SMARTFORCE PUBLIC LTD CO
Form 424B3
August 06, 2002
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Registration No. 333-90872

JOINT PROXY STATEMENT/PROSPECTUS
SMARTFORCE PLC/SKILLSOFT CORPORATION

To the Shareholders of SmartForce Public Limited Company and SkillSoft Corporation:

After careful consideration, the boards of directors of SmartForce and SkillSoft have unanimously approved a merger between SmartForce and SkillSoft. In the merger, a wholly owned subsidiary of SmartForce will merge with and into SkillSoft and SkillSoft will become a wholly owned subsidiary of SmartForce. Each share of SkillSoft common stock will be exchanged in the merger for 2.3674 ordinary shares, represented by American Depositary Shares, or ADSs, of SmartForce. SmartForce ADSs are traded on the Nasdaq National Market under the trading symbol SMTF, and on August 2, 2002 the closing price of SmartForce ADSs was $3.44 per share.

In order to complete the merger, both companies must obtain the approval of their shareholders. The attached joint proxy statement/prospectus provides detailed information concerning SmartForce, SkillSoft, the merger and the proposals related to the merger to be presented at SmartForce s extraordinary general meeting and SkillSoft s special meeting. Please give all of the information contained in the joint proxy statement/prospectus your careful attention. ***In particular, you should carefully consider the discussion in the section entitled Risk Factors beginning on page 12 of this joint proxy statement/prospectus.***

After careful consideration, the boards of directors of both SmartForce and SkillSoft have unanimously determined the merger to be fair to, and in the best interests of, the respective shareholders of their companies. The boards of directors of both companies have approved the merger agreement and unanimously recommend that the shareholders of their respective companies vote ***FOR*** *the proposals related to the merger.*

SmartForce shareholders are cordially invited to attend the extraordinary general meeting of SmartForce shareholders which will be held on September 6, 2002 at 8:00 a.m. local time at Jury s Hotel, Ballsbridge, Dublin 4, Ireland.

SkillSoft stockholders are cordially invited to attend the special meeting of SkillSoft stockholders which will be held on September 6, 2002 at 8:00 a.m. local time at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109.

Please use this opportunity to take part in the affairs of SmartForce and SkillSoft by voting on the merger proposal. Whether or not you plan to attend the SmartForce or SkillSoft meeting, please complete, sign, date and return the accompanying proxy in the enclosed self-addressed stamped envelope. Returning the proxy does NOT deprive you of your right to attend the appropriate meeting and to vote your shares in person.

We appreciate your consideration of this matter.

GREGORY M. PRIEST President, Chief Executive Officer and Chairman SmartForce Public Limited Company	CHARLES E. MORAN President and Chief Executive Officer SkillSoft Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated August 5, 2002 and
was first mailed to SmartForce shareholders and SkillSoft stockholders on or about August 8, 2002.

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SMARTFORCE PUBLIC LIMITED COMPANY
900 Chesapeake Drive
Redwood City, California 94063
(650) 817-5900

NOTICE OF EXTRAORDINARY GENERAL MEETING
TO BE HELD ON SEPTEMBER 6, 2002

To SmartForce Shareholders:

Notice is Hereby Given that an EXTRAORDINARY GENERAL MEETING of shareholders of SmartForce Public Limited Company, a corporation organized under the laws of Ireland, will be held at Jury s Hotel, Ballsbridge, Dublin 4, Ireland, on September 6, 2002 at 8:00 a.m., local time, for the purpose of passing the following resolution, which will be proposed as a special resolution:

THAT:

(i) the Agreement and Plan of Merger dated June 10, 2002 made by and among SmartForce, Slate Acquisition Corp. and SkillSoft Corporation (SkillSoft), in the form produced to the meeting and initialed by the Chairman for the purposes of identification (a copy of which was included in the joint proxy statement/prospectus circulated to all of the members of SmartForce on August 8, 2002) relating to the merger (the Merger) of Slate Acquisition Corp. (a wholly owned subsidiary of SmartForce) with and into SkillSoft and the automatic conversion of each share of common stock of SkillSoft outstanding immediately prior to the consummation of the Merger into a right to receive 2.3674 ordinary shares of 0.11 each in the capital of SmartForce (or American Depositary Shares (ADSs) representing such ordinary shares) and the assumption by SmartForce of all outstanding options to purchase shares of SkillSoft common stock, such Merger and the issuance of ordinary shares of 0.11 each in the capital of SmartForce (or ADSs representing such ordinary shares) pursuant to the Merger be, and they each hereby are, approved;

(ii) the authorized share capital of SmartForce be and it hereby is increased from 13,200,000 to 27,500,000 by the creation of an additional 130,000,000 ordinary shares of 0.11 each ranking pari passu in all respects with the existing ordinary shares of 0.11 each in the capital of SmartForce;

(iii) the first sentence of paragraph 5 of SmartForce s Memorandum of Association be deleted and the following be substituted therefor:

The share capital of the Company is 27,500,000 divided into 250,000,000 ordinary shares of 0.11 each.

(iv) Article 2 of SmartForce s Articles of Association be deleted in its entirety and the following be substituted therefor:

2. Share Capital

The share capital of the Company is 27,500,000 divided into 250,000,000 ordinary shares of 0.11 each.

(v) Article 64 of SmartForce s Articles of Association be deleted in its entirety and the following be substituted therefor:

64. Number of Directors

The number of directors (other than alternate directors) shall not be more than seven unless otherwise determined by ordinary resolution.

(vi) the Directors of SmartForce be and they hereby are generally and unconditionally authorized to exercise all of the powers of SmartForce to allot relevant securities of SmartForce (within the meaning of Section 20 of the Companies (Amendment) Act, 1983) up to an amount equal to but not exceeding the authorized but unissued share capital of SmartForce as at the date of passing of this resolution provided that this authority shall expire at the close of business on September 5, 2007 unless previously renewed, varied or revoked by SmartForce in general meeting, except that SmartForce may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired; and

(vii)

the Directors of SmartForce pursuant to Section 24 of the Companies (Amendment) Act, 1983 be and they hereby are empowered to allot equity securities (within the meaning of Section 23 of the said Act) for cash pursuant to the authority to allot relevant securities conferred on the Directors by paragraph (viii) above as if subsection (1) of the said Section 23 did not apply to any such allotment, provided that this power shall expire at close of business on September 5, 2007 unless such power shall be renewed in accordance with and subject to the provisions of the said Section 24, except that SmartForce may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power hereby conferred had not expired.

By Order of the Board

Jennifer M. Caldwell
Secretary

August 5, 2002

Registered Office:
Belfield Office Park
Clonskeagh
Dublin 4
Ireland

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NOTES:

1. The foregoing item of business is more fully described in the joint proxy statement/prospectus accompanying this Notice. You are urged to read the joint proxy statement/prospectus carefully.

2. Those persons whose names appear in the Register of Members of SmartForce (Members) on the date materials are dispatched to shareholders are entitled to receive notice of the Meeting or any adjournment of the Meeting. In addition, Members on the date of the Meeting are entitled to attend and vote at the Meeting.

3. Holders of SmartForce ADSs may not vote at the Meeting; however, The Bank of New York, as depositary for the ordinary shares underlying the ADSs, will endeavor to vote the ordinary shares represented by ADSs in accordance with instructions received from owners of ADSs, subject to certain limitations described in the joint proxy statement/prospectus. Voting of the ADSs is more fully described in the joint proxy statement/prospectus accompanying this notice. The depositary has set August 2, 2002 as the record date for the determination of those holders of ADSs entitled to give instructions for the exercise of voting rights at the Meeting or any adjournment of the Meeting.

4. A Member entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend, speak and vote in his, her or its place. A proxy does not need to be a Member of SmartForce. To be valid, proxy forms must be deposited with SmartForce s Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland not later than 10:00 a.m. on September 4, 2002. A Member is not precluded from attending the Meeting and from speaking or voting at the Meeting even if the Member has completed a proxy form.

YOUR VOTE IS IMPORTANT

TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY FORM AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE POSTAGE PREPAID ENVELOPE ENCLOSED FOR THAT PURPOSE. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON EVEN IF YOU HAVE RETURNED A PROXY.

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SKILLSOFT CORPORATION
20 Industrial Park Drive
Nashua, New Hampshire 03062

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 6, 2002

To Our Stockholders,

We will hold a special meeting of the stockholders of SkillSoft Corporation, a Delaware corporation, at 8:00 a.m., local time, on September 6, 2002 at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109, for the purpose of transacting the following business:

1. To consider and vote on a proposal to adopt the merger agreement dated June 10, 2002 among SkillSoft Corporation, SmartForce Public Limited Company and Slate Acquisition Corp., a wholly owned subsidiary of SmartForce.

2. To grant SkillSoft management the discretionary authority to adjourn or postpone the special meeting in order to enable the SkillSoft board of directors to solicit additional proxies if there are not sufficient votes at the originally scheduled time of the special meeting to adopt the merger agreement.

3. To transact such other business as may properly come before the special meeting or any adjournment or postponement.

We describe these items more fully in the joint proxy statement/prospectus attached to this notice. Please give your careful attention to all of the information in the joint proxy statement/prospectus.

Only stockholders of record at the close of business on August 2, 2002, the record date, are entitled to notice of and to vote at the special meeting or any adjournment or postponement of the meeting. The merger will require the affirmative vote of the holders of a majority of the shares of SkillSoft common stock outstanding on the record date.

To ensure that your shares are represented at the special meeting, we encourage you to complete, date, sign and promptly return your proxy card in the enclosed postage prepaid envelope whether or not you plan to attend the special meeting in person. You may revoke your proxy in the manner described in the joint proxy statement/prospectus at any time before it has been voted at the special meeting. Any stockholders attending the special meeting may vote in person even if the stockholder has returned a proxy.

By Order of the Board of Directors

Thomas J. McDonald
Secretary

August 5, 2002
Nashua, New Hampshire

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REFERENCE TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about SmartForce and SkillSoft from documents that are not included in or delivered with this joint proxy statement/prospectus. You may obtain copies of the documents incorporated by reference in this joint proxy statement/prospectus without charge by requesting them in writing or by telephone from the appropriate company at the following addresses:

SmartForce Public Limited Company 900 Chesapeake Drive Redwood City, California 94063 Tel: (650) 817-5900 Attn: Investor Relations	SkillSoft Corporation 20 Industrial Park Drive Nashua, New Hampshire 03062 Tel: (603) 324-3000 Attn: Chief Financial Officer

If you are a SmartForce shareholder and you would like to request any documents related to SmartForce, please do so by September 1, 2002 to receive them before the SmartForce extraordinary general meeting. If you are a SkillSoft stockholder and you would like to request any documents related to SkillSoft, please do so by September 1, 2002 to receive them before the SkillSoft special meeting.

For a more detailed description of the information incorporated by reference into this joint proxy statement/prospectus and how you may obtain it, see *Documents Incorporated by Reference* on page 135.

