash transaction will be taxable to SkillSoft Securityholders for US federal income tax purposes and Irish capital gains tax purposes.

The foregoing discussion of the factors considered by the SkillSoft Board is not intended to be exhaustive, but does set forth all of the material factors considered by the SkillSoft Board. The SkillSoft Board collectively reached the unanimous conclusion to approve the Acquisition in light of the various factors described above and other factors that each member of the SkillSoft Board deemed relevant. In view of the wide variety of factors considered by the members of the SkillSoft Board in connection with their evaluation of the Acquisition and the complexity of these matters, the SkillSoft Board did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. The SkillSoft Board made its decision based on the totality of information presented to and considered by it. In considering the factors discussed above, individual directors may have given different weights to different factors.

Based on its evaluation of the above factors, **the SkillSoft Board unanimously recommends that SkillSoft Securityholders vote in favour of the Acquisition.**

## **5. EFFECTS OF THE ACQUISITION**

Upon the Scheme becoming effective, (i) the Scheme Shares will be cancelled pursuant to Sections 72 and 74 of the Act or transferred to SSI Investments, (ii) SkillSoft will then issue New SkillSoft Shares to SSI Investments in place of the Cancellation Shares, and (iii) SSI Investments will pay the Consideration to former Scheme Shareholders in consideration for the Acquisition. As a result of the Scheme, SkillSoft will become a wholly owned subsidiary of SSI Investments. It is intended that, subject to and following the Scheme becoming effective and subject to applicable requirements of NASDAQ, SSI Investments will



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procure that SkillSoft applies for cancellation of the quotation of SkillSoft ADSs on NASDAQ. The last day of dealing in SkillSoft ADSs on NASDAQ will be the last Business Day before the Effective Date. After this time, price quotations for SkillSoft ADSs and SkillSoft Shares will no longer be available and SkillSoft will cease filing periodic reports under the Exchange Act. SkillSoft has never paid cash dividends on the SkillSoft Shares and, if the Scheme becomes effective, no dividend will be paid to SkillSoft ADS holders or SkillSoft Shareholders in respect of the current SkillSoft financial year.

### **The Views of the Board of SkillSoft on SSI Investments Plans for SkillSoft and its Employees**

The Board of SSI Investments has confirmed that:

the business of SkillSoft will continue in the same manner in which it currently operates;

it has no plans to change the locations of the places of business or to redeploy the fixed assets of the SkillSoft Group;

the existing employment rights of employees of the SkillSoft Group (including pension rights) under applicable laws will be fully safeguarded following the Scheme becoming effective;

it attaches great importance to the skills and experience of the existing management and employees of SkillSoft who it sees as critical to the business going forward; and

it will aim, through SkillSoft's compensation and reward package, to ensure high levels of performance and to reward and retain key employees.

Following consideration of the information referred to above, the Board of SkillSoft views positively the commitment of SSI Investments to continue the business of SkillSoft in the same manner in which it currently operates. The Board of SkillSoft is pleased to note that SSI Investments will fully safeguard the existing employment rights of employees of the SkillSoft Group and that it has no plans to change the location of the places of business of the SkillSoft Group. The Board of SkillSoft recognizes that SkillSoft has a skilled workforce, who are crucial to the future success of the business, and is pleased that SSI Investments is of the same view.

## **6. VOTING UNDERTAKINGS**

The Directors of SkillSoft have given irrevocable undertakings to SSI Investments (subject to certain exceptions) to vote, or to procure that voting instructions are given to vote, in favour of any resolutions required to approve and implement the Acquisition and the Scheme at the Extraordinary General Meetings in respect of their entire beneficial holding (and that of their family trusts) amounting to, in aggregate, 5,877 SkillSoft Shares, representing approximately 0.006 per cent. of the issued share capital of SkillSoft, and any SkillSoft Shares such directors may acquire or subscribe for upon exercise of their SkillSoft Options. Under the voting undertakings, each member of the Board of SkillSoft has agreed (subject to certain exceptions) not to sell, transfer, encumber or otherwise dispose of any of his SkillSoft Shares. In addition, each of the Directors has also undertaken that, if SSI Investments requests that he do so, he will serve the necessary notices on the Depositary (within one Business Day of being requested to do so) so as to procure that the SkillSoft Shares underlying his SkillSoft ADSs are vested in nominees of each such director.

The foregoing summary of the voting undertakings by the directors of SkillSoft is qualified by reference to the complete text of the form of voting undertaking, which is attached to this document as Annex C.

SSI Investments has also received similar voting undertakings from Mr. Gregory J. Porto in respect of his entire beneficial holding (and that of his family) of SkillSoft Shares amounting to 6,524 SkillSoft Shares, representing approximately 0.007 per cent. of SkillSoft's issued share capital, and from Mr. Charles E. Moran's wife, Mrs. Susan Moran, in respect of her entire beneficial holding (and that of her family trusts) of SkillSoft Shares amounting to 6,364 SkillSoft Shares, representing approximately 0.007 per cent. of



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SkillSoft's issued share capital. Under his voting undertaking, Mr. Porto has also undertaken to procure the transfer of one SkillSoft Share to each of three nominees by 18 February 2010 and, if requested to do so by SSI Investments, he will serve the necessary notices on the Depositary (within five Business Days of being requested to do so) so as to procure that one SkillSoft Share (underlying a SkillSoft ADS) is vested in each of six separate nominees of Mr. Porto and that one thousand SkillSoft Shares (underlying SkillSoft ADSs) are vested in Mr. Porto.

These voting undertakings will lapse in the event that:

the Scheme lapses or is withdrawn;

the Transaction Agreement is terminated by either party thereto;

a higher Competing Offer is announced (whether pursuant to Rule 2.4 or Rule 2.5 of the Takeover Rules) or a higher Competing Offer is made;

the Scheme does not become effective by 16 July 2010 (or such later date as SkillSoft and SSI Investments agree, with the consent of the Panel and the Court);

the resolutions are not passed at the EGM (other than resolution 4) or the Court Meeting;

the Board of SkillSoft withdraws its recommendation to SkillSoft Shareholders to vote in favour of the Scheme;

the High Court declines or refuses to sanction the Scheme, unless the Company and SSI Investments agree that the decision of the High Court will be appealed and, if so appealed, a final non-appealable order, decree, judgement, or ruling has been issued; or

SSI Investments announces that it will not proceed to make the Acquisition.

Stockbridge has undertaken (subject to certain exceptions) to SSI Investments and SkillSoft to vote in favour of the resolutions proposed at the EGM in respect of the 170,625 SkillSoft Shares it owns or controls, representing approximately 0.180 per cent. of the entire issued share capital of SkillSoft. Stockbridge Partners has limited discretionary voting power in respect of 110,319 SkillSoft Shares, representing approximately 0.117 per cent. of the entire issued share capital of SkillSoft. Stockbridge Partners has similarly undertaken (subject to certain exceptions) so to vote, subject to the prior rights of its clients to exercise voting power themselves.

## **7. EXPENSES REIMBURSEMENT AGREEMENT**

SkillSoft has entered into an expenses reimbursement agreement dated 11 February 2010 with SSI Investments, the terms of which were approved by the Panel. Under the Expenses Reimbursement Agreement, SkillSoft has agreed to pay specific, quantifiable third party costs and expenses incurred by SSI Investments in connection with the Acquisition in the circumstances outlined below. The liability of SkillSoft to pay these amounts is limited to a maximum amount equal to 1 per cent. of the total value of the entire issued share capital (excluding any interest in such share capital of SkillSoft (including in the form of ADSs) held by Stockbridge) as ascribed by the terms of the Acquisition. The amount payable by SkillSoft to SSI Investments will not include any Value Added Tax attributable to such third party costs to the extent it is recoverable by SSI Investments.

The circumstances in which such payment will be made are if:

the Board of SkillSoft (or any member thereof) withdraws, adversely modifies or qualifies its recommendation to SkillSoft Shareholders to vote in favour of the Scheme;

SkillSoft wilfully takes or omits to take any action, such as failing to post this document, preventing SkillSoft Shareholders from voting at any meetings to approve the Scheme, unilaterally altering the

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terms and conditions of the Scheme, or failing to deliver the Court Order and minute of reduction of capital to the Registrar of Companies (in any such case without the consent of SSI Investments); or

prior to the Scheme being withdrawn by SkillSoft or lapsing in accordance with its terms, a Competing Offer is announced and subsequently made and that Competing Offer or a Competing Offer in which that competing party is interested or participates subsequently becomes effective or unconditional within the 18 months of such lapse or withdrawal.

As required by Irish law, Credit Suisse, the independent financial adviser to the Board of SkillSoft, has confirmed in writing to the Panel that, in the opinion of the Board of SkillSoft and Credit Suisse, in the context of the Acquisition, the Expenses Reimbursement Agreement is in the best interests of SkillSoft and SkillSoft Shareholders.

The foregoing summary of the Expenses Reimbursement Agreement is qualified by reference to the complete text of the Expenses Reimbursement Agreement, which is attached to this document as Annex B.

**8. TRANSACTION AGREEMENT**

SkillSoft and SSI Investments have entered into a Transaction Agreement on 11 February 2010, which contains, amongst other things, certain obligations and commitments in relation to the implementation of the Scheme and the conduct of SkillSoft's business until the Effective Time.

Under the terms of the Transaction Agreement, SkillSoft and SSI Investments each agree to:

- (a) take such steps as are necessary, proper or advisable, and provide each other with such cooperation and assistance as may reasonably be requested of it, to implement the Acquisition and the Scheme;
- (b) afford such cooperation as may reasonably be requested of it for the purposes of preparing and verifying documents for the Acquisition and the Scheme; and
- (c) use its reasonable efforts to achieve satisfaction of all the Conditions as soon as practicable before 16 July 2010.

*Conduct of Business*

Under the Transaction Agreement, SkillSoft has agreed that from the date of the Transaction Agreement until the Effective Time or the date, if any, on which the Transaction Agreement is terminated, except as may be required by law, or as expressly required elsewhere in the Transaction Agreement, SkillSoft will (and will use all reasonable efforts to cause each member of the SkillSoft Group to) (x) conduct its business in the ordinary course consistent with past practice in all material respects and in compliance in all material respects with all applicable laws and regulations and to use all reasonable efforts to preserve substantially intact its business and goodwill and keep available the services of its executive officers and key employees and preserve the relationships with those persons having business dealings with SkillSoft and (y) maintain the SkillSoft Group's cash management policies in existence on the date of the Transaction Agreement and not engage in any intercompany transactions outside the Ordinary Course of Business, except to the extent SSI Investments has given its prior written consent. Furthermore, SkillSoft has agreed not to take any of the following actions (and to cause every member of the SkillSoft Group not to take such actions) except as required by law or regulation or by agreements in effect on the date of the Transaction Agreement, as expressly required by the Transaction Agreement or by the Scheme, or to the extent SSI Investments has given its prior written consent, such consent not to be unreasonably withheld, conditioned or delayed in the cases of all the sub-clauses below (except for paragraphs (a), (b), (d), (h), (n) and (o) below):

- (a) amend the memorandum and articles of association or equivalent organisational documents of SkillSoft or any member of the SkillSoft Group;





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- (b)
- (i) except (x) pursuant to the exercise of SkillSoft Options granted prior to the date of the Transaction Agreement (and listed in the Options Schedule to the Transaction Agreement) and then only in accordance with the existing terms of the SkillSoft Share Option Plans and (y) pursuant to the purchase of up to 210,000 SkillSoft Shares by participants in the SkillSoft Employee Share Purchase Plan as part of the offering period ending on or around 31 March 2010, issue, or agree to issue, any shares, or any rights or securities convertible or exchangeable into, or grant the right to call for the issue of, any shares, effect any share split, share combination, reverse share split, share dividend, recapitalisation, alter the rights attaching to any shares, or effect any reduction, repayment or cancellation of share capital or share premium or capitalise any reserves or redeem or buy-back any shares or other similar transaction; and
  - (ii) grant, confer or award any option, right, warrant, deferred stock unit, conversion right or other right not existing on the date of the Transaction Agreement to acquire any of its shares whether or not pursuant to the SkillSoft Share Option Plans or the SkillSoft Employee Share Purchase Plan;
- (c) except as required to comply with written employment agreements, plans or other arrangements existing on the date of the Transaction Agreement:
- (i) increase any compensation or enter into or amend any employment or severance agreement, except for annual increases in salaries as permitted by Clause 8(c)(iv) or Clause 8(c)(v) below or severance agreements that do not exceed, individually, US\$50,000, it being understood (for the avoidance of doubt) that SkillSoft and its Subsidiaries may hire new employee(s) in the Ordinary Course of Business;
  - (ii) grant any bonus in excess of US\$50,000 to any one individual, provided that this shall not in any way restrict the payment of bonuses to newly hired employees or to existing employees in the Ordinary Course of Business;
  - (iii) save pursuant to any annual review in the Ordinary Course of Business, adopt any new material employee benefit plan (including any stock option, stock benefit or stock purchase plan) or pension scheme or amend in any material respect any existing employee benefit plan or pension scheme (including, without prejudice to the generality of the foregoing, changing the entitlements to benefits under a pension scheme, or the benefits that accrue under a pension scheme, or the amounts payable thereunder, or the basis of calculation of such amounts, or the basis on which any pension scheme is funded), except for changes which are less favourable to participants in such plans or are required to implement the Scheme;
  - (iv) except for annual increases in salaries or pursuant to disciplinary action, in each case in the Ordinary Course of Business, commence, terminate or vary in any material respect, or agree to vary in any material respect the terms of employment, including, without limitation, compensation, of any employee or proposed employee whose annual remuneration exceeds US\$300,000 (excluding members of SkillSoft's sales force), it being understood (for the avoidance of doubt) that SkillSoft and its Subsidiaries may hire new employee(s) and promote employee(s) in the Ordinary Course of Business;
  - (v) increase the base salary of any member of the SkillSoft senior management team or increase the base salary of any employee unless the aggregate of all such increases is equal to or less than 5% of the aggregate base salaries of all SkillSoft Group employees;
  - (vi) enter into any new agreement with persons that are Affiliates or amend or otherwise modify in any material respect any agreement or arrangement with persons that are Affiliates, provided that the foregoing will not apply to any new or existing

agreements between members of the SkillSoft Group;

- (vii) enter into any material new agreement with another member or members of the SkillSoft Group or amend or otherwise modify in any material respect any material agreement or arrangement between any members of the SkillSoft Group;

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- (viii) save for the entry into new executive compensation plans in substantially the form (as to terms and conditions) disclosed to SSI Investments at any time up to the date of the Transaction Agreement, enter into or amend or otherwise modify any agreement or arrangement with officers or directors of SkillSoft;
  
- (d)
  - (i) recommend, announce, declare, set aside, pay or make or propose the recommendation, announcement, declaration, setting aside of any payment or making of any dividend, make any bonus issue or make any other distribution or payment (whether in cash, securities or other property) with respect to any SkillSoft shares or allow any member of the SkillSoft Group to pay or make any such dividend, distribution or payment (other than dividends from a wholly-owned subsidiary of SkillSoft to another wholly-owned subsidiary of SkillSoft or to SkillSoft); or
  - (ii) directly or indirectly redeem, purchase or otherwise acquire any of SkillSoft's shares or any equity interest of any member of the SkillSoft Group, other than in connection with: (A) the acquisition of SkillSoft Ordinary Shares from holders of SkillSoft Options in full or partial payment of the exercise price payable by such holders upon exercise of SkillSoft Options outstanding as of the date of the Transaction Agreement, and (B) tax withholdings upon the exercise of SkillSoft Options;
  
- (e) except in connection with a Third Party Transaction Proposal after a change in Scheme Recommendation or any other transaction having an aggregate value of not more than US\$5,000,000, merge with, enter into a consolidation with, enter into a scheme of arrangement with or acquire an interest in any person or acquire the whole or a substantial portion of the assets or business of any person or any division or line of business thereof, acquire any assets or enter into any agreement or arrangement for any of the above;
  
- (f) sell, lease, licence, pledge, transfer, or otherwise dispose of or encumber any properties or assets of SkillSoft or of any member of the SkillSoft Group (including any accounts, leases, contracts or intellectual property or any assets or the shares in any Subsidiary) for consideration in an aggregate amount of US\$1,000,000 or more (or its equivalent in any currency);
  
- (g)
  - (i) enter into any joint venture or profit sharing agreement (which, for the avoidance of doubt, shall not include sales commission plans in the Ordinary Course of Business);
  - (ii) licence any intellectual property rights from any third party which obliges the SkillSoft Group to make payments in excess of US\$1,000,000 during its fiscal year or that cannot be terminated at will by the SkillSoft Group within three years after the date of the Transaction Agreement without payment or penalty; or
  - (iii) enter into any agreement the effect of which would be to impose any material non-compete, exclusivity or similar restrictive covenants on SkillSoft or any material member of the SkillSoft Group or which would, following the Effective Date, bind SSI Investments or any member of the Investor Group (other than SkillSoft and members of the SkillSoft Group);
  
- (h)
  - (i) create, incur or suffer to exist any indebtedness for borrowed money other than (i) such indebtedness which existed as of 31 October 2009 as reflected on the balance sheet included in SkillSoft's interim results published in its Quarterly Report on Form 10-Q for the quarterly period ended 31 October 2009 filed with the SEC, or (ii) any indebtedness owed to SkillSoft by

any of its direct or indirect wholly owned Subsidiaries;

- (ii) guarantee indebtedness of another person (other than another member of the SkillSoft Group);
- (iii) issue, sell or amend any debt securities or warrants or other rights to acquire any debt securities of SkillSoft or any member of the SkillSoft Group, or guarantee any debt securities of another person (other than another member of the SkillSoft Group);

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- (iv) be a creditor in respect of any financial indebtedness; or
- (v) enter into, modify, amend or terminate any commodity hedging agreement, and any other agreement, involving credit exposure for SkillSoft or any member of the SkillSoft Group;
- (i) make any material change to its methods, principles or practices of accounting currently in effect, except:
  - (i) as required by generally accepted accounting principles;
  - (ii) as required by a Relevant Authority or quasi-Relevant Authority (including the Financial Accounting Standards Board or any similar organisation); or
  - (iii) as required by a change in applicable law;
- (j) make or materially change any material tax election, settle or compromise any material tax claim or amend any tax return in excess of US\$500,000;
- (k) open or expand any facility or office where the annual cost thereof is in excess of US\$1,000,000 in the aggregate;
- (l) settle or compromise any litigation or other dispute (whether or not commenced prior to the date of the Transaction Agreement) for an amount of US\$250,000 or more;
- (m) make any material changes to the insurance policies of the SkillSoft Group, or settle or compromise any claim under such policies (whether or not commenced prior to the date of the Transaction Agreement) for an amount of US\$500,000 or more;
- (n) authorise, recommend, propose or announce an intention to adopt a plan of complete or partial liquidation or dissolution of SkillSoft or any member of the SkillSoft Group provided that this does not apply to the liquidation or dissolution of Fidalco Limited, Stargazer Productions, SmartForce Business Skills Limited or Knowledge Well Group Limited that commenced prior to the date of the Transaction Agreement;
- (o) incur, or agree to incur, any capital expenditure in excess of US\$1,000,000 individually or US\$5,000,000 in the aggregate;
- (p) take any action after the date of the Transaction Agreement that would result in the early repayment, acceleration or otherwise amends the terms of any indebtedness outstanding between members of the SkillSoft Group otherwise than in the Ordinary Course of Business or cancel any facilities available to SkillSoft; or
- (q) authorise any of, or commit or agree to take any of, the foregoing actions.

Ordinary Course of Business for the purposes of the foregoing paragraph headed Conduct of Business means, in the case of each of SkillSoft and any of its Subsidiaries, such reasonable actions taken in the ordinary course of its normal operations and consistent in all material respects with its past practices.

*Solicitation*

SkillSoft and SSI Investments agreed that, from the date of the Transaction Agreement until 11.59 p.m. (United States Eastern Time) on 6 March 2010, SkillSoft and its Subsidiaries (and their respective Representatives) would have the right to: (i) initiate, solicit and encourage, including by way of providing access to non-public information, any discussions with, or enquiries or proposals from, any person other than SSI Investments in respect of or in connection with a Third Party Transaction Proposal and (ii) enter into and maintain discussions or negotiations with respect to a Third Party Transaction Proposal or otherwise cooperate with or assist or participate in, or facilitate any such enquiries, proposals, discussions or negotiations. SkillSoft agreed that prior to 7 March 2010, it would give SSI Investments not less than four days' advance notice of any meeting of the Board of SkillSoft or other forum or the occurring of any other means at which any withdrawal of the Scheme Recommendation would be considered.

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### *Non-Solicitation*

Pursuant to the non-solicitation undertaking SkillSoft agreed that, from 7 March 2010 until the earliest of (i) 11.59 p.m. (United States Eastern Time) on 16 July 2010, (ii) the date on which the Transaction Agreement is terminated in accordance with its terms, and (iii) the date on which the Scheme becomes effective (or lapses or is withdrawn), and subject to the requirements of the Takeover Rules and the fiduciary duties of the Board of SkillSoft, no member of the SkillSoft Group (or any of their respective Representatives) would directly or indirectly solicit or initiate any discussions with or proposals from, any person with respect to or in connection with a Third Party Transaction Proposal. Except to the extent required by the Takeover Rules, SkillSoft has also agreed to inform SSI Investments orally, with written confirmation to follow within one Business Day, of (i) receipt after 7 March 2010 of any Third Party Transaction Proposal or request for non-public information in connection with any Third Party Transaction Proposal from any person other than a person that communicated a Third Party Proposal to SkillSoft in writing prior to 7 March 2010 (an Excluded Party ) and (ii) the material terms and conditions of any such Third Party Transaction Proposal (but not, for the avoidance of doubt, the identity of the person making such Third Party Transaction Proposal). SkillSoft also agreed to:

keep SSI Investments reasonably informed, on a reasonably current basis, of the status and material terms and conditions (including updating SSI Investments of any material change to such terms within one Business Day of SkillSoft receiving or becoming aware of such change) of any such Third Party Transaction Proposal from any person other than an Excluded Party;

provide to SSI Investments as soon as practicable after receipt or delivery thereof copies of any proposals received by SkillSoft with respect to such Third Party Transaction Proposal from any person other than an Excluded Party and any draft or final version of any acquisition agreement relating to such Third Party Transaction Proposal; and

give SSI Investments not less than four days advance notice of any meeting of the Board, or other forum or the occurring of any other means by which any withdrawal of the Scheme Recommendation is to be considered; provided that SkillSoft will not be required to disclose the identity of the person making or submitting such Third Party Transaction Proposal.

Notwithstanding the foregoing, the Transaction Agreement does not preclude, restrict or hinder the SkillSoft Group (or any of their respective Representatives) from continuing discussions with respect to a Third Party Transaction Proposal communicated in writing by an Excluded Party to SkillSoft prior to 7 March 2010, or considering and engaging with any unsolicited Third Party Transaction Proposal, but only if and only to the extent that the SkillSoft Board has determined, in good faith after consultation with its outside legal counsel and its financial advisors, that it is required to do so to satisfy the fiduciary duties of the Board of SkillSoft or to comply with the Takeover Rules.

### *Termination of the Transaction Agreement*

Either SkillSoft or SSI Investments may terminate the Transaction Agreement at or prior to the Effective Time of the Scheme if any of the following occurs:

the resolutions are not passed at the EGM (other than resolution 4) and the Court Meeting;

the Conditions are not satisfied or waived by 11.59 pm (United States Eastern Time) on 16 July 2010 (or such later date as SkillSoft and SSI Investments may agree to in writing subject to the consent of the Panel and/or the High Court (if required));

the High Court declines or refuses to sanction the Scheme, unless both SkillSoft and SSI Investments agree that the decision of the High Court will be appealed;

the Board of SkillSoft (or any member thereof) withdraws, adversely modifies or qualifies its recommendation to SkillSoft Shareholders to vote in favour of the Scheme;





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SkillSoft wilfully takes or omits to take any action, such as failing to post this document, preventing SkillSoft Shareholders from voting at any meetings to approve the Scheme, unilaterally altering the terms and conditions of the Scheme, or failing to deliver the Court Order and minute of reduction of capital to the Registrar of Companies (in any such case without the consent of SSI Investments); or

Either SkillSoft or SSI Investments may terminate the Transaction Agreement after the Effective Time of the Scheme if, prior to the Scheme being withdrawn by SkillSoft or lapsing in accordance with its terms, a Competing Offer (as defined in the Transaction Agreement) is announced and subsequently made and that Competing Offer or a Competing Offer in which that competing party is interested or participates subsequently becomes effective or unconditional within the 18 months of such lapse or withdrawal.

The foregoing summary of the Transaction Agreement is qualified by reference to the complete text of the Transaction Agreement, which is attached to this document as Annex A.

**9. SOLICITATION OF PROPOSALS FROM OTHER PARTIES**

Beginning on 12 February 2010 and through [ ] February 2010, Credit Suisse, on behalf of and at the request of SkillSoft, contacted [ ] parties (including both private equity firms and operating companies) that SkillSoft, after discussion with Credit Suisse, believed might have an interest in considering an acquisition of SkillSoft. Based on feedback from these parties, Credit Suisse, on behalf of SkillSoft, sent [ ] parties a go-shop process instruction letter and a form of Confidentiality Agreement. SkillSoft entered into Confidentiality Agreements with [ ] of these parties and subsequently granted each of them access to the electronic data room containing the documents that had been made available to the Investor Group. All of those parties conducted some level of due diligence on SkillSoft.

As of 19 February 2010, Credit Suisse, on behalf of and at the request of SkillSoft, contacted 39 parties, of which 6 have entered into Confidentiality Agreements with SkillSoft and have been granted access to the electronic data room.

**10. INTERESTS OF SKILLSOFT OFFICERS AND DIRECTORS IN THE TRANSACTION**

SSI Investments expects to retain the current management team of SkillSoft to operate the company after the completion of the acquisition by SSI Investments. No equity or compensation arrangements have been discussed between the Investor Group and any member of SkillSoft management.

SkillSoft has employment agreements with each of its named executive officers. The employment agreements provide that the executive is entitled to specified severance benefits in the event such executive's employment is terminated by SkillSoft without cause or by the executive for good reason (each as defined in the employment agreement). In addition, all of SkillSoft's executive officer employment agreements provide that the executive may elect to extend the vesting and exercisability of such officer's share options for a period of six months or one year (depending on the executive) following employment termination, in some cases in exchange for a non-competition covenant or the performance of consulting services.

**11. SKILLSOFT SHARE OPTION PLANS AND SKILLSOFT EMPLOYEE SHARE PURCHASE PLAN**

All unvested SkillSoft Options will become fully vested and exercisable in connection with the Scheme, in accordance with the provisions of the SkillSoft Share Option Plans. SkillSoft and SSI Investments will offer all SkillSoft Optionholders an opportunity to elect to exercise their SkillSoft Options immediately upon the making of the Court Order and conditional upon the Scheme becoming effective. The SkillSoft Shares issued upon such exercise will then be transferred to SSI Investments under the Scheme. In so doing, SkillSoft Optionholders (other than SkillSoft Non-Executive Directors and executive officers for United States federal securities law purposes) may exercise their SkillSoft Options with a cashless exercise facility under which they may direct that the exercise price of their SkillSoft Options be paid to SkillSoft out of the proceeds of the sale to SSI Investments under the Scheme of the SkillSoft Shares issued to them upon exercise of their SkillSoft Options. All SkillSoft Options that remain outstanding on the Effective Date will be cancelled with effect from the Effective Time in consideration for the payment to the relevant SkillSoft

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Optionholder of a cash payment per SkillSoft Share subject to a SkillSoft Option equal to the excess, if any, of the Consideration per SkillSoft Share over the exercise price per SkillSoft Share applicable to such SkillSoft Option (without interest and less any applicable withholding taxes). Under the Transaction Agreement, SkillSoft has agreed, subject to certain conditions, to use all reasonable efforts to inform SkillSoft Optionholders who are resident in the United States of the advantages, subject to their individual circumstances, of electing to avail themselves of the cancellation of options.

SkillSoft Options outstanding on the Effective Date having an exercise price per SkillSoft Share that is equal to or greater than the Consideration per SkillSoft Share will terminate in accordance with the applicable provisions of the SkillSoft Share Option Plans, without payment of consideration.

The current offering period under the SkillSoft Employee Share Purchase Plan will end on or around 31 March 2010. No new offering periods will commence under the SkillSoft Employee Share Purchase Plan before the Effective Time. On the last day of the current offering period, each participant in the SkillSoft Employee Share Purchase Plan will be credited with the number of SkillSoft Shares purchased for his or her account under such plan in respect of the applicable offering period, in accordance with the terms of the SkillSoft Employee Share Purchase Plan, but provided that the aggregate number of SkillSoft Shares so purchased by all participants will not exceed 210,000. The SkillSoft Shares issued to participants under the SkillSoft Employee Share Purchase Plan will then be subject to the Scheme.