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SUMMARY OF THE JOINT PROXY STATEMENT/PROSPECTUS

This joint proxy statement/prospectus pertains to, among other matters, the merger of a wholly-owned subsidiary of SmartForce with and into SkillSoft, and it is being sent to the holders of SmartForce ordinary shares and SmartForce ADSs and the holders of SkillSoft common stock. This summary pertains to the merger and may not contain all of the information that is important to you. ***You should read carefully this entire document and the other documents referenced in it for a more complete understanding of the merger. In particular, you should read the merger agreement and its exhibits, which are attached as Annex A, the opinion of Credit Suisse First Boston, which is attached as Annex B, and the opinion of Banc of America Securities, which is attached as Annex C.***

The Companies

SmartForce Public Limited Company
900 Chesapeake Drive
Redwood City, California 94063
(650) 817-5900

SmartForce, one of the world s largest e-Learning companies, provides integrated enterprise e-Learning solutions. SmartForce e-Learning is a comprehensive application infrastructure developed to support e-Learning initiatives in enterprises globally. Encompassing the largest body of e-Learning content in the world, and a fully integrated student environment, learning management system and a range of custom content creation and publication tools, SmartForce e-Learning provides the architecture that global enterprises are using today to implement e-Learning strategies to support their critical strategic business initiatives. With more than 2,500 major corporate customers, SmartForce e-Learning solutions bring the power of the Internet to the critical training business process.

SkillSoft Corporation
20 Industrial Park Drive
Nashua, New Hampshire 03062
(603) 324-3000

SkillSoft is a global provider of comprehensive e-Learning solutions to large businesses and governmental organizations. SkillSoft focuses on a variety of professional effectiveness and business topics (commonly called soft skills or business skills) that it believes represent the most critical skills required of employees in increasingly dynamic and complex work environments. SkillSoft s solutions are designed to address training issues that support SkillSoft s customers business objectives and to provide a system of continuous support to working employees. SkillSoft s solutions are based on open standards Web technologies and flexible, low bandwidth architecture, enabling users to access the material they need, with the specificity or breadth that they require, anytime or anywhere that they may need it.

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Summary of the Merger

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger. These questions and answers may not address all the questions that may be important to you. Please refer to the more detailed information contained elsewhere in this joint proxy statement/prospectus including the merger agreement and the exhibits and other documents attached to this joint proxy statement/prospectus and the other documents referenced in it.

We are Proposing a Merger of SmartForce and SkillSoft

Q: What is the proposed merger? (see page 48)

A: In the proposed merger, SmartForce and SkillSoft will merge in a stock-for-stock transaction. The transaction is structured as a merger of SkillSoft with a newly formed subsidiary of SmartForce, with SkillSoft surviving as a wholly-owned subsidiary of SmartForce. In exchange for their shares in SkillSoft, the SkillSoft stockholders will receive ordinary shares of SmartForce, represented by American Depositary Shares, or ADSs. The merger agreement is attached to this joint proxy statement/prospectus as *Annex A*. You are encouraged to read it carefully.

Q: Am I being asked to vote on anything else? (see pages 45 and 131)

A: Yes.

If you are a SkillSoft common stockholder, the SkillSoft board of directors is asking you to authorize SkillSoft to adjourn or postpone the SkillSoft special meeting if the number of shares of SkillSoft common stock present or represented and voting in favor of the merger is insufficient to adopt the merger agreement under Delaware law. Adjourning the special meeting to a later date will give SkillSoft additional time to solicit proxies to vote in favor of the merger.

If you are a SmartForce shareholder, the SmartForce board of directors is asking you to do the following:

Approve the merger agreement, the merger and the issuance of SmartForce ordinary shares or ADSs representing such ordinary shares pursuant to the merger;

Approve the increase in the authorized share capital of SmartForce to 27,500,000 divided into 250,000,000 ordinary shares of 0.11 per share;

Approve the amendment of SmartForce s memorandum of association and articles of association to reflect the increase in the authorized share capital of SmartForce;

Approve the amendment to Article 64 of the articles of association of SmartForce to read as follows:

The number of directors (other than alternate directors) shall not be more than seven unless otherwise determined by ordinary resolution ;

Authorize the directors to allot relevant securities up to an amount equal to but not exceeding the authorized but unissued shares in the capital of SmartForce immediately following the passing of the resolution; and

Authorize the directors to allot equity securities pursuant to the authority conferred on the directors to allot relevant securities as if Section 23(1) of the Companies (Amendment) Act, 1983 (Ireland) did not apply to any such allotment.

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Q: What will I receive in the merger? (see page 48)

A: Following the merger:

SkillSoft common stockholders will receive, in exchange for each of their SkillSoft shares, 2.3674 ordinary shares represented by ADSs of SmartForce. Each ADS represents one ordinary share of SmartForce.

Each option to purchase SkillSoft common stock outstanding immediately before the completion of the merger will automatically become an option to purchase SmartForce ADSs (representing SmartForce ordinary shares). The number of SmartForce ADSs (representing SmartForce ordinary shares) which may be purchased under each assumed option will be equal to the product of the number of SkillSoft shares that were purchasable upon exercise of the option before the merger multiplied by 2.3674 and rounded down to the nearest whole ADS. The exercise price per share will be the pre-merger exercise price divided by 2.3674 and rounded up to the nearest whole cent.

Instead of fractional shares in the merger, SkillSoft stockholders will receive cash in an amount equal to the fraction multiplied by the average of the last reported sales prices of SmartForce ADSs on the Nasdaq National Market for the ten (10) trading days immediately preceding the last full trading day prior to the effective date of the merger.

Q: What percentage of the combined company will the SmartForce shareholders and the SkillSoft stockholders own following the merger? (see page 74)

A: After the merger, based on shares outstanding as of the date of this joint proxy statement/prospectus the current SmartForce shareholders would own approximately 58% of the outstanding shares of SmartForce and the former SkillSoft stockholders would own approximately 42% of the outstanding shares of SmartForce.

Q: When do you expect the merger to be completed?

A: SmartForce and SkillSoft are working toward completing the merger as quickly as possible. We hope to complete the merger during the third calendar quarter of 2002 promptly following the approval of the merger by the SmartForce shareholders and SkillSoft stockholders. However, the merger is subject to several conditions that could affect the timing of its completion.

Q: Are there risks involved in undertaking the merger? (see pages 12-31)

A: Yes. In evaluating the merger, you should carefully consider the factors discussed in the section of the joint proxy statement/prospectus entitled *Risk Factors* beginning on page 12.

Q: What are the conditions to completion of the merger? (see pages 80-81)

A: SmartForce s and SkillSoft s respective obligations to complete the merger are subject to the satisfaction or waiver of specified closing conditions. If either SmartForce or SkillSoft waives any of these conditions, each company will consider the facts and circumstances at that time and make a determination whether a resolicitation of proxies from its respective shareholders or stockholders is appropriate.

Q: Is the merger subject to governmental approvals? (see pages 72-73)

A: Yes. This merger is subject to review by the U.S. Department of Justice and the U.S. Federal Trade Commission to determine whether it is in compliance with applicable U.S. antitrust laws. Under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the merger may not be consummated until the specified waiting period requirements of that Act have been satisfied. On July 22, 2002, the specified waiting period expired. However, any time before or after the merger, and notwithstanding that the waiting period has expired or that the merger may have been consummated, the U.S. Federal Trade Commission, the U.S. Department of Justice or

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any state could take any action under the applicable antitrust or competition laws as it deems necessary or desirable. This action could include seeking to enjoin the completion of the merger. Private parties may also institute legal actions under the applicable antitrust laws under some circumstances.

This merger is also subject to review by the Minister for Enterprise, Trade and Employment of Ireland under the Mergers and Take-overs (Control) Acts, 1978 to 1996. The merger may not be consummated until the Minister has approved the merger or the waiting period following notification of the merger to the Minister has elapsed without the Minister making an adverse decision during such period.

Q: What shareholder approvals are required for approval of the merger? (see pages 44 and 45-46)

A: The affirmative vote of the holders of three-fourths of the ordinary shares of SmartForce cast in person or by proxy on the merger proposal must approve the merger proposal, which includes the approval of the merger agreement and the approval of the merger, the issuance of the SmartForce ordinary shares, represented by the ADSs, in the merger, the increase in the authorized share capital of SmartForce and the other matters contained in the merger proposal.

The holders of a majority of the outstanding shares of SkillSoft common stock must adopt the merger agreement.

Q: Are there any SmartForce shareholders or SkillSoft stockholders already committed to voting in favor of the merger? (see pages 43 and 46)

A: Yes.

SmartForce officers, directors and shareholders who collectively hold approximately 1.0% of the voting power of the SmartForce ordinary shares outstanding as of August 2, 2002 entered into a voting agreement with SkillSoft requiring them to vote all of their shares in favor of the merger proposal.

SkillSoft officers, directors and stockholders who collectively hold approximately 39.3% of the voting power of the SkillSoft common stock outstanding as of August 2, 2002 entered into a voting agreement with SmartForce requiring them to vote all of their shares in favor of adoption of the merger agreement.

Q: Who will be the directors of the combined company following the merger?

A: Following the merger, the board of directors of SmartForce is expected to consist of seven members of which three members will be from SmartForce s board, three members will be from SkillSoft s board and one new member will be initially designated by SkillSoft. The board members will be Gregory M. Priest, James S. Krzywicki, Ferdinand von Prondzynski, Charles E. Moran, Stewart K.P. Gross, William T. Coleman III and P. Howard Edelstein.

Q: Who will be the executive officers of the combined company following the merger?

A: Following the merger, the executive management team of SmartForce is expected to include:

Gregory M. Priest, as Chairman of the Board of Directors and Chief Strategy Officer;

Charles E. Moran, as President and Chief Executive Officer;

Thomas J. McDonald, as Executive Vice President and Chief Financial Officer;

Jeffrey N. Newton, as Executive Vice President, Complex Solutions;

Jerald A. Nine, Jr., as Executive Vice President, Content Solutions and General Manager, Books Division;

Paul Henry, as Executive Vice President of Corporate Marketing and Customer Service;

Colm Darcy, as Executive Vice President of Content Development; and

Mark A. Townsend, as Executive Vice President of Software Development.

Our Reasons for Proposing the Merger of SmartForce and SkillSoft

Q: Why are SmartForce and SkillSoft proposing the merger? (see pages 51-55)

A: SmartForce and SkillSoft are proposing the merger to create an e-Learning company capable of becoming the world s leading provider of e-Learning solutions. By bringing together SmartForce s leading portfolio of IT, enterprise applications and sales and CRM e-Learning solutions with SkillSoft s comprehensive suite of business and professional e-Learning solutions, SmartForce and SkillSoft believe that the merger supports both companies overall strategy to deliver the most comprehensive and highest-quality e-Learning solutions and positions the combined company to best serve the demands of this growing market.