### **12. ACTION TO BE TAKEN**

Your attention is drawn to the summary of the action to be taken on page 25 of this document.

### **13. FURTHER INFORMATION**

Your attention is drawn to the information set out in the rest of this document. You are advised to read this document in its entirety and not to rely solely on the information in this Part I (Letter of Recommendation from the Board of SkillSoft).

### **14. ADDITIONAL INFORMATION ON SKILLSOFT**

SkillSoft, an Irish incorporated public limited company, is a leading Software as a Service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps its customers to maximize performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is headquartered in Dublin, Ireland with its US headquarters in Nashua, New Hampshire and offices worldwide. SkillSoft has approximately 1,000 employees worldwide.

SkillSoft ADSs, which represent SkillSoft Shares deposited with the Depositary pursuant to the Deposit Agreement, have been traded in the United States on NASDAQ since 13 April 1995. SkillSoft ADSs are traded on NASDAQ under the symbol SKIL .

### **15. RECOMMENDATION**

The Board of SkillSoft, which has been so advised by Credit Suisse, considers the terms of the Acquisition to be fair and reasonable. In providing its advice, Credit Suisse has taken into account the commercial assessments of the Board of SkillSoft. Accordingly, the Board of SkillSoft unanimously recommends to SkillSoft Securityholders to vote in favour of the Acquisition and the Scheme. The members of the Board of SkillSoft have irrevocably undertaken to vote in favour of the Acquisition and the Scheme in respect of their own beneficial holdings, amounting to, in aggregate 5,877 SkillSoft Shares, which represent approximately 0.006 per cent. of the issued share capital of SkillSoft, and any SkillSoft Shares the directors may acquire or subscribe for upon exercise of their SkillSoft Options.

Yours faithfully,

Charles E. Moran

Chairman

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**PART II LETTER FROM SSI INVESTMENTS**

**SSI Investments III Limited**

<i>Board:</i> Michael Ascione	<i>Registered Office</i> Block 3
Mark Commins	The Harcourt Centre
Tim Franks	Harcourt Road
David Humphrey	Dublin 2, Ireland
Imelda Shine	

[ ] 2010

**To SkillSoft Securityholders, and for information only, to SkillSoft Optionholders and the holders of purchase rights under the SkillSoft Employee Share Purchase Plan**

**RECOMMENDED ACQUISITION FOR CASH BY SSI INVESTMENTS III LIMITED OF THE ENTIRE ISSUED AND TO BE ISSUED SHARE CAPITAL OF SKILLSOFT PLC**

Dear SkillSoft Securityholder,

**1. BACKGROUND TO AND REASONS FOR THE ACQUISITION**

On 12 February 2010, the Board of SkillSoft and the Board of SSI Investments, a company formed by funds sponsored by each of Berkshire, Advent and Bain Capital Partners, announced that they had reached agreement on the terms of a recommended acquisition for cash of the entire issued and to be issued share capital of SkillSoft by SSI Investments by means of a scheme of arrangement under Section 201 of the Companies Act 1963 of Ireland.

SSI Investments and the Investor Group believe that the Acquisition represents a compelling opportunity for SkillSoft and its shareholders that maximizes value and certainty and provides an attractive liquidity event for SkillSoft Securityholders.

**2. INFORMATION ON SSI INVESTMENTS**

SSI Investments is a private limited company, which was incorporated in Ireland on 3 February 2010. The directors of SSI Investments are Michael Ascione, Mark Commins, Tim Franks, David Humphrey and Imelda Shine. SSI Investments has not conducted any business prior to the date of this document (except for entering into transactions relating to the Acquisition). SSI Investments is a company formed by the Investor Group and has no employees. Further information on SSI Investments is set out in Part VI of this document.

Morgan Stanley is acting as lead financial adviser to SSI Investments and the Investor Group.

Barclays Capital is acting as financial adviser to SSI Investments and the Investor Group.

Ropes & Gray LLP and Mason Hayes+Curran are acting as legal advisers to SSI Investments and the Investor Group.

**3. INFORMATION ON THE INVESTOR GROUP**

*Berkshire Partners LLC*

Berkshire Partners is an active investor in the private equity market, managing approximately US\$6.5 billion of capital over seven funds. Berkshire is currently investing from its seventh fund, which totals

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US\$3.1 billion in committed capital, and has completed more than 90 acquisitions or growth capital investments during its nearly 25-year investment history. Berkshire has a long history of successfully investing in business services companies, including NEW/Asurion (a provider of extended service plans and value added wireless subscription services) and Acosta (a provider of sales and marketing services to the consumer packaged goods industry).

### *Advent International Corporation*

Advent International Corporation is a leading global private equity firm with more than 150 investment professionals in 16 countries around the world. Over its 25-year history, Advent has raised US\$24 billion of cumulative capital and currently manages buyout portfolios comprising more than 50 companies. Advent has backed numerous management teams in knowledge-based industries including: Financial Dynamics, an international business communications consultancy; Alexander Mann, a specialist staffing company focused on information technology and financial markets; HumanGroup, a provider of temporary and outsourced staffing services; and Kroton (Bovespa: KROT11), one of Brazil's largest private education companies.

### *Bain Capital Partners, LLC*

Bain Capital, LLC ([www.baincapital.com](http://www.baincapital.com)) is a global private investment firm whose affiliates, including Bain Capital Partners, manage several pools of capital including private equity, venture capital, public equity, high-yield assets and mezzanine capital with approximately US\$65 billion in assets under management. Bain Capital has a team of over 300 professionals dedicated to investing and to supporting its portfolio companies. Since its inception in 1984, funds sponsored by Bain Capital have made private equity investments and add-on acquisitions in over 300 companies in a variety of industries around the world. Bain Capital has a long history of investments in the software, business services and education industries, including SunGard, Applied Systems, Houghton Mifflin, Gartner Group, UGS, LinkedIn, The Princeton Review, SolarWinds, and FleetCor. Headquartered in Boston, Bain Capital has offices in New York, London, Munich, Hong Kong, Shanghai, Tokyo and Mumbai.

Further information on the Investor Group is set out in Part VI of this document.

## **4. THE CONSIDERATION**

Under the terms of the Acquisition, SkillSoft Shareholders who are Scheme Shareholders will be entitled to receive:

### **US\$10.80 per SkillSoft Share in cash**

The Consideration values the entire issued and to be issued share capital of SkillSoft at approximately US\$1.1 billion. Under the terms of the Acquisition, SkillSoft ADS Holders who are Scheme Shareholders will receive US\$10.80 in cash for each SkillSoft ADS they own.

The Consideration represents:

a premium of approximately 26 per cent. over US\$8.56, being the average daily Closing Price of a SkillSoft ADS over the last 12 months up to and including 11 February 2010, being the last Business Day prior to the Rule 2.5 Announcement;

a premium of approximately 11 per cent. over US\$9.76, being the Closing Price of a SkillSoft ADS on 11 February 2010; and

a higher price than any Closing Price of a SkillSoft ADS over the last 12 months up to and including 11 February 2010.

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**5. FINANCING OF THE ACQUISITION**

The Acquisition will be financed from debt financing provided by Morgan Stanley Senior Funding, Inc. and Barclays Bank, together with equity commitments from each member of the Investor Group. The debt financing is expected to consist of a senior secured revolving credit facility of US\$40 million, a senior secured term loan facility of US\$325 million, and a senior unsecured interim loan of US\$240 million.

*Debt Financing*

The debt facilities (the Facilities) were entered into on 11 February 2010. The revolving credit facility and the secured term loan facility (together, the Senior Secured Facilities) were entered into among SSI Luxco II, S.à.r.l. (SSI Luxco), SSI Investments II Limited, the Issuing Bank and Lenders (each as defined therein) party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. The unsecured interim loan was entered into among SSI Luxco, the Lenders (as defined therein) party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent. The Revolving Credit Facility has a term of five years, and the Term Loan Facility has a term of six years. The Unsecured Interim Loan has an initial term of one year and may, subject to the satisfaction of certain conditions, be converted into an extended term loan with a term of an additional seven years.

The Facilities are being provided for the purpose of paying part of the Scheme Consideration and fees, and expenses, as well as for working capital and other general corporate purposes.

The Revolving Credit Facility and the second Term Loan Facility initially benefit from security over the shares of SSI Investments and the shares of the parent companies of SSI Investments. Following consummation of the Acquisition and, to the extent applicable, completion of certain statutory procedures in Ireland, the Senior Facilities will benefit from security over the shares of SkillSoft issued in connection with re-registering SkillSoft as a private limited company and over substantially all of the assets of SkillSoft and its material subsidiaries. The ability of the borrowers to repay the Facilities will depend on the performance of the businesses of SkillSoft and its subsidiaries.

The Facilities documents contain certain customary representations and warranties, ongoing conditions, affirmative and negative covenants, financial covenants and events of default. Additionally, the initial drawdown under each of the Facilities is subject to certain representations being true in all material respects and there being no major default continuing or occurring as a result of the drawdown. The initial drawdown of the Facilities is also conditional on, among other things, the Scheme becoming effective.

*Equity Financing*

Pursuant to equity commitment letters provided by each of Berkshire Fund VII (OS), L.P., Bain Capital Fund X, L.P., and Advent International GPE VI Limited Partnership, Advent International GPE VI-A Limited Partnership, Advent International GPE VI-B Limited Partnership, Advent International GPE VI-C Limited Partnership, Advent International GPE VI-D Limited Partnership, Advent International GPE VI-E Limited Partnership, Advent International GPE VI-F Limited Partnership, Advent International GPE VI-G Limited Partnership, Advent Partners GPE VI 2008 Limited Partnership, Advent Partners GPE VI 2009 Limited Partnership, and Advent Partners GPE VI-A Limited Partnership (collectively, the Advent Funds), such investors have severally agreed to contribute up to an aggregate of \$621.0 million in cash, directly or indirectly, to SSI Investments, which amount would constitute the equity portion of the financing for the Scheme. This amount may be reduced and replaced by equity contributions made by other affiliated funds of such investors who participate as equity investors in the transaction with the Investor Group in SSI



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Investments. The commitment of each member of the Investor Group pursuant to the equity commitment letters is as follows:

<b>Equity Investor</b>	<b>Commitment</b>
Berkshire Fund VII (OS), L.P.	up to \$ 248,400,000
Bain Capital Fund X, L.P.	up to \$ 186,300,000
Advent Funds	up to \$ 186,300,000
Total:	up to \$ 621,000,000

The commitment of each member of the Investor Group is subject to satisfaction of all conditions precedent to the obligations of SSI Investments to consummate the Scheme under the Transaction Agreement and the Rule 2.5 Announcement, and to the substantially contemporaneous funding of the debt and equity financing. Each member of the Investor Group may allocate all or a portion of its investment to affiliated funds. Neither we nor any other person or entity other than SSI Investments has any rights under the equity commitment letters.

Each member's equity commitment will terminate upon the earliest of:

the conclusion of the certain funds period, if the Scheme is not completed by that date;

the consummation of the Scheme;

termination of the Transaction Agreement pursuant to its terms; and

such time as any claim is asserted against any Non-Recourse Parties, which are defined in the equity commitment letters as persons and entities that are associated with the members of the Investor Group.

Morgan Stanley & Co. Limited, an affiliate of Morgan Stanley, is satisfied that resources are available to SSI Investments sufficient to satisfy in full the cash consideration payable under the Scheme.

## **6. DIRECTORS, MANAGEMENT, EMPLOYEES AND SKILLSOFT'S BUSINESS**

SSI Investments intends that, following the Acquisition, the business of SkillSoft will continue in the same manner in which it currently operates. SSI Investments has no plans to change the locations of the places of business, or redeploy the fixed assets, of the SkillSoft Group.

SSI Investments attaches great importance to the skills and experience of the existing management and employees of SkillSoft who will be critical to SkillSoft's business going forward. SSI Investments believes that employees are crucial to the future success of the business and recognises that SkillSoft has a skilled workforce. In a competitive international marketplace, SSI Investments will seek to retain and develop the best people for SkillSoft's business. SSI Investments will also aim through SkillSoft's compensation and reward packages to ensure high levels of performance and to reward and retain key employees.

The Board of SSI Investments confirms that, following the Scheme becoming effective, the existing employment rights, including pension rights, under applicable law, of all employees of the SkillSoft Group will be fully safeguarded.

Upon the Scheme becoming effective, the non-executive directors of SkillSoft have indicated that they intend to resign from the Board of SkillSoft.

Pursuant to the Transaction Agreement, SSI Investments is obliged to maintain certain benefits at the same level in the aggregate for a period of twelve months commencing on the Effective Date (not including equity compensation or defined benefit plans), and thereafter has the right, in its sole discretion, to maintain



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SkillSoft's employee benefit plans. SSI Investments has agreed to use all reasonable efforts to cause SkillSoft's employees to receive full credit for service with SkillSoft for purposes of eligibility, vesting and other appropriate benefits, including applicability of minimum waiting periods for participation, but excluding benefit accrual, with respect to any employee benefit plans or arrangements maintained by SSI Investments. SSI Investments has also agreed to use all reasonable efforts to waive all pre-existing conditions, limitations or eligibility waiting periods under any health or similar plan of for SkillSoft's employees, to the extent that SkillSoft's employees had satisfied any similar limitations or requirements under the corresponding plan in which SkillSoft's employees participated immediately prior to the Effective Date. In addition, SSI Investments will use all reasonable efforts to cause any deductibles paid by SkillSoft's employees under SkillSoft's health plans in the plan year in which the Effective Date of the Scheme occurs to be credited towards the deductibles under the health plans of SSI Investments.

**7. UNDERTAKINGS TO VOTE IN FAVOUR OF THE ACQUISITION AND THE SCHEME**

*Members of the Board of SkillSoft and Others*

SSI Investments has received voting undertakings, in respect of approximately 0.020 per cent. of the entire issued share capital of SkillSoft, (subject to certain exceptions) to vote, or to procure that voting instructions are given to vote, in favour of the Acquisition and the Scheme from:

the members of the Board of SkillSoft who are SkillSoft Securityholders;

Gregory Porto (Vice President (Administration) of SkillSoft); and

Susan Moran (the spouse of SkillSoft CEO and President Charles Moran),  
in respect of the 18,765 SkillSoft Shares and 3,707,157 SkillSoft Options, in aggregate, they own or control.

*Stockbridge and Stockbridge Partners LLC*

Stockbridge, an affiliate of Berkshire, owns or controls 170,625 SkillSoft Shares in total, representing approximately 0.180 per cent. of the entire issued share capital of SkillSoft, and has irrevocably undertaken (subject to certain exceptions) to SSI Investments and SkillSoft in respect of the SkillSoft Shares which it owns or controls, not to vote such SkillSoft Shares at the Court Meeting but to vote such SkillSoft Shares in favour of the resolutions to be considered at the Extraordinary General Meeting. Stockbridge Partners LLC, an affiliate of Berkshire that manages investments for its clients, has limited discretionary voting power in respect of 110,319 SkillSoft Shares, representing approximately 0.117 per cent. of the entire issued share capital of SkillSoft. Stockbridge Partners LLC has similarly undertaken (subject to certain exceptions) so to vote, subject to the prior rights of those clients to exercise voting power themselves.

*Lapse of Undertakings*

All of the voting undertakings referred to in this paragraph 7 will lapse if:

the Scheme lapses or is withdrawn;

the Transaction Agreement is terminated by either party thereto;

a higher competing offer is announced (whether pursuant to Rule 2.4 or Rule 2.5 of the Takeover Rules) or a higher competing offer is made;

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the Scheme does not become effective by 16 July 2010 (or such later date as SkillSoft and SSI Investments agree, with the consent of the Panel and the High Court);

the resolutions are not passed at the EGM (other than resolution 4) or the Court Meeting;

the Board of SkillSoft withdraws its recommendation to SkillSoft Securityholders to vote in favour of the Scheme;

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the High Court declines or refuses to sanction the Scheme, unless SkillSoft and SSI Investments agree that the decision of the High Court will be appealed and, if so appealed, a final non-appealable order, decree, judgment, or ruling has been issued; or

SSI Investments announces that it will not proceed to make the Acquisition.

**8. PAYMENT OF SCHEME CONSIDERATION**

Upon completion of the Scheme, settlement of the Consideration to which any Scheme Shareholder is entitled under the Acquisition will be effected within 14 days of the Effective Date. Full details of arrangements in connection with the payment of the Consideration are set out at paragraphs 3 and 4 of Part IV (The Scheme of Arrangement) of this document.

Yours faithfully,

Michael C. Ascione

*Acting Chairman*

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**PART III EXPLANATORY STATEMENT**  
**(IN COMPLIANCE WITH SECTION 202 OF THE ACT)**

**CREDIT SUISSE**

11 Madison Avenue  
New York, NY 10010

United States

[       , ] 2010

*To SkillSoft Securityholders and, for information only, to SkillSoft Optionholders and the holders of purchase rights under the SkillSoft Employee Share Purchase Plan*

**RECOMMENDED ACQUISITION OF SKILLSOFT PLC**

Dear SkillSoft Securityholder,

**1. INTRODUCTION**

On 12 February 2010, the Board of SkillSoft and the Board of SSI Investments announced that they had reached agreement on the terms of a recommended acquisition for cash of the entire issued and to be issued share capital of SkillSoft by SSI Investments by way of a Scheme of Arrangement under Section 201 of the Act.

Your attention is drawn to the letter of recommendation from the Board of SkillSoft in Part I (Letter of Recommendation from the Board of SkillSoft) of this document, which sets forth the reasons why the directors of SkillSoft, who have been so advised by Credit Suisse, consider the terms of the Acquisition to be fair and reasonable to SkillSoft Securityholders taken as a whole and why the Board of SkillSoft unanimously recommends that all SkillSoft Securityholders vote in favour of the Acquisition and the Scheme at both the Court Meeting and the EGM, as the directors of SkillSoft intend to do in respect of their own beneficial holdings of 5,877 SkillSoft Shares, in aggregate, which represent approximately 0.006 per cent. of the existing issued share capital of SkillSoft, and any SkillSoft Shares such directors may acquire upon exercise of their SkillSoft Options. In providing its advice to the Board of SkillSoft, Credit Suisse has taken into account the commercial assessments of the Board of SkillSoft.

**2. THE ACQUISITION**

The Acquisition is to be effected by way of a Scheme of Arrangement between SkillSoft and the Scheme Shareholders under Section 201 of the Act. The Scheme is set out in full in Part IV (The Scheme of Arrangement) of this document. Under the terms of the Scheme, SSI Investments will pay the Consideration to Scheme Shareholders in consideration for the cancellation of their Cancellation Shares and/or the transfer to SSI Investments of their Transfer Shares.

If the Scheme is implemented on the Effective Time, all Cancellation Shares will be cancelled pursuant to Sections 72 and 74 of the Act and all Transfer Shares will be transferred to SSI Investments in accordance with the Scheme. SkillSoft will then issue New SkillSoft Shares to SSI Investments in place of the Cancellation Shares and SSI Investments will pay the Consideration to former Scheme Shareholders in consideration for the Acquisition. After the Scheme becomes effective, SkillSoft ADS holders will receive that proportion of the Consideration to which they are entitled directly from the Depository. As a result of the Scheme, SkillSoft will become a wholly-owned subsidiary of SSI Investments.

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The Scheme will require approval by Scheme Shareholders at the Court Meeting, approval by SkillSoft Shareholders at the EGM and the sanction of the High Court at the Court Hearing. The Court Meeting and the EGM and the nature of the approvals required to be given at the Meetings are described in more detail in paragraph 4 below. All SkillSoft Shareholders (but not SkillSoft ADS holders) are entitled to be represented by counsel or a solicitor (at their own expense) at the Court Hearing to support or oppose the sanctioning of the Scheme.

The Acquisition is subject to a number of Conditions (summarised in paragraph 3 below and set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document). The Acquisition can only become effective if the Conditions of the Acquisition have been satisfied or waived on or before the Effective Date in accordance with their respective terms. The Scheme will become effective upon the delivery to the Registrar of Companies of an office copy of the Court Order together with the minute required by Section 75 of the Act and registration of such Court Order by the Registrar of Companies, which, subject to the sanction of the Scheme by the High Court, is expected to occur during May 2010.

### **3. THE CONDITIONS**

The Acquisition is conditional on, amongst other things, the Scheme becoming effective. The Conditions of the Acquisition and the Scheme are set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document. The implementation of the Scheme is conditional upon, amongst other things:

the Scheme becoming effective by no later than 16 July 2010 (or such later date as SkillSoft and SSI Investments may, with (if required) the consent of the Panel, agree and (if required) the High Court may allow);

the approval by a majority in number of Scheme Shareholders present and voting (either in person or by proxy), representing three-fourths (75 per cent.) or more in value of the SkillSoft Shares held by such holders, at the Court Meeting (or at any adjournment of such meeting);

the passing of such resolutions as are required to approve or implement the Scheme at the EGM;

the sanction of the Scheme and confirmation of the reduction of capital involved therein by the High Court and the delivery of an office copy of the Court Order and the minute required by Section 75 of the Act to the Registrar of Companies and the registration of such Court Order and minute by the Registrar of Companies;

the expiration of the applicable waiting periods under the HSR Act and the equivalent laws of Germany and Austria;

the Irish Revenue Commissioners not having confirmed in writing that they do not recognise that certain intellectual property rights transferred to SkillSoft Ireland Limited on 9 February 2009 attract Irish capital allowances on the entire acquisition price under (A) section 291 of the Taxes Consolidation Act 1997 as computer software or (B) sections 291 and 755 of that Act as computer software and patent rights, respectively. The Irish Revenue Commissioners issued a letter on 17 February 2010 confirming that the acquisition of [such intellectual property rights] will be treated as constituting part of SkillSoft Ireland Limited's continuing trade and that, on the basis of the information provided and subject to Revenue's usual right to audit or carry out an enquiry and anything which may arise therefrom, the [intellectual property rights] acquired will qualify for capital allowances under Section 291. ; and

the conditions, which are not otherwise identified above, and which are set out in full in Part V (Conditions of the Acquisition and the Scheme) of this document being satisfied or waived on or before the sanction of the Scheme by the High Court pursuant to Section 201 of the Act.

**4. CONSENTS AND MEETINGS**

The Scheme is subject to the approval by Scheme Shareholders at the Court Meeting as more fully described in paragraph 4.1 of this Part III (Explanatory Statement) and its implementation will also require various approvals of SkillSoft Shareholders at the separate EGM, as more fully described in paragraph 4.2 of this Part III (Explanatory Statement), both of which will be held at [ ], Ireland on [ ] 2010. The Court Meeting will start at [ ] (Irish Standard Time) and the EGM will start at [ ] (Irish



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Standard Time) (or, if later, as soon thereafter as the Court Meeting is concluded or adjourned) on that date. The Court Meeting is being held at the direction of the High Court to seek the approval of the Scheme by Scheme Shareholders. The EGM is being convened to enable the directors of SkillSoft to implement the Scheme and to amend the SkillSoft Articles, as described below.

Notices of both the Court Meeting and the EGM are set out in Part X (Notice of Court Meeting) and Part XI (Notice of Extraordinary General Meeting of SkillSoft Public Limited Company), respectively, of this document. Entitlement to attend and vote at each Meeting and the number of votes which may be cast at each Meeting will be determined by reference to the Register of Members of SkillSoft at the Voting Record Time.

As of the Latest Practicable Date, [ ] SkillSoft Shares were issued and outstanding and there were [ ] registered members whose names were registered in the Register of Members of the Company.

### **4.1 Court Meeting**

The Court Meeting has been convened for [ ] (Irish Standard Time) on [ ] to enable Scheme Shareholders to consider and, if thought fit, approve the Scheme. At the Court Meeting, voting will be by poll and not a show of hands and each holder of Scheme Shares who is present (in person or by proxy) will be entitled to one vote for each Scheme Share held for the purposes of sub-paragraph (b) below. In order to conduct business at the Court Meeting a quorum must be present. The presence (either in person or by proxy) of three persons entitled to vote at such meeting and together holding not less than one-third of the SkillSoft Shares in issue, each being a holder of SkillSoft Shares, a proxy for a holder of SkillSoft Shares or a duly authorised representative of a corporate holder of SkillSoft Shares, will constitute a quorum for the transaction of business at the Court Meeting. The approval required at the Court Meeting is that those voting to approve the Scheme must:

- (a) represent a simple majority (more than 50 per cent.) in number of those Scheme Shareholders present and voting in person or by proxy; and
- (b) also represent three-fourths (75 per cent.) in value of the Scheme Shares held by those Scheme Shareholders present and voting (in person or by proxy).

**It is important that as many votes as possible are cast at the Court Meeting so that the resolution approving the Scheme can be passed and that the High Court may be satisfied that there is a fair representation of Scheme Shareholder opinion when it is considering whether to sanction the Scheme. If you are the registered holder of any SkillSoft ADSs, you are strongly urged to complete and return your ADS Voting Instruction Card as soon as possible. If you are the registered holder of any Scheme Shares, you are strongly urged to complete and return your PINK Form of Proxy for the Court Meeting as soon as possible.**

### **4.2 Extraordinary General Meeting**

In addition, the EGM has been convened for [ ] (Irish Standard Time) on [ ] (or, if later, as soon thereafter as the Court Meeting is concluded or adjourned). A quorum must be present in order to conduct any business at the EGM. SkillSoft's Articles provide that the presence at the EGM (either in person or by proxy) of three persons entitled to vote at such meeting and together holding not less than one-third (33 1/3 per cent.) of the SkillSoft Shares in issue, each being a holder of SkillSoft Shares, a proxy for a holder of SkillSoft Shares, or a duly authorised representative of a corporate holder of SkillSoft Shares, constitutes a quorum for the transaction of business. At the EGM, the SkillSoft Shareholders will consider and, if thought fit, pass the following resolutions (which in the case of special resolutions requires a vote in favour of not less than three-fourths (75 per cent.) of the votes cast and in the case of ordinary resolutions requires a majority (more than 50 per cent.) of the votes cast):

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### *Resolution 1 Ordinary Resolution*

To approve the Scheme and to authorise the directors of SkillSoft to take such action as they consider necessary or appropriate to carry the Scheme into effect.

### *Resolution 2 Special Resolution*

To approve the cancellation of the Cancellation Shares and to apply the reserve in SkillSoft's books arising upon such cancellation in paying up in full at par New SkillSoft Shares.

### *Resolution 3 Special Resolution*

To amend the SkillSoft Articles to ensure that any SkillSoft Shares issued under the SkillSoft Share Option Plans, the SkillSoft Employee Share Purchase Plan or otherwise between the Voting Record Time and the Scheme Record Time will be subject to the Scheme. It is also proposed to amend the SkillSoft Articles so that any SkillSoft Shares issued to any person (other than to SSI Investments) after the Scheme Record Time will become transferable to SSI Investments on the same terms as under the Scheme (i.e. the person will receive US\$10.80 in cash for each SkillSoft Share issued to them and acquired by SSI Investments).

These amendments are designed to avoid any person (other than SSI Investments) being left with SkillSoft Shares after dealings in SkillSoft Shares have ceased on NASDAQ (which will occur at the close of business on the Business Day before the Effective Time). Resolution 3, set out in the notice of EGM in Part XI (Notice of Extraordinary General Meeting of SkillSoft Public Limited Company) of this document, seeks the approval of SkillSoft Shareholders for such amendments.

### *Resolution 4 Ordinary Resolution*

To approve a proposal to adjourn the EGM, if necessary, to solicit additional proxies in favour of approval of the resolutions to be considered at the EGM. SkillSoft is submitting a proposal for consideration at the EGM to authorise the Chairman of the EGM to approve one or more adjournments of the EGM if there are not sufficient votes to approve the resolutions to be considered at the EGM at the time of the EGM. Even though a quorum may be present at the EGM, it is possible that SkillSoft may not have received sufficient votes to approve the resolutions to be considered at the EGM by the time of the EGM. In that event, SkillSoft would determine to adjourn the EGM in order to solicit additional proxies. The adjournment proposal relates only to an adjournment of the EGM for purposes of soliciting additional proxies to obtain the requisite SkillSoft Shareholder approval to approve the resolutions to be considered at the EGM. Any other adjournment of the EGM (e.g., an adjournment required because of the absence of a quorum) would be voted upon pursuant to the discretionary authority granted by the proxy. To approve the adjournment proposal, a majority of the outstanding SkillSoft Shares present or represented at the EGM and entitled to vote, which includes abstentions, must vote in favour of the proposal. This resolution is not required to be passed in order to implement the Scheme.

### **4.3 Court Hearing**

Subject to the approval of the resolutions proposed at the Meetings, the Court Hearing will take place on [ ] 2010. Each SkillSoft Shareholder (but not a SkillSoft ADS holder) is entitled to be represented by counsel or a solicitor (at their own expense) at the Court Hearing to support or oppose the sanctioning of the Scheme.