Q: Does the board of directors of SmartForce recommend voting in favor of the merger? (see page 44)

A: Yes. After careful consideration, SmartForce s board of directors unanimously recommends that its shareholders vote in favor of the merger proposal including the adoption of the merger agreement, the merger, the issuance of the SmartForce ordinary shares, represented by the ADSs, in the merger, the increase in the authorized share capital of SmartForce, and the other matters contained in the merger proposal.

Q: Does the board of directors of SkillSoft recommend voting in favor of the merger agreement and the merger? (see page 47)

A: Yes. After careful consideration, SkillSoft s board of directors unanimously recommends that its stockholders vote in favor of adoption of the merger agreement.

Q: Do persons involved in the merger have interests which may conflict with mine? (see pages 69-71)

A: Yes. When considering the recommendations of SmartForce s and SkillSoft s respective boards of directors, you should be aware that certain SmartForce and SkillSoft directors and officers have interests in the merger that are different from, or are in addition to, yours. These interests include:

- the employment of Gregory M. Priest as Chairman and Chief Strategy Officer and Charles E. Moran as President and Chief Executive Officer of the combined company;
- the appointment of certain other SkillSoft and SmartForce executive officers and directors to executive officer and director positions in the combined company;
- stock options held by SkillSoft executive officers and directors, which will be assumed by SmartForce upon completion of the merger;
- stock option grants made to certain SmartForce executive officers and grants expected to be made to SkillSoft executive officers in connection with their continued service with the combined company following the merger;
- the amendment of certain share options held by certain retiring SmartForce and SkillSoft directors to extend the exercise period of such options;
- a registration rights agreement entered into by SmartForce with SkillSoft s principal stockholder, Warburg, Pincus Ventures, L.P., intended substantially to replicate the rights which Warburg has under an existing registration rights agreement between Warburg and SkillSoft; and
- indemnification provided to the present and former executives and directors of SkillSoft and SmartForce.

Q: Did SmartForce s and SkillSoft s financial advisors render fairness opinions in connection with the merger? (see pages 56-69)

A: Yes.

SmartForce s board of directors considered the opinion, dated as of June 10, 2002, of its financial advisor, Credit Suisse First Boston, to the effect that, as of such date, and based upon and subject to various considerations set forth in the opinion, the exchange ratio was fair, from a financial point of view, to SmartForce.

SkillSoft s board of directors considered the opinion, dated as of June 10, 2002, of its financial advisor, Banc of America Securities, to the effect that, as of such date, the exchange ratio of 2.3674 SmartForce ADSs, each of which represents and is exchangeable for one ordinary share of SmartForce, to be received for each share of SkillSoft common stock pursuant to the merger agreement was fair from a financial point of view to the holders of shares of SkillSoft common stock.

The full text of the written opinions of the financial advisors are attached to the back of this document as *Annex B* and *Annex C*, and should be read carefully in their entirety to understand the assumptions made, matters considered and limitations on the review undertaken in providing the opinions.

The opinion of Credit Suisse First Boston is addressed to the SmartForce board and the opinion of Banc of America Securities is addressed to the SkillSoft board and are provided to the respective addressees for their information and assistance in connection with their consideration of the transactions contemplated by the merger agreement. These opinions do not address the prices at which SmartForce s ADSs will trade at any time and do not constitute a recommendation to any shareholder as to how to vote with respect to any matter relating to the proposed merger.

Steps for You to Take

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this joint proxy statement/prospectus, please complete, date, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares will be represented at your respective shareholder meeting.

If a SkillSoft stockholder does not include instructions on how to vote a properly signed proxy card, such holder s common stock will be voted **FOR** adoption of the merger agreement and the adjournment proposal and any other matters to be voted upon at the meeting.

If a holder of SmartForce ADSs does not include instructions on how to vote a properly signed proxy card with respect to such SmartForce ADSs on the merger proposal, The Bank of New York will not vote the number of ordinary shares represented by those ADSs or give a proxy to any person to vote those shares with respect to the merger proposal and may not vote them on such proposal. If a properly signed proxy card for SmartForce ordinary shares is submitted without instructions, such holder s ordinary shares will be voted **FOR** approval of all matters to be voted upon at the meeting. For a description of the matters for which The Bank of New York will not give a discretionary proxy to a person designated by SmartForce to vote SmartForce ADSs, please see *Description of American Depositary Shares Voting Rights* beginning on page 105.

Your vote is important regardless of the number of shares that you own.

Q: When and where will the vote take place? (see pages 39 and 45)

A. *Extraordinary General Meeting of SmartForce Shareholders*. The SmartForce extraordinary general meeting will be held at Jury s Hotel, Ballsbridge, Dublin 4, Ireland on September 6, 2002, starting at 8:00 a.m., local time.

Special meeting of SkillSoft stockholders. The SkillSoft special meeting will be held at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109 on September 6, 2002, starting at 8:00 a.m., local time.

Q: Should I send in my SkillSoft stock certificates now? (see page 71)

A: No. After the merger is completed, SmartForce will send you written instructions for exchanging your SkillSoft stock certificates for American Depositary Receipts, or ADRs, representing SmartForce ADSs.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me? (see pages 41 and 46)

A: Your broker will vote your shares only if you provide your broker with instructions on how to vote your shares by following the information provided to you by your broker.

Q: What do I do if I want to change my vote? (see pages 43 and 46)

A: You can change your vote at any time before your proxy is voted at your meeting. There are four ways for you to do this:

1. If you are a holder of SmartForce ordinary shares or SkillSoft common stock, send written notice to the secretary of SmartForce or SkillSoft (as appropriate) that you wish to revoke or change your proxy,

2. If you are a holder of SmartForce ADSs send written notice to The Bank of New York that you wish to revoke or change your proxy,

3. Send a newly completed proxy to SmartForce s Registrars (if you are a holder of SmartForce ordinary shares), The Bank of New York (if you are a holder of SmartForce ADSs) or SkillSoft (if you are a holder of SkillSoft common stock) bearing a date later than your original proxy prior to the vote at your meeting, or

4. If you are a holder of SmartForce ordinary shares or SkillSoft common stock, attend the SmartForce shareholder or SkillSoft stockholder meeting and vote in person.

Q: What happens if a SkillSoft stockholder does not vote? (see page 46)

A: If you are a SkillSoft stockholder and you fail to submit a proxy or vote at the special meeting, your shares will not be counted as present for purposes of determining the presence or absence of a quorum and will have the same effect as a vote **AGAINST** adoption of the merger agreement but will have no effect on the adjournment proposal.

If you sign and return your proxy and do not indicate how you want to vote, your proxy will be counted as present for purposes of determining the presence of a quorum and will be voted **FOR** adoption of the merger agreement and **FOR** approval of the adjournment proposal.

If you submit a proxy and affirmatively elect to **ABSTAIN** from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted at the special meeting. Consequently, your abstention will have the same effect as a vote **AGAINST** adoption of the merger agreement but will have no effect on the adjournment proposal.

Q: What happens if a SmartForce shareholder does not vote? (see page 41)

A: If you are a SmartForce shareholder and do not submit a proxy or vote at the extraordinary general meeting, your shares will not be counted as present for purposes of determining the presence or absence of a quorum and will have no effect on the outcome of the merger proposal.

If you submit a proxy with respect to your SmartForce ADSs and do not indicate how you want to vote, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted with respect to the merger proposal. Consequently, your failure to indicate how you want to vote will have no effect on the outcome of the merger proposal. For a description of the matters for which The Bank of New York is not entitled to a discretionary proxy to vote SmartForce ADSs, please see *Description of American Depositary Shares Voting Rights* beginning on page 105.

If you submit a proxy with respect to your SmartForce ordinary shares and do not indicate how you want to vote, your proxy will be counted both as present for the purpose of determining the presence of a quorum and will be voted **FOR** the merger proposal.

If you submit a proxy and affirmatively elect to **ABSTAIN** from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted on the merger proposal at the extraordinary general meeting. Consequently, your abstention will not have an effect on the vote for the merger proposal.

Q: Am I entitled to dissenters or appraisal rights in connection with the merger? (see page 73)

A: No. Under the Irish Companies Acts and Delaware law, neither shareholders of SmartForce nor stockholders of SkillSoft, respectively, are entitled to dissenters or appraisal rights in connection with the merger.

Other Matters to Consider

Q: How do the market prices of SmartForce ADSs and SkillSoft common stock compare? (see page 38)

A: SmartForce ADSs and shares of SkillSoft common stock are listed on the Nasdaq National Market. SmartForce s trading symbol is SMTF, and SkillSoft s trading symbol is SKIL. On June 10, 2002, the last full trading day prior to the public announcement of the proposed merger, the last reported sale prices were:

$5.32 per SmartForce ADS, and

$14.93 per share of SkillSoft common stock.

On August 2, 2002, the last reported sale prices were:

$3.44 per SmartForce ADS, and

$8.13 per share of SkillSoft common stock.

SmartForce and SkillSoft urge you to obtain current market quotations.

Q: What are the United States federal income tax consequences of the merger? (see pages 93-97)

A: We expect that, in general, SmartForce, SmartForce s shareholders, SkillSoft and SkillSoft s stockholders will not recognize a gain or loss for United States federal income tax purposes as a result of the merger, except for a gain or loss attributable to cash received by SkillSoft stockholders instead of fractional shares.

Set forth in *Tax Matters Material United States Federal Income Tax Considerations* is a description of the material United States federal tax consequences of the transaction. The tax consequences to each SkillSoft stockholder will depend on the facts of that stockholder s own situation. *Therefore, SkillSoft stockholders are urged to consult their own tax advisors to determine the particular tax consequences of the merger to them.*

Q: How will the merger be accounted for? (see page 72)

A: The merger will be accounted for as a purchase business combination for financial accounting purposes in accordance with accounting principles generally accepted in the United States. Although SmartForce will be acquiring SkillSoft as a legal matter, SkillSoft will be considered the acquirer for accounting purposes. As a result, the cost to the combined company of the acquisition will be allocated to SmartForce s tangible and identifiable intangible assets deemed to be acquired by the combined company and liabilities deemed to be assumed by the combined company based on their fair value with the remaining excess reflected as goodwill. The results of operations and cash flows of SmartForce will be included in the combined company s financial statements prospectively as of the consummation of the merger.

In addition, following the merger and consistent with SkillSoft being the accounting acquirer, the combined company intends to adopt SkillSoft s fiscal year ending January 31. Accordingly, if the merger is consummated on or prior to September 30, 2002 (the last day of SmartForce s third quarter of its current fiscal

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year), the combined company s third quarter will end on October 31, 2002. Subsequent to the closing, the combined company s fiscal quarters will end April 30 (1st Quarter), July 31 (2nd Quarter), October 31 (3rd Quarter) and January 31 (4th Quarter).

Q: Does the merger agreement permit termination of the merger (see pages 81-82)

A: Yes. The merger agreement may be terminated prior to the effectiveness of the merger under some circumstances.