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### **4.4 Form of ADS Voting Instruction Card and Forms of Proxy**

SkillSoft ADS holders are strongly urged to complete and return their ADS Voting Instruction Card as soon as possible and, in any event, no later than [ ] 2010. If the Depository does not receive your ADS Voting Instruction Card by such date, the Depository will not vote your SkillSoft ADSs.

Scheme Shareholders and SkillSoft Shareholders have been sent a PINK Form of Proxy for the Court Meeting and a BLUE Form of Proxy for the EGM. Scheme Shareholders and SkillSoft Shareholders are strongly urged to complete and return their Forms of Proxy, as soon as possible and, in any event, no later than [ ] (Irish Standard Time) on [ ] 2010 in the case of the PINK Form of Proxy for the Court Meeting and [ ] (Irish Standard Time) on [ ] 2010 in the case of the BLUE Form of Proxy for the EGM. The PINK Form of Proxy for the Court Meeting (but NOT the BLUE Form of Proxy for the EGM) may also be handed to the Chairman of the Court Meeting before the start of the Court Meeting on [ ] 2010 and will still be valid.

### **4.5 Abstentions and Broker Non-Votes**

Your broker will be permitted to vote your SkillSoft ADSs or SkillSoft Shares only if you instruct your broker how to vote. If you are a SkillSoft Shareholder (but not a SkillSoft ADS holder) and have previously provided your broker with absolute discretion to vote at all times on SkillSoft Shareholder votes, then your broker will be able to vote your SkillSoft Shares unless you instruct your broker otherwise. If your broker does not have absolute discretion to vote on your behalf, or you are a SkillSoft ADS holder and you wish to instruct your broker to vote on your behalf, you should follow the procedures provided by your broker regarding the voting of your SkillSoft ADSs or SkillSoft Shares. If your broker does not have absolute discretion and you do not provide instructions to your broker to vote in favour of the Scheme, your SkillSoft ADSs or SkillSoft Shares (as the case may be) will not be voted, which will increase the likelihood of the Scheme being defeated and the Acquisition not proceeding. Under Irish law, an abstention or a vote that is withheld will not be counted in the calculation of the proportion of the votes for or against a proposed resolution.

## **5. STRUCTURE OF THE SCHEME**

Under the Scheme, the Cancellation Shares will be cancelled pursuant to Sections 72 and 74 of the Act and all Transfer Shares will be transferred to SSI Investments. New SkillSoft Shares will be issued to SSI Investments (and/or its nominee(s)) by the capitalisation of the reserve arising from the cancellation of the Cancellation Shares. As a result of these arrangements, SkillSoft will become a wholly-owned subsidiary of SSI Investments.

SkillSoft Shareholders who are subject to the Scheme will receive the Consideration. SkillSoft Shares issued after [ ] (Irish Standard Time) on the day before the Hearing Date will not be subject to the Scheme. Accordingly, it is proposed that the SkillSoft Articles be amended so that SkillSoft Shares issued after [ ] (Irish Standard Time) on the day before the Hearing Date (other than to SSI Investments) will be automatically transferred to SSI Investments on the same terms as under the Scheme.

It is expected that the Scheme will become effective and that the Acquisition will be completed during May 2010. The Scheme can only become effective if all the Conditions to which the Scheme is subject have been satisfied or waived by no later than 16 July 2010 or such later date (if any) as SkillSoft and SSI Investments may, with (if required) the consent of the Panel, agree and (if required) the High Court may allow. The Scheme will become effective upon an official copy of the Court Order together with the minute approved by the High Court in respect of the capital reduction being registered by the Registrar of Companies and the

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issue of a certificate of registration of the Court Order. Once the Scheme becomes effective, its terms will be binding on all SkillSoft Shareholders, irrespective of whether they attended the Court Meeting and irrespective of the manner in which they voted.

## **6. BOARD, MANAGEMENT AND EMPLOYEES**

### **6.1 Generally**

The Board of SSI Investments has confirmed that, where employees of SkillSoft have existing employment rights, including pension rights, under applicable laws, those rights will be fully safeguarded following the Scheme becoming effective.

### **6.2 Employee Matters**

Pursuant to the Transaction Agreement, SSI Investments is obliged, for a period of twelve months commencing on the Effective Date, to maintain compensation levels, including cash-based incentives, retirement, health and welfare benefits (but not including equity compensation or defined benefit plans), for SkillSoft's employees at levels that are, in the aggregate, comparable to those in effect on 11 February 2010 and thereafter has the right, in its sole discretion, to maintain SkillSoft's employee benefit plans. SSI Investments has agreed to use all reasonable efforts to cause SkillSoft's employees to receive full credit for service with SkillSoft for purposes of eligibility to participate, vesting and for other appropriate benefits including, but not limited to, applicability of minimum waiting periods for participation but excluding benefit accrual, with respect to any applicable benefit plans. SSI Investments will use all reasonable efforts to cause any pre-existing conditions or limitations or eligibility waiting periods under any health or similar plan of SSI Investments to be waived with respect to SkillSoft's employees and their eligible dependents, to the extent that SkillSoft's employees had satisfied any similar limitations or requirements under the corresponding plan in which SkillSoft's employees had participated immediately prior to the Effective Date. In addition, SSI Investments will use all reasonable efforts to cause any deductibles paid by SkillSoft's employees under any of SkillSoft's health plans in the plan year in which the Effective Date falls to be credited towards equivalent deductibles under the health plans of SSI Investments.

### **6.3 Indemnification and Insurance**

Pursuant to the Transaction Agreement, SSI Investments and SkillSoft have agreed to certain indemnification rights in favour of each of the former and present directors and officers of SkillSoft.

## **7. SKILLSOFT SHARE OPTION PLANS AND SKILLSOFT EMPLOYEE SHARE PURCHASE PLAN**

SSI Investments will make appropriate proposals to SkillSoft Optionholders to implement the requirements of the Transaction Agreement. The Transaction Agreement provides that:

- (i) SkillSoft Optionholders will be given an opportunity to elect to exercise their SkillSoft Options immediately upon the making of the Court Order and conditional upon the Scheme becoming effective. The SkillSoft Shares issued upon such exercise will then be transferred to SSI Investments under the Scheme;
- (ii) SkillSoft Optionholders (other than SkillSoft Non-Executive Directors and executive officers of SkillSoft for United States federal securities law purposes) who so elect may exercise their SkillSoft Options with a cashless exercise facility under which they may direct that the exercise price of their SkillSoft Options be paid to SkillSoft out of the proceeds of the sale to SSI Investments under the Scheme of the SkillSoft Shares issued to them upon exercise of their SkillSoft Options; and

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- (iii) all SkillSoft Options that remain outstanding on the Effective Date will be cancelled with effect from the Effective Time in consideration for a cash payment per SkillSoft Share subject to such SkillSoft Option to the SkillSoft Optionholder equal to the excess, if any, of the Consideration per SkillSoft Share over the exercise price applicable to such SkillSoft Option (net of applicable withholding taxes).

Under the Transaction Agreement, SkillSoft has agreed to use all reasonable efforts to inform SkillSoft Optionholders who are resident in the United States of the advantages, subject to their individual circumstances, of electing to avail themselves of the cancellation of options.

SkillSoft Options outstanding on the Effective Date having an exercise price per SkillSoft Share that is equal to or greater than the Consideration per SkillSoft Share will terminate in accordance with the applicable provisions of the SkillSoft Share Option Plans, without payment of consideration.

The current offering period under the SkillSoft Employee Share Purchase Plan will end on or around 31 March 2010. No new offering periods will commence under the SkillSoft Employee Share Purchase Plan before the Effective Time. On the last day of the current offering period, each participant in the SkillSoft Employee Share Purchase Plan will be credited with the number of SkillSoft Shares purchased for his or her account under such plan in respect of the applicable offering period, in accordance with the terms of the SkillSoft Employee Share Purchase Plan, but provided that the aggregate number of SkillSoft Shares so purchased by all participants will not exceed 210,000. The SkillSoft Shares issued to participants under the SkillSoft Employee Share Purchase Plan will then be subject to the Scheme.

**8. THE SKILLSOFT EXECUTIVE OFFICERS AND NON-EXECUTIVE DIRECTORS AND THE EFFECT OF THE SCHEME ON THEIR INTERESTS**

**8.1 Interests Held by Executive Officers and Non-Executive Directors**

The effect of the Scheme on the interests of SkillSoft’s executive officers and of the SkillSoft Non-Executive Directors does not differ from its effect on the like interests of other persons, except as disclosed in this paragraph 8.

The names of SkillSoft’s current executive officers and the SkillSoft Non-Executive Directors are listed below. The address of each person listed in the table below is c/o SkillSoft plc, Belfield Office Park, Clonskeagh, Dublin 4, Ireland.

<b><u>Name</u></b>	<b><u>Title</u></b>
Charles E. Moran	President and Chief Executive Officer
Thomas J. McDonald	Chief Financial Officer, Executive Vice-President and Assistant Secretary
Jerald A. Nine, Jr.	Chief Operating Officer
Mark A. Townsend	Executive Vice-President, Technology
Colm M. Darcy	Executive Vice-President, Content Development
Anthony P. Amato	Vice-President, Finance and Chief Accounting Officer
James S. Krzywicki	Non-Executive Director
Dr. Ferdinand von Prondzynski	Non-Executive Director
P. Howard Edelstein	Non-Executive Director
William F. Meagher, Jr.	Non-Executive Director
William J. Boyce	Non-Executive Director

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The interests of SkillSoft's executive officers and SkillSoft Non-Executive Directors in the share capital of SkillSoft and in the SkillSoft Share Option Plans are set out in paragraphs 4 and 5 of Part VIII (Additional Information) of this document.

SkillSoft Options held by SkillSoft's executive officers and SkillSoft Non-Executive Directors under the SkillSoft Share Option Plans will be treated in a similar manner to all other SkillSoft Optionholders (including the vesting of all unvested options in connection with the Scheme), as set out in paragraph 7 of this Part III (Explanatory Statement). SkillSoft Non-Executive Directors and executive officers, for the purposes of United States federal securities law, may not elect to exercise their SkillSoft Options with a cashless exercise facility.

SkillSoft's executive officers holding unexercised SkillSoft Options as of the Effective Date will receive cash payments upon the consummation of the Scheme in the approximate amounts (before withholding for applicable taxes) indicated in the following table:

Name	Title	Number of SkillSoft Options	SkillSoft Option Exercise Price	Approximate SkillSoft Option Settlement Amount
Charles E. Moran	President and Chief Executive Officer	2,954,657	US\$4.06 - US\$6.41	US\$13,580,884
Thomas J. McDonald	Chief Financial Officer, Executive Vice-President and Assistant Secretary	1,638,698	US\$4.06 - US\$6.41	US\$8,689,325
Jerald A. Nine, Jr.	Chief Operating Officer	1,278,359	US\$6.36 - US\$6.41	US\$5,615,914
Mark A. Townsend	Executive Vice-President, Technology	1,020,890	US\$4.06 - US\$6.41	US\$5,883,519
Colm M. Darcy	Executive Vice-President, Content Development	297,556	US\$6.41 - US\$19.06	US\$1,086,771
Anthony P. Amato	Vice-President, Finance and Chief Accounting Officer	145,000	US\$3.66 - US\$12.50	US\$751,950
<b>Total</b>		<b>7,335,160</b>		<b>US\$35,608,364</b>

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The SkillSoft Non-Executive Directors holding unexercised SkillSoft Options will receive cash payments upon the consummation of the Scheme in the approximate amounts (before withholding for applicable taxes) indicated in the following table:

Name	Title	Number of SkillSoft Options	SkillSoft Option Exercise Price	Approximate SkillSoft Option Settlement Amount
James S. Krzywicki	Non-Executive Director	115,000	US\$6.21 - US\$27.81	US\$171,800
Dr. Ferdinand von Prondzynski	Non-Executive Director	125,000	US\$5.50 - US\$20.68	US\$276,300
P. Howard Edelstein	Non-Executive Director	125,000	US\$4.25 - US\$10.48	US\$440,050
William F. Meagher, Jr.	Non-Executive Director	115,000	US\$5.50 - US\$10.75	US\$256,050
William J. Boyce	Non-Executive Director	70,000	US\$4.97 - US\$10.48	US\$297,900
<b>Total</b>		<b>550,000</b>		<b>US\$1,442,100</b>

**8.2 Change in Control Arrangements with Executive Officers and Non-Executive Directors of SkillSoft**

SkillSoft has employment agreements with each of its named executive officers. The employment agreements provide that the executive is entitled to specified severance benefits in the event such executive's employment is terminated by SkillSoft without cause or by the executive for good reason (each as defined in the employment agreement). In addition, all of SkillSoft's executive officer employment agreements provide that the executive may elect to extend the vesting and exercisability of such officer's share options for a period of six months or one year (depending on the executive) following employment termination, in some cases in exchange for a non-competition and non-solicitation covenant or the performance of consulting services.

**9. TAXATION**

Your attention is drawn to paragraphs 8 and 9 of Part VIII (Additional Information) of this document, headed Irish Taxation and US Federal Income Tax Consequences, respectively. If you are in any doubt as to your own tax position, or if you require more detailed information or if you are subject to taxation in any jurisdiction other than Ireland or the United States, you should consult an independent financial advisor or tax advisor immediately.

**10. SETTLEMENT, LISTING AND DEALINGS**

If the Scheme is approved by the High Court, a request will be made to cancel the quotation of SkillSoft ADSs on NASDAQ. The last day of dealings in SkillSoft ADSs on NASDAQ will be the last Business Day before the Effective Time, and is expected to be on or about [ ] 2010.

No transfers of SkillSoft Shares (other than transfers to SSI Investments) will be registered after the Scheme Record Time. At the Effective Time, share certificates in respect of SkillSoft Shares will cease to be of value and should, if so requested by SkillSoft or its agents, be sent to SkillSoft for cancellation.

**10.1 Consideration**

Subject to the Acquisition becoming effective, settlement of the Consideration to which any SkillSoft Shareholder is entitled under the Acquisition will be despatched within 14 days of the

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Effective Date by ordinary post (or by such other manner as the Panel may approve). Such cash payments will be made in US dollars by cheque drawn on a branch of a State of New York clearing bank.

Except with the consent of the Panel, settlement of the Consideration to which any Scheme Shareholder is entitled under the Acquisition will be implemented in full in accordance with the terms of the Acquisition without regard to any lien, right of set-off, counterclaim or other analogous right.

SkillSoft Securityholders at the Scheme Record Time will receive their relevant proportion of the Consideration in US dollars. All payments will be rounded down to the nearest whole US cent and will be reduced by the amount of any withholding taxes and ADS cancellation fees, if applicable.

SSI Investments has confirmed that, except as provided for in the Scheme or otherwise with the consent of the Panel, any payment to which a SkillSoft Shareholder is entitled to receive from SSI Investments will be implemented in full without regard to any lien, right of set-off, counterclaim or other analogous right to which SSI Investments may be, or claim to be, entitled against such SkillSoft Shareholder.

All documents and remittances sent to SkillSoft ADS holders or SkillSoft Shareholders (or in accordance with their directions) will be despatched at their own risk.

**SkillSoft ADS holders should read paragraph 4 of this Part III (Explanatory Statement), which contains further important information which is relevant to them.**

### **10.2 Certain Effects of the Scheme**

If the Scheme becomes effective, SkillSoft will become a wholly owned subsidiary of SSI Investments and SkillSoft Shareholders will not have an opportunity to continue their equity interest in SkillSoft as an ongoing corporation and, therefore, will not have the opportunity to share in its future earnings, dividends or growth, if any.

## **11. OVERSEAS SHAREHOLDERS**

As regards Overseas Shareholders, the Acquisition may be affected by the laws of the relevant jurisdictions. Such Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of Overseas Shareholders to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with the laws of Ireland and the United States and the Takeover Rules and the rules of the Securities Exchange Commission, respectively (to the extent applicable), and the information disclosed may be different from that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside Ireland and the United States.

Overseas Shareholders are encouraged to consult their local tax advisor.

## **12. TREATMENT OF SKILLSOFT ADSs**

Each SkillSoft ADS represents one SkillSoft Share. The Bank of New York Mellon, as Depositary, holds the SkillSoft Shares underlying the SkillSoft ADSs. Accordingly, the Depositary, as a SkillSoft Shareholder, will, be entitled to US\$10.80 for every SkillSoft Share held by it at the Scheme Record Time.



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After the Effective Date, the Depositary will arrange for the distribution directly to SkillSoft ADS holders of the Consideration that they are entitled to in the proportion of US\$10.80 for every one SkillSoft ADS held by them at the Scheme Record Time. SkillSoft ADS holders will receive their relevant proportion of the Consideration (without interest and less any withholding taxes and ADS cancellation fees, if applicable) in US dollars. All payments will be rounded down to the nearest whole US cent. SkillSoft ADS holders, who hold their SkillSoft ADSs in certificated form, may need to surrender their certificates to the Depositary prior to receiving their proportion of the Consideration. You will be notified if you are required to return your SkillSoft ADS certificates. Cheques will be despatched to SkillSoft ADS holders after the Effective Date.

All cheques will be sent to SkillSoft ADS holders at their own risk and will be sent by post either to the holder's address as set out on the register of SkillSoft ADS holders at the Scheme Record Time or to such other address of the holder as is notified as a change in writing by SkillSoft ADS holders to the Depositary prior to the Effective Date and in the case of joint holders, to the holder whose name stands first in such register in respect of the joint holdings concerned.

It should be noted that holders of SkillSoft ADSs will not be entitled to attend the Meetings or to be represented at the Court Hearing. The Depositary will vote in accordance with the instructions it receives from SkillSoft ADS holders. Details of how SkillSoft ADS holders can instruct the Depositary to vote are contained in the enclosed ADS Voting Instruction Card. It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the High Court may be satisfied that there is a fair representation of Scheme Shareholder opinion. You are, therefore, strongly urged to sign and return the ADS Voting Instruction Card to the Depositary as soon as possible to ensure that the Depositary represents your SkillSoft ADSs at the Meetings.

Holders of SkillSoft ADSs who wish to attend the Court Meeting and/or the EGM or to be present at the Court Hearing should take steps to present their SkillSoft ADSs to the Depositary for cancellation and delivery of SkillSoft Shares so as to become holders on record of SkillSoft Shares prior to the relevant Voting Record Time for the Court Meeting or the EGM or prior to the Court Hearing (as the case may be). The date for the Court Meeting and the EGM is [ ] 2010. If SkillSoft ADS holders wish to attend the Court Meeting and/or the EGM, they must present their SkillSoft ADSs to the Depositary for cancellation as early as possible, although, regardless of the time of such presentation, no guarantee can be given by the Depositary that it will be able to procure that the relevant SkillSoft ADS holder becomes a holder of record of SkillSoft Shares in time for the relevant Meetings or the Court Hearing. Subject to the approval of the resolutions proposed at the Meetings, the Court Hearing will take place on [ ] 2010.

**13. ACTION TO BE TAKEN**

Your attention is drawn to the summary of the action to be taken on page 25 of this document.

**14. FURTHER INFORMATION**

Your attention is drawn to the conditions and further terms of the Acquisition set out in the remaining parts of this document, all of which form part of this document.

**Yours faithfully,**

[ ]

**For and on behalf of**

**Credit Suisse**

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**PART IV THE SCHEME OF ARRANGEMENT**

**THE HIGH COURT**

**IN THE MATTER OF SKILLSOFT PUBLIC LIMITED COMPANY**

**AND IN THE MATTER OF THE COMPANIES ACTS 1963 TO 2009**

**SCHEME OF ARRANGEMENT**

**(UNDER SECTION 201 OF THE COMPANIES ACT 1963)**

**BETWEEN**

**SKILLSOFT PUBLIC LIMITED COMPANY**

**AND**

**THE HOLDERS OF THE SCHEME SHARES**

**(AS HEREINAFTER DEFINED)**

**PRELIMINARY**

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

the **Act** , the Companies Act 1963 of Ireland, as amended;

**Advent** , Advent International Corporation;

**Bain Capital Partners** , Bain Capital Partners, LLC;

**Berkshire** , Berkshire Partners, LLC;

**Business Day** , any day other than a Saturday, Sunday or public holiday in Ireland or the State of New York;

**Cancellation Record Time** , [ ] (Irish Standard Time) on the day before the High Court hearing to sanction this Scheme;

**Cancellation Shares** ,

(i) the SkillSoft Shares in issue at the date of the Circular;

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(ii) any SkillSoft Shares issued after the date of the Circular and before the Voting Record Time; and

(iii) any SkillSoft Shares issued at or after the Voting Record Time and before the Cancellation Record Time on terms that the Holder thereof shall be bound by this Scheme, or in respect of which the original or any subsequent Holder thereof agrees in writing to be bound by this Scheme;

but excluding the Transfer Shares and the Designated Shares;

**Circular** , the document dated [ ] 2010 sent to SkillSoft Shareholders and holders of SkillSoft ADSs (and, for information only, to SkillSoft Optionholders and the holders of rights under the SkillSoft Employee Share Purchase Plan) of which this Scheme forms part;

**Consideration** , the cash consideration of US\$10.80 per SkillSoft Share payable to Scheme Shareholders for each SkillSoft Share cancelled or transferred pursuant to this Scheme;

**Court Meeting** , the meeting or meetings of the Scheme Shareholders (and any adjournment thereof) convened by order of the High Court pursuant to Section 201 of the Act to consider and, if thought fit, approve this Scheme (with or without amendment);

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**Court Order** , the order or orders of the High Court sanctioning this Scheme under Section 201 of the Act and confirming the reduction of share capital which forms part of it under Sections 72 and 74 of the Act;

**Designated Shares** , means the seven SkillSoft Shares to be held by nominees appointed by SSI Investments on behalf of SSI Investments, in each case from a date prior to the date on which the Court Meeting is held;

**Effective Date** , the date on which this Scheme becomes effective in accordance with its terms;

**Extraordinary General Meeting** or **EGM** , the extraordinary general meeting of the SkillSoft Shareholders to be convened in connection with this Scheme, expected to be held on the same day as the Court Meeting (and any adjournment thereof);

**Forms of Proxy** , the PINK form of proxy for the Court Meeting, and the BLUE form of proxy for the EGM, as the context may require;

**High Court** , the High Court of Ireland;

**Holder** , in relation to any SkillSoft Share, the Member whose name is entered in the Register of Members as the holder of the Share and **Joint Holders** shall mean the Members whose names are entered in the Register of Members as the joint holders of the Share, and includes any person(s) entitled by transmission;

**Irish Standard Time** , Irish standard time, as set out in the Standard Time (Amendment) Act 1971 and the Summer Time Act 1925;

**Member** , a member of the Company on its Register of Members at any relevant date;

**New SkillSoft Shares** , the SkillSoft Shares to be issued credited as fully paid up to SSI Investments and/or its nominees pursuant to this Scheme;

**Reduction of Capital** , the reduction of the issued share capital of the Company by the cancellation of the Cancellation Shares to be effected as part of this Scheme as referred to in Clause 1.1 of this Scheme;

**Register of Members** , the register of members maintained by the Company pursuant to the Act;

**Registrar** , the Registrar of Companies, Ireland;

**Restricted Jurisdiction** , any jurisdiction in respect of which it would be unlawful for the Circular or the related Forms of Proxy to be released, published or distributed, in whole or in part, including for the avoidance of doubt, Canada, South Africa, Australia and Japan;

**Restricted Overseas Shareholder** , a Shareholder (including an individual, partnership, unincorporated syndicate, limited liability company, unincorporated organisation, trust, trustee, executor, administrator or other legal representative) in, or resident in, or any Shareholder whom the Company believes to be in, or resident in, a Restricted Jurisdiction;

**Scheme** or **Scheme of Arrangement** , the proposed scheme of arrangement under Section 201 of the Act and the capital reduction under Sections 72 and 74 of the Act with or subject to any modifications, additions or conditions approved or imposed by the High Court and agreed by SSI Investments and SkillSoft;

**Scheme Record Time** , [ ] (Irish Standard time) on the last Business Day before the Effective Date;

**Scheme Shareholder** , a Holder of Scheme Shares;

**Scheme Shares** , the Cancellation Shares and the Transfer Shares;

**SkillSoft** or the **Company** , SkillSoft plc incorporated in Ireland with registered number 148294;

**SkillSoft ADSs** , American Depositary Shares, each representing one SkillSoft Share;



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**SkillSoft Employee Share Purchase Plan** , the 2004 SkillSoft Employee Share Purchase Plan;

**SkillSoft Optionholders** , the holders of SkillSoft Options;

**SkillSoft Options** , options to subscribe for SkillSoft Shares pursuant to the SkillSoft Share Option Plans;

**SkillSoft Share** or **SkillSoft Shares** , ordinary shares of 0.11 each in the share capital of the Company;

**SkillSoft Share Option Plans** , the Books 24X7.com 1994 Stock Option Plan, the 1994 Share Option Plan, the 1996 Supplemental Stock Plan, the SkillSoft Corporation 1998 Stock Incentive Plan, the SkillSoft Corporation 2001 Stock Incentive Plan, the SkillSoft plc 2002 Share Option Plan and the SkillSoft Public Limited Company 2001 Outside Director Plan;

**SkillSoft Shareholders** or **Shareholders** , Holders of SkillSoft Shares;

**SSI Investments** , SSI Investments III Limited, incorporated in Ireland with registered number 480477;

**Stockbridge** , Stockbridge Fund, L.P., a Delaware Limited partnership;

**Stockbridge Partners** , Stockbridge Partners LLC, a Delaware limited liability company;

**Transfer Shares** , the SkillSoft Shares issued at or after the Cancellation Record Time and at or before the Scheme Record Time excluding, for the avoidance of doubt, the Designated Shares;

**US** or **United States** , the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and any other territory subject to its jurisdiction;

**US\$** , United States dollars; and

**Voting Record Time** , [ ] (Irish Standard time) on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 48 hours before the time set for any such adjourned meeting.

(B) The authorised share capital of the Company at the date of this Scheme is 250,000,000 divided into 250,000,000 SkillSoft Shares. As at the date hereof, [ ] SkillSoft Shares have been issued and are credited as fully paid.

(C) SSI Investments is a company formed by funds sponsored by each of Berkshire, Advent and Bain Capital Partners.

(D) As at the close of business on [ ] 2010, Stockbridge, an affiliate of Berkshire, owned or controlled 170,625 SkillSoft Shares. Stockbridge irrevocably committed to SkillSoft and SSI Investments, in respect of the SkillSoft Shares which it owns or controls, not to vote such SkillSoft Shares at the Court Meeting. Stockbridge has confirmed that it did not vote its SkillSoft Shares at the Court Meeting. Stockbridge Partners, an affiliate of Berkshire, manages investments for its clients and, as of the close of business on [ ] 2010, had limited discretionary voting power in respect of 110,319 SkillSoft Shares. Stockbridge Partners irrevocably committed (subject to the prior rights of its clients to exercise voting powers themselves) to SkillSoft and SSI Investments not to vote such SkillSoft Shares at the Court Meeting. Stockbridge Partners has confirmed that it did not vote such SkillSoft Shares at the Court Meeting.

(E) The purpose of the Scheme is to provide for the cancellation and transfer of the Scheme Shares in consideration for the payment by SSI Investments of the Consideration to the Scheme Shareholders.

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- (F) SSI Investments has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to submit thereto. SSI Investments undertakes to the High Court to be bound by and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

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### **THE SCHEME**

#### **1. Cancellation of the Cancellation Shares**

- 1.1 Pursuant to sections 72 and 201 of the Act and Article 41 of the Articles of Association of the Company, the issued share capital of the Company shall be reduced by cancelling and extinguishing all of the Cancellation Shares without thereby reducing the authorised share capital of the Company.
- 1.2 Forthwith and contingently upon the Reduction of Capital referred to in Clause 1.1 taking effect:
  - 1.2.1 the issued share capital of the Company shall be increased to its former amount by the allotment of such number of New SkillSoft Shares as shall be equal to the number of Cancellation Shares, with each such New SkillSoft Share having the same rights as the Cancellation Shares so cancelled; and
  - 1.2.2 the reserve arising in the Company's books of account as a result of the said Reduction of Capital shall be capitalised and applied in paying up in full at par the New SkillSoft Shares allotted pursuant to Clause 1.2.1, which shall be allotted and issued credited as fully paid to SSI Investments and/or its nominee(s) (to hold on bare trust for SSI Investments).
- 1.3 Such New SkillSoft Shares shall be allotted and issued to SSI Investments and/or its nominee(s) (to hold on bare trust for SSI Investments) credited as fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature whatsoever.

#### **2. Acquisition of Transfer Shares**

Contingently upon and immediately following the cancellation of the Cancellation Shares becoming effective in accordance with the terms of this Scheme, the allotment of the New SkillSoft Shares referred to in Clause 1.2.1 of this Scheme and the registration of such New SkillSoft Shares in the name of SSI Investments and/or its nominee(s) (to hold on bare trust for SSI Investments), SSI Investments shall automatically, and without any further action required, acquire the Transfer Shares (including the legal and beneficial interest therein) of each Holder appearing in the Register of Members at the Scheme Record Time as the Holder of Transfer Shares fully paid, free from all liens, equities, charges, encumbrances and other interests and together with all and any rights at the date of this Scheme or thereafter attached thereto including voting rights and the right to receive and retain in full all dividends and other distributions declared, paid or made thereon, on the Effective Date.