Q: Could payment of a termination fee be required in connection with the merger? (see pages 82-84)

A: Yes. If the merger agreement is terminated upon some specified occurrences, either SmartForce or SkillSoft may be required to pay a termination fee of up to $8,800,000.

Q: May SmartForce or SkillSoft solicit acquisition proposals from other parties? (see pages 77-79)

A: No. Both parties have agreed, subject to limited exceptions for responses to unsolicited bona fide offers, not to initiate or engage in discussions with other parties concerning a business combination with another party while the merger is pending.

Q: Are there restrictions on the ability to sell SmartForce ADSs received as a result of the merger? (see page 73)

A: All SmartForce ADSs received by SkillSoft stockholders in connection with the merger will be freely transferable unless the holder is considered an affiliate of either SkillSoft or SmartForce under the Securities Act of 1933, as amended. SmartForce ADSs issued in the merger and held by affiliates may only be sold pursuant to a registration statement or an exemption from the registration requirements of the Securities Act.

SmartForce has entered into a registration rights agreement with Warburg, Pincus Ventures, L.P., a principal stockholder and affiliate of SkillSoft, granting Warburg the right, on one occasion, to require SmartForce to register for resale under the Securities Act the SmartForce ADSs that Warburg will receive in the merger. The agreement is intended substantially to replicate the rights which Warburg has under an existing registration rights agreement between Warburg and SkillSoft. See *Agreement Related to the Merger Registration Rights Agreement* beginning on page 90.

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RECENT DEVELOPMENTS

Recent Developments of SmartForce

On July 18, 2002, SmartForce announced its fiscal 2002 second quarter financial results. SmartForce reported total revenue of $44.4 million and a net loss (before acquisition-related amortization and restructuring charges) of $8.8 million, or $0.15 per share, for the second quarter ended June 30, 2002. This loss was prior to a restructuring charge of approximately $26.4 million during the second quarter. After the restructuring charge (and acquisition-related amortization), SmartForce s net loss for the second quarter was $37.7 million, or $0.66 per share.

Recent Developments of SkillSoft

On June 25, 2002, upon the recommendation of its audit committee, the Board of Directors of SkillSoft dismissed Arthur Andersen LLP as its independent accountants and engaged Ernst & Young LLP as its independent accountants. Arthur Andersen s report on SkillSoft s financial statements for each of the two most recent fiscal years (ended January 31, 2001 and January 31, 2002) did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

ENFORCEMENT OF CIVIL LIABILITIES UNDER UNITED STATES FEDERAL SECURITIES LAWS

SmartForce is a public limited company organized under the laws of Ireland. Several of SmartForce s directors and officers and experts named in this joint proxy statement/prospectus are non-residents of the United States, and a significant portion of the assets of SmartForce and these persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons or to enforce against them in United States courts judgments under the civil liability provisions of the laws of the United States, including the federal securities laws. SmartForce has been advised that there is doubt as to the enforceability against such persons in Ireland, whether in original actions or in actions for the enforcement of judgments in United States courts, of civil liabilities based solely upon the laws of the United States, including the Federal securities laws.

FORWARD-LOOKING STATEMENTS

You should not place undue reliance upon forward-looking statements in this joint proxy statement/prospectus. This joint proxy statement/prospectus and the documents incorporated by reference into this joint proxy statement/prospectus contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to SmartForce, SkillSoft and the combined company businesses, financial conditions, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies or synergies, budgets, capital and other expenditures, competitive positions, growth opportunities for existing products, benefits from new technology, plans and objectives of management, markets for SmartForce s ordinary shares or ADSs and SkillSoft s stock and other matters relating to SmartForce and SkillSoft. We use words such as anticipates, believes, plans, expects, future, intends, may, will, should, estimates, predicts, potential, continue and similar expressions to identify such forward looking stateme

These forward-looking statements, wherever they occur in this joint proxy statement/prospectus, are estimates reflecting the present best judgment of the senior management of SmartForce and SkillSoft, respectively, and are not guarantees of future performance. These forward-looking statements involve a number

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of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this joint proxy statement/prospectus. Important factors that could cause actual results to differ materially from the forward-looking statements include the following:

- combining and successfully integrating the businesses of SmartForce and SkillSoft may cost more or be more difficult than we expect;
- the completion of the proposed merger could be materially delayed or prohibited;
- general economic conditions or conditions in securities markets may be less favorable than we currently anticipate, which may result in, among other things, lower than expected revenues or results of operations for the combined company;
- cost savings and revenue enhancements that we expect from the merger may not be fully realized or realized within the expected time frame;
- retaining key personnel may be more difficult than we expect;
- contingencies may arise of which we were not aware or of which we underestimated the significance;
- our revenues after the merger may be lower than we expect;
- we may lose more business or customers after the merger than we expect or our operating costs may be higher than we expect;
- the amount (both in absolute dollars and as a percentage of net sales) of SmartForce and SkillSoft expenditures for research and development, selling, general and administrative and capital acquisitions and improvements may be materially greater or less than those expected;
- development costs, anticipated completion, introduction and projected revenues from SmartForce s and SkillSoft s new and developing products and technologies may be materially different than anticipated;
- changes in technology may increase the number of competitors SmartForce or SkillSoft faces or require significant capital expenditures to provide competitive products and services;
- the effects of vigorous competition in the markets in which SmartForce and SkillSoft operate may be materially different from that anticipated;
- adverse changes may occur in the securities markets; or
- the risks described under *Risk Factors* beginning on page 12 or other risks may occur.

SmartForce shareholders and SkillSoft stockholders are cautioned not to place undue reliance on such forward-looking statements contained in this joint proxy statement/prospectus, which speak only as of the date of this joint proxy statement/prospectus or the date of the documents incorporated by reference in this joint proxy statement/prospectus in which they appear.

This joint proxy statement/prospectus also contains forward-looking statements attributed to third parties relating to their estimates regarding the growth of certain markets. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance, achievements and prospects to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those identified under *Risk Factors* and elsewhere in this joint proxy statement/prospectus.

Neither SmartForce nor SkillSoft is under any obligation, and each expressly disclaims any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this joint proxy statement/prospectus might not materialize.

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RISK FACTORS

The merger and the business of the combined company involves a high degree of risk. By voting in favor of the proposals submitted to you, current SkillSoft stockholders will be choosing to invest in SmartForce ADSs, and current SmartForce shareholders will face dilution of their ownership interest in SmartForce. An investment in SmartForce ADSs involves a high degree of risk. In addition to the other information contained in this joint proxy statement/prospectus and the documents incorporated by reference, you should carefully consider all of the following risk factors relating to the proposed merger, SkillSoft, SmartForce and the combined company in deciding whether to vote for the proposals submitted to you. References below to we, us, our and ours refer to the combined company and its consolidated subsidiaries.

Risks Related to the Proposed Merger

The combined company may face challenges in integrating SkillSoft with SmartForce and, as a result, may not realize the expected benefits of the merger.

The combined company may not be successful in integrating SkillSoft s and SmartForce s respective businesses. Integrating SkillSoft s operations and personnel with SmartForce s will be a complex process. The integration may not be completed rapidly or achieve the anticipated benefits of the merger. The successful integration of the two businesses will require, among other things, the following:

- integration of the two companies products and services, sales and marketing, information and software systems and other operations;
- retention and integration of management and other key employees;
- coordination of ongoing and future research and development efforts and marketing activities;
- retention of existing customers of both companies and attraction of additional customers;
- retention of strategic partners of each company and attraction of new strategic partners;
- developing and maintaining uniform standards, controls, procedures and policies;
- identifying and eliminating redundant and underperforming operations and assets;
- effectively leveraging SmartForce s indirect sales presence;
- capitalizing on cross-selling opportunities;
- minimization of disruption of each company s ongoing business and distraction of its management; and
- limiting expenses related to integration.

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

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The value of SmartForce ADSs issued in the merger will depend on their market price at the time of the merger, and no adjustment will be made as a result of changes in the market price of SmartForce s ADSs.

Upon completion of the merger, each share of SkillSoft common stock will be exchanged for 2.3674 SmartForce ADSs representing SmartForce ordinary shares. The exchange ratio will not be adjusted for changes in the market price of SkillSoft common stock or SmartForce ADSs. As a result, the specific dollar value of SmartForce s ADSs that SkillSoft stockholders will receive and that SmartForce shareholders will retain upon completion of the merger will depend on the market value of SmartForce ADSs when the merger is completed, and may increase or decrease from the date you submit your proxy or the time of the stockholder meetings of SmartForce and SkillSoft. The market prices of SmartForce ADSs and SkillSoft common stock are subject to the general price fluctuations in the market for publicly traded equity securities and have recently experienced significant volatility. We cannot predict or give you any assurances as to the market price of SmartForce ADSs at any time before or after the completion of the merger and, therefore, we cannot value with any degree of certainty the consideration that will be received in the merger.

Certain aspects of the merger could harm the financial results of the combined company.

In connection with the merger of SkillSoft and SmartForce, certain aspects of the structure of the business combination and the integration of the two companies moving forward could harm the financial results of the combined company. For example, although SmartForce will be acquiring SkillSoft as a legal matter, SkillSoft will be considered the acquirer for accounting purposes. Because the merger will be accounted for as a purchase business combination for financial accounting purposes, the combined company will lose an amount of SmartForce s deferred revenue to goodwill. Additionally, purchase accounting is expected to create intangible assets (separate from goodwill) that will result in a non-cash, quarterly amortization expense and a one-time charge for transaction related expenses (separate from any other nonrecurring and/or restructuring charges that might be incurred). One-time restructuring charges will be incurred in connection with the merger resulting from the elimination of redundant facilities, personnel and assets. The combined company will also incur deal costs relating to legal, accounting, banking and other professional fees as well as costs relating to Irish capital duty payable in relation to SmartForce ordinary shares issued pursuant to the merger.

In addition, the combined company intends to make certain changes in contracting practices following the merger, which will have certain attendant accounting implications. Specifically, SmartForce currently records certain revenues under contracts that provide for perpetual licenses to software. On a going forward basis, the combined company intends to contract with its customers with respect to such business in such a manner that the combined company will contract to deliver a bundled offering including services, which will be recognized as revenues as the services are delivered, rather than upon the shipment of the software. This will have the effect of deferring the recognition of revenues.

Further, the integration of the two businesses is expected to result in certain categories of lost revenue in the near term as a result of the merger. For example, although the products and customer bases of the two companies are complementary and should provide us with numerous cross selling opportunities, we do expect some degree of commercial overlap that could negatively impact revenue. Also, we intend to de-emphasize growth in customer service revenue activities to focus on higher margin segments of the business, which we expect will result in lost revenue.

If the benefits of the merger do not exceed the associated costs, or if costs related to the merger exceed estimates, including costs associated with integrating the two companies, lost or deferred revenues and dilution of SmartForce s shareholders resulting from the issuance of SmartForce ADSs in connection with the merger, the combined company s financial results, including earnings per share, could be materially harmed.