#### **3. Consideration for the Cancellation Shares, the Transfer Shares and the allotment of the New SkillSoft Shares**

- 3.1 In consideration for the cancellation of the Cancellation Shares pursuant to Clause 1.1, the transfer of the Transfer Shares pursuant to Clause 2 and the allotment and issue of the New SkillSoft Shares as provided in Clause 1.2, SSI Investments shall pay the Consideration to each Holder appearing in the Register of Members at the Scheme Record Time as the Holder of Scheme Shares in accordance with the provisions of Clause 4 below.
- 3.2 Neither SSI Investments nor the Company shall be liable to any Scheme Shareholder for any cash payment, dividend or distribution with respect to Scheme Shares delivered to a public official in compliance with any abandoned property, escheat or law permitting attachment of money or property or similar law.



**4. Settlement of Consideration**

- 4.1 Not later than 14 days after the Effective Date, SSI Investments shall deliver or procure the delivery to the persons entitled thereto, or otherwise as they may direct, cheques for the Consideration payable to them in accordance with Clause 3.1. All payments shall be made in US dollars (\$).
  
- 4.2 All deliveries of cheques required to be made pursuant to this Scheme shall be effected by sending the same through the post in prepaid envelopes addressed to the persons entitled thereto at their respective registered

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addresses as appearing in the Register of Members at the Scheme Record Time (or, in the case of Joint Holders, at the registered address, as appearing in the said Register at such time, of that one of the Joint Holders whose name then stands first in the said Register in respect of such joint holding) or in accordance with any special instructions regarding communications, and neither the Company nor SSI Investments shall be responsible for any loss or delay in the transmission of any cheques sent in accordance with this Clause, which shall be sent at the risk of the persons entitled thereto.

- 4.3 All cheques shall be made payable to the Holder or, in the case of Joint Holders, to the first named Holder of the Scheme Shares concerned and the encashment of any such cheque shall be a complete discharge to the Company and SSI Investments for the moneys represented thereby.

## **5. Overseas Shareholders**

- 5.1 The provisions of Clauses 2, 3 and 4 shall be subject to any prohibition or condition imposed by law.
- 5.2 Notwithstanding the provisions of Clause 5.1, the Company retains the right to permit the release, publication or distribution of the Circular or the Forms of Proxy to any Restricted Overseas Shareholder who satisfies the Company (in its sole discretion) that doing so will not infringe the laws of the relevant Restricted Jurisdiction, or require compliance with any governmental or other consent or any registration, filing or other formality that the Company is unable to comply with or regards as unduly onerous to comply with.

## **6. The Effective Date**

- 6.1 This Scheme shall become effective as soon as an office copy of the Court Order and a copy of the minute required by Section 75 of the Act shall have been duly delivered by the Company to the Registrar of Companies for registration and registered by him, all of which deliveries shall be subject to Clause 6.3.
- 6.2 Unless this Scheme shall have become effective on or before 16 July 2010, or such later date (if any) as the Company and SSI Investments may agree, with the consent of the Panel and/or the High Court (where required), it shall not proceed and all undertakings given to the Court in respect of this Scheme shall be deemed to have lapsed with immediate effect.
- 6.3 The Company and SSI Investments have agreed that in certain circumstances the necessary actions to seek sanction of this Scheme may not be taken.

## **7. Modification**

The Company and SSI Investments may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or any condition that the High Court may approve or impose.

## **8. Costs**

The Company is authorised and permitted to pay all the costs and expenses relating to the negotiation, preparation, approval and implementation of this Scheme.

**9. Governing Law**

This Scheme shall be governed by, and construed in accordance with, the laws of Ireland. The Company and the Scheme Shareholders hereby agree that the High Court shall have exclusive jurisdiction to hear and determine any suit, action or proceeding or to settle any dispute which may arise in relation thereto.

Dated: [                    ] 2010

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**PART V CONDITIONS OF  
THE ACQUISITION AND THE SCHEME**

Terms used in this Part V and defined in paragraph 2(viii) below shall have the meanings ascribed to them in paragraph 2(viii). Capitalized terms used in this Part V and not defined in paragraph 2(viii) below shall have the meanings ascribed to them in Part IX (Definitions) of this document.

The Acquisition and the Scheme comply with the Takeover Rules and, where relevant, the Securities Act, the Exchange Act, the respective rules and regulations of NASDAQ and the Securities and Exchange Commission and are subject to the terms and conditions set out in this document. The Acquisition and the Scheme are governed by the laws of Ireland and subject to the exclusive jurisdiction of the courts of Ireland, which exclusivity will not limit the right to seek provisional or protective relief in the courts of another state after any substantive proceedings have been instituted in Ireland, nor will it limit the right to bring enforcement proceedings in another state on foot of an Irish judgment.

1. The Acquisition will be conditional upon the Scheme becoming effective and unconditional by not later than 16 July 2010 (or such later date as SSI Investments and SkillSoft may, with (if required) the consent of the Panel, agree and (if required) the High Court may allow). The Scheme will be conditional upon:
  - (i) the approval of the Scheme by a majority in number of the Scheme Shareholders representing three-fourths (75 per cent.) or more in value of the SkillSoft Shares held by such holders, present and voting (either in person or by proxy) at the Court Meeting (or at any adjournment of such meeting);
  - (ii) such resolution(s) required to approve or implement the Scheme and set out in the notice convening the Extraordinary General Meeting being duly passed by the requisite majority at the Extraordinary General Meeting (or at any adjournment of such meeting);
  - (iii) the sanction by the High Court (with or without modification) of the Scheme pursuant to Section 201 of the Act and the confirmation of the reduction of capital involved therein by the High Court; and
  - (iv) office copies of the Court Order and the minute required by Section 75 of the Act in respect of the reduction (referred to in paragraph 1(iii)) being delivered for registration to the Registrar of Companies and registration of the Court Order and minute confirming the reduction of capital involved in the Scheme by the Registrar of Companies.
  
2. SkillSoft and SSI Investments have agreed that, subject to paragraph 3 of this Part V, the Acquisition will also be conditional upon the following matters having been satisfied or waived on or before the sanction of the Scheme by the High Court pursuant to Section 201 of the Act:
  - (i)
    - (a) all filings having been made and all or any applicable waiting periods (including any extensions thereof) under the HSR Act and the equivalent laws of Germany and Austria shall have terminated, lapsed or expired, as appropriate, in each case in connection with the Acquisition (it being understood that neither SkillSoft nor SSI Investments shall be required to make any material payments other than as contemplated by the Transaction Agreement, other than filing or other fees payable to a Relevant Authority for seeking the relevant Clearance, all such Clearances remaining in full force and effect, there being no notified intention to revoke or vary or not to renew the same at the time at which the Acquisition becomes otherwise unconditional);

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- (b) the Irish Revenue Commissioners not having confirmed in writing to the SkillSoft Group that they do not recognize that certain intellectual property rights transferred to SkillSoft Ireland Limited on 9 February 2009 attract Irish capital allowances on the entire acquisition price under (A) section 291 of the Taxes Consolidation Act 1997 as computer software or (B) sections 291 and 755 of that Act as computer software and patent rights, respectively. Where the Revenue Commissioners confirm their position in writing, this condition will be satisfied where the Revenue

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Commissioners have effectively confirmed that capital allowances will be available on the entire acquisition price under either (A) or (B). The Irish Revenue Commissioners issued a letter on 17 February 2010 confirming that the acquisition of [such intellectual property rights] will be treated as constituting part of SkillSoft Ireland Limited's continuing trade and that, on the basis of the information provided and subject to Revenue's usual right to audit or carry out an enquiry and anything which may arise therefrom, the [intellectual property rights] acquired will qualify for capital allowances under Section 291. ;

- (c) except (x) pursuant to the exercise of SkillSoft Options in respect of not more than 11,987,958 shares granted prior to 12 February 2010 (being the date of the Rule 2.5 Announcement) and then only in accordance with the existing terms of the existing SkillSoft Share Option Plans and (y) not more than 210,000 Shares issued pursuant to the SkillSoft Employee Share Purchase Plan as part of the offering period occurring in or around 31 March 2010, there not having been issued, granted, conferred or awarded by SkillSoft or any other member of the SkillSoft Group other than to any other member of the SkillSoft Group (it being understood that SkillSoft shall not issue, grant, confer or award any shares or any rights or convertible securities to any other member of the SkillSoft Group or agree to do any of the foregoing), or agreed to be issued, granted, conferred or awarded, any shares, or any rights or securities convertible or exchangeable into, or granted the right option, warrant, deferred stock unit, conversion right or other right to call for the issue of, any shares, or effected any share split, share combination, reverse share split, share dividend, recapitalisation, or altered the rights attaching to any shares, or effected any reduction, repayment or cancellation of share capital or share premium or capitalisation any reserves or redeemed or repurchased any shares or other similar transaction (and in any of the foregoing cases, whether or not pursuant to the existing SkillSoft Share Option Plans);
  - (d) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available, no litigation, arbitration proceedings, prosecution, legal proceedings or, so far as SkillSoft is actually aware at the date of the Rule 2.5 Announcement, no investigation by any Relevant Authority or agency to which any member of the Wider SkillSoft Group is a party (whether as plaintiff or defendant or otherwise) having been instituted at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) that was not disclosed (save where the consequences of such litigation, arbitration proceedings, prosecution or other legal proceedings or investigation do not or would not have a material adverse effect (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole); or
  - (e) otherwise than as required by applicable law or regulation, pursuant to the Transaction Agreement or with the consent of SSI Investments, the cash management policies of the SkillSoft Group not having materially changed from such policies as applied by the SkillSoft Group prior to 12 February 2010 (being the date of the Rule 2.5 Announcement) and, other than in the ordinary course of business, having used since 12 February 2010 (being the date of the Rule 2.5 Announcement) all reasonable efforts such as to maximize available cash balances in the United States as at the Effective Date;
- (ii) no Relevant Authority having instituted or implemented any action, proceeding, or suit or having made, enforced, enacted, issued or deemed applicable to the Acquisition any statute, regulation or order or having withheld any consent which would reasonably be expected to:
    - (a) make the Acquisition or its implementation, or the acquisition or proposed acquisition by SSI Investments of any shares in, or control of, SkillSoft, or any material assets of SkillSoft, void, illegal or unenforceable or otherwise, directly or indirectly, restrain, revoke, prohibit, materially

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restrict or delay beyond 15 July 2010 the same or impose additional or different material conditions or obligations with respect thereto;

- (b) result in a delay beyond 15 July 2010 in the ability of SSI Investments, or render SSI Investments unable, to acquire some or all of the SkillSoft Shares or result in or effect any divestiture of, or requirement to hold separate (including by establishing a trust or otherwise), or agree to restrict in any material respect its ownership or operation of, any material portion of the business or assets of SkillSoft, or to enter into any material adverse settlement or consent decree, or agree to any material adverse undertaking, with respect to any material portion of the business or assets of SkillSoft;
  - (c) impose any limitation lasting beyond 15 July 2010 or result in a delay beyond 15 July 2010 in the ability of SSI Investments to acquire, or to hold or to exercise effectively, directly or indirectly, all or any rights of ownership of shares, SkillSoft Shares, (or the equivalent) in, or to exercise voting or management control over, SkillSoft or any material Subsidiary or subsidiary undertaking of SkillSoft or on the ability of any member of the Wider SkillSoft Group to hold or exercise effectively, directly or indirectly, rights of ownership of shares (or the equivalent) in, or to exercise rights of voting or management control over, any material member of the Wider SkillSoft Group;
  - (d) require any member of the SSI Group or any member of the Wider SkillSoft Group to acquire or offer to acquire any shares or other securities (or the equivalent) in, or any interest in any asset owned by, any member of the Wider SkillSoft Group owned by any third party;
  - (e) except where the consequences thereof would not be material in value terms or otherwise in the context of the Wider SkillSoft Group taken as a whole, impose any limitation on the ability of any member of the SkillSoft Group to integrate or co-ordinate its business, or any part of it, with the businesses of any member of the Wider SkillSoft Group;
  - (f) except where the consequences thereof would not be material in value terms or otherwise in the context of the Wider SkillSoft Group taken as a whole, result in any member of the Wider SkillSoft Group ceasing to be able to carry on business in any jurisdiction;
  - (g) except where the consequences thereof would not be material in value terms or otherwise in the context of the Wider SkillSoft Group taken as a whole, cause any member of the Wider SkillSoft Group to cease to be entitled to any authorisation, order, recognition, grant, consent, clearance, confirmation, license, permission or approval used by it in the carrying on of its business in any jurisdiction; or
  - (h) except where the consequences thereof would not be material in value terms or otherwise in the context of the Wider SkillSoft Group taken as a whole, otherwise adversely affect the business, financial condition or results of operations of the Wider SkillSoft Group taken as a whole;
- (iii) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available and except where the consequences thereof would not be material (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole, to the knowledge and belief of the directors of SkillSoft (which knowledge shall be tested as of the time at which this condition is measured), none of the (i) products (excluding products supplied to any member of the SkillSoft Group by a third party) previously or currently sold by any member of the SkillSoft Group or (ii) business or activities previously or currently conducted by any member of the SkillSoft Group infringes or constitutes a misappropriation of, any Intellectual Property of any third party;





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- (iv) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available, there being no provision of any arrangement, agreement, licence, permit, franchise, facility, lease or other instrument to which any member of the SkillSoft Group is a party or by or to which any such member or any of its respective assets may be bound, entitled or be subject and which, in consequence of the Acquisition or the acquisition or proposed acquisition by SSI Investments of any shares or other securities (or the equivalent) in or control of SkillSoft or any member of the SkillSoft Group or because of a change of control or management of SkillSoft or otherwise, would be reasonably expected to result (except where, in any of the following cases, the consequences thereof would not be material (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as whole) in:
- (a) any monies borrowed by, or any indebtedness or liability (actual or contingent) of, or any grant available to any member of the Wider SkillSoft Group becoming, or becoming capable of being declared, repayable immediately or prior to their or its stated maturity;
  - (b) the creation or enforcement of any mortgage, charge or other security interest wherever existing or having arisen over the whole or any part of the business, property or assets of any member of the Wider SkillSoft Group or any such mortgage, charge or other security interest becoming enforceable;
  - (c) any such arrangement, agreement, licence, permit, franchise, facility, lease or other instrument or the rights, liabilities, obligations or interests of any member of the Wider SkillSoft Group thereunder, or the business of any such members with any person, firm or body (or any arrangement or arrangements relating to any such interest or business), being terminated or adversely modified or any adverse action being taken or any obligation or liability arising thereunder;
  - (d) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider SkillSoft Group being or falling to be disposed of or charged, or ceasing to be available to any member of the Wider SkillSoft Group or any right arising under which any such asset or interest would be required to be disposed of or charged or would cease to be available to any member of the Wider SkillSoft Group otherwise than in the ordinary course of business;
  - (e) any member of the Wider SkillSoft Group ceasing to be able to carry on business, being prohibited from carrying on business or being subject to a restriction imposing a non-compete, exclusivity or similar restrictive covenant on the Wider SkillSoft Group, in each case, in any jurisdiction in which it currently carries on business;
  - (f) the value of, or financial or commercial position of, any member of the Wider SkillSoft Group being prejudiced or adversely affected; or
  - (g) the creation of any liability or liabilities (actual or contingent) by any member of the Wider SkillSoft Group;
- unless, if any such provision exists, such provision shall have been waived, modified or amended on terms reasonably satisfactory to SSI Investments;
- (v) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available and except where the consequences thereof would not be material (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole, the Wider SkillSoft Group (A) conducting its business in the ordinary course consistent with past practice in all respects and in compliance in all respects with all



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applicable laws and regulations, and (B) using reasonable endeavours to preserve substantially intact its business organisation and goodwill and to keep available the services of its executive officers and key employees and preserve the relationships with those persons having business dealings with the SkillSoft Group, and no member of the SkillSoft Group taking or agreeing to take, at any time after 12 February 2010 (being the date of the Rule 2.5 Announcement), any of the following actions (except as expressly required by applicable law or regulation, the Transaction Agreement or by the Scheme, or to the extent SSI Investments shall consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed)):

- (a) amending its memorandum and articles of association or its equivalent organisational documents;
- (b) except as required to comply with written employment agreements, plans or other arrangements existing at the date of the Transaction Agreement:
  - (i) increasing the base salary of any member of the SkillSoft senior management team or increasing the base salary of any employee unless the aggregate of all such increases is equal to or less than 5% of the aggregate base salaries of all employees of the SkillSoft Group;
  - (ii) enter into any new material agreement with persons that are Affiliates or amend or otherwise modify in any material respect any material agreement or arrangement with persons that are Affiliates; and
  - (iii) save for the entry into new executive compensation plans in substantially the form (as to terms and conditions) disclosed to SSI Investments at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement), entering into or amending or otherwise modifying any agreement or arrangement with officers or directors of SkillSoft, unless the aggregate cost attributable to all such amendments or modifications is equal to or less than 5% of the aggregate compensation of all officers and directors of the SkillSoft Group;
- (c) except in connection with a Third Party Transaction Proposal after a change in Scheme Recommendation or any other transaction having an aggregate value of not more than US\$5,000,000, (A) merging with, entering into a consolidation with, entering into a scheme of arrangement with or acquiring an interest in any person or acquiring the whole or a substantial portion of the assets or business of any person or any division or line of business thereof, (B) acquiring any assets having an aggregate value of more than US\$1,000,000, except in the ordinary course of business, or (C) entering into any agreement or arrangement for any of the above;
- (d) entering into any agreement the effect of which would be to impose any non-compete, exclusivity or similar restrictive covenants on SkillSoft which are material and adverse to the business of the Wider SkillSoft Group or any material member of the SkillSoft Group or which would, following the Effective Date, bind any member of the Investor Group (other than SkillSoft and members of the SkillSoft Group);
- (e) incurring any indebtedness in a sum greater than US\$5,000,000 for money borrowed by any member of the SkillSoft Group other than (i) such indebtedness or lines of credit which existed as of 31 October 2009 as reflected on the balance sheet included in SkillSoft's interim results published in its Quarterly Report on Form 10-Q for the quarterly period ended 31 October 2009 filed with the SEC, or (ii) any indebtedness owed to any member of the SkillSoft Group by any member of the SkillSoft Group;
- (f) guaranteeing indebtedness of another person (other than another member of the SkillSoft Group);

- (g) issuing, selling or amending any debt securities or warrants or other rights to acquire any debt securities of SkillSoft or any member of the SkillSoft Group, or guaranteeing any debt securities of another person (other than another member of the SkillSoft Group);

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- (h) other than in the ordinary course of business, being a creditor in respect of any financial indebtedness (it being understood that the provision of credit to customers of any member of the Wider SkillSoft Group shall not constitute financial indebtedness );
  - (i) entering into, modifying, amending or terminating any commodity hedging agreement, and any other agreement, involving credit exposure for SkillSoft or any member of the SkillSoft Group;
  - (j) materially changing any material tax planning strategy of the SkillSoft Group; and
  - (k) authorising, recommending, proposing or announcing an intention to adopt a plan of complete or partial liquidation or dissolution of SkillSoft or any member of the SkillSoft Group provided that this does not apply to the liquidation or dissolution of Fidalco Limited, Stargazer Productions, SmartForce Business Skills Limited or KnowledgeWell Group Limited that has commenced prior to the date of the Transaction Agreement;
- (vi) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available:
- (a) there not having arisen any adverse change or adverse deterioration in the business, financial condition or results of operations or profits of SkillSoft or any member of the Wider SkillSoft Group (save to an extent which would not have a material adverse effect (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole);
  - (b) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available SSI Investments not having discovered that any financial, business or other information concerning the SkillSoft Group which has been disclosed is misleading, contains a misrepresentation of fact or omits to state a fact necessary, in light of the circumstances in which it was made, to make the information contained therein not misleading (save to an extent which would not have a material adverse effect (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole); and
  - (c) no contingent or other liability existing at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) of which SkillSoft is actually aware at the date of the Rule 2.5 Announcement that was not disclosed which would reasonably be expected to affect adversely any member of the Wider SkillSoft Group (save to an extent which would not have a material adverse effect (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole);
- (vii) save as disclosed and/or save as publicly disclosed by SkillSoft by the delivery of filings to the Securities and Exchange Commission (other than with respect to risk factors or any forward looking information) or by the delivery of an announcement to NASDAQ at any time up to 12 February 2010 (being the date of the Rule 2.5 Announcement) which is publicly available:
- (a) no member of the SkillSoft Group being in default under the terms or conditions of any facility or agreement or arrangement for the provision of loans, credit or drawdown facilities, or of any security, surety or guarantee in respect of any facility or agreement or arrangement for the provision of loans, credit or drawdown facilities to any member of the SkillSoft Group (save where such default is not or would not be material (in value terms or otherwise) in the context of the Wider SkillSoft Group taken as a whole);

- (b) no member of the SkillSoft Group having recommended, announced, declared, set aside, paid or made or proposed the recommendation, announcement, declaration, setting aside of any payment

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or making of any dividend, any bonus issue or make any other distribution or payment (whether in cash, securities or other property) (other than dividends from a wholly-owned subsidiary of SkillSoft to another wholly-owned subsidiary of SkillSoft or to SkillSoft); or

- (c) no member of the SkillSoft Group having directly or indirectly redeemed, purchased or otherwise acquired any of its shares or any equity interest of any member of the SkillSoft Group other than as permitted pursuant to the Transaction Agreement;

(viii) for the purposes of the conditions set out above:

- (a) disclosed means (i) fairly disclosed in writing by or on behalf of SkillSoft to the SSI Group or its Representatives at any time up to 3.00 p.m. (United States Eastern Time) on 11 February 2010 or (ii) contained, as of 3.00 p.m. (United States Eastern time) on 11 February 2010, in the ftp (file transfer protocol) site maintained by SkillSoft to share due diligence materials with the SSI Group;

- (b) Intellectual Property means (A) patents, trademarks, service marks, trade names, domain names, copyrights and designs, (B) applications for and registrations of such patents, trademarks, service marks, trade names, domain names, copyrights and designs, and (C) rights under applicable trade secret laws as are applicable to processes, formulae, methods, schematics, technology, know-how, computer software programs and applications, and other tangible or intangible proprietary or confidential information and materials;

- (c) SkillSoft Group means SkillSoft and its Subsidiaries and subsidiary undertakings;

- (d) parent undertaking , subsidiary undertaking , associated undertaking and undertaking have the meanings given by the European Communities (Companies: Group Accounts) Regulations, 1992;

- (e) SSI Group means SSI Investments and its parent undertakings and its Subsidiaries and subsidiary undertakings and any other Subsidiary or subsidiary undertaking of its parent undertakings;

- (f) substantial interest means an interest in 20 per cent. or more of the voting equity capital of an undertaking;

- (g) Wider SkillSoft Group means the SkillSoft Group, its associated undertakings and any entities in which any member of the SkillSoft Group holds a substantial interest; and

- (h) Wider SSI Group means the SSI Group, its associated undertakings and any entities in which any member of the SSI Group holds a substantial interest.

3. Subject to the requirements of the Panel, SSI Investments reserves the right (but shall be under no obligation) to waive, in whole or in part, all or any of the Conditions except for 1(i), (ii), (iii), (iv), and 2(i)(a).

4. The Acquisition will lapse unless all of the Conditions set out above have been fulfilled or (if capable of waiver) waived or, where appropriate, have been determined by SSI Investments in its discretion to be or to remain satisfied on the Effective Date.

5. If SSI Investments is required to make an offer for SkillSoft Shares under the provisions of Rule 9 of the Takeover Rules, SSI Investments shall make such alterations to any of the above Conditions as are necessary to comply with the provisions of that rule.
  
6. SSI Investments reserves the right, with the consent of the Panel, to effect the Acquisition by way of a takeover offer. In such event, such offer will be implemented on the same terms (subject to appropriate amendments, including (without limitation) an acceptance condition set at 80 per cent. of the nominal value and voting rights of the SkillSoft Shares to which such an offer relates and which are not already in the beneficial ownership of SSI Investments within the meaning of Section 204 of the Act), so far as applicable, as those which would apply to the Scheme.



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**PART VI INFORMATION ON SSI INVESTMENTS AND THE INVESTOR GROUP**

**1. INCORPORATION AND REGISTERED OFFICE**

SSI Investments was formed on 3 February 2010 as a private limited company under Irish law. The registered office of SSI Investments is Block 3, Harcourt Centre, Harcourt Road, Dublin 2 Ireland and its registered number is 480477. SSI Investments is a wholly owned subsidiary of SSI Investments II Limited. The ultimate holding company of SSI Investments is SSILuxCo S.à.r.l.

SSI Investments has no employees.

**2. DIRECTORS**

The names of the directors of SSI Investments are as follows:

Michael C. Ascione (USA)

Mark Commins (Ireland)

Timothy Franks (United Kingdom)

David Humphrey (USA)

Imelda Shine (Ireland)

The names of the directors (managers) of SSILuxCo S.à.r.l. are as follows:

Michael C. Ascione (USA)

Cedric Carnoye (Belgium)

Hugo Froment (France)

**3. FINANCIAL INFORMATION AND ACTIVITIES**

Neither SSI Investments nor SSILuxCo S.à.r.l. has conducted any business at any time since it was formed, nor has it entered into any obligations other than in connection with the Acquisition and the financing thereof. The financial and trading prospects of SSI Investments and SSILuxCo S.à.r.l., if the Scheme becomes effective, will depend on the strength of SkillSoft's business and the sector in which SkillSoft operates in general.

**4. INTERESTS IN THE SHARE CAPITAL OF SSI INVESTMENTS AND, FOLLOWING THE EFFECTIVE DATE, SKILLSOFT**

100 per cent. of the relevant securities of SSI Investments are held by SSI Investments II Limited.

Following the Effective Date, the following persons as shareholders of SSI Investments will have a direct or indirect interest in 5 per cent. or more of the relevant securities of SkillSoft:

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Name	Address
SSI Investments II Limited	Block 3, the Harcourt Centre, Harcourt Road, Dublin 2, Ireland
SSI Investments I Limited	Block 3, the Harcourt Centre, Harcourt Road, Dublin 2, Ireland
SSILuxCo S.à.r.l.	65, boulevard Grande Duchesse Charlotte, L-1331 Luxembourg, Grand Duchy of Luxembourg
Funds sponsored by Advent International Corporation	75 State Street, Boston, MA 02109, United States
Funds sponsored by Bain Capital Partners, LLC	111 Huntington Avenue, Boston, MA 02199, United States
Funds sponsored by Berkshire Partners LLC	200 Clarendon Street, Boston, MA 02116, United States

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**PART VII FINANCIAL INFORMATION RELATING TO SKILLSOFT**

The financial information included in this Part VII (Financial Information Relating to SkillSoft) reproduces the audited financial statements and accounting policies of SkillSoft for the fiscal years ended 31 January 2007, 2008 and 2009, the unaudited financial statements for the year ended 31 January 2010 and the unaudited financial statements for the nine months ended 31 October 2009, prepared under US GAAP

The financial information as of 31 January 2007, 31 January 2008 and 31 January 2009 has been extracted without material adjustment from SkillSoft's Annual Report on Form 10-K for the fiscal year ended 31 January 2009, except that the Consolidated Balance Sheets as of January 31, 2007 and related Notes to Consolidated Financial Statements have been extracted without material adjustment from SkillSoft's Annual Report on Form 10-K for the fiscal year ended 31 January 2008. The financial information as of 31 January 2010 has been extracted without material adjustment from SkillSoft's unaudited financial statements included with SkillSoft's Earnings Release dated [ ] 2010, filed as an exhibit to SkillSoft's Current Report on Form 8-K on [ ] 2010. The financial information as of 31 October 2009 has been extracted without material adjustment from SkillSoft's Quarterly Report on Form 10-Q for the fiscal quarter ended 31 October 2009.

SkillSoft's auditors, Ernst & Young LLP, have reported without qualification in respect of the financial statements prepared in accordance with US GAAP for the fiscal years ended 31 January 2007, 2008 and 2009. The financial information contained in this Part VII (Financial Information Relating to SkillSoft) does not constitute statutory accounts with the meaning of Section 4 of the Companies (Amendment) Act 1986 of Ireland.

To view the full documents from which the financial statements have been reproduced in this Part VII (Financial Information Relating to SkillSoft) please refer to SkillSoft's Annual Reports on Form 10-K for the fiscal years ended 31 January 2008 and 2009, SkillSoft's Current Report on Form 8-K, filed on [ ] 2010 and SkillSoft's Quarterly Report on Form 10-K for the fiscal quarter ended 31 October 2009.