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The market price of SmartForce s ADSs may decline as a result of the merger.

The market price of SmartForce s ADSs may decline as a result of the merger for a number of reasons, including if:

- the integration of SmartForce and SkillSoft is unsuccessful or not completed in a timely and efficient manner;
- the combined company does not achieve the expected benefits of the merger as rapidly or to the extent anticipated by financial or industry analysts;
- the effect of the merger on the combined company s financial results is not consistent with the expectations of financial or industry analysts; and
- significant shareholders of SmartForce following the merger decide to dispose of their shares because the results of the merger are not consistent with their expectations.

Failure to complete the merger could negatively impact the market price of SmartForce ADSs and SkillSoft common stock and the future business and operations of each company.

If the merger is not completed for any reason, SmartForce and SkillSoft will be subject to a number of material risks, including:

- under the circumstances described in the merger agreement, SkillSoft could be required to pay SmartForce, or SmartForce could be required to pay SkillSoft, a termination fee in the amount of up to $8.8 million;
- the market price of SmartForce s ADSs and SkillSoft s common stock may decline to the extent that the current market price of such shares reflects a market assumption that the merger will be completed;
- each company s costs related to the merger, such as legal and accounting fees and a portion of the investment banking fees, must be paid even if the merger is not completed;
- benefits that each company expects to realize from the merger would not be realized; and
- the diversion of management attention from the day-to-day businesses of SmartForce and SkillSoft, the scaling back of marketing and capital spending and the unavoidable disruption to their employees and their relationships with customers and suppliers during the period before consummation of the merger may make it difficult for SmartForce and SkillSoft to regain their financial and market positions if the merger does not occur.

During the pendency of the merger, each of SmartForce and SkillSoft may not be able to enter into a merger or business combination with another party at a favorable price because of restrictions in the merger agreement.

Covenants in the merger agreement impede the ability of each of SmartForce and SkillSoft to make acquisitions or complete other transactions that are not in the ordinary course of business but that could be favorable to them and their respective stockholders pending completion of the merger. As a result, if the merger is not consummated, each of SmartForce and SkillSoft may be at a disadvantage to its competitors. In addition, while the merger agreement is in effect and subject to very narrowly defined exceptions, each of SmartForce and SkillSoft is prohibited from soliciting, initiating, encouraging or entering into certain extraordinary transactions, such as a merger, sale of assets or other business combination outside the ordinary course of business, with any third party.

Charges to earnings resulting from the application of the purchase method of accounting may adversely affect the market value of SmartForce ADSs following the merger.

In accordance with United States generally accepted accounting principles, the combined company will account for the merger using the purchase method of accounting, which will result in charges to earnings that

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could have a material adverse effect on the market value of SmartForce ADSs following completion of the merger. Although SmartForce will be acquiring SkillSoft as a legal matter, SkillSoft will be considered the acquirer for accounting purposes. Under purchase accounting, the combined company will record as the cost of the merger the market value of the merger consideration and the amount of direct transaction costs. The combined company will allocate the cost of the merger to SmartForce s net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development, if any, based on their fair values as of the date of completion of the merger, and record the excess of the purchase price over those fair values as goodwill. The portion of the estimated purchase price allocated to in-process research and development will be expensed by the combined company in the quarter in which the merger is completed. The combined company may incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. In addition, to the extent the value of these assets, including goodwill or intangible assets with indefinite lives becomes impaired, the combined company may be required to incur material charges relating to the impairment of those assets. These depreciation, amortization, in-process research and development and potential impairment charges will have a negative effect on the net income of the combined company for the foreseeable future, which could have a material impact on the combined company s results of operations and the market value of its ADSs following the merger.

Action by governmental regulators could prevent or delay consummation of the merger, or require a modification of its terms which could hurt the combined company s business.

The merger is subject to review by the U.S. Federal Trade Commission and U.S. Department of Justice under the Hart-Scott-Rodino Improvements Act of 1976 or the HSR Act. In addition, other filings with the Minister for Enterprise, Trade and Employment of Ireland under the Mergers and Take-overs (Control) Acts, 1978 to 1996, with respect to the merger and other transactions contemplated by the merger agreement, relating primarily to antitrust issues, must be made prior to the consummation of the merger. Under each of these statutes, SmartForce and SkillSoft are required to make pre-merger notification filings and to await the expiration or early termination of statutory waiting periods and clearance prior to completing the merger. On July 22, 2002, the waiting period under the HSR Act expired. However, at any time before or after the merger, and notwithstanding any termination of the waiting period or consummation of the merger, the U.S. Federal Trade Commission, the U.S. Department of Justice, or any state or the Irish authorities could take any action under the applicable antitrust or competition laws as it deems necessary or desirable. This action could include delaying the consummation of the merger, seeking to enjoin the completion of the merger, requiring SmartForce or SkillSoft to dispose of certain businesses or assets, or requiring a modification of the terms of the merger, any of which could be detrimental to SmartForce, SkillSoft or the combined company. Private parties may also institute legal actions under the antitrust laws under some circumstances. We may not be able to obtain the required regulatory approvals in a timely fashion or at all.

If we are unable to take advantage of opportunities to market and sell SmartForce s and SkillSoft s products and services to each other s traditional customers, distribution channels and business partners, we may not realize some of the expected benefits of the merger.

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

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SmartForce and SkillSoft may lose key personnel, customers and business partners due to uncertainties associated with the merger.

Current and prospective employees, customers and business partners of SmartForce and SkillSoft may experience uncertainty about their future relationships with the combined company. Such uncertainty may adversely affect the combined company s ability to attract and retain key management, sales, marketing and technical personnel. Current and prospective customers and business partners may, in response to the announcement or consummation of the merger, delay or cancel purchasing decisions as they evaluate the likelihood of successful integration of the combined company or may instead purchase products or services from competitors. Additionally, some of these customers and business partners may feel that the combined company poses new competitive threats to their businesses and as a result may seek to discontinue their relationships with SmartForce or SkillSoft or avoid renewing or entering new relationships with the combined company. Any delay in, or cancellation of, purchasing decisions could adversely affect the business of the combined company.

Some of SmartForce s and SkillSoft s current officers and directors have conflicts of interest that may influence them to support or approve the merger.

The directors and officers of SmartForce and SkillSoft participate in arrangements and have continuing indemnification against liabilities that provide them with interests in the merger that are different from or are in addition to yours, including the following:

Messrs. Gregory M. Priest, Jeffrey N. Newton, Paul Henry and Colm M. Darcy of SmartForce and Messrs. Charles E. Moran, Thomas J. McDonald, Jerald A. Nine and Mark A. Townsend of SkillSoft will become executive officers of the combined company following the merger. In addition, Messrs. Priest, Moran, James S. Krzywicki, Ferdinand von Prondzynski, Stewart K.P. Gross and William T. Coleman will become directors of the combined company. Certain of these officers and directors hold shares of SmartForce and/or SkillSoft stock, or options to purchase such shares.

In connection with the merger, Messrs. Priest, Moran, Newton and Nine have entered into employment agreements, conditioned and effective upon the completion of the merger, whereby each has been provided with certain incentives to remain employed by the combined company following the merger.

In connection with the merger, SmartForce has agreed to amend certain of the outstanding option agreements of its current directors who will not be directors of the combined company, including Messrs. Ronald C. Conway, John M. Grillos and Patrick J. McDonagh, so that each option held by them which is existing and vested on the closing date of the merger will remain exercisable following the termination of the relevant optionee s service as a director on the SmartForce board of directors for a period equal to the remaining unexpired portion of the option s ten-year term. This action will not give any SmartForce director any rights to purchase shares with respect to any options unvested at the time of the merger or that he would not otherwise have the right to purchase at the time of the merger.

On July 12, 2002, following discussions of the boards of directors of both SmartForce and SkillSoft, SmartForce granted options to purchase an aggregate of 3,135,000 SmartForce ordinary shares (represented by SmartForce ADSs) at an exercise price of $3.30 per share to Messrs. Priest, Newton, Darcy and Henry as an incentive for their continued service with the combined company following the merger. Under the terms of the merger agreement, SkillSoft is permitted to grant options for up to 2,400,000 shares of its common stock (equivalent to 5,681,760 SmartForce ordinary shares represented by ADSs based on the exchange ratio with respect to the merger) between the execution of the merger agreement and the closing of the merger. Prior to the closing of the merger, SkillSoft s board of directors anticipates granting options to Messrs. Moran, McDonald, Nine and Townsend as an incentive for their continued service with the combined company following the merger.

In connection with the merger, SkillSoft has agreed to amend the outstanding option agreement of Mr. John J. Neuhauser, a current SkillSoft director who will not be a director of the combined company,

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so that the option to the extent existing and vested will remain exercisable following the termination of Mr. Neuhauser s service as a director on the SkillSoft board of directors for a period of four years from the grant date of the option. Pursuant to the terms of the SkillSoft 1999 Non-Employee Director Stock Option Plan, Mr. Neuhauser s option will automatically vest and become immediately exercisable in full upon the completion of the merger.

SmartForce has agreed to cause its wholly owned subsidiary, SmartForce (USA), to indemnify each present and former SkillSoft officer and director against liabilities arising out of such person s services as an officer or director. SmartForce will also cause SmartForce (USA) to maintain officers and directors liability insurance to cover any such liabilities for a period of six years from the effective time of the merger.

Please see the summary of the terms of the employment agreements in the section of this joint proxy statement/prospectus entitled *Employment Agreements* under *Agreements Related to the Merger* on page 90 of this joint proxy statement/prospectus. In addition, please see the summary of the terms of the other arrangements described above in the section of this joint proxy statement/prospectus entitled *Interests of Certain Persons in the Merger* under *The Proposed Merger* on page 69 of this joint proxy statement/prospectus.

The receipt of compensation or other benefits in or contingent upon the merger, or the continuation of indemnification arrangements for current officers or directors of SmartForce or SkillSoft may influence such persons to support or approve the merger.

The combined company expects to operate under a new name, which may adversely affect its results of operations.

Following the consummation of the merger, we intend to change the name of the combined company from SmartForce to a new name. The adoption of this new name may prevent the combined company from taking advantage of certain goodwill existing customers and strategic partners of SmartForce and SkillSoft currently associate with their respective names. Further, we expect to incur significant expense in effecting the name change and in marketing efforts to promote brand recognition of the new name, and these efforts may prove to be a distraction to the management of the combined company. During the process of selecting a new name, SmartForce has undertaken a search of trademarks in multiple U.S. and international jurisdictions to evaluate the potential risk associated with the names we are considering. However, despite our efforts, our right to use the selected name in a jurisdiction in which we now operate or may operate in the future may be challenged. Any claim, with or without merit, could result in costly administrative proceedings or litigation or require the combined company to cease use of such name, pay damages or incur settlement expenses each of which could have a material adverse effect on the combined company s business.

Risks Related to the Combined Company

SmartForce and SkillSoft each have experienced net losses in the past, and the combined company may be unable to achieve or maintain profitability.

Although it recorded net income of $3.0 million in its fiscal year ended December 31, 2001, SmartForce has incurred substantial net losses both recently and in the past, including a net loss of $37.7 million in the three months ended June 30, 2002, $19.1 million in the three months ended March 31, 2002 and a net loss of $28.7 million in its fiscal year ended December 31, 2000. In addition, since SkillSoft began operations, it has incurred substantial net losses in every fiscal quarter except for its fiscal quarters ended January 31, 2002 and April 30, 2002, in which it recorded net income of $926,000 and $282,000, respectively. SkillSoft had net losses of $8.3 million in the fiscal year ended January 31, 1999, $22.9 million in the fiscal year ended January 31, 2000, $21.9 million in the fiscal year ended January 31, 2001 and $9.6 million in the fiscal year ended January 31, 2002. As a result of ongoing operating losses, SkillSoft had an accumulated deficit of $63.6 million on January 31, 2002. We expect to incur significant expenses in connection with the integration of SkillSoft into

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SmartForce and the continued expansion of this combined business, and, as a result, the business will need to generate significant revenues to achieve and maintain profitability. We cannot predict whether the business of SmartForce, SkillSoft or the combined company will achieve or sustain profitability in any future period.

SkillSoft and several of its executives, three of its key employees and its largest investor are defendants in litigation with NETg which alleges, among other things, misappropriation of trade secrets; this litigation will continue to be costly, may divert the efforts of the combined company s management and may ultimately restrict the combined company s ability to do business.

SkillSoft, several of its executives, three of its key employees and its largest investor are defendants in a lawsuit brought by National Education Training Group, Inc. (NETg), the former employer of these individuals. NETg alleges in substance that the defendants breached their fiduciary and contractual obligations to NETg in connection with the organization and operation of SkillSoft, misappropriated trade secrets from NETg, tortiously interfered with NETg s business and employees and breached provisions of a license agreement with NETg relating to the use of its software. NETg maintains that the trade secrets allegedly misappropriated by SkillSoft and the other defendants include, among other things:

- various aspects of the design and functionality of its education and training software and products;
- customer lists and information;
- relationships with service providers; and
- NETg s soft skills product line business plan.

The claims seek injunctive relief against the defendants demanding the return, and no future use by these defendants, of the alleged trade secrets. The claims also seek compensatory damages of $400 million and exemplary damages in the additional amount of $400 million, compensatory, incidental and consequential damages in an unspecified amount and punitive damages totaling $50 million or such other amount as the court deems just or appropriate. Named as defendants in the lawsuit, in addition to SkillSoft, are Charles E. Moran, Jerald A. Nine, Jr., Mark A. Townsend, Lee A. Ritze, Dennis E. Brown, Sally H. Hovis, Warburg, Pincus Ventures, L.P., SkillSoft s largest investor, and each general partner of Warburg.

In addition, NETg also filed suit against SkillSoft in July 2000 alleging that its educational and training software products infringe a patent allegedly owned by NETg. The complaint seeks both monetary damages and injunctive relief. SkillSoft has filed an answer and a counterclaim for a declaration of invalidity of the NETg patent. The lawsuit has been stayed pending resolution of SkillSoft s efforts to have the U.S. Patent and Trademark Office declare the patent invalid.

These lawsuits are still in discovery, and it is currently difficult to assess the potential liability of SkillSoft, the combined company or the other defendants. SkillSoft or the combined company s failure to prevail in these cases could have any or all of the following significant adverse effects on the combined company s business and financial performance:

- injunctive relief against SkillSoft, the combined company and our officers and employees, which could significantly restrict the combined company s ability to conduct its business;
- an adverse judgment against the combined company for monetary damages;
- a settlement on unfavorable terms to the combined company;
- obligations on the part of the combined company to indemnify its employees and directors for liabilities and expenses they incur in connection with the lawsuits;
- obligations to customers for breach of warranties of noninfringement; or
- a requirement to reengineer the combined company s products to avoid patent infringement, which would likely result in additional expense and delay.

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In addition, these cases, regardless of their outcome, will continue to result in significant expenses in defending the lawsuits. SkillSoft s legal expenses related to the defense of these lawsuits totaled approximately $1.9 million in the fiscal year ended January 31, 2000, $1.4 million in the fiscal year ended January 31, 2001 and $1.7 million in the fiscal year ended January 31, 2002. Moreover, these lawsuits may divert the efforts and attention of the combined company s management team from normal business operations.

The combined company s quarterly operating results may fluctuate significantly. This limits your ability to evaluate historical financial results and increases the likelihood that the combined company s results will fall below market analysts expectations, which could cause the price of SmartForce ADSs to drop rapidly and severely.

SmartForce and SkillSoft have in the past experienced fluctuations in their quarterly operating results, and we anticipate that these fluctuations will continue and could intensify in the future for the combined company. As a result, we believe that the combined company s quarterly revenue, expenses and operating results are likely to vary significantly in the future. Thus, it is likely that in some future quarters, the combined company s results of operations will be below the expectations of public market analysts and investors, which could have a severe adverse effect on the price of SmartForce ADSs. For example, SmartForce s revenue for the quarter ended September 30, 1998 did not increase at a rate comparable to prior quarters. As a direct result, the trading price of SmartForce ADSs decreased rapidly and significantly, having an extreme adverse effect on the value of an investment in its securities. SmartForce s revenues and profits for the first quarter of 2002 also did not meet its expectations, causing a significant reduction in the price of its shares.

SmartForce s and SkillSoft s operating results have historically fluctuated, and the combined company s operating results may in the future continue to fluctuate, as a result of factors, which include:

- the size and timing of new and renewal agreements;
- the number and size of outsourcing agreements or other agreements providing for professional services or the resale of instructor-led training;
- the mix of revenue between access to hosted content or platform services, up-front software licenses, software rental, professional services, maintenance and resale of third parties products and services;
- royalty rates;
- the announcement, introduction and acceptance of new products, product enhancements and technologies by the combined company and its competitors;
- the mix of sales between the combined company s field sales force, its other direct sales channels and its telesales channels;
- the impact of any unanticipated decline in net revenues in any particular quarter as compared to the relatively fixed nature of the combined company s expense levels in the short term;
- general conditions in the U.S. or the international economy;
- general conditions in the combined company s market or the markets served by its customers;
- the loss of significant customers;
- delays in availability of existing or new products;
- product or service quality problems;
- the spending patterns of the combined company s customers;
- litigation costs and expenses;
- non-recurring charges related to acquisitions;
- currency fluctuations; and

the length of the combined company s sales cycles.

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The combined company will be managed by a management team consisting of current SmartForce and SkillSoft executives, and this management team may undertake a strategy and business direction which is different from that which would be undertaken by SmartForce s current management team.

After the business combination, the new management team of the combined company will consist of certain current SmartForce and SkillSoft executives. The manner in which the new management team conducts the business of the combined company, and the direction in which the new management team moves the business, may differ from the manner and direction in which the current management of either SmartForce or SkillSoft would direct the combined or separate companies on a stand-alone basis. Such control by the new management team, together with the effects of future market factors and conditions, could ultimately evolve into an integration and business strategy that, when implemented, differs from the strategy and business direction currently recommended by SmartForce s or SkillSoft s current management and board of directors. The new management team, and any change in business or direction, may not improve, and could adversely impact, the combined company s financial condition and results of operations.

Demand for the combined company s products and services may be especially susceptible to adverse economic conditions.

The combined company s business and financial performance may be damaged by adverse financial conditions affecting its target customers or by a general weakening of the economy. Some companies may not view training products and services as critical to the success of their businesses. If these companies experience disappointing operating results, whether as a result of adverse economic conditions, competitive issues or other factors, they may decrease or forego education and training expenditures before limiting their other expenditures. For example, general economic weakness contributed to a reduction in SmartForce s revenues in the first quarter of 2002.

In addition, the general condition of the economy, and by extension the combined company s business, can be affected by social, political and military conditions. For example, the terrorist events of September 11, 2001 and their aftermath had a material adverse effect on SmartForce s bookings in the second half of 2001 and may have contributed to weakness in its bookings in the first quarter of 2002. It is not possible to predict the outcome of the escalation of hostilities between the United States and certain countries and persons related to the events of September 11. The continuation of these hostilities could result in further weakness in the economy that would have an adverse impact on the combined company s operating results and financial condition.

SmartForce s experience in selling fully integrated, Internet-based learning solutions are relatively limited.

In the fourth quarter of 1999, SmartForce introduced SmartForce e-Learning, its Internet-based learning solution. While the results of SmartForce s efforts to market these solutions to its customers have been positive, SmartForce has relatively limited experience with these solutions, which makes its historical results of limited value in predicting the potential success of this initiative. The ultimate success of this initiative will depend on the combined company s ability to continue to expand and enhance its e-Learning offerings, to market and sell the new e-Learning solutions to existing and prospective customers, to host, operate and manage its site, and to attract and retain key management and technical personnel. The combined company may not be successful in these efforts and the economic terms of any arrangements that might result from these efforts may not be as favorable as the traditional licensing agreements. We believe that a lack of success in this regard could have a material adverse effect on the combined company.

SmartForce s and SkillSoft s operating results have been, and the combined company s operating results will be, subject to seasonal fluctuations which may adversely impact its business.

SmartForce s and SkillSoft s operating results have been, and the combined company s operating results will be, subject to seasonal fluctuations, based in part on customers annual budgetary cycles and in part on the annual nature of sales quotas. These seasonal trends have in the past caused bookings in the first quarter of a year to be less, perhaps substantially so, than bookings for the immediately preceding fourth quarter. We expect that these seasonal trends could continue to adversely affect the combined company s operating results. In addition, SmartForce and SkillSoft have in past years added significant headcount in the sales and marketing and research and development functions in the first quarter, and to a lesser extent, the second quarter. Because these headcount additions do not immediately contribute significant revenues, SmartForce s and SkillSoft s operating margins in the earlier part of the year have tended to be significantly lower than in the later parts of the year. In addition, many technology companies also experience a seasonal downturn in demand during the summer months. These seasonal trends may have a material adverse effect on the combined company s results of operations.

SmartForce and SkillSoft rely on strategic alliances for product development and marketing. Such alliances may be terminated or fail to meet our requirements in the future.

SmartForce and SkillSoft have developed strategic alliances to develop and market many of their respective products, and believe that an increasing proportion of the combined company s future revenues may be attributable to products developed and marketed through these and other future alliances. In addition, SkillSoft s Books24x7.com Group relies on third party publishers to provide all of the content incorporated into its referenceware products. However, these relationships are not exclusive and the combined company may be unable to continue to develop future products through these alliances in a timely fashion or may be unable to negotiate additional alliances in the future on acceptable terms, if at all.

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

Our strategic partners may aid our competitors, or compete with us directly.