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**FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and

Shareholders of SkillSoft Public Limited Company:

We have audited the accompanying consolidated balance sheets of SkillSoft Public Limited Company as of January 31, 2007, 2008 and 2009, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SkillSoft Public Limited Company at January 31, 2007, 2008 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts

March 30, 2009

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	2007	January 31, 2008 (In thousands)	2009
except share data)			
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 48,612	\$ 76,059	\$ 37,853
Short-term investments	55,505	13,525	1,099
Restricted cash	20,095	3,963	3,790
Accounts receivable, less reserves of approximately \$206, \$446 and \$391 as of January 31, 2007, 2008 and 2009, respectively	94,343	171,708	146,362
Prepaid expenses and other current assets	22,215	29,061	18,286
Deferred tax assets		13,476	26,444
<b>Total current assets</b>	<b>240,770</b>	<b>307,792</b>	<b>233,834</b>
Property and equipment, net	9,672	7,210	7,661
Intangible assets, net	2,638	29,887	13,472
Goodwill	83,171	256,196	238,550
Deferred tax assets	159	87,866	78,223
Other assets	2,962	7,730	3,360
<b>Total assets</b>	<b>\$ 342,970</b>	<b>\$ 696,681</b>	<b>\$ 575,100</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Current maturities of long term debt	\$	\$ 2,000	\$ 1,253
Accounts payable	3,327	2,139	5,648
Accrued compensation	17,870	24,577	13,513
Accrued expenses	35,427	29,507	23,760
Deferred revenue	146,012	219,161	201,518
<b>Total current liabilities</b>	<b>202,636</b>	<b>277,384</b>	<b>245,692</b>
Long-term debt		197,000	122,131
Other long-term liabilities	2,405	9,209	3,221
<b>Total long-term liabilities</b>	<b>2,405</b>	<b>206,209</b>	<b>125,352</b>
Commitments and contingencies (Note 8)			
Shareholders' equity:			
Ordinary shares, 0.11 par value: 250,000,000 shares authorized; 109,255,366, 111,663,813 and 98,892,249 shares issued at January 31, 2007, 2008 and 2009, respectively	12,039	12,397	10,600
Additional paid-in capital	573,394	591,303	509,177
Treasury stock, at cost, 6,533,884, 6,533,884 and 830,802 ordinary shares at January 31, 2007, 2008 and 2009, respectively	(24,524)	(24,524)	(5,317)
Accumulated deficit	(421,661)	(361,663)	(310,874)
Accumulated other comprehensive (loss) income	(1,319)	(4,425)	470
<b>Total shareholders' equity</b>	<b>137,929</b>	<b>213,088</b>	<b>204,056</b>

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Total liabilities and shareholders' equity	\$ 342,970	\$ 696,681	\$ 575,100
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended January 31,		
	2007	2008	2009
	(In thousands, except per share data)		
Revenues	\$ 225,172	281,223	\$ 328,494
Cost of revenues(1)	26,601	32,637	35,992
Cost of revenues amortization of intangible assets	4,422	5,423	5,203
Gross profit	194,149	243,163	287,299
Operating expenses:			
Research and development(1)	40,776	49,612	49,540
Selling and marketing(1)	90,894	97,493	108,416
General and administrative(1)	27,735	34,630	36,774
Amortization of intangible assets	1,652	11,237	11,212
Merger and integration related expenses		12,283	761
Restructuring	26	34	1,523
SEC investigation	898	1,346	49
Total operating expenses	161,981	206,635	208,275
Operating income	32,168	36,528	79,024
Other income (expense), net	(96)	295	1,480
Interest income	4,310	3,948	1,550
Interest expense	(278)	(12,630)	(14,218)
Income before provision (benefit) for income taxes from continuing operations	36,104	28,141	67,836
Provision (benefit) for income taxes	11,951	(31,587)	18,959
Income from continuing operations	24,153	59,728	48,877
Income from discontinued operations, net of income taxes(2)		270	1,912
Net income	\$ 24,153	\$ 59,998	\$ 50,789
Net income per share (Note 2 (e)):			
Basic continuing operations	\$ 0.24	\$ 0.57	\$ 0.47
Basic discontinued operations	\$	\$ 0.00	\$ 0.02
	\$ 0.24	\$ 0.57	\$ 0.49
Basic weighted average common shares outstanding	101,698	104,391	103,870
Diluted continuing operations	\$ 0.23	\$ 0.55	\$ 0.46
Diluted discontinued operations	\$	\$ 0.00	\$ 0.02
	\$ 0.23	\$ 0.55	\$ 0.47
Diluted weighted average common shares outstanding	104,240	108,289	107,034



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Does not add due to rounding.

- (1) The following summarizes the allocation of stock-based compensation (in thousands):

	2007	2008	2009
Cost of revenues	\$ 90	\$ 203	\$ 225
Research and development	952	958	926
Selling and marketing	1,883	1,911	1,977
General and administrative	2,134	2,879	3,004

- (2) Discontinued operations (in thousands):

Income tax expense:	\$	\$ 181	\$ 1,281
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The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

(In thousands except number of shares)

	Ordinary Shares Number of Shares	0.11 Par Value	Additional Paid-In Capital	Treasury Stock Number of Shares	Cost	Accumulated Deficit	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholder Equity	Total Comprehensive Income
<b>BALANCE, JANUARY 31, 2006</b>	107,344,243	\$ 11,773	\$ 562,052	6,533,884	\$ (24,524)	\$ (445,814)	\$ (465)	\$ (750)	\$ 102,272	
Exercise of stock options	1,288,128	182	5,178						5,360	
Issuance of ordinary shares under employee stock purchase plan	622,995	84	1,570						1,654	
Stock-based compensation			5,059						5,059	
Reclassification of deferred compensation			(465)				465			
Unrealized gains on marketable securities, net of tax of \$0								82	82	82
Translation adjustment								(651)	(651)	(651)
Net income						24,153			24,153	24,153
Comprehensive income for the year ended January 31, 2007										\$ 23,584
<b>BALANCE, JANUARY 31, 2007</b>	109,255,366	\$ 12,039	\$ 573,394	6,533,884	\$ (24,524)	\$ (421,661)		\$ (1,319)	\$ 137,929	
Exercise of stock options	1,928,374	287	8,833						9,120	
Issuance of ordinary shares under employee stock purchase plan	480,073	71	2,712						2,783	
Stock-based compensation			5,951						5,951	
Tax benefit from non-qualified stock options			413						413	
Unrealized loss on marketable securities, net of tax of \$0								(45)	(45)	(45)
Unrealized loss on financial derivatives, net of tax effect of \$1,387								(2,080)	(2,080)	(2,080)
Translation adjustment								(981)	(981)	(981)
Net income						59,998			59,998	59,998
Comprehensive income for the year ended January 31, 2008										\$ 56,892
<b>BALANCE, JANUARY 31, 2008</b>	111,663,813	\$ 12,397	\$ 591,303	6,533,884	\$ (24,524)	\$ (361,663)		\$ (4,425)	\$ 213,088	

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Exercise of stock options	3,653,650	613	15,842					16,455
Issuance of ordinary shares under employee stock purchase plan	375,183	64	2,999					3,063
Repurchase of ordinary shares				11,097,315	(91,860)			(91,860)
Retirement of ordinary shares	(16,800,397)	(2,474)	(108,593)	(16,800,397)	111,067			
Stock-based compensation			6,132					6,132
Tax benefit from non-qualified stock options			1,494					1,494
Unrealized loss on marketable securities, net of tax of \$0						(23)	(23)	(23)
Unrealized gain on financial derivatives, net of tax effect of (\$755)						1,132	1,132	1,132
Translation adjustment						3,786	3,786	3,786
Net income					50,789		50,789	50,789
Comprehensive income for the year ended January 31, 2009								\$ 55,684

**BALANCE,**  
**JANUARY 31, 2009**      98,892,249    \$ 10,600    \$ 509,177      830,802    \$ (5,317)    \$ (310,874)    \$            \$ 470    \$ 204,056

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

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	2007	Year Ended January 31, 2008 (In thousands)	2009
Cash flows from operating activities:			
Net income	\$ 24,153	\$ 59,998	\$ 50,789
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation	5,059	5,951	6,132
Depreciation and amortization	6,100	6,935	5,277
Amortization of intangible assets	6,074	16,660	16,415
(Recovery of) provision for bad debts	(589)	237	(130)
Provision (benefit) for income taxes non-cash	10,073	(33,958)	15,102
Gain on sale of discontinued operations			(3,386)
Non-cash interest expense		735	1,197
Realized loss on sale of assets, net		(58)	
Tax benefit related to exercise of non-qualified stock options		(413)	(1,494)
Discontinued operations		(1,357)	
Changes in current assets and liabilities, net of acquisitions:			
Accounts receivable	(7,033)	(43,261)	17,006
Prepaid expenses and other current assets	878	884	8,494
Accounts payable	(532)	(2,584)	3,446
Accrued expenses, including long-term	(1,839)	(33,101)	(14,271)
Deferred revenue	7,581	45,490	(6,890)
Net cash provided by operating activities	49,925	22,158	97,687
Cash flows from investing activities:			
Purchases of property and equipment	(5,519)	(2,968)	(5,748)
Cash paid for business acquisitions	(2,881)	(261,330)	(250)
Purchases of investments	(91,168)	(18,437)	(19,645)
Maturities of investments	53,585	63,928	32,137
(Deposit) release of restricted cash, net	(15,056)	16,138	173
Cash received from sale of discontinued operations			6,903
Net cash provided by (used in) investing activities	(61,039)	(202,669)	13,570
Cash flows from financing activities:			
Borrowings under long term debt, net of debt financing costs		194,133	
Exercise of stock options	5,360	9,120	16,455
Proceeds from employee stock purchase plan	1,654	2,783	3,063
Principal payment on long term debt		(1,000)	(75,616)
Acquisition of treasury stock			(91,860)
Tax benefit related to exercise of non-qualified stock options		413	1,494
Net cash provided by (used in) financing activities	7,014	205,449	(146,464)
Effect of exchange rate changes on cash and cash equivalents	775	2,509	(2,999)
Net (decrease) increase in cash and cash equivalents	(3,325)	27,447	(38,206)
Cash and cash equivalents, beginning of period	51,937	48,612	76,059
Cash and cash equivalents, end of period	\$ 48,612	\$ 76,059	\$ 37,853

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 279	\$ 10,308	\$ 13,252
Cash paid for income taxes	\$ 2,280	\$ 2,867	\$ 4,550

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

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Basis of Presentation**

SkillSoft PLC (the Company or SkillSoft) was incorporated in Ireland on August 8, 1989. The Company is a leading Software as a Service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps companies to maximize business performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is the surviving corporation in a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the SmartForce Merger). On May 14, 2007, the Company acquired NETg from The Thomson Corporation for approximately \$254.7 million in cash (see Note 3).

**(2) Summary of Significant Accounting Policies**

The accompanying consolidated financial statements reflect the application of certain significant accounting policies, as described in this note and elsewhere in these notes.

***(a) Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

***(b) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from management's estimates if past experience or other assumptions do not turn out to be substantially accurate.

***(c) Revenue Recognition***

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

The Company follows the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9 as well as Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and SEC Staff Accounting Bulletin No. 104 (SAB No. 104), *Revenue Recognition* to account for revenue derived pursuant to license agreements under which customers license the Company's products and services. The pricing for the Company's courses varies based upon the content offering selected by a customer, the number of users within the customer's organization and the term of the license agreement (generally one, two or three years). License agreements permit customers to exchange course titles, generally on the contract anniversary date. Hosting services, are sold separately for an additional fee. A license can provide customers access to a range of learning products including courseware, Referenceware®, simulations, mentoring and prescriptive assessment.

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company offers discounts from its ordinary pricing, and purchasers of licenses for a larger number of courses, larger user bases or longer periods of time generally receive discounts. Generally, customers may amend their license agreements, for an additional fee, to gain access to additional courses or product lines and/or to increase the size of the user base. The Company also derives revenue from hosting fees for clients that use its solutions on an ASP basis and from the provision of professional services. In selected circumstances, the Company derives revenue on a pay-for-use basis under which some customers are charged based on the number of courses accessed by users.

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

The Company also derives revenue from extranet hosting/ASP services which is recognized on a straight-line basis over the period the services are provided. Upfront fees are recorded as revenue over the contract period.

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

The Company typically recognizes revenue from resellers when both the sale to the end user has occurred and the collectibility of cash from the reseller is probable. With respect to reseller agreements with minimum commitments, the Company recognizes revenue related to the portion of the minimum commitment that exceeds the end user sales at the expiration of the commitment period provided the Company has received payment. If a definitive service period can be determined, revenue is recognized ratably over the term of the minimum commitment period, provided that payment has been received or collectibility is probable.

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

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

The Company records revenue net of applicable sales tax collected. Taxes collected from customers are recorded as part of accrued expenses on the balance sheet and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company records as deferred revenue amounts that have been billed in advance for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment in 90 days or less for resellers and 180 days or less for direct customers.

SkillSoft contracts often include an uptime guarantee for solutions hosted on the Company's servers whereby customers may be entitled to credits in the event of non-performance. The Company also retains the right to remedy any nonperformance event prior to issuance of any credit. Historically, the Company has not incurred substantial costs relating to this guarantee and the Company currently accrues for such costs as they are incurred. The Company reviews these costs on a regular basis as actual experience and other information becomes available; and should these costs become substantial, the Company would accrue an estimated exposure and consider the potential related effects of the timing of recording revenue on its license arrangements. The Company has not accrued any costs related to these warranties in the accompanying consolidated financial statements.

**(d) Deferred Commissions**

The Company employs an accounting policy consistent with guidance provided by the Financial Accounting Standards Board (FASB) Technical Bulletin 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* and SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, related to the concept of a direct and incremental relationship between revenue and expense. As such, the Company defers the recognition of commission expense until such time as the revenue related to the arrangement for which the commission was paid is recognized. Unamortized commission expense is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

**(e) Net Income Per Share**

Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*, requires two presentations of earnings per share, basic and diluted. Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued, calculated using the treasury stock method.

The reconciliation of basic and diluted shares is as follows (in thousands):

	<b>Year Ended January 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Basic weighted average shares outstanding	101,698	104,391	103,870
Effect of incremental diluted shares outstanding	2,542	3,898	3,164
Diluted weighted average common shares outstanding	104,240	108,289	107,034

Approximately 8.5 million, 8.7 million and 2.9 million shares have been excluded from the computation of diluted weighted average shares outstanding as of January 31, 2007, 2008 and 2009, respectively, as they would be anti-dilutive.



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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(f) Foreign Currency Translation***

Assets and liabilities of the Company's foreign subsidiaries are translated in accordance with SFAS No. 52, *Foreign Currency Translation*. The reporting currency for the Company is the U.S. dollar (dollar) and the functional currency of the Company's subsidiaries in the United States, Ireland, the United Kingdom, Canada, Germany, Australia, the Netherlands, France, New Zealand, Singapore and India are the currencies of those countries. The functional currency of the Company's subsidiaries in the Commonwealth of the Bahamas and the Grand Cayman is the U.S. dollar. In accordance with SFAS No. 52, assets and liabilities are translated to the U.S. dollar from the local functional currency at current exchange rates, and income and expense items are translated to the U.S. dollar using the average rates of exchange prevailing during the year. Gains and losses arising from translation are recorded in other comprehensive income (loss) as a separate component of shareholders' equity. Foreign currency gains or losses on transactions denominated in a currency other than an entity's functional currency are recorded in the results of the operations. Gains (losses) arising from transactions denominated in foreign currencies other than an entity's functional currency were approximately \$(0.4) million, \$(0.1) million and \$0.8 million for the years ended January 31, 2007, 2008 and 2009, respectively, and are included in other income (expense), net in the accompanying consolidated statements of income.

***(g) Cash, Cash Equivalents, Restricted Cash and Short-term Investments***

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At January 31, 2007, January 31, 2008 and January 31, 2009, cash equivalents consisted mainly of high-grade commercial paper and federal agency notes.

At January 31, 2009, the Company had approximately \$3.8 million of restricted cash of which approximately \$2.7 million is held voluntarily to defend named former executives and board members of SmartForce PLC for actions arising out of the SEC investigation and litigation related to the 2002 securities class action and approximately \$1.1 million is held in certificates of deposits with a commercial bank pursuant to terms of certain facilities lease agreements.

The Company accounts for certain investments in commercial paper, corporate debt securities and federal agency notes in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). Under SFAS No. 115, securities that the Company does not intend to hold to maturity or for trading purposes are reported at market value, and are classified as available for sale. At January 31, 2007, 2008 and 2009, the Company's investments were classified as available for sale and had an average maturity of approximately 135, 29 and 17 days, respectively.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Cash and cash equivalents and available for sale short-term investments as of January 31, 2007, 2008 and 2009, respectively, were as follows (in thousands):

**2007**

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Cash and cash equivalents:</b>					
Cash	N/A	\$ 32,776	\$	\$	\$ 32,776
Commercial paper	0-3 months	15,838		(2)	15,836
		\$ 48,614		(2)	\$ 48,612
<b>Short-term investments:</b>					
Publicly-traded equity securities	N/A	138	94		232
Commercial paper	4-12 months	11,829		(1)	11,828
Federal agency notes	4-12 months	3,495		(2)	3,493
Corporate debt securities	4-12 months	37,964		(12)	37,952
Certificates of deposit	4-12 months	2,000			2,000
		\$ 55,426	94	(15)	\$ 55,505

**2008**

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Cash and cash equivalents:</b>					
Cash	N/A	\$ 32,576	\$	\$	\$ 32,576
Commercial paper	0-3 months	16,680			16,680
Federal agency notes	0-3 months	26,800	3		26,803
		\$ 76,056	\$ 3	\$	\$ 76,059
<b>Short-term investments:</b>					
Commercial paper	4-12 months	7,396			7,396
Corporate debt securities	4-12 months	4,709	20		4,729
Certificates of deposit	4 months	1,400			1,400
		\$ 13,505	\$ 20	\$	\$ 13,525

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2009**

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:					
Cash	N/A	\$ 34,653	\$	\$	\$ 34,653
Commercial paper	0-3 months	2,199	1		2,200
Federal agency notes	2 months	1,000			1,000
		\$ 37,852	\$ 1	\$	\$ 37,853
Short-term investments:					
Commercial paper	4 months	1,099			1,099
		\$ 1,099	\$	\$	\$ 1,099

Realized gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are included in investment income. Gross realized gains totaled approximately \$32,000, \$107,000, and \$7,000 for the years ended January 31, 2007, 2008 and 2009, respectively. Gross realized losses for the years ended January 31, 2007, 2008 and 2009 were nominal. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in other income.

**(h) Property and Equipment**

The Company records property and equipment at cost. Depreciation and amortization is charged to operations based on the cost of property and equipment over their respective estimated useful lives on a straight-line basis using the half year convention, as follows:

	Estimated Useful Lives
Computer equipment	2-3 years
Furniture and fixtures	5 years
Leasehold improvements	Lesser of estimated useful life or life of lease

Expenditures for maintenance and repairs are expensed as incurred. Expenditures for renewals or betterments are capitalized.

**(i) Research and Development Expenses**

The Company expenses all research and development costs, which include course content development fees, to operations as incurred, except for costs of internally developed or externally purchased software that qualify for capitalization under SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed* (SFAS No. 86). SFAS No. 86 requires the capitalization of certain computer software development costs incurred after technological feasibility is established. Given the Company's operations, once technological feasibility of a software product has been established, the additional development costs incurred to bring the product to a commercially acceptable level has not been and is not expected to be significant. No software development costs incurred during fiscal 2007, 2008 and 2009 met the requirements for capitalization in accordance with SFAS No. 86, however developed courseware was added through the acquisition of NETg.



**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Capitalized software development costs (including acquired software development costs), net of accumulated amortization, were approximately \$0.4 million, \$5.5 million and \$0.3 million as of January 31, 2007, 2008 and 2009, respectively. The Company recognized approximately \$4.4 million, \$5.4 million and \$5.2 million of amortization expense related to capitalized software development costs in the fiscal years ended January 31, 2007, 2008 and 2009, respectively.

The Company enters into agreements with content providers for published content, the Company's policy is to expense these costs to research and development upon receipt of content.

***(j) Other Comprehensive Income***

SFAS No. 130, *Reporting Comprehensive Income* (SFAS No. 130) requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions, other events and circumstances from non-owner sources. The components of accumulated comprehensive income (loss) as of January 31, 2007, 2008 and 2009 are as follows (in thousands):

	Year Ended January 31,		
	2007	2008	2009
Unrealized holdings gains	\$ 67	\$ 23	\$
Change in fair value of interest rate hedge, net of tax		(2,080)	(948)
Foreign currency adjustment	(1,386)	(2,368)	1,418
Total accumulated other comprehensive income (loss)	\$ (1,319)	\$ (4,425)	\$ 470

***(k) Fair Value of Financial Instruments***

Financial instruments consist mainly of cash and cash equivalents, derivative financial instrument contracts, investments, restricted cash, accounts receivable and debt. The Company determines fair value for short-term investments based on quoted market values. The carrying amount of accounts receivable is net of an allowance for doubtful accounts, which is based on historical collections and known credit risks. The Company believes the fair value of its variable rate debt approximates its carrying value based on comparable market terms and conditions.

In connection with the acquisition of NETg, the Company entered into an interest rate swap contract that is carried at fair value related to debt assumed in connection with the acquisition.

See Note 11 for further discussion.

***(l) Deferred Financing Costs***

The Company amortizes deferred debt financing costs as interest expense over the terms of the underlying obligations using the effective interest method.

***(m) Derivative Financial Instruments***

The Company recognizes all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge,



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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company classifies cash inflows and outflows from derivatives within net income on the statement of cash flows.

The Company's objective for utilizing derivative instruments is to reduce its exposure to fluctuations in cash flows due to changes in the variable interest rates of certain borrowings issued under its credit facility. The Company's strategy to achieve that objective involves entering into interest rate swaps that are specifically designated to certain variable rate instruments and accounted for as cash flow hedges.

All the interest rate swap agreements are considered highly effective as cash flow hedges for a portion of the Company's variable rate debt, and the Company applies hedge accounting to account for these instruments. The notional amounts and all other significant terms of the swap agreements are matched to the provisions and terms of the variable rate debt being hedged.

See Note 11 for further discussion.

***(n) Concentrations of Credit Risk and Off-Balance-Sheet Risk***

For the years ended and as of January 31, 2007, 2008 and 2009, no customer individually comprised greater than 10% of total revenue or accounts receivable.

The Company performs continuing credit evaluations of its customers' financial condition and generally does not require collateral.

The Company maintains a reserve for an allowance for doubtful accounts and sales credits that is the Company's best estimate of potentially uncollectible trade receivables. Provisions are made based upon a specific review of all significant outstanding invoices that are considered potentially uncollectible in whole or in part. For those invoices not specifically reviewed or considered uncollectible, provisions are provided at different rates, based upon the age of the receivable, historical experience, and other currently available evidence. The reserve estimates are adjusted as additional information becomes known or payments are made.

The Company has no significant off-balance-sheet arrangements nor concentration of credit risks such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

The Company's cash, cash equivalents and investments are subject to the guidelines of the Company's investment policy. The primary objective of the policy with regard to the Company's portfolio is to provide with minimal risk as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity. Approved Instruments include U.S. Government and Agency securities as well as fixed income instruments rated AAA, A1/P1 or better.

***(o) Amortization and Impairment of Goodwill and Intangible Assets***

The Company records intangible assets at cost and amortizes its finite-lived intangible assets including customer contracts and internally developed software. The Company reviews intangible assets subject to amortization at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in remaining useful life. Conditions that would indicate an

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

impairment and trigger a more frequent impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset, or an adverse action or assessment by a regulator. In addition, the Company reviews its indefinite-lived intangible assets at least annually for impairment and reassesses their classification as indefinite-lived assets.

The Company tests goodwill during the fourth quarter of each year for impairment, or more frequently if certain indicators are present or changes in circumstances suggest that an impairment may exist. When conducting its annual goodwill impairment test, the Company utilizes the two-step approach prescribed under SFAS No. 142, *Goodwill and Other Intangible Assets*.

The Company performed its annual impairment review during the fourth quarter of fiscal 2009 and determined that there was no impairment of goodwill.

***(p) Restructuring Charges***

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

***(q) Merger and Integration Related Costs***

Certain former NETg employees continued employment during a transition period and certain former NETg facilities to be vacated were used as the Company transitioned operations to other locations. These costs were expensed as incurred and included in merger and integration related expenses in the accompanying statements of income.

***(r) Business Combinations***

The Company records tangible and intangible assets acquired and liabilities assumed in recent business combinations under the purchase method of accounting. Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the dates of acquisition. The Company then allocates the purchase price in excess of net tangible assets acquired to identifiable intangible assets based on detailed valuations that use information and assumptions provided by management. Excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities is recorded as goodwill.

Significant management judgments and assumptions are required in determining the fair value of acquired assets and liabilities, particularly acquired intangible assets. The valuation of purchased intangible assets is based upon estimates of the future performance and cash flows from the acquired business. The Company uses the income approach to determine the estimated fair value of certain other identifiable intangible assets including developed technology, customer relationships and tradenames. This approach determines fair value by estimating the after-tax cash flows attributable to an identified asset over its useful life and then discounting these after-tax cash flows back to a present value. Developed technology represents patented and unpatented technology and know-how. Customer contracts and relationships represent established relationships with customers, which



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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

provides a ready channel for the sale of additional content and services. Tradenames represent acquired product names that the Company intends to continue to utilize.

***(s) Advertising Costs***

Costs incurred for production and communication of advertising initiatives are expensed when incurred. Advertising expenses amounted to approximately \$0.4 million, \$0.8 million, and \$0.6 million for the fiscal years ended January 31, 2007, 2008 and 2009, respectively.

***(t) Accounting for Share-Based Compensation***

The Company has several share-based compensation plans under which employees, officers, directors and consultants may be granted options to purchase the Company's ordinary shares, generally at the market price on the date of grant.

The Company accounts for share-based compensation expense in accordance with SFAS No. 123(R), *Accounting for Stock-Based Compensation* (SFAS 123(R)). Under SFAS 123(R), share-based compensation expense reflects the fair value of share-based awards measured at the grant date and recognized over the relevant service period. The Company uses the Black-Scholes option pricing model to estimate the fair value of share option grants. The Black-Scholes option pricing model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. The Company recognizes share-based compensation expense on a straight-line basis over the service period of the award, which is generally four years.

***(u) Recent Accounting Pronouncements***

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for the Company in fiscal 2010, with early adoption prohibited. Adoption of SFAS No. 160 is not expected to have a material impact on the Company's financial position or results of operations when it becomes effective.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 applies to all derivative

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142's entity-specific factors. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2009. Adoption of this statement is not expected to have a material impact on the Company's consolidated financial statements when it becomes effective.

In May 2008, the FASB issued SFAS No. 162 *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the U.S. SFAS 162 is effective 60 days following the SEC approval of Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not anticipate that SFAS 162 will have a material impact on the Company's financial statements.

**(v) *Income Taxes***

The Company accounts for income taxes under SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, which clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statement in accordance with SFAS No. 109.

FIN No. 48 requires that a tax position must be more likely than not to be sustained before being recognized in the financial statements. The interpretation also requires the accrual of interest and penalties as applicable on unrecognized tax positions. The Company adopted the provisions of FIN 48 on February 1, 2007.

**(w) *Prior Year Financial Statement Reclassifications***

Certain reclassifications have been made to the prior year consolidated financial statements to conform with current year presentation.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(3) Acquisitions*****Fiscal 2008 Transactions:******(a) NETg***

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

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

In addition, the Company paid direct transaction costs related to this acquisition of \$7.3 million. The Company paid the purchase price in cash, which was financed through available cash balances and bank financing of approximately \$200 million. The components of the consideration paid are as follows (in thousands):

Cash paid	\$ 254,737
Transaction cost incurred	7,288
<b>Total purchase price</b>	<b>\$ 262,025</b>

The final allocation of the total purchase price of NETg's assets acquired and net tangible and identifiable intangible assets as of January 31, 2009 is as follows (in thousands):

	<b>Total</b>
Current assets	\$ 37,869
Deferred tax asset	10,194
Property and equipment	1,470
Goodwill	225,654
Amortizable intangible assets	43,050
Current liabilities*	(30,727)
Deferred revenue	(25,485)
<b>Total</b>	<b>\$ 262,025</b>

\* Includes exit costs of \$12.5 million.

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Adjustments made to our preliminary purchase price allocation as of May 14, 2007 primarily consisted of changes in estimates and post closing purchase price adjustments.