The independent third party strategic partners we rely on for educational content and product marketing may compete with us, harming our results of operations. Our agreements with these third parties generally do not restrict them from developing courses on similar topics for our competitors or from competing directly with us. As a result, our competitors may be able to duplicate some of our course content and gain a competitive advantage. The product development and marketing efforts of the combined company s strategic partners may also disrupt its direct sales efforts. The combined company s development and marketing partners could pursue their existing or alternative training programs in preference to and in competition with those being developed by the combined company.

The combined company s success depends on its ability to meet the needs of the rapidly changing market.

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

The success of the combined company s e-Learning strategy depends on the reliability and consistent performance of its information systems and Internet infrastructure.

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

The e-Learning market is a developing market, and the combined company s business will suffer if e-Learning is not widely accepted.

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

Accordingly, the combined company s future success will depend upon the extent to which companies adopt technology-based solutions and use the Internet in connection with their training activities, and the extent to which companies utilize the services or purchase products of third-party providers. Many companies that have already invested substantial resources in traditional methods of corporate training may be reluctant to adopt a new strategy that may compete with their existing investments. Even if companies implement technology-based

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training or Internet learning solutions, they may still choose to design, develop, deliver or manage all or part of their education and training internally. If technology based learning and the use of the Internet for learning does not become widespread, or if companies do not use the products and services of third parties to develop, deliver or manage their training needs, then the combined company s products and service, may not achieve commercial success.

The combined company may fail to integrate adequately acquired products, technologies and businesses.

SmartForce and SkillSoft regularly evaluate acquisition opportunities and have made, and will likely in the future continue to make, acquisitions that would provide additional product or service offerings, additional industry expertise or an expanded geographic presence. For example, in April 2001, SmartForce acquired icGlobal Corporation, a provider of learning management system software. In August 2001, SmartForce acquired substantially all of the assets of Impaxselling.com Ltd., a sales performance company providing global enterprises with web-based learning solutions designed to improve sales and account management performance. In October 2001, SmartForce acquired SkillScape Solutions, Inc., a provider of competency management systems. In December 2001, SkillSoft acquired Books24x7.com, Inc., a provider of Web-based digital, technical and reference content. In January 2002, SmartForce acquired certain assets of M2S Prokoda GmbH, an e-Learning vendor with its key operations in Germany. In June 2002, SmartForce acquired certain assets of Frontline Telcom Training and Performance Company (Nova Scotia), and Frontline Telcom Training and Performance Company (Georgia), providers of training outsourcing. The combined company may be unable to locate attractive opportunities or acquire any opportunities that it locates on attractive terms. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to goodwill and other intangible assets, which could materially adversely affect the combined company s results of operations.

Product and technology acquisitions also entail numerous risks, including difficulties in the assimilation of acquired operations, technologies and products, diversion of management s attention to other business concerns, risks of entering markets in which the combined company has no or limited prior experience and the potential loss of key employees of acquired companies. The combined company may be unable to integrate successfully, or identify and eliminate redundancies or underperforming assets or properties resulting from, any operations, personnel or products that have been acquired or that might be acquired in the future. Further, the revenues from the acquired businesses may not be sufficient to support the costs associated with those businesses, without adversely affecting the combined company s operating margins in the future. The combined company s failure to successfully complete the integration of acquired businesses in a timely fashion, if at all, or to generate sufficient revenues from acquired businesses could have a material adverse effect on its business and results of operations.

The combined company s failure to manage its rapid expansion effectively could hurt the combined company s operations and business.

SmartForce and SkillSoft have recently experienced rapid expansion of their operations, which has placed, and is expected to continue to place, significant demands on the combined company s executive, administrative, operational and financial personnel and systems. The combined company s future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. In particular, the combined company will require significant improvement in its order entry, fulfillment and management information systems in order to support its expanded operations. If the combined company is unable to respond to and manage changing business conditions, its business and results of operations could be materially adversely affected.

SmartForce s and SkillSoft s expense levels are fixed in the short term. As a result, the combined company may be unable to adjust spending to compensate for unexpected revenue shortfalls.

SmartForce s and SkillSoft s expense levels are based in significant part on their respective expectations regarding future revenues and are fixed to a large extent in the short term. Accordingly, following the merger, the

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combined company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall would therefore have a material adverse effect on the combined company s results of operations. This risk materialized for SmartForce in the three months ended March 31, 2002 and in the third quarter of 1998, where profit was dramatically negatively affected by a shortfall in revenues compared to management s expectations.

SmartForce s restructuring plan may be ineffective or may limit the combined company s ability to compete.

Actions SmartForce has taken in response to the recent decrease in its revenues could have long-term adverse effects on the combined company s business. To bring its cost base in line with decreased revenues, on April 18, 2002, SmartForce announced details of a restructuring and a cost reduction plan, which it proceeded to implement immediately following the announcement. At the time of the announcement, SmartForce anticipated that the restructuring plan would require reducing its workforce by over 20%, implementing hiring and pay freezes, consolidating facilities and other activities. There are several risks inherent in these efforts to transition to a new cost structure. These include the risk that SmartForce will not be successful in achieving its planned cost reductions, and that even if SmartForce is successful in doing so, it will still not be able to reduce expenditures quickly enough to restore profitability, and hence that SmartForce or the combined company may have to undertake further restructuring initiatives that would entail additional charges and create additional risks. In addition, there is the risk that cost-cutting initiatives will impair the ability of SmartForce or the combined company to effectively develop and market products and remain competitive. Each of the above measures could have long-term effects on the combined company s business by reducing its pool of talent, decreasing or slowing improvements in its products, making it more difficult for the combined company to respond to customers, limiting its ability to increase production quickly if and when the demand for its products increases and limiting its ability to hire and retain key personnel. These circumstances could cause the combined company earnings to be lower than they otherwise might be.

The combined company will depend on a few key personnel to manage and operate the business and must be able to attract and retain highly qualified employees.

The combined company s success will be largely dependent on the personal efforts and abilities of its senior management, including Charles E. Moran, the intended Chief Executive Officer of the combined company and the current Chairman, President and Chief Executive Officer of SkillSoft, and Gregory M. Priest, the intended Chairman and Chief Strategy Officer of the combined company and the current Chairman, President and Chief Executive Officer of SmartForce. Failure to retain these executives, or the loss of certain additional senior management personnel or other key employees, could have a material adverse effect on the combined company s business and future prospects. Further, in connection with SmartForce s restructuring, following the first quarter of 2002, certain of its top executives were no longer employed by SmartForce. If the combined company fails to manage this transition effectively, the results of operations of the combined company could be negatively affected.

The combined company will also be dependent on the continued service of its key sales, content development and operational personnel and on its ability to attract, train, motivate and retain highly qualified employees. In addition, the combined company will depend on writers, programmers, Web designers and graphic artists. We expect to continue to hire additional content development, programming, sales and marketing, information systems and accounting staff. However, the combined company may be unsuccessful in attracting, training, retaining or motivating key personnel. In particular, SmartForce s recent adverse operating results, stock price performance and restructuring and cost reduction plans could create uncertainties that materially and adversely affect its ability to attract and retain key personnel. The inability to hire, train and retain qualified personnel or the loss of the services of key personnel could have a material adverse effect upon the combined company s business, new product development efforts and future business prospects.

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Increased competition may result in decreased demand for the combined company s products and services, which may result in reduced revenues and gross margins and loss of market share.

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

SmartForce s and SkillSoft s primary source of direct competition comes from third-party suppliers of instructor-led information technology, business, management and professional skills education and training as well as suppliers of computer-based training and e-Learning solutions. SmartForce and SkillSoft also face indirect competition from internal education and training departments of their potential customers. With respect to different aspects of SkillSoft s collaboration solution, competition occurs from a variety of software and service vendors. SmartForce and SkillSoft also compete to a lesser extent with consultants, value-added resellers and network integrators. Certain of these value-added resellers also market products that compete with those of SmartForce and SkillSoft. We expect that as organizations increase their dependence on outside suppliers of training, the combined company will face increasing competition from these other suppliers as education and training managers more frequently compare training products provided by outside suppliers.

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

The combined company s business will be subject to currency fluctuations that could adversely affect its operating results.

Due to SmartForce s multinational operations, SmartForce s business is currently subject to, and the combined company s business will be subject to, fluctuations based upon changes in the exchange rates between the currencies in which revenues are collected or expenses are paid. In particular, the value of the U.S. dollar against the euro and related currencies will impact the combined company s operating results. The combined company s expenses will not necessarily be incurred in the currency in which revenue is generated, and, as a result, the combined company will be required from time to time to convert currencies to meet its obligations.

These currency conversions are subject to exchange rate fluctuations, and changes to the value of the euro, pound sterling and other currencies relative to the U.S. dollar could adversely affect the combined company s business and results of operations.

The combined company s corporate tax rate may increase, which could adversely affect the combined company s cash flow, financial condition and results of operations.

The combined company s corporate tax rate may increase, which could adversely affect the combined company s cash flow, financial condition and results of operations. SmartForce currently has significant foreign operations and generates a majority of its taxable income in the Republic of Ireland, and some of SmartForce s Irish operating subsidiaries are taxed at rates substantially lower than tax rates in effect in the United States and other countries in which SmartForce has operations. As SkillSoft s assets and properties are substantially located in, and its business operations are principally conducted in, the United States, the combined company will be required to reorganize SkillSoft s operations and repatriate certain assets to Ireland in order to maintain a combined company effective tax rate at the level currently applicable to SmartForce. If following the merger the combined company is unable to effect such a reorganization, or if at any time following the combined company s Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, the combined company s operating results could be materially adversely affected. Moreover, because the combined company will incur income tax in several countries, an increase in the combined company s profitability in one or more of these countries could result in a higher overall tax rate. In addition, if U.S. or other foreign tax authorities were to change applicable tax laws or successfully challenge the manner in which the combined company s subsidiaries profits are currently recognized, the combined company s taxes could increase, and the combined company s business, cash flow, financial condition and results of operations could be materially adversely affected. Although SmartForce will be acquiring SkillSoft as a legal matter, SkillSoft will be considered the acquirer for accounting purposes, and as such no financial statement benefit will be available to the combined company for pre-existing net operating losses of SmartForce. There may be limitations imposed on the level and timing of utilization of historic net operating losses for tax purposes as a result of the merger. These limitations may apply to either or both SmartForce and SkillSoft and may adversely impact cash flow depending on the extent of any such limitation. These limitations may also adversely impact operating results if they apply to SkillSoft s historic net operating losses.

The combined company may be unable to protect its proprietary rights. Unauthorized use of the combined company s technology may result in development of products or services that compete with those of the combined company.

The success of the combined company depends to a significant degree upon the protection of its rights in intellectual property and its trade secrets. SmartForce currently relies upon, and the combined company will rely upon, a combination of patent, copyright, trademark and trade secret laws and customer license agreements, and other methods to protect its proprietary rights. SmartForce and SkillSoft have also entered into, and the combined company will continue to enter into, confidentiality agreements with their employees, consultants and third parties to seek to limit and protect the distribution of their proprietary information. However, neither SmartForce nor SkillSoft has signed protective agreements in every case.