Intangible assets and their estimated useful lives consist of the following (in thousands):

Description	Ascribed Fair Value	Life	Accumulated Amortization as of January 31, 2009	Net Book Value as of January 31, 2009
Non-compete agreement	\$ 6,900	2.5 years	\$ (4,830)	\$ 2,070
Trademark/tradename	2,700	2 years	(2,363)	337
Developed software/courseware	9,950	1.5 years	(9,950)	
Customer contractual relationships	1,000	1 year	(1,000)	
Customer non-contractual relationships	22,500	4 years	(12,700)	9,800
	\$ 43,050		\$ (30,843)	\$ 12,207

Intangible assets are amortized over a weighted average life of 36 months.

The non-compete agreement, trademark/tradename and customer relationships were valued using the income approach and the developed software/courseware was valued using the cost approach. Values and useful lives assigned to intangible assets were determined using management's estimates. Acquired intangible assets are reviewed for impairment upon the occurrence of any events or changes in circumstances that indicate the carrying amount of an asset may not be recoverable. The useful life of each intangible asset is evaluated for each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life.

Goodwill represents the excess of the purchase price over the net identifiable tangible and intangible assets acquired. The Company determined that the acquisition of NETg resulted in the recognition of goodwill primarily because the acquisition is expected to help SkillSoft reach critical mass and shorten its timeframe to approach its long term operating profitability objectives through incremental scalability and significant cost synergies. The goodwill recorded as a result of this acquisition is expected to be deductible for tax purposes.

Goodwill is subject to review for impairment annually and when there are any interim indicators of impairment. The Company performs its goodwill impairment tests as of November 1st each year.

The Company assumed certain liabilities in the acquisition including deferred revenue that was ascribed a fair value of \$25.5 million using a cost-plus profit approach in accordance with EITF No. 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. The Company amortized deferred revenue over the average remaining term of the contracts, which reflects the estimated period to satisfy these customer obligations. In allocating the purchase price, the Company recorded an adjustment to reduce the carrying value of NETg's deferred revenue by \$22.2 million, which was fully amortized as of January 31, 2009.

In connection with the acquisition, the Company's management approved and initiated plans to integrate NETg into its operations and to eliminate redundant facilities and headcount, reduce cost structure and better align operating expenses with existing economic conditions, business requirements and the Company's operating model. In accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (EITF No. 95-3) the Company has accrued for certain liabilities incurred directly related

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

to the NETg acquisition and accounted for those in the allocation of the purchase price. The items accounted for in accordance with EITF Issue No. 95-3 primarily relate to severance related costs incurred in association with workforce reductions and totaled approximately \$8.9 million for employee separation costs for approximately 360 employees. The Company also estimated a liability of \$1.8 million representing the estimated fair value of abandoned lease obligations. The Company estimated a liability of \$0.2 million and \$0.5 million for NETg content re-branding and legal and outplacement services, respectively. All amounts accrued under EITF No. 95-3 in relation to the NETg acquisition were paid as of January 31, 2009.

**SUPPLEMENTAL PRO-FORMA INFORMATION (UNAUDITED)**

The Company has concluded that the NETg acquisition represents a material business combination. The following unaudited pro forma information presents the consolidated results of operations of the Company and NETg as if the acquisition had occurred on February 1, 2007, with pro forma adjustments to give effect to amortization of intangible assets, an increase in interest expense on acquisition financing and certain other adjustments (in thousands, except per share data):

	<b>Year Ended January 31,</b>	
	<b>2007</b>	<b>2008</b>
Revenue	\$ 284,162	\$ 343,723
Net income	(44,962)	15,497
Net income per share basic	\$ (0.44)	\$ 0.15
Net income per share diluted	\$ (0.44)	\$ 0.14

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

*(b) Targeted Learning Corporation*

On February 9, 2007, the Company acquired the assets of Targeted Learning Corporation (TLC), an on-line video library business, for approximately \$4.6 million in cash plus liabilities assumed of \$0.8 million. The acquisition resulted in tangible assets acquired of approximately \$1.0 million and an allocation of the purchase price to goodwill and identified intangible assets of \$3.3 million and \$0.9 million, respectively. The acquisition of TLC was accounted for as a business combination under SFAS No. 141, *Business Combinations* using the purchase method. Accordingly, the results of TLC have been included in the Company's consolidated financial statements since the date of acquisition.

As part of the purchase price allocation, all intangible assets that were a part of the acquisition were identified and valued. It was determined that only contractual customer relationships, trade name and developed software had separately identifiable values.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible assets and their estimated useful lives consist of the following (in thousands):

Description	Ascribed Fair Value	Life	Accumulated Amortization as of January 31, 2009	Net Book Value as of January 31, 2009
Trademark/tradename	\$ 20	2 years	\$ (20)	\$
Developed software/courseware	510	4 years	(255)	255
Customer contractual relationships	330	3 years	(220)	110
	\$ 860		\$ (495)	\$ 365

Values and useful lives assigned to intangible assets were determined using management's estimates. The Company concluded that the acquisition of TLC does not represent a material business combination and therefore no pro forma financial information has been provided herein.

Goodwill represents the excess of the purchase price over the net identifiable tangible and intangible assets acquired. The Company determined that the acquisition of TLC resulted in the recognition of goodwill primarily because the acquisition provided new offerings that fit the Company's business model and can be effectively sold within the Company's existing customers base. The goodwill recorded as a result of this acquisition is expected to be deductible for tax purposes.

The following table reflects supplemental cash flow investing activities related to the acquisitions of TLC and NETg (in thousands):

<b>Business Acquisitions, Net of Cash Acquired:</b>	
Fair value of tangible assets acquired	\$ 50,553
Liabilities assumed	(57,050)
Cost in excess of fair value (goodwill)	229,229
Fair value of acquired identifiable intangible assets	43,910
	\$ 266,642
Less cash acquired	2,181
Net cash paid for acquisitions*	\$ 264,461

\* Includes \$2.9 million and \$0.3 million paid for acquisition costs in the fiscal year ended January 31, 2007 and 2009, respectively.

**(4) Special Charges****(a) Merger and Exit Costs Recognized as Liabilities in Purchase Accounting**

In connection with the closing of the NETg acquisition on May 14, 2007 (the Acquisition), the Company's management effected a merger integration effort to eliminate redundant facilities and employees and reduce the overall cost structure of the acquired business to better align the Company's operating expenses with existing economic conditions, business requirements and the Company's operating model.



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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Pursuant to this restructuring, the Company recorded \$12.5 million of costs related to severance and related benefits, costs to vacate leased facilities and other pre-Acquisition liabilities. These costs were accounted for under EITF No. 95-3, *Recognition of Liabilities in Connection with Purchase Business Combinations* (EITF No. 95-3). These costs, which were recognized as a liability assumed in the purchase business combination, were included in the allocation of the purchase price.

The reductions in employee headcount totaled approximately 360 employees from the administrative, sales, marketing and development functions, and amounted to a liability of approximately \$8.9 million, which was paid against the exit plan accrual through January 31, 2009.

In connection with the exit plan, the Company abandoned certain leased facilities resulting in a facilities consolidation liability of \$1.8 million, which was paid as of January 31, 2009, consisting of lease termination costs, broker commissions and other facility costs. As part of the plan, two sites were vacated. The fair value of the lease termination costs was calculated with certain assumptions related to the Company's estimated cost recovery efforts from subleasing vacated space, including (i) the time period over which the property will remain vacant, (ii) the sublease terms and (iii) the sublease rates.

In connection with the SmartForce Merger, the Company's management effected a restructuring to eliminate redundant facilities and headcount, reduce the cost structure of the business and better align the Company's operating expenses with existing economic conditions. Pursuant to this restructuring, the Company recorded \$30.3 million of costs in 2002 relating to exiting activities of pre-Merger SmartForce PLC such as severance and related benefits, costs to vacate leased facilities and other pre-Merger liabilities. These costs were accounted for under EITF No. 95-3. These costs, which were recognized as a liability assumed in the purchase business combination, were included in the allocation of the purchase price and increased goodwill.

The reductions in employee headcount totaled approximately 632 employees from the administrative, sales, marketing and development functions, and amounted to a liability of approximately \$14.5 million in 2002. This liability was paid out against the exit plan accrual through January 31, 2009.

In connection with the exit plan, the Company abandoned or downsized certain leased facilities resulting in a facilities consolidation liability of \$12.7 million as of January 31, 2003, consisting of sublease losses, broker commissions and other facility costs. As part of the plan, 11 sites were vacated and 4 sites were downsized. To determine the sublease loss, which is the loss after the Company's estimated cost recovery efforts from subleasing vacated space, certain assumptions were made related to the (1) time period over which the property will remain vacant, (2) sublease terms and (3) sublease rates. The lease loss is an estimate under SFAS No. 5 *Accounting for Contingencies* (SFAS No. 5). In the year ended January 31, 2004, the Company revised certain of its estimates made in connection with the original purchase price pertaining to unoccupied facilities under lease as a result of the SmartForce Merger. This adjustment to the exit plan accrual fell within the one year purchase price allocation period prescribed by SFAS No. 141 *Business Combinations* (SFAS No. 141). In the fiscal years ended January 31, 2006 and 2007, the Company again revised certain of its estimates made in connection with the original purchase price pertaining to unoccupied facilities under lease as a result of the SmartForce Merger. This adjustment to the exit accrual fell outside the one year purchase price allocation period and was charged to restructuring and is included in the statement of operations. The net present value of the obligation under this exit plan, as adjusted, was approximately \$15.3 million, of which \$1.6 million remains.



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Activity in the Company's merger and exit costs and long-term liabilities related to the NETg acquisition and the SmartForce Merger, was as follows (in thousands):

	Employee Severance and Related Costs	Closedown of Facilities	Other	Total
Merger and exit accrual, January 31, 2006	\$ 1,186	\$ 3,457	\$ 169	\$ 4,812
Payments made during the year ended January 31, 2007	(308)	(1,288)	(48)	(1,644)
Reversal without utilization to accrual during the year ended January 31, 2007		(68)		(68)
Adjustments to accrual during the year ended January 31, 2007		177		177
Merger and exit accrual January 31, 2007	\$ 878	\$ 2,278	\$ 121	\$ 3,277
Payments made during the year	(7,993)	(1,282)	(328)	(9,603)
Adjustment to provision for merger and exit costs in connection with the acquisition of NETg	8,761	1,957	1,753	12,471
Adjustment to provision for merger and exit costs in connection with the SmartForce merger		271	(176)	95
Merger and exit accrual January 31, 2008	\$ 1,646	\$ 3,224	\$ 1,370	\$ 6,240
Payments made during the year	\$ (959)	\$ (1,851)	\$ (207)	\$ (3,017)
Adjustment to provision for merger and exit costs in connection with the acquisition of NETg	212	(45)	(1,086)	(919)
Adjustment to provision for merger and exit costs in connection with the SmartForce merger	(899)	266		(633)
Merger and exit accrual January 31, 2009	\$	\$ 1,594	\$ 77	\$ 1,671
Long-term obligation	\$	\$ 1,189	\$	\$ 1,189
Current obligation	\$	\$ 405	\$ 77	\$ 482

Other merger accruals primarily include payments under operating equipment leases, content rebranding and legal costs.

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

Year Ended January 31, 2010	\$ 482
Year Ended January 31, 2011	1,189
<b>Total</b>	<b>\$ 1,671</b>

**(b) Discontinued Operations**

In connection with the NETg acquisition, the Company discontinued four businesses acquired from NETg because the Company believed those product offerings did not represent areas that could grow in a manner consistent with the Company's operating model or be consistent with the

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Company's profit model or strategic initiatives. The businesses that were identified as discontinued operations were Financial Campus, NETg Press, Interact Now and Wave.

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*NETg Press*

On October 26, 2007, the Company entered into an Asset Purchase Agreement pursuant to which it agreed to sell to AXZO Press LLC the NETg Press assets. The Company classified the NETg Press business as discontinued operations in the second quarter of fiscal 2008. The Company received a note receivable for the sales price, subject to discounts for pre-payment. The note receivable was valued at \$3.5 million at the time of divestiture, reflecting uncertainty relating to the buyer's ability to repay the note in full in accordance with its terms.

Since the NETg Press operations were acquired through the acquisition of NETg, its carrying value was adjusted to its fair value. When NETg Press was classified as held for sale, the assets and liabilities were recorded at fair value less costs to sell the business. At the time of the agreement with AXZO Press, the fair value of these assets and liabilities were adjusted to equal expected proceeds from the sale of the business. This refinement to the fair value estimate was recorded as a purchase accounting adjustment to goodwill and therefore no gain or loss was recorded in the operations for the period ended January 31, 2008.

The continuing cash flows were attributable to payments toward the note receivable and potential inventory reseller revenue cash flows. Based upon the Company's assessment of the criteria in SFAS No. 144 and EITF No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations* (EITF No. 03-13), the Company concluded that continuing involvement with the disposed component does not constitute significant continuing involvement.

In the second quarter of fiscal 2009, the note receivable was paid in full, resulting in a pre-tax gain of \$3.4 million, representing amounts received in excess of the carrying value of the note receivable at that time.

*Financial Campus*

On August 21, 2007, the Company entered into an Asset Purchase Agreement pursuant to which it agreed to sell to SmartPros, LTD, the Financial Campus assets. The Company classified the Financial Campus business as discontinued operations in the second quarter of fiscal 2008. The closing of the sale of the Financial Campus assets occurred on August 21, 2007, resulting in nominal cash proceeds and potential earnout payments for three years from the date of the sale based on SmartPros' gross revenue from the Financial Campus business line. Due to the purchase price being contingent and not fixed or currently determinable, future payments were not considered in calculating the gain on the sale of these assets.

The continuing cash flows are attributable to customer contracts retained by the Company and potential earn out payments for three years from the date of the sale. Based upon the Company's assessment of the criteria in SFAS No. 144 and EITF No. 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations* (EITF No. 03-13), the Company concluded that these cash flows are not direct cash flows of the disposed component and continuing involvement with the disposed component does not constitute significant continuing involvement.

As of January 31, 2009, the Company has not received any additional cash proceeds from the sale of Financial Campus. If the Company receives any future earnout payments they will be classified as gain from discontinued operations.

*Interact Now*

The Company determined it would not be feasible to sell the Interact Now business line and the Company abandoned that business.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Wave*

The Company exited the Wave business in October 2007. There are no continuing incoming or outgoing cash flows following the period in which the Company exited this business.

The summarized discontinued operations results for the fiscal years ended January 31, 2008 and 2009 are as follows (in thousands):

	<b>Year Ended January 31,</b>	
	<b>2008</b>	<b>2009</b>
Revenue from discontinued operations	\$ 7,226	\$ 172
Income from discontinued operations before income tax	451	3,193
Income tax provision	181	1,281
 Income from discontinued operations	 \$ 270	 \$ 1,912

The income from discontinued operations before income tax for the fiscal year ended January 31, 2009 primarily consists of a \$3.4 million gain resulting from proceeds received during the second quarter of fiscal 2009 from the Company's sale of the assets related to the NETg Press business in October 2007, offset by a \$0.2 million loss from discontinued operations.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(c) Restructuring**

On January 19, 2009, the Company committed to a reduction in force with respect to approximately 120 employees in the U.S., Ireland and the United Kingdom. The decision was based on a review of various cost savings initiatives undertaken in connection with the development of the Company's budget and operating plan for fiscal 2010. The Company recorded a \$1.5 million restructuring charge for the fiscal year ended January 31, 2009, which is included in the statement of income as restructuring. Substantially all of this charge represents the severance cost of terminated employees.

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

	<b>Employee Severance and Related Costs</b>	<b>Contractual Obligations</b>	<b>Total</b>
Total restructuring accrual as of January 31, 2006	\$	\$ 1,987	\$ 1,987
Payments and write downs made during the year ended January 31, 2007		(415)	(415)
Restructuring charge for year ended January 31, 2007	88	(239)	(151)
Total restructuring accrual as of January 31, 2007	88	1,333	1,421
Payments and write downs made during the year ended January 31, 2008	(122)	(372)	(494)
Restructuring charge for year ended January 31, 2008	34		34
Total restructuring accrual as of January 31, 2008	\$	\$ 961	\$ 961
Long-term obligation	\$	\$	\$
Current obligation	\$	\$ 961	\$ 961

	<b>Employee Severance and Related Costs</b>	<b>Contractual Obligations</b>	<b>Total</b>
Total restructuring accrual as of January 31, 2007	\$ 88	\$ 1,333	\$ 1,421
Payments and write downs made during the year	(122)	(372)	(494)
Restructuring provision	34		34
Total restructuring accrual as of January 31, 2008		961	961
Restructuring provision	1,523		1,523
Payments and write downs made during the year	(411)	(961)	(1,372)
Total restructuring accrual as of January 31, 2009	\$ 1,112	\$	\$ 1,112
Long-term obligation	\$	\$	\$
Current obligation	\$ 1,112	\$	\$ 1,112



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The net restructuring charges for the fiscal years ended January 31, 2007, 2008 and 2009 would have been allocated as follows had the Company recorded the expense and adjustments within the functional department of the restructured activities (in thousands):

	Year Ended January 31,		
	2007	2008	2009
Cost of revenues	\$	\$	\$ 138
Research and development	(226)		645
Selling and marketing	53	34	535
General and administrative	22		205
Exit related restructure	177		
Total	\$ 26	\$ 34	\$ 1,523

The Company anticipates that the remainder of the restructuring accrual will be paid out in fiscal 2010.

**(5) Goodwill and Intangible Assets**

Intangible assets are as follows (in thousands):

	January 31, 2007			January 31, 2008			January 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internally developed software/courseware	\$ 28,257	\$ 27,836	\$ 421	\$ 38,717	\$ 33,259	\$ 5,458	\$ 38,717	\$ 38,462	\$ 255
Customer contracts	13,018	11,701	1,317	36,848	19,846	17,002	36,848	26,938	9,910
Non-compete				6,900	2,070	4,830	6,900	4,830	2,070
Trademarks and trade names	5	5		2,725	1,028	1,697	2,725	2,388	337
Books trademark	900		900	900		900	900		900
	42,180	39,542	2,638	\$ 86,090	\$ 56,203	\$ 29,887	\$ 86,090	\$ 72,618	\$ 13,472

Customer contracts are existing contracts that relate to underlying customer relationships pertaining to the services provided by the acquired company. The Company amortizes the fair value of customer contracts on an accelerated basis over their estimated useful lives ranging from 12 to 60 months with a weighted average estimated useful life of 51 months. Internally developed software/courseware relates to the Books24x7 platform, GoTrain Corp. content and platform, the SmartForce PLC content, the NETg content and costs incurred subsequent to technological feasibility and prior to general release for the development of SkillSoft Dialogue and SkillView capitalized under SFAS No. 86. Course content includes courses in both the business skills and information technology skills subject areas. All courseware is deployable via the Internet or corporate intranets. The Company amortizes internally developed or purchased software/courseware, including SkillSoft Dialogue

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and SkillView costs capitalized under SFAS No. 86, over their estimated useful lives ranging from 18 to 48 months with a weighted average useful life of 39 months. The non-compete agreement relates to terms stated in the NETg acquisition agreement and has an estimated useful life of 30 months. Trademarks and trade names relate to those acquired under the NETg and TLC acquisitions and have estimated useful lives of 24 months. The weighted average useful life for all intangible assets is 43 months.

Amortization expense related to the existing intangible assets is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
2010	\$ 8,245
2011	3,712
2012	615
Total	\$ 12,572

Trademarks of \$0.9 million relating to Books24X7 are considered indefinite-lived and accordingly no amortization expense is recorded.

Goodwill is as follows (in thousands):

Gross carrying amount of goodwill, January 31, 2007	\$ 83,171
Utilization of tax benefit	(54,561)
Acquisition of TLC	3,325
Acquisition of NETg	225,040
Other	(779)
Gross carrying amount of goodwill, January 31, 2008	256,196
Payment of contingent purchase price of Targeted Learning Corporation	250
Adjustments to allocation of purchase price for NETg acquisition	805
Utilization of acquired tax benefits	(18,701)
Gross carrying amount of goodwill, January 31, 2009	\$ 238,550

The change in goodwill at January 31, 2009 from the amount recorded at January 31, 2008 was due primarily to the release of a valuation allowance offsetting net operating loss carryforwards attributed to the Company's Ireland operations. The Company anticipates full utilization of these tax benefits. Partially offsetting the recognition of acquired tax benefits are adjustments to the allocation of purchase price for the acquisition of NETg from the Thomson Corporation on May 14, 2007.

**(6) Related Party Transactions**

In connection with the NETg acquisition, the Company paid a special bonus of \$0.5 million to one of the members of its Board of Directors for his assistance in negotiating and completing the transaction. This bonus payment is included in general and administrative expense in the accompanying statements of income for the fiscal year ended January 31, 2008.



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Income from continuing operations before provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended January 31,		
	2007	2008	2009
Ireland	\$ 1,526	\$ 6,236	\$ 8,128
United States	29,296	20,476	54,437
Rest of World	5,282	1,429	5,271
	\$ 36,104	\$ 28,141	\$ 67,836

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended January 31,		
	2007	2008	2009
Current:			
Ireland	\$	\$	\$
United States	3,158	2,966	4,884
Rest of World	832	580	1,323
	\$ 3,990	\$ 3,546	\$ 6,207
Deferred:			
Ireland	\$ 183	\$	\$ (5,095)
United States	7,778	(35,206)	17,816
Rest of World		73	31
	\$ 7,961	\$ (35,133)	\$ 12,752
Tax provision	\$ 11,951	\$ (31,587)	\$ 18,959

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Net deferred tax assets and liabilities consist of the following (in thousands):

	2007	January 31, 2008	2009
<b>Current:</b>			
Net operating loss carryforwards	\$ 18,037	\$ 11,473	\$ 24,417
Nondeductible expenses and reserves	3,387	2,261	1,395
Interest rate swap			632
	21,424	13,734	26,444
<b>Non-current:</b>			
Net operating loss carryforwards	\$ 95,957	\$ 95,302	\$ 56,132
Tax credits	6,823	2,459	3,932
Intangibles	(1,018)	8,884	12,596
FAS123 (R) compensation	1,762	4,143	4,890
Nondeductible expenses and reserves		4,791	673
Interest rate swap		1,386	
	103,524	116,965	78,223
<b>Total current and non-current</b>			
	124,948	130,699	104,667
Less valuation allowance			
	(124,789)	(29,357)	
		\$ 101,342	\$ 104,667

***Deferred Taxes***

Under SFAS No. 109 *Accounting for Income Taxes*, the Company recognizes a net deferred tax asset for future benefit of tax loss and tax credit carryforwards to the extent that it is more likely than not that these assets will be realized. In evaluating the Company's ability to recover these deferred tax assets, the Company considers all available positive and negative evidence, including its past operating results, the existence of cumulative income in the most recent years, changes in the business, its forecast of future taxable income and the availability of tax planning strategies. In determining future taxable income, the Company is responsible for assumptions utilized including the amount of pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. Based on results of operations for the fiscal years ended January 31, 2007, 2008 and 2009 and anticipated future profit levels, the Company believes that its deferred tax assets relating to its net operating loss carryforwards are more likely than not to be realized. Accordingly, in the fiscal year ended January 31, 2008 and 2009, the Company reversed approximately \$95.9 million and \$23.1 million, respectively of valuation allowance on net operating loss carryforwards and other net deferred tax assets, which will more likely than not be realized in future periods. In fiscal 2008, the Company recognized the benefits of (i) \$99.3 million of net operating loss carryforwards and other net deferred tax assets attributed to the Company's U.S. operations, resulting in a \$41.4 million reduction to the provision for income taxes and (ii) \$148.4 million of net operating loss carryforwards acquired in the SmartForce merger and the purchase of Books24x7, resulting in a \$54.5 million reduction to goodwill. In fiscal 2009, the Company recognized the benefits of (i) \$40.4 million of net operating loss carryforwards attributed to the Company's operations in Ireland, resulting in a reduction to the provision for income taxes of \$5.1 million and (ii) \$149.8 million of acquired Irish net operating loss carryforwards resulting in an \$18.0 million reduction to goodwill.

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As of January 31, 2009, the Company has recorded a deferred tax asset in the amount of \$104.7 million comprised of \$57.6 million of U.S. NOL carryforwards and \$23.7 million of other U.S. related net deferred tax assets, \$23.1 million of Irish NOL carryforwards and \$0.3 million of tax timing differences in Canada. Additionally, in accordance with SFAS No. 123(R), the Company reduces its deferred tax asset and valuation allowance by the unrealized excess tax benefit attributable to stock options.

The Company considers the excess of its financial reporting over its tax basis in its investment in foreign subsidiaries essentially permanent in duration and as such has not recognized a deferred tax liability related to this difference.

A reconciliation of the Irish statutory rate to the Company's effective tax rate is as follows:

	2007	January 31, 2008	2009
Income tax provision at Irish statutory rate	12.5%	12.5%	12.5%
Increase (decrease) in tax resulting from:			
U.S. state tax provision, net of U.S. federal benefit	6.5	6.3	4.1
Foreign rate differential, primarily U.S.	17.2	16.8	17.3
Nondeductible items	2.9	2.8	1.7
Other	0.0	0.6	0.5
Change in valuation allowance	(6.0)	(151.2)	(8.1)
Effective tax rate	33.1%	(112.2)%	28.0%

The Company recorded a total provision for income taxes in 2007 of \$12.0 million, influenced by the use of acquired tax assets, the benefit of which were realized through reductions to goodwill and income generated in foreign countries which cannot be offset by loss carryforwards. For the fiscal year ended January 31, 2008, the Company recorded a tax benefit from continuing operations of \$31.6 million, primarily related to a deferred income tax benefit of \$42.6 million associated with the Company's change in valuation allowance. For the fiscal year ended January 31, 2009, the Company recorded a tax provision of \$19.0 million, influenced by a deferred income tax benefit of \$5.1 million associated with the Company's change in valuation allowance.

As of January 31, 2009, the Company has \$404.4 million and \$3.9 million in net operating loss and tax credit carryforwards, respectively which are available to reduce future income taxes payments, if any. Approximately \$190.2 million of these carryforwards are not subject to expiration while the remainder of \$214.2 million, if not utilized, will expire at various dates through the year ending January 31, 2025.

Included in the consolidated carryforward totals, are \$214.2 million of U.S. federal net operating loss carryforwards and \$190.2 million of Irish net operating loss carryforwards. These NOL carryforwards represent the gross carrying value of the operating loss carryforwards.

Tax credit carryforwards of \$3.9 million relate to U.S. federal taxes.

Included in the \$214.2 million of U.S. federal net operating carryforwards is \$114.7 million (which reflects \$20.5 million used in the current period) of U.S. NOL carryforwards that were acquired in the SmartForce Merger and the purchase of Books24x7, \$44.1 of U.S. NOL carryforwards that relate to our operations and \$55.4 million

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of NOL carryforwards resulting from disqualifying dispositions. The Company will realize the benefit of the disqualifying disposition losses through increases to shareholders' equity in the periods in which the losses are utilized to reduce tax payments.

Included in the \$190.2 million of Irish net operating loss carryforwards is \$149.8 million (which reflects \$8.1 million used in the current period) of NOL carryforwards which were acquired in the SmartForce Merger and \$40.4 million of NOL carryforwards that relate to our Irish operations.

The Company completed several financings since its inception and has incurred ownership changes as defined under Section 382 of the Internal Revenue Code. The Company completed an analysis of these changes and does not believe that the changes will have a material impact on its ability to use its net operating loss and tax credit carryforwards.

Effective February 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The Company had gross unrecognized tax benefits and related accrued interest and penalties of \$2.6 million at January 31, 2008 that, if recognized, \$0.9 million would affect the Company's effective tax rate. At January 31, 2009, the Company's unrecognized tax benefits and related accrued interest and penalties totaled \$3.1 million, all of which, if recognized, would affect the Company's effective tax rate. The increase in unrecognized tax benefits, at January 31, 2009 as compared to January 31, 2008, which if recognized would impact our effective tax rate, is due to the adoption of FASB Statement No. 141(R) *Business Combinations* as of February 1, 2009. FASB Statement No. 141(R) requires that the Company recognize changes in acquired income tax uncertainties (applied to acquisitions before and after the adoption date) as income tax expense or benefit. The Company anticipates that in the next twelve months the liability for unrecognized tax benefits for certain tax positions could decrease by as much as \$0.7 million due to settlement with various tax authorities. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Company had \$0.7 million accrued for interest and penalties at January 31, 2009. The total amount of interest and penalties recognized in the consolidated statement of income for the fiscal year ended January 31, 2009 was \$0.5 million.

The following table sets forth a reconciliation of the beginning and ending amounts of unrecognized tax benefits (in thousands):

	January 31,	
	2008	2009
Unrecognized tax benefits	1,959	\$ 2,290
Increases for tax positions taken during the current period	201	423
Increases for tax positions taken during a prior period	706	773
Decrease related to settlements	(576)	(14)
Increases (decreases) resulting from the expiration of statute of limitations		(1,127)
Unrecognized tax benefits	\$ 2,290	\$ 2,345

In the normal course of business, the Company is subject to examination by taxing authorities in such major jurisdictions as Ireland, the United Kingdom, Germany, Australia, Canada and the United States. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations for years before 2002 in these major jurisdictions. The Company does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(8) Commitments and Contingencies****(a) Leases**

The Company leases its facilities and certain equipment and furniture under operating lease agreements that expire at various dates through 2023. Included in the accompanying statements of income is rent expense for leased facilities and equipment of approximately \$3.6 million, \$5.4 million, and \$4.6 million for the fiscal years ended January 31, 2007, 2008 and 2009, respectively.

None of the Company's operating leases contain contingent rent provisions. The amortization period for all leasehold improvements is the lesser of the estimated useful life of the assets or the related lease term.

Future minimum lease payments under the operating lease agreements are approximately as follows (in thousands):

	Facilities	Other	Total
Fiscal year ended January 31:			
2010	\$ 3,527	\$ 172	\$ 3,699
2011	2,654	118	2,772
2012	1,948	30	1,978
2013	1,744	2	1,776
2014	718		718
	\$ 10,621	\$ 322	\$ 10,943

**(b) Litigation****SEC Investigation**

The Company had been the subject of a formal investigation by the United States Securities and Exchange Commission (SEC) into the events and circumstances giving rise to the 2003 restatement of SmartForce PLC's accounts (the Restatement Investigation). On July 19, 2007, the SEC announced that three former officers and one former employee of SmartForce had settled SEC claims in connection with the Restatement Investigation. The Company understands that the Restatement Investigation has now been concluded without any claim being brought against it.

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

The Company believes that it accounted for SmartForce stock option grants properly in the merger, and believes that as a result of the merger accounting the Company's financial statements are not going to change even if the SEC concludes that SmartForce did not properly account for its pre-merger option grants. When SkillSoft Corporation and SmartForce merged on September 6, 2002, SkillSoft Corporation was for accounting purposes deemed to have acquired SmartForce. Accordingly, the pre-merger financial statements of SmartForce

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

are not included in the historical financial statements of the Company, and the Company's financial statements include results from what had been the business of SmartForce only from the date of the merger.

Under applicable accounting rules, the Company valued all of the outstanding SmartForce stock options assumed in the merger at fair value upon consummation of the merger.

Accordingly, SkillSoft believes that its accounting for SmartForce stock options will not be affected by any error that SmartForce may have made in its own accounting for stock option grants and that the Option Granting Investigation should not require any change in SkillSoft's financial statements.

The Company has cooperated with the SEC in the Option Granting Investigation. At the present time, the Company is unable to predict the outcome of the Option Granting Investigation or its potential impact on its operating results or financial position.

*Lawsuits*

From time to time, the Company is a party to or may be threatened with other litigation in the ordinary course of its business. The Company regularly analyzes current information, including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable and estimable liabilities for the eventual disposition of these matters. The Company is not a party to any other material legal proceedings.

*(c) Delinquent Foreign Filings*

The Company operates in various foreign countries through subsidiaries organized in those countries. Due to the restatement of the historical SmartForce statutory financial statements, some of the subsidiaries were delayed in filing their audited financial statements and have been delayed in filing their tax returns in their respective jurisdictions. As a result, some of these foreign subsidiaries may be subject to regulatory restrictions, penalties and fines. The Company does not believe such restrictions, penalties and fines, if any, would have a material impact on the financial statements.

**(9) Shareholders' Equity**

*(a) ADS Repurchase Program*

On April 8, 2008, the Company's shareholders approved a program for the repurchase by the Company of up to an aggregate of 10,000,000 ADSs. On September 24, 2008, the Company's shareholders approved an increase in the number of shares that may be repurchased under the program to 25,000,000 and an extension of the repurchase program until March 23, 2010. As of January 31, 2009, 13,902,685 shares remain available for repurchase, subject to certain limitations, under the shareholder approved repurchase program.

During the fiscal year ended January 31, 2009, the Company repurchased a total of 11,097,315 shares for a total purchase price, including commissions, of \$91.9 million. The Company retired 16,800,397 shares during the fiscal year ended January 31, 2009, including 6,533,884 shares repurchased in prior fiscal years. As of January 31, 2009, 830,802 of the repurchased shares have not been retired or canceled and are held as treasury shares at cost; the Company intends to retire these shares in the near future.

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(b) Share Based Compensation***

The Company currently has two share-based compensation plans, the 2001 Outside Director Option Plan (the Outside Director Plan) and the 2002 Stock Incentive Plan (the 2002 Plan), under which employees, officers, directors and consultants may be granted options to purchase the Company's ordinary shares, generally at the market price on the date of grant.

The Plans are administered by the Compensation Committee of the Board of Directors (the Committee). Under the Outside Director Plan, all outside directors of the Company are eligible to receive option grants upon appointment to the Board of Directors and each subsequent year thereafter. All grants of options under the Outside Director Plan are automatic and nondiscretionary and are made strictly in accordance with the provisions of the plan. The exercise price of option grants under the Outside Director Plan is the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of grant (or for the most recent trading day). The options granted generally vest over one year and have a term of ten years.

Under the 2002 Plan all employees, inside directors and consultants are eligible to receive incentive share options or non-statutory share options. Share purchase rights may also be granted under the plan. The options generally vest over four years and have a term of seven years. Options under the Plans generally expire not later than 30 to 90 days following termination of employment or service or twelve months following an optionee's death or disability.

In connection with the SmartForce Merger on September 6, 2002, the Company assumed the SmartForce plans, which included the 1994 Share Option Plan (the 1994 Plan) and the 1996 Supplemental Stock Plan (the 1996 Plan).

These SmartForce Plans along with the following legacy SkillSoft plans, the Book24x7.com, Inc. 1994 Stock Option Plan (the Books Plan), 1998 Stock Incentive Plan (the 1998 Plan) and the 2001 Stock Incentive Plan (the 2001 Plan), (collectively the Previous Plans) exist solely to satisfy outstanding options previously granted under these plans.

A total of 49,672,609 shares were authorized under these plans, of which 2,065,138 shares were available for grant from the 2002 Plan and the Outside Director Plan at January 31, 2009.



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All stock option activity under the Plans for the fiscal year ended January 31, 2009 is as follows:

	Shares	Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding, January 31, 2008	16,630,763	\$ 0.11 - \$42.88	\$ 7.05	4.76	\$ 51,072
Granted	415,000	0.14 - 10.95	3.11		
Exercised	(3,653,650)	0.11 - 10.67	4.50		
Forfeited	(77,501)	5.99 - 10.90	9.29		
Expired	(290,456)	0.11 - 31.50	11.28		
Outstanding, January 31, 2009	13,024,156	0.14 - 42.88	\$ 7.54	3.91	16,075
Exercisable, January 31, 2009	9,982,162	0.25 - 42.88	\$ 8.02	3.66	12,310
Vested and Expected to Vest, January 31, 2009(1)	12,633,768		\$ 7.60	3.90	15,383
Exercisable, January 31, 2008	12,335,123	\$ 0.11 - \$42.88	\$ 7.23		

(1) This represents the number of vested options as of January 31, 2009 plus the number of unvested options as of January 31, 2009 that are expected to vest as adjusted to reflect an estimated forfeiture rate of 12.9%. The Company recognizes expense incurred under SFAS 123(R) on a straight line basis. Due to the Company's vesting schedule, expense is incurred on options that have not yet vested but which are expected to vest in a future period. The options for which expense has been incurred but have not yet vested are included above as options expected to vest.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the shares on January 31, 2009 of \$7.10 and the exercise price of each in-the-money option outstanding) that would have been realized by the option holders had all option holders exercised their options on January 31, 2009.

The weighted average grant date fair value of options granted during the fiscal ended January 31, 2009 was \$4.97 per share. The total intrinsic value of options exercised during the fiscal year ended January 31, 2008 and 2009 was approximately \$6.9 million and \$21.8 million, respectively.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes certain information relating to the outstanding and exercisable options as of January 31, 2009:

Range of Exercise Prices	Number of Shares	Outstanding	Weighted Average Exercise Price	Exercisable	
		Weighted Average Remaining Contractual Life (Years)		Number of Shares	Weighted Average Exercise Price
\$ 0.14 - \$ 3.99	1,007,835	3.31	\$ 2.45	742,835	\$ 3.27
\$ 4.06 - \$ 4.06	1,759,024	3.54	4.06	1,759,024	4.06
\$ 4.07 - \$ 5.99	1,264,778	4.06	5.69	967,266	5.59
\$ 6.09 - \$ 6.38	1,329,188	2.78	6.34	1,325,021	6.34
\$ 6.41 - \$ 6.41	4,697,556	4.84	6.41	2,397,554	\$ 6.41
\$ 6.62 - \$11.60	1,289,259	4.04	10.11	1,113,946	10.38
\$12.10 - \$34.25	1,672,516	2.77	17.70	1,672,516	17.70
\$42.88 - \$42.88	4,000	1.71	42.88	4,000	\$ 42.88
<b>\$ 0.14 - \$42.88</b>	<b>13,024,156</b>	<b>3.91</b>	<b>\$ 7.54</b>	<b>9,982,162</b>	<b>\$ 8.02</b>

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options prior to and after adopting SFAS 123(R). The estimated fair value of employee share options is amortized to expense using the straight-line method over the vesting period. The weighted average information and assumptions used for the grants were as follows:

	Year Ended January 31,		
	2007	2008	2009
Risk-free interest rates	4.41 - 5.03%	3.25 - 4.93%	1.39 - 2.93%
Expected dividend yield			
Volatility factor	60%	60%	39-56%
Expected lives	4 years	4 years	2.34 - 4.0 years
Weighted average fair value of options granted	\$ 3.16	\$ 4.69	\$ 4.97
Weighted average remaining contractual life of options outstanding	5.47 years	4.76 years	3.91 years

The Company's assumed dividend yield of zero is based on the fact that it has never paid cash dividends and has no present intention to pay cash dividends. The expected share-price volatility assumption used by the Company has been based on a blend of implied volatility in conjunction with calculations of the Company's historical volatility determined over a period commensurate with the expected life of its option grants. The implied volatility is based on exchange traded options of the Company's share. The Company believes that using a blended volatility assumption will result in the best estimate of expected volatility. The assumed risk-free interest rate is the U.S. Treasury security rate with a term equal to the expected life of the option. The assumed expected life is generally four years, which is based on company-specific historical experience. With regard to the estimate of the expected life, the Company considers the exercise behavior of past grants and the pattern of aggregate exercises. The Company looked at historical option grant cancellation and termination data in order to determine its assumption of forfeiture rate, which was 12.9% as of January 31, 2009.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of January 31, 2009, there was \$10.5 million of compensation expense related to non-vested share awards that is expected to be recognized over a period of 3.67 years and a weighted-average period of 1.82 years.

SFAS 123(R) requires the cash flows resulting from excess tax benefits related to share compensation to be classified as cash flows from financing activities when realized. Excess tax benefits from the exercise of share options, classified as a cash flow from financing activities, were \$0, \$0.4 million and \$1.5 million in fiscal years ended January 31, 2007, 2008 and 2009, respectively.

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. On May 14, 2007, the Company entered into a Credit Agreement that contains customary negative covenants that place limitations on the distribution of income or retained earnings by the consolidated group of companies of the Company. Any dividends, if and when declared, will be declared and paid in dollars.

***(c) Employee Share Purchase Plan***

The Company maintains an Employee Share Purchase Plan (the Purchase Plan) pursuant to which participants are generally granted options to purchase ordinary shares on the last business day of each six-month offering period ending each September 30 and March 31 at 85% of the market price of the ADSs on the first or last trading day of each offering period, whichever is less. The purchase price for such shares is paid through payroll deductions, and the current maximum allowable payroll deduction is 20% of each eligible employee's eligible compensation. As of January 31, 2009, there were 1,256,249 shares available for future issuance under the Purchase Plan.

For shares purchased under the 2004 Employee Share Purchase Plan (ESPP), the Company uses a Black-Scholes option-pricing model, with the following assumptions. In valuing the ESPP, the Company used an assumed risk-free interest rate of 4.79%–5.08% for fiscal 2007, 4.20%–5.10% for fiscal 2008 and 1.51%–1.64% for fiscal 2009. The Company also used an expected volatility factor of 35% for fiscal 2007, 37% for fiscal 2008 and 40% for fiscal 2009, and an expected life of six months, with the assumption that dividends will not be paid. The Company recorded compensation expense of approximately \$0.6 million, \$1.0 million and \$0.9 million in the years ended January 31, 2007, 2008 and 2009, respectively, related to the ESPP.

**(10) Credit Facilities**

In connection with the closing of the NETg acquisition on May 14, 2007, the Company entered an Agreement (the Credit Agreement) with certain lenders (the Lenders) providing for a \$225 million senior secured credit facility comprised of a \$200 million term loan facility and a \$25 million revolving credit facility. The term loan was used to finance the Acquisition and the revolving credit facility may be used for general corporate purposes.

The Company is required to pay the Lenders a commitment fee at a rate per annum of 0.50% on the average daily unused amount of the revolving credit facility commitments of such Lenders during the period for which payment is made, payable quarterly in arrears. The term loan is payable in 24 consecutive quarterly installments of (i) \$500,000 in the case of each of the first 23 installments, on the last day of each of September, December, March, and June commencing September 30, 2007 and ending on March 31, 2013, and (ii) the balance due on May 14, 2013.

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The revolving credit facility terminates on May 14, 2012, at which time all outstanding borrowings under the revolving credit facility are due. The Company may optionally prepay loans under the Credit Agreement at any time, without penalty. The loans are subject to mandatory prepayment in certain circumstances. The Credit Agreement contains customary representations and warranties as well as affirmative and negative covenants. Affirmative covenants include, among others, with respect to the Company and its subsidiaries, maintenance of existence, financial and other reporting, payment of obligations, maintenance of properties and insurance, maintenance of a credit rating, and interest rate protection. Negative covenants include, among others, with respect to the Company and its subsidiaries, limitations on incurrence or guarantees of indebtedness, limitations on liens, limitations on sale and lease-back transactions, limitations on investments, limitations on mergers, consolidations, asset sales and acquisitions, limitations on dividends, share redemptions and other restricted payments, limitations on affiliate transactions, limitations on hedging transactions, and limitations on capital expenditures. The Credit Agreement also includes a leverage ratio covenant and an interest coverage ratio covenant (the ratio of the Company's consolidated EBITDA to its consolidated interest expense as calculated pursuant to the Credit Agreement).

Within the definitions of the Credit Agreement, a material adverse effect shall mean a material adverse condition or material adverse change in or materially and adversely affecting (a) the business, assets, liabilities, operations or financial condition of Holdings, the Borrower and the Subsidiaries, taken as a whole, or (b) the validity or enforceability of any of the Loan Documents or the rights and remedies of the Administrative Agent, the Collateral Agent or the Secured Parties thereunder. During the year ended January 31, 2009, no event, change or condition occurred that has caused, or could reasonably be expected to cause, a material adverse effect. As of January 31, 2009, the Company was in compliance with all other covenants under the Credit Agreement.

The Company's obligations under the Credit Agreement are guaranteed by SkillSoft PLC, as the parent company, its domestic subsidiaries, and certain other material subsidiaries of the Company pursuant to a Guarantee and Collateral Agreement, dated May 14, 2007 (the Guarantee and Collateral Agreement), among the Company, the subsidiary guarantors thereto from time to time (the Guarantors), and the Agent on behalf of the Lenders, and in addition by certain foreign law guarantees issued by certain of the Guarantors. The loans and the other obligations of the Company under the Credit Agreement and related loan documents and the guarantee obligations of the Company and Guarantors are secured by substantially all of the tangible and intangible assets of the Company, and each Guarantor (including, without limitation, the intellectual property and the capital stock of certain subsidiaries) pursuant to the Guarantee and Collateral Agreement, and pursuant to certain foreign debentures and charges against their assets.

On July 7, 2008, the Company entered into an amendment (Amendment No. 1) to the Credit Agreement, and the related Guarantee and Collateral Agreement, dated May 14, 2007. The primary purpose of Amendment No. 1 was to expand the ability of the Company and its subsidiaries to make repurchases of the Company's Ordinary Shares. The Company's expanded repurchase ability under Amendment No. 1 is conditioned on the absence of an event of default and a requirement that (i) the leverage ratio shall be no greater than 2.75:1.0 as of the most recently completed fiscal quarter ending prior to the date of such repurchase and (ii) that the Company make a prepayment of the term loan under the Credit Agreement in an amount equal to the dollar amount of any such repurchase. Such term loan prepayments were not, however, required in connection with the first \$24.0 million of repurchases made from and after July 7, 2008.

Amendment No. 1 also provides for an increase in the interest rate on the term loan outstanding under the Credit Agreement and the payment of additional fees to the Lenders upon execution of Amendment No. 1. Pursuant to Amendment No. 1, the term loan will bear interest at a rate per annum equal to, at the Company's

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election, (i) a base rate (3.25% at January 31, 2009) plus a margin of 2.50% (increased from 1.75%) or (ii) adjusted LIBOR (1.46% at January 31, 2009) plus a margin of 3.50% (increased from 2.75%).

In connection with the Credit Agreement and Amendment No. 1, the Company incurred debt financing costs of \$5.9 million and \$0.3 million, respectively, which were capitalized and are being amortized as additional interest expense over the term of the loans using the effective-interest method. The Company paid approximately \$ 10.3 million and \$11.2 million in interest during the fiscal years ended January 31, 2008 and 2009, respectively. The Company recorded \$ 0.7 million and \$1.2 million of amortized interest expense related to the capitalized debt financing costs during the fiscal years ended January 31, 2008 and 2009, respectively. As of January 31, 2009, total unamortized debt financing costs of \$1.0 and \$3.2 million are recorded within prepaid expenses and other current assets and non-current other assets respectively based on scheduled future amortization.

The Company paid \$1.0 million and \$75.6 million against the term amount during the fiscal years ended January 31, 2008 and 2009, respectively.

The Lenders required the Company to enter into an interest rate swap agreement for at least 50% of the term loan, or \$100 million, as a means of reducing the Company's interest rate exposure. Accordingly, the Company entered into an interest rate swap agreement with an initial notional amount of \$160.0 million which amortizes over a period consistent with the Company's anticipated payment schedule. The current notional amount of the interest rate swap agreement at January 31, 2009 was \$80.8 million.

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

	<b>Total</b>
2010	\$ 1,253
2011	1,253
2012	1,253
2013	1,253
2014	118,372
Total	\$ 123,384

**(11) Derivative Instruments and Hedging Agreements**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income.

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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

As of January 31, 2009, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges. The Company's interest rate swap is not considered a fair value hedge nor a hedge of net investments in foreign operations.

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. As of January 31, 2008 and 2009 the notional amount on the interest rate swap was approximately \$159.2 million and \$80.8 million, respectively.

At January 31, 2008, the interest rate swap had a fair value of \$(3.5) million which was included in long-term liabilities. At January 31, 2009, the interest rate swap had a fair value of \$(1.6) million which was included in current liabilities. No hedge ineffectiveness was recognized during the fiscal year ending January 31, 2008 and 2009. For the years ended January 31, 2008 and 2009, the change in net unrealized gains (losses) on the interest rate swap designated as a cash flow hedge and reported as a component of comprehensive income included within the Statement of Shareholder's Equity represented a \$2.1 million loss and \$1.1 million gain, net of tax, respectively. The change in net unrealized gains (losses) on cash flow hedges reflects (i) an unrealized loss of \$3.3 million and \$0.3 million for the fiscal year ended January 31, 2008 and 2009 respectively, (ii) the reclassification of a \$0.2 million unrealized gain and a \$2.2 million net unrealized loss from accumulated other comprehensive income to interest expense for the years ending January 31, 2008 and 2009, respectively and (iii) a tax benefit of \$1.4 million and a tax charge of \$0.8 million for the fiscal years ended January 31, 2008 and 2009, respectively. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. For the year ending January 31, 2010, the Company estimates that it will incur an additional \$1.6 million of interest expense relating to the interest rate swap.

**(12) Employee Benefit Plan**

The Company has a 401(k) plan covering all US-based employees of the Company who have met certain eligibility requirements. Under the terms of the 401(k) plan, the employees may elect to make tax-deferred contributions to the 401(k) plan. In addition, the Company may match employee contributions, as determined by the Board of Directors of SkillSoft Corporation, and may make a discretionary contribution to the 401(k) plan. Under this plan, contributions of approximately \$0.9 million, \$1.0 million and \$1.0 million were made for the fiscal years ended January 31, 2007, 2008 and 2009, respectively.

**(13) Disclosures About Segments of an Enterprise**

The Company follows the provisions of SFAS No. 131. SFAS No. 131 established standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also established

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief operating decision makers, as defined under SFAS No. 131, are the Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer. On April 29, 2005, the Company sold certain assets and transferred certain liabilities related to its Retail Certification business and incurred a \$0.6 million loss on disposition in fiscal 2006. As a result beginning in fiscal 2008 the Company no longer views its operations or manages its business as principally two operating segments: MML and retail certification. The Company views its operations and manages its business as one segment, providing multi-modal, on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses.

The following tables set forth the Company's statements of income for the fiscal year ended January 31, 2007 by segment with additional disclosures as required by SFAS No. 131:

	<b>Year Ended January 31, 2007</b>		
	<b>Multi-Modal</b>	<b>Retail Certification</b>	<b>Combined</b>
	<b>(In thousands)</b>		
Revenues	\$ 220,150	\$ 5,022	\$ 225,172
Cost of revenues	26,601		26,601
Cost of revenues - amortization of intangible assets	4,422		4,422
Gross profit	189,127	5,022	194,149
Operating expenses:			
Research and development	40,776		40,776
Selling and marketing(1)	90,875	19	90,894
General and administrative(1)	27,743	(8)	27,735
Amortization of intangible assets	1,652		1,652
Restructuring	74	(48)	26
SEC investigation	898		898
Total operating expenses	162,018	(37)	161,981
Operating income	\$ 27,109	\$ 5,059	\$ 32,168
Supplemental segment disclosures			
Provision for income taxes	11,951		11,951
Depreciation, amortization and share-based compensation expense	\$ 17,233	\$	\$ 17,233

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables set forth the Company's supplemental balance sheet information by segment:

	Multi-Modal	As of January 31, 2007 Retail Certification (In thousands)	Combined
Current assets, net	\$ 240,226	\$ 544	\$ 240,770
Property and equipment, net	9,672		9,672
Goodwill	83,171		83,171
Other assets	9,357		9,357
<b>Total consolidated assets</b>	<b>\$ 342,426</b>	<b>\$ 544</b>	<b>\$ 342,970</b>
Current liabilities	\$ 202,151	\$ 485	\$ 202,636
Long-term liabilities	2,405		2,405
<b>Total liabilities</b>	<b>204,556</b>	<b>485</b>	<b>205,041</b>
Stockholders' equity	137,870	59	137,929
<b>Total consolidated liabilities and stockholders' equity</b>	<b>\$ 342,426</b>	<b>\$ 544</b>	<b>\$ 342,970</b>
<b>Supplemental segment disclosures</b>			
Capital expenditures	\$ 5,519	\$	\$ 5,519

*Geographical Reporting*

The Company attributes revenue to different geographical areas on the basis of the location of the customer.

Revenues by geographic area are as follows (in thousands):

	Year Ended January 31,		
	2007	2008	2009
<b>Revenue:</b>			
United States	\$ 175,483	\$ 217,670	\$ 243,967
United Kingdom	26,030	33,082	44,681
Canada	9,595	11,090	12,646
Europe, excluding UK	2,001	3,538	7,056
Australia/New Zealand	8,963	12,640	14,019
Other (Countries less than 5% individually, by region)	3,100	3,203	6,125
<b>All Foreign Locations</b>	<b>49,689</b>	<b>63,553</b>	<b>84,527</b>
<b>Total revenues</b>	<b>\$ 225,172</b>	<b>\$ 281,223</b>	<b>\$ 328,494</b>

Long-lived tangible assets at international facilities are not significant.





**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(14) Other Assets**

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

	Year Ended January 31,		
	2007	2008	2009
Note receivable long term	\$	\$ 3,507	\$
Debt financing cost long term (See Note 10)		4,126	3,211
Other	2,962	97	149
Total other assets	\$ 2,962	\$ 7,730	\$ 3,360

**(15) Accrued Expenses Current**

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

	Year Ended January 31,		
	2007	2008	2009
Professional fees	\$ 2,639	\$ 5,308	\$ 4,237
Sales tax payable/VAT payable	4,405	4,366	3,806
Accrued royalties	3,693	6,892	1,650
Interest rate swap liability			1,581
Accrued litigation settlements	15,250		
Other accrued liabilities	9,440	12,941	12,486
Total accrued expenses	\$ 35,427	\$ 29,507	\$ 23,760

**(16) Other Long Term Liabilities**

Other long term liabilities in the accompanying consolidated balance sheets consist of the following (in thousands):

	Year Ended January 31,		
	2007	2008	2009
Merger accrual long term	\$	\$ 2,914	\$ 1,189
Uncertain tax positions including interest and penalties long term		2,569	1,714
Interest rate swap liability		3,467	
Other	2,405	259	318
Total other long-term liabilities	\$ 2,405	\$ 9,209	\$ 3,221



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**SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(17) Fair Value of Financial Instruments**

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

Effective February 1, 2008, the Company adopted SFAS No. 157 with respect to its financial assets and liabilities that are measured at fair value within its consolidated financial statements. The adoption of SFAS No. 157 did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2008, the FASB issued FSP SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions* (FSP SFAS No. 157-1), and FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS No. 157-2). FSP SFAS No. 157-1 removes leasing from the scope of SFAS No. 157, *Fair Value Measurements*. FSP SFAS No. 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP SFAS No. 157-1, effective February 1, 2008, did not impact the Company's financial position, results of operations or cash flows. The Company has deferred the application of the provisions of this statement to its non-financial assets and liabilities in accordance with FSP SFAS No. 157-2. The Company does not expect that its adoption of the provisions of FSP SFAS No. 157-2 will have a material impact on its financial position, results of operations or cash flows.

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

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

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

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

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

The Company's commercial paper, corporate debt securities, certificates of deposit and federal agency notes are classified as cash equivalents or available for sale securities based on the original maturity period and carried at fair value. These assets, except for federal agency notes and treasury bills, are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company classifies federal agency notes within Level 2 of the fair value hierarchy because they are valued using pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.



**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The following table summarizes the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of January 31, 2009 (in thousands):

	January 31, 2009	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Financial Assets:</b>				
Cash equivalents(1)	3,200	\$ 2,200	\$ 1,000	\$
Available for sale securities(2)	1,099	\$ 1,099	\$	\$
<b>Financial Liabilities:</b>				
Interest rate swap agreement (Note 19)	1,581	\$	\$ 1,581	\$

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

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

**(18) Property and Equipment**

Property and equipment consists of the following (in thousands):

	2007	Year Ended January 31, 2008	2009
Computer equipment	\$ 34,610	\$ 38,983	\$ 43,399
Furniture and fixtures	2,370	2,902	2,442
Leasehold improvements	1,659	1,765	1,791
	38,639	43,650	47,632
Less accumulated depreciation and amortization	(28,967)	(36,440)	(39,971)
	\$ 9,672	\$ 7,210	\$ 7,661

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Depreciation and amortization expense related to property and equipment was \$6.1 million, \$6.9 million and \$5.3 million for the years ended January 31, 2007, 2008 and 2009, respectively.

**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(19) Valuation & Qualifying Accounts***Allowance for Doubtful Accounts (amounts in thousands)*

	Balance at Beginning of Period	Net provision added/(credited without utilization)	Write-offs	Balance at End of Period
Year ended January 31, 2007	\$ 787	\$ (452)	\$ (129)	\$ 206
Year ended January 31, 2008	\$ 206	\$ 242	\$ (2)	\$ 446
Year ended January 31, 2009	\$ 446	\$ 25	\$ (80)	\$ 391

*Valuation Allowance on Deferred Tax Assets (amounts in thousands)*

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Goodwill	Write Down of Fully Valued Assets	Deductions	Balance at End of Period
Year ended January 31, 2007	\$ 146,786	\$	\$ (10,073)	\$	\$ (11,924)	\$ 124,789
Year ended January 31, 2008	\$ 124,789	\$ 16,592	\$ (54,471)	\$	\$ (57,553)	\$ 29,357
Year ended January 31, 2009	\$ 29,357	\$ 489	\$ (18,029)	\$ (4,068)	\$ (7,749)	\$

**(20) Concentration of Suppliers**

The Company relies on a limited number of independent third parties to provide educational content for a majority of the courses based on learning objectives and specific instructional design templates that the Company provides to them. The failure to maintain or expand the current development alliances or enter into new development alliances could adversely affect the Company's operating results and financial condition.