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

Pending and any future claims that SmartForce, SkillSoft or the combined company infringes upon the intellectual property rights of others could result in costly litigation or royalty payments to third parties, or require the combined company to reengineer or cease sales of its products or services.

Third parties have in the past and could in the future claim that SmartForce s or SkillSoft s current or the combined company s future products infringe their intellectual property rights. Any claim, with or without merit, could result in costly litigation or require the combined company to reengineer or cease sales of the combined company s products or services, any of which could have a material adverse effect on the combined company s business. Infringement claims could also result in an injunction in the use of the combined company s products or require the combined company to enter into royalty or licensing agreements. Licensing agreements, if required, may not be available on terms acceptable to the combined company or at all. On April 23, 2002, IP Learn, LLC (IP Learn) filed a lawsuit against SmartForce alleging that SmartForce infringed five United States patents assigned to IP Learn, and asking the court for a preliminary and permanent injunction as well as unspecified damages. SmartForce is presently in the process of evaluating IP Learn s claims and is vigorously defending itself. On May 31, 2002, IP Learn filed a lawsuit against SkillSoft alleging that SkillSoft infringes on four patents assigned to IP Learn, and asking the court for a preliminary and permanent injunction as well as unspecified damages. SkillSoft is presently in the process of evaluating IP Learn s claims and is vigorously defending itself. On June 13, 2002, Lionet Limited, a limited liability company incorporated and doing business in Ireland, filed a claim against SmartForce in Dublin, alleging, among other things, that SmartForce breached the terms of its software license agreement with Lionet Limited in that it permitted or failed to prevent the decompilation of the provided software products and has failed to cooperate in audits to determine the nature of such alleged copying or de-compilation. Lionet Limited is seeking damages for lost license fees of $6.8 million and seeks other damages. SmartForce is in the process of reviewing the statement of claim and intends to vigorously defend itself in this matter. In addition, SkillSoft and certain of its employees, officers and investors are currently defendants in a lawsuit filed by NETg alleging, among other things, trade secret misappropriation, as discussed in greater detail above. From time to time SmartForce and SkillSoft learn of parties that claim broad intellectual property rights in the e-Learning area that might implicate SmartForce s and SkillSoft s offerings. These parties or others could initiate actions against the combined company in the future.

SmartForce is subject to other pending legal proceedings and the combined company may become subject to additional legal proceedings. Adverse determinations in these proceedings could materially harm the combined company s business.

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

SmartForce believes that this action is without merit and intends to vigorously defend itself. Although SmartForce cannot presently determine the outcome of this action, an adverse resolution of this matter could significantly negatively impact the combined company s financial position and results of operations.

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

The combined company s non-U.S. operations will be subject to risks which could negatively impact its future operating results.

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

- difficulties or delays in developing and supporting non-English language versions of the combined company s products and services;
- political and economic conditions in various jurisdictions;

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difficulties in staffing and managing foreign subsidiary operations;

longer sales and account receivable payment cycles;

multiple, conflicting and changing governmental laws and regulations;

foreign currency exchange rate fluctuations;

protectionist laws and business practices that may favor local competitors;

difficulties in finding and managing local resellers;

potential adverse tax consequences; and

the absence or significant lack of legal protection for intellectual property rights.

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

Because many users of the combined company s e-Learning solutions will access them over the Internet, factors adversely affecting the use of the Internet could harm the combined company s business.

Many of SmartForce s and SkillSoft s users currently access, and the combined company s users will access, their e-Learning solutions over the Internet. Any factors that adversely affect Internet usage could disrupt the ability of those users to access the combined company s e-Learning solutions, which would adversely affect customer satisfaction and therefore the combined company s business.

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

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

The market price for SmartForce s ADSs may fluctuate and may not be sustainable.

The market price of SmartForce s ADSs has fluctuated significantly since SmartForce s initial public offering and is likely to continue to be volatile. We believe that many factors, including the following, could cause the price of SmartForce s ADSs to fluctuate, perhaps substantially:

announcements of developments related to the combined company s or its competitors business;

announcements of new products or enhancements by the combined company or its competitors;

- the combined company s success and timing in developing and introducing new products and enhancements to existing products;
- changes in pricing policies by the combined company or its competitors;
- the length of the combined company s sales cycle;
- cancellations of, or failure to renew, contracts by existing customers;
- changes in customer buying patterns;
- market entry by new competitors;
- sales of SmartForce s ADSs into the public market;
- developments in the combined company s relationships with its customers, partners and distributors;
- shortfalls or changes in revenues, gross margins, earnings or losses or other financial results which differ from public market expectations;
- changes in the public market expectation of the combined company s performance or industry performance;
- changes in market valuations of competitors;
- regulatory developments;
- additions or departures of key personnel;
- fluctuations in results of operations; and
- general conditions in the combined company s markets or the markets served by the combined company s customers or in the U.S. and/or the international economy.

In addition, in recent years the stock market in general, and the market for shares of technology stocks in particular, has experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of SmartForce s ADSs may continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the combined company s performance. To succeed, the combined company must continue to expand its content offerings, upgrade its technology and distinguish its solution. The combined company may not be able to do so successfully. Any failure by the combined company to anticipate or respond adequately to changes in technology and customer preferences or any significant delays in content development or implementation could impact the combined company s ability to capture market share.

The combined company s sales cycle may make it difficult to predict its operating results.

SmartForce and SkillSoft have long sales cycles because they generally need to educate potential customers regarding the benefits of their live online e-Learning and business collaboration products and services prior to sale. SmartForce s and SkillSoft s sales cycle vary depending on the size and type of customer contemplating a purchase and whether they have conducted business with a potential customer in the past. Potential customers frequently need to obtain approvals from multiple decision makers within their organization prior to making purchase decisions. These long sales cycles which typically range from three to twelve months or more, make it difficult to predict the quarter in which sales may occur. Delays in sales could cause significant variability in the combined company s revenues and operating results for any particular period.

The combined company s business could be adversely affected if its products contain errors.

Software products as complex as the combined company s may contain undetected errors or bugs that result in product failures. From time to time SmartForce and SkillSoft have identified errors in their products

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after commercial introduction of the products. The occurrence of errors could result in loss of or delay in revenues, loss of market share, diversion of product development resources, injury to reputation or damage to efforts to build brand awareness, any of which could have a material adverse effect on the combined company s business, operating results and financial condition.

The combined company could incur substantial costs resulting from product liability claims relating to its customers use of the combined company s products and services.

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

We could be subjected to legal actions based upon the content we obtain from third parties over whom we exert limited control.

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

Risks Relating to SkillSoft s engagement of Arthur Andersen LLP as its auditors

SkillSoft has not obtained the consent of Arthur Andersen LLP to be named in this joint proxy statement/prospectus as having audited the SkillSoft financial statements. This may limit your ability to assert claims against Arthur Andersen.

Effective June 19, 2002, the partner in charge of auditing SkillSoft left Arthur Andersen LLP and joined Ernst & Young LLP. Effective June 25, 2002, SkillSoft engaged Ernst & Young LLP as its independent auditors. After reasonable efforts, SkillSoft has been unable to obtain the consent of Arthur Andersen LLP to the incorporation into the registration statement, of which this joint proxy statement/prospectus is a part, of their report with respect to the consolidated financial statements of SkillSoft which appear in its Annual Report on Form 10-K for the year ended January 31, 2002. Under these circumstances, Rule 437(a) under the Securities Act permits the registration statement to be filed without a written consent from Arthur Andersen LLP. The absence of such consent may limit your recovery on certain claims. In particular, and without limitation, you will not be able to assert claims against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statement of a material fact contained in SkillSoft's consolidated financial statements which appear in its Annual Report on Form 10-K for the year ended January 31, 2002 or any omission to state a material fact required to be stated therein.

The conviction of Arthur Andersen LLP on obstruction of justice charges may adversely affect Arthur Andersen LLP s ability to satisfy any claims arising from the provision of auditing services to SkillSoft and may impede the combined company s access to capital markets after the merger.

Arthur Andersen LLP audited SkillSoft s financial statements incorporated by reference in the registration statement, of which this joint proxy statement/prospectus is a part, for the years ended January 31, 2002,

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

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

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SELECTED HISTORICAL FINANCIAL DATA OF SMARTFORCE

The following selected consolidated financial data are only a summary and should be read in conjunction with SmartForce s financial statements and related notes included in SmartForce s annual reports and other financial information included in SmartForce s filings with the SEC. See *Where You Can Find More Information* on page 136. The statement of operations data for each of the years ended December 31, 2001, 2000 and 1999 and the balance sheet data at December 31, 2001 and 2000, which have been prepared in accordance with accounting principles generally accepted in the U.S., are derived from financial statements audited by Ernst & Young, independent auditors, that are incorporated by reference in this joint proxy statement/prospectus. The statement of operations data for the years ended December 31, 1998 and 1997 and balance sheet data at December 31, 1999, 1998 and 1997, which have been prepared in accordance with accounting principles generally accepted in the U.S., are derived from audited financial statements that are not incorporated by reference in this joint proxy statement/prospectus. The selected historical consolidated statement of operations data of SmartForce for the three month periods ended March 31, 2002 and 2001 and the balance sheet data as at March 31, 2002 have been derived from SmartForce s unaudited historical interim condensed consolidated financial statements which are incorporated by reference into this joint proxy statement/prospectus and include, in the opinion of SmartForce s management, all adjustments, consisting of normal recurring adjustments, which SmartForce considers necessary to present fairly the results of operations and financial position of such periods. Except as otherwise noted in this joint proxy statement/prospectus, all references to $ shall mean U.S. dollars.

SMARTFORCE SELECTED HISTORICAL FINANCIAL DATA
(dollars in thousands, except per share amounts)

	Years Ended December 31,					Quarter Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
						(unaudited)	
Statement of Operations Data:							
Revenues	$ 137,047	$ 162,232	$ 197,754	$ 168,197	$ 260,875	$ 61,824	$ 42,992
Cost of revenues	22,502	25,137	29,675	27,452	43,064	9,737	10,403
Gross profit	114,545	137,095	168,079	140,745	217,811	51,547	32,589
Operating expenses:							
Research and development	20,878	25,832	31,713	42,085	51,328	12,425	13,185
Sales and marketing	59,160	75,395	93,841	105,618	132,793	31,710	31,548
General and administrative	11,601	15,893	17,042	19,703	21,727	5,674	6,945
Amortization of acquired intangibles			3,441	8,603	10,158	2,323	2,591
Acquired research and development	4,097		5,900				
Cost of acquisitions	1,534	5,505					
Total operating expenses	97,270	122,625	151,937	176,009	216,006	52,132	54,269
Income/(loss) from operations	17,275						