**Table of Contents****SKILLSOFT PUBLIC LIMITED COMPANY AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(21) Quarterly Statement of Operation Information*****Quarterly Operating Results for Fiscal Years Ended January 31, 2009 and 2008 (unaudited)***

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

	<b>Q1 2009</b>	<b>Q2 2009</b>	<b>Q3 2009</b>	<b>Q4 2009</b>
Revenues	\$ 81,643	\$ 83,332	\$ 83,064	\$ 80,455
Gross Profit	71,095	71,762	72,000	72,443
Income from continuing operations	7,166	10,815	12,066	18,829
Net income	\$ 7,073	\$ 12,882	\$ 12,029	\$ 18,804
Basic continuing operations	\$ 0.07	\$ 0.10	\$ 0.12	\$ 0.19
Basic discontinued operations		0.02	0.00	0.00
	\$ 0.07	\$ 0.12	\$ 0.12	\$ 0.19
Diluted continuing operations	\$ 0.07	\$ 0.10	\$ 0.11	\$ 0.18
Diluted discontinued operations		0.02	0.00	0.00
	\$ 0.06	\$ 0.12	\$ 0.11	\$ 0.18
	<b>Q1 2008</b>	<b>Q2 2008</b>	<b>Q3 2008</b>	<b>Q4 2008</b>
Revenues	\$ 57,140	\$ 71,469	\$ 75,124	\$ 77,490
Gross Profit	50,114	61,007	65,102	66,941
Income from continuing operations	7,489	11,864	6,176	34,200
Net income	\$ 7,489	\$ 12,388	\$ 5,825	\$ 34,297
Basic continuing operations	\$ 0.07	\$ 0.11	\$ 0.06	\$ 0.33
Basic discontinued operations		0.01	0.00	0.00
	\$ 0.07	\$ 0.12	\$ 0.06	\$ 0.33
Diluted continuing operations	\$ 0.07	\$ 0.11	\$ 0.06	\$ 0.31
Diluted discontinued operations		0.00	0.00	0.00
	\$ 0.07	\$ 0.11	\$ 0.05	\$ 0.31
	<b>Q1 2007</b>	<b>Q2 2007</b>	<b>Q3 2007</b>	<b>Q4 2007</b>
	<b>(in thousands, except per share data)</b>			
Revenues	\$ 54,653	\$ 55,734	\$ 57,135	\$ 57,650
Net income	\$ 4,053	\$ 4,825	\$ 7,084	\$ 8,191

Basic and dilutive income per share	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.08
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Does not add due to rounding.

**Table of Contents****PART I****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SKILLSOFT PLC AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	<b>October 31, 2009 (Unaudited)</b>	<b>January 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,802	\$ 37,853
Short-term investments	3,651	1,099
Restricted cash	2,792	3,790
Accounts receivable, net	69,816	146,362
Prepaid expenses and other current assets	14,781	18,286
Deferred tax assets	30,295	26,444
<b>Total current assets</b>	<b>181,137</b>	<b>233,834</b>
Property and equipment, net	5,960	7,661
Intangible assets, net	6,687	13,472
Goodwill	238,550	238,550
Deferred tax assets	56,125	78,223
Other assets	9,585	3,360
<b>Total assets</b>	<b>\$ 498,044</b>	<b>\$ 575,100</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long term debt	\$ 865	\$ 1,253
Accounts payable	4,175	5,648
Accrued compensation	9,916	13,513
Accrued expenses	18,163	23,760
Deferred revenue	140,424	201,518
<b>Total current liabilities</b>	<b>173,543</b>	<b>245,692</b>
Long term debt	83,716	122,131
Other long term liabilities	2,663	3,221
<b>Total long term liabilities</b>	<b>86,379</b>	<b>125,352</b>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ordinary shares, 0.11 par value per share: 250,000,000 shares authorized; 95,222,637 and 98,892,249 shares issued at October 31, 2009 and January 31, 2009, respectively	10,033	10,600
Additional paid-in capital	484,545	509,177
Treasury stock, at cost, 197,200 and 830,802 ordinary shares at October 31, 2009 and January 31, 2009, respectively	(1,928)	(5,317)
Accumulated deficit	(255,294)	(310,874)
Accumulated other comprehensive income	766	470

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Total shareholders' equity	238,122	204,056
Total liabilities and shareholders' equity	\$ 498,044	\$ 575,100

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

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****CONDENSED CONSOLIDATED INCOME STATEMENTS****(Unaudited, In thousands except share and per share data)**

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Revenue	\$ 80,402	\$ 83,064	\$ 235,767	\$ 248,039
Cost of revenue(1)	6,845	9,374	21,842	28,013
Cost of revenue amortization of intangible assets	32	1,690	96	5,170
Gross profit	73,525	72,000	213,829	214,856
Operating expenses:				
Research and development(1)	12,508	12,138	31,212	38,136
Selling and marketing(1)	23,336	26,387	70,134	82,185
General and administrative(1)	7,857	9,130	25,014	27,454
Amortization of intangible assets	2,118	2,738	6,690	8,475
Merger and integration related expenses				761
Restructuring			56	
SEC investigation				49
Total operating expenses	45,819	50,393	133,106	157,060
Operating income	27,706	21,607	80,723	57,796
Other (expense) income, net	(220)	1,013	(1,443)	616
Interest income	66	248	204	1,440
Interest expense	(1,633)	(3,364)	(6,110)	(11,014)
Income before provision for income taxes from continuing operations	25,919	19,504	73,374	48,838
Provision for income taxes	6,289	7,438	17,794	18,790
Income from continuing operations	19,630	12,066	55,580	30,048
(Loss) income from discontinued operations, net of income tax (benefit) expense of (\$25) thousand and \$1.3 million for the three and nine months ended October 31, 2008		(37)		1,937
Net income	\$ 19,630	\$ 12,029	\$ 55,580	\$ 31,985
Net income per share (Note 9):				
Basic continuing operations	\$ 0.21	\$ 0.12	\$ 0.58	\$ 0.29
Basic discontinued operations	\$	\$	\$	\$ 0.02
	\$ 0.21	\$ 0.12	\$ 0.58	\$ 0.31
Basic weighted average shares outstanding	95,374,749	104,182,736	96,489,795	104,779,876
Diluted continuing operations	\$ 0.20	\$ 0.11	\$ 0.56	\$ 0.28
Diluted discontinued operations	\$	\$	\$	\$ 0.02

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\$ 0.20      \$ 0.11      \$ 0.56      \$ 0.29

Diluted weighted average shares outstanding	98,501,863	107,500,272	98,601,709	108,656,388
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Does not add due to rounding.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Cost of revenue	\$ 17	\$ 52	\$ 66	\$ 163
Research and development	226	227	742	695
Selling and marketing	486	412	1,725	1,434
General and administrative	701	731	2,108	2,212

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

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited, In thousands)**

	<b>Nine Months Ended October 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 55,580	\$ 31,985
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Share-based compensation	4,641	4,504
Depreciation and amortization	3,419	3,921
Amortization of intangible assets	6,786	13,645
Provision for bad debts	(130)	(187)
Provision for income tax non-cash	11,924	15,727
Gain on sale of discontinued operations		(3,386)
Non-cash interest expense	854	898
Tax (benefit) effect related to exercise of non-qualified stock options	169	(1,247)
<b>Changes in current assets and liabilities:</b>		
Accounts receivable	80,962	92,756
Prepaid expenses, other current assets and other assets	3,951	7,907
Accounts payable	(1,502)	(858)
Accrued expenses, including long-term	(10,809)	(21,663)
Deferred revenue	(68,029)	(68,608)
<b>Net cash provided by operating activities</b>	<b>87,816</b>	<b>75,394</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,703)	(4,066)
Cash paid for business acquisitions		(250)
Purchases of investments	(7,762)	(18,545)
Maturity of investments	5,212	23,337
Decrease in restricted cash, net	998	218
Cash received from sale of discontinued operations		6,903
<b>Net cash (used in) provided by investing activities</b>	<b>(3,255)</b>	<b>7,597</b>
<b>Cash flows from financing activities:</b>		
Exercise of share options	1,343	16,412
Proceeds from employee share purchase plan	2,192	3,063
Principal payments on long term debt	(38,802)	(55,303)
Acquisition of treasury stock	(29,817)	(56,495)
Tax (effect) benefit related to exercise of non-qualified stock options	(169)	1,247
<b>Net cash used in financing activities</b>	<b>(65,253)</b>	<b>(91,076)</b>
Effect of exchange rate changes on cash and cash equivalents	2,641	(3,210)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>21,949</b>	<b>(11,295)</b>
Cash and cash equivalents, beginning of period	37,853	76,059
<b>Cash and cash equivalents, end of period</b>	<b>\$ 59,802</b>	<b>\$ 64,764</b>

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





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**SKILLSOFT PLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. The Company**

SkillSoft PLC (the Company or SkillSoft) was incorporated in Ireland on August 8, 1989. The Company is a leading Software as a Service (SaaS) provider of on-demand e-learning and performance support solutions for global enterprises, government, education and small to medium-sized businesses. SkillSoft helps its customers to maximize performance through a combination of content, online information resources, flexible technologies and support services. SkillSoft is the surviving corporation in a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the SmartForce Merger). References in this Form 10-Q to our fiscal year refer to the fiscal year ended January 31 of that year (e.g., fiscal 2010 is the fiscal year ended January 31, 2010).

**2. Basis of Presentation**

The accompanying, unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all material adjustments (consisting only of those of a normal and recurring nature) which are necessary to present fairly the consolidated financial position of the Company as of October 31, 2009 and the results of its operations and cash flows for the three and nine months ended October 31, 2009 and 2008. These condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto included in this document. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. Certain presentational changes have been made to the prior year condensed consolidated statements of cash flows related to discontinued operations to conform with the current year presentation. Certain reclassifications have been made to the prior year condensed consolidated income statements between interest expense and other expense, net to conform with the current year presentation.

The Company evaluated subsequent events through December 10, 2009, the date of issuance of these financial statements, to determine if any event since October 31, 2009, the date of these financial statements, required disclosure in these statements. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**3. Cash, Cash Equivalents, Restricted Cash and Investments**

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At October 31, 2009, cash equivalents consisted mainly of high-grade commercial paper and corporate bonds. At January 31, 2009, cash equivalents consisted mainly of commercial paper and federal agency notes.

At October 31, 2009, the Company had approximately \$2.8 million of restricted cash; approximately \$2.7 million is held voluntarily to defend named former executives and board members of SmartForce PLC for actions arising out of an SEC investigation and litigation related to the 2002 securities class action and approximately \$0.1 million is held in certificates-of-deposits with a commercial bank pursuant to terms of certain facilities lease agreements.

In accordance with the guidance of the Financial Accounting Standards Board (FASB), securities that the Company does not intend to hold to maturity or for trading purposes are reported at market value, and are classified as available for sale. At October 31, 2009, the Company's investments were classified as available for sale and had an average maturity of approximately 62 days.

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Cash and cash equivalents and available for sale short-term investments as of January 31, 2009 were as follows (in thousands):

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:					
Cash	N/A	\$ 34,653	\$	\$	\$ 34,653
Commercial paper	0-3 months	2,199	1		2,200
Federal agency notes	2 months	1,000			1,000
		\$ 37,852	\$ 1	\$	\$ 37,853
Short-term investments:					
Commercial paper	4 months	\$ 1,099	\$	\$	\$ 1,099
		\$ 1,099	\$	\$	\$ 1,099

Cash and cash equivalents and available for sale short-term investments as of October 31, 2009 were as follows (in thousands):

Description	Contracted Maturity	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and cash equivalents:					
Cash	N/A	\$ 59,054	\$	\$	\$ 59,054
Commercial paper	0-3 months	200			200
Corporate bonds	2-3 months	549		(1)	548
		\$ 59,803	\$	\$ (1)	\$ 59,802
Short-term investments:					
Commercial paper	6 months	\$ 200	\$	\$	\$ 200
Federal agency notes	5 months	350			350
Corporate bonds	4 months	202		(1)	201
Treasury bills	6 months	2,298	1		2,299
Certificates of deposit	4-6 months	601			601
		\$ 3,651	\$ 1	\$ (1)	\$ 3,651

Realized gains and losses and declines in value determined to be other-than-temporary on available-for-sale securities are included in investment income. Gross realized gains and losses for the nine months ended October 31 2009 were nominal. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in other income.

**4. Revenue Recognition**

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The Company generates revenue primarily from the license of its products, the provision of professional services and from the provision of hosting/application service provider (ASP) services.

The Company follows the provisions of the FASB Accounting Standards Codification (ASC) 605 to account for revenue derived pursuant to license agreements under which customers license the Company's products and services. The pricing for the Company's courses varies based upon the content offering selected by a customer,

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**SKILLSOFT PLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

the number of users within the customer's organization and the term of the license agreement (generally one, two or three years). License agreements permit customers to exchange course titles, generally on the contract anniversary date. Hosting services are sold separately for an additional fee. A license can provide customers access to a range of learning products including courseware, Referenceware®, simulations, mentoring and prescriptive assessment.

The Company offers discounts from its ordinary pricing, and purchasers of licenses for a larger number of courses, larger user bases or longer periods of time generally receive discounts. Generally, customers may amend their license agreements, for an additional fee, to gain access to additional courses or product lines and/or to increase the size of the user base. The Company also derives revenue from hosting fees for customers that use its solutions on an ASP basis and from the provision of professional services. In selected circumstances, the Company derives revenue on a pay-for-use basis under which some customers are charged based on the number of courses accessed by its users.

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

The Company also derives revenue from extranet hosting/ASP services, which is recognized on a straight-line basis over the period the services are provided. Upfront fees are recorded as revenue over the contract period.

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

The Company typically recognizes revenue from resellers over the commitment period when both the sale to the end user has occurred and the collectibility of cash from the reseller is probable. With respect to reseller agreements with minimum commitments, the Company recognizes revenue related to the portion of the minimum commitment that exceeds the end user sales at the expiration of the commitment period provided the Company has received payment. If a definitive service period can be determined, revenue is recognized ratably over the term of the minimum commitment period, provided that payment has been received or collectibility is probable.

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

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**(Unaudited)**

The Company records reimbursable out-of-pocket expenses in both revenue and as a direct cost of revenue, as applicable.

The Company records revenue net of applicable sales tax collected. Taxes collected from customers are recorded as part of accrued expenses on the balance sheet and are remitted to state and local taxing jurisdictions based on the filing requirements of each jurisdiction.

The Company records as deferred revenue amounts that have been billed in advance for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment in 90 days or less for resellers and 180 days or less for direct customers.

SkillSoft contracts often include an uptime guarantee for solutions hosted on the Company's servers whereby customers may be entitled to credits in the event of non-performance. The Company also retains the right to remedy any nonperformance event prior to issuance of any credit. Historically, the Company has not incurred substantial costs relating to this guarantee and the Company currently accrues for such costs as they are incurred. The Company reviews these costs on a regular basis as actual experience and other information becomes available; and should these costs become substantial, the Company would accrue an estimated exposure and consider the potential related effects of the timing of recording revenue on its license arrangements. The Company has not accrued any costs related to these warranties in the accompanying condensed consolidated financial statements.

**5. Shareholders' Equity**

***(a) ADS Repurchase Program***

On April 8, 2008, the Company's shareholders approved a program for the repurchase by the Company of up to an aggregate of 10,000,000 ADSs. On September 24, 2008, the Company's shareholders approved an increase in the number of shares that may be repurchased under the program to 25,000,000 and an extension of the repurchase program until March 23, 2010. As of October 31, 2009, 10,183,705 shares remain available for repurchase, subject to certain limitations, under the shareholder approved repurchase program.

During the nine months ended October 31, 2009, the Company repurchased a total of 3,718,980 shares for a total purchase price, including commissions, of \$29.8 million. The Company retired 4,352,582 shares during the nine months ended October 31, 2009, including 830,802 shares repurchased in the prior fiscal year. As of October 31, 2009, 197,200 of the repurchased shares had not yet been retired or canceled and were held as treasury shares at cost. The Company intends to retire these shares in the near future.

***(b) Share Based Compensation***

The Company has two share-based compensation plans under which employees, officers, directors and consultants may be granted options to purchase the Company's ordinary shares, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years (and typically one or three years in the case of directors), and have a maximum term of ten years. As of October 31, 2009, 2,069,826 ordinary shares remain available for future grant under the Company's share option plans. Please see Note 9 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K as filed with the SEC on April 1, 2009 for a detailed description of the Company's share option plans.

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A summary of share option activity under the Company's plans during the nine months ended October 31, 2009 is as follows:

Share Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2009	13,024,156	\$ 7.54		
Granted	60,000	4.17		
Exercised	(293,952)	4.57		
Forfeited	(62,917)	4.35		
Expired	(336,941)	14.92		
Outstanding, October 31, 2009	12,390,346	\$ 7.41	3.26	\$ 40,058
Exercisable, October 31, 2009	10,429,083	\$ 7.73	3.11	\$ 32,378
Vested and Expected to Vest, October 31, 2009(1)	12,190,762	\$ 7.45	3.25	\$ 39,109

(1) Represents the number of vested options as of October 31, 2009 plus the number of unvested options as of October 31, 2009 that are expected to vest, adjusted for an estimated forfeiture rate of 15.4%. The Company recognizes expense incurred on a straight line basis, in accordance with the FASB guidance. Due to the Company's vesting schedule, expense is incurred on options that have not yet vested but which are expected to vest in a future period. The options for which expense has been incurred but have not yet vested are included above as options expected to vest.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing price of the shares and the exercise price of each in-the-money option) that would have been realized by the option holders had all option holders exercised their options on October 31, 2009.

The aggregate intrinsic value of options exercised during the three and nine months ended October 31, 2009 was approximately \$0.7 million and \$1.2 million, respectively. The weighted average grant date fair value of options granted as calculated by Black-Scholes option pricing model during the nine months ended October 31, 2009 and 2008 was \$3.19 and \$3.81 per share, respectively.

**6. Special Charges**

## Merger and Exit Costs

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

The Company's merger and exit liabilities, which include previous merger and acquisition transactions, are recorded in accrued expenses (see Note 13) and long-term liabilities. Activity in the nine month period ended October 31, 2009 is as follows (in thousands):

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	<b>Closedown of Facilities</b>	<b>Other</b>	<b>Total</b>
Merger and exit accrual January 31, 2009	\$ 1,594	\$ 77	\$ 1,671
Payments made	(867)	11	(856)
Adjustment to provision for merger and exit costs in connection with the acquisition of NETg	(31)		(31)
Adjustment to provision for merger and exit costs in connection with the SmartForce Merger	(355)		(355)
Merger and exit accrual October 31, 2009	\$ 341	\$ 88	\$ 429

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

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

Year Ended January 31, 2010 (remaining 3 months)	\$ 66
Year Ended January 31, 2011	363
<b>Total</b>	<b>\$ 429</b>

**(b) Discontinued Operations**

In connection with the acquisition of NETg from the Thomson Corporation on May 14, 2007, the Company discontinued certain businesses acquired from NETg.

Discontinued operations did not affect our results of operations during the three or nine months ended October 31, 2009. Summarized results of operations for discontinued operations for the three and nine months ended October 31, 2008 is as follows (in thousands):

	<b>Three Months Ended October 31, 2008</b>	<b>Nine Months Ended October 31, 2008</b>
Revenue from discontinued operations	\$ (64)	\$ 224
(Loss) gain from discontinued operations before income taxes	(62)	3,243
Income tax (benefit) provision	(25)	1,306
<b>(Loss) gain from discontinued operations</b>	<b>\$ (37)</b>	<b>\$ 1,937</b>

The income from discontinued operations before income tax for the nine months ended October 31, 2008 consisted primarily of a \$3.4 million gain resulting from proceeds received from the Company's sale of the assets related to the NETg Press business in October 2007, which was partially offset by a \$0.2 million loss from discontinued operations.

**(c) Restructuring**

On January 19, 2009, the Company committed to a reduction in force with respect to a total of approximately 120 employees in the United States, Canada, Ireland and the United Kingdom. The decision was based on a review of various cost savings initiatives undertaken in connection with the development of the Company's budget and operating plan for fiscal 2010. The Company also recorded a \$56,000 restructuring charge in the nine months ended October 31, 2009, which is included in the consolidated statement of income as restructuring, and is primarily related to a further reduction in force of 6 employees in its Australia office, which was communicated on March 4, 2009. Substantially all of this charge represents the severance cost for the terminated employees.

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



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Restructuring accrual as of January 31, 2009	\$ 1,112
Payments made	(1,161)
Restructuring charges incurred	56
Restructuring accrual as of October 31, 2009	\$ 7

The Company anticipates that the remainder of the restructuring accrual will be paid out in fiscal 2010.

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Goodwill and Intangible Assets**

Intangible assets are as follows (in thousands):

	October 31, 2009			January 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Internally developed software/courseware	\$ 38,717	\$ 38,558	\$ 159	\$ 38,717	\$ 38,462	\$ 255
Customer contracts	36,848	31,220	5,628	36,848	26,938	9,910
Non-compete agreement	6,900	6,900		6,900	4,830	2,070
Trademarks and trade names	2,725	2,725		2,725	2,388	337
Books 24X7 trademark	900		900	900		900
	\$ 86,090	\$ 79,403	\$ 6,687	\$ 86,090	\$ 72,618	\$ 13,472

Trademarks of \$0.9 million relating to the Company's subsidiary, Books24X7, are considered indefinite-lived and accordingly no amortization expense is recorded.

There was no change in goodwill at October 31, 2009 from the amount recorded at January 31, 2009.

The Company will be conducting its annual impairment test of goodwill for fiscal 2010 in the fourth quarter. There were no indicators of impairment in the third quarter of fiscal 2010.

**8. Comprehensive Income**

Comprehensive income for the three and nine months ended October 31, 2009 and 2008 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Comprehensive income:				
Net income	\$ 19,630	\$ 12,029	\$ 55,580	\$ 31,985
Other comprehensive income (loss) income Foreign currency adjustment	45	2,013	(570)	2,309
Change in fair value of interest rate hedge, net of tax	208	260	866	1,155
Unrealized losses on available-for-sale securities				(24)
Comprehensive income	\$ 19,883	\$ 14,302	\$ 55,876	\$ 35,425

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Net Income Per Share**

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Basic weighted average shares outstanding	95,374,749	104,182,736	96,489,795	104,779,876
Effect of dilutive shares outstanding	3,127,114	3,317,536	2,111,914	3,876,512
Weighted average shares outstanding, as adjusted	98,501,863	107,500,272	98,601,709	108,656,388

The following share equivalents have been excluded from the computation of diluted weighted average shares outstanding for the three and nine months ended October 31, 2009 and 2008, respectively, as they would be anti-dilutive because the sum of the exercise proceeds, windfall tax benefit and the deferred compensation cost per share was greater than the average market price of the Company's common stock for the relevant period:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Options to purchase shares excluded	2,290,257	2,907,621	3,039,764	2,936,591

**10. Income Taxes**

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

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

For the nine months ended October 31, 2009 and 2008, the Company's effective tax rates were 24.3% and 38.5%, respectively. The decrease in the current year effective tax rate is primarily due to a change in the geographical distribution of worldwide earnings as a result of the business realignment strategy that took place at the beginning of fiscal 2010. For the nine months ended October 31, 2009, the provision for income taxes consisted of a cash tax provision of \$5.9 million and a non-cash tax provision of \$11.9 million. Included in the non-cash tax provision of \$11.9 million is a \$0.7 million provision resulting from a remeasurement of the Company's state deferred tax assets due to a change in the Company's effective state tax rate, and a \$0.7 million provision due to an adjustment to the Company's net operating loss carryforward related deferred tax asset. For the nine months ended October 31, 2008, the provision for income taxes of \$18.8 million consisted of a cash tax provision of \$3.1 million and a non-cash tax provision of \$15.7 million.

The Company's unrecognized tax benefits, including interest and penalties totaled \$3.2 million at October 31, 2009, all of which, if recognized, would affect the Company's effective tax rate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expense. As of October 31, 2009, the Company had approximately \$0.7 million of accrued interest related to uncertain tax positions.



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**SKILLSOFT PLC AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

In the normal course of business, the Company and its subsidiaries are subject to examination by taxing authorities in such major jurisdictions as Ireland, the United Kingdom, Germany, Australia, Canada and the U.S. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S based income tax examinations for years before fiscal 2004.

**11. Commitments and Contingencies**

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

The Company believes that it accounted for SmartForce stock option grants properly in the merger, and believes that as a result of the merger accounting the Company's financial statements are not going to change even if the SEC concludes that SmartForce did not properly account for its pre-merger option grants. When SkillSoft Corporation and SmartForce merged on September 6, 2002, SkillSoft Corporation was for accounting purposes deemed to have acquired SmartForce. Accordingly, the pre-merger financial statements of SmartForce are not included in the historical financial statements of the Company, and the Company's financial statements include results from what had been the business of SmartForce only from the date of the merger.

Under applicable accounting rules, the Company valued all of the outstanding SmartForce stock options assumed in the merger at fair value upon consummation of the merger.

Accordingly, the Company believes that its accounting for SmartForce stock options will not be affected by any error that SmartForce may have made in its own accounting for stock option grants and that the Option Granting Investigation should not require any change in the Company's financial statements.

The Company has cooperated with the SEC in the Option Granting Investigation. At the present time, the Company is unable to predict the outcome of the Option Granting Investigation or its potential impact on its operating results or financial position.

From time to time, the Company is a party to or may be threatened with other litigation in the ordinary course of its business. The Company regularly analyzes current information, including, as applicable, the Company's defenses and insurance coverage and, as necessary, provides accruals for probable and estimable liabilities for the eventual disposition of these matters. The Company is not a party to any material legal proceedings.

The Company's software license arrangements and hosting services are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and substantially in accordance with the Company's product documentation under normal use and circumstances. The Company's arrangements also include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights.

The Company has entered into service level agreements with some of its hosted application customers warranting certain levels of uptime reliability and permitting those customers to receive credits against monthly hosting fees or terminate their agreements in the event that the Company fails to meet those levels for an agreed upon period of time.

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

To date, the Company has not incurred any material costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

**12. Geographical Distribution of Revenue**

The Company attributes revenue to different geographical areas on the basis of the location of the customer. Revenue by geographical area for the three and nine month periods ended October 31, 2009 and 2008 was as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Revenue:				
United States	\$ 60,284	\$ 61,998	\$ 179,036	\$ 181,807
United Kingdom	9,552	11,358	27,126	34,980
Canada	3,350	3,047	9,090	9,831
Europe, excluding United Kingdom	2,331	1,758	6,617	5,438
Australia/New Zealand	3,321	3,343	9,186	11,306
Other	1,564	1,560	4,712	4,677
Total revenue	\$ 80,402	\$ 83,064	\$ 235,767	\$ 248,039

Long-lived tangible assets at international locations are not significant.

**13. Accrued Expenses**

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

	October 31, 2009	January 31, 2009
Professional fees	\$ 2,983	\$ 4,237
Sales tax payable/VAT payable	1,201	3,806
Accrued royalties	1,446	1,650
Interest rate swap liability	138	1,581
Accrued tax	1,240	854
Other accrued liabilities	11,155	11,632
Total accrued expenses	\$ 18,163	\$ 23,760

**14. Other Assets**

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

	<b>October 31, 2009</b>	<b>January 31, 2009</b>
Debt financing cost long term (See Note 17)	\$ 2,392	\$ 3,211
Deferred charge	6,977	
Other	216	149
 Total other assets	 \$ 9,585	 \$ 3,360

**Table of Contents****SKILLSOFT PLC AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The deferred charge of \$7.0 million represents the deferred tax effects of the Company's business realignment and the transfer of its intellectual property between the U.S. and Ireland. The net tax effect of an intercompany transaction is deferred in consolidation. This deferred charge is amortized into tax expense over the useful life of the transferred asset, which is 5 years.

**15. Other Long Term Liabilities**

Other long term liabilities in the accompanying consolidated balance sheets consist of the following (in thousands):

	October 31, 2009	January 31, 2009
Merger accrual long term	\$ 89	\$ 1,189
Uncertain tax positions; including interest and penalties long term	2,451	1,714
Other	123	318
 Total other long-term liabilities	 \$ 2,663	 \$ 3,221

**16. Fair Value of Financial Instruments**

Financial instruments consist mainly of cash and cash equivalents, derivative financial instrument contracts, investments, restricted cash, accounts receivable and debt. The Company determines fair value for short-term investments based on quoted market values. The carrying amount of accounts receivable is net of an allowance for doubtful accounts, which is based on historical collections and known credit risks. The Company believes the fair value of its variable rate debt approximates its carrying value based on comparable market terms and conditions.

In connection with the acquisition of NETg, the Company entered into an interest rate swap contract that is carried at fair value related to debt incurred to finance the acquisition. See Note 18 for further discussion.

The following table summarizes the Company's fair value hierarchy for its financial assets and liabilities measured at fair value as of October 31, 2009 (in thousands):

	October 31, 2009	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Financial Assets:</b>				
Cash equivalents(1)	\$ 748	\$ 748	\$	\$
Available for sale securities(2)	\$ 3,651	\$ 1,002	\$ 2,649	\$
<b>Financial Liabilities:</b>				
Interest rate swap agreement (Note 18)	\$ 138			