SKILLSOFT PUBLIC LIMITED CO
Form 10-Q
June 09, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(MARK ONE)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2006
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM __________ TO __________
COMMISSION FILE NUMBER 000-25674
SKILLSOFT PUBLIC LIMITED COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (603) 324-3000
Not Applicable
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No þ

On May 31, 2006, the registrant had outstanding 108,017,675 Ordinary Shares (issued or issuable in exchange for the registrant s outstanding American Depository Shares).

SKILLSOFT PLC
FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2006
INDEX

	PAGE NO.
PART I FINANCIAL INFORMATION	3
Item 1. Condensed Consolidated Financial Statements:	3
Condensed Consolidated Balance Sheets as of April 30, 2006 and January 31, 2006	3
Condensed Consolidated Income Statements for the Three Months Ended April 30, 2006 and 2005	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 30, 2006 and 2005	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosure about Market Risk	21
Item 4. Controls and Procedures	22
PART II OTHER INFORMATION	22
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3. Defaults Upon Senior Securities	30
Item 4. Submission of Matters to a Vote of Security Holders	30
Item 5. Other Information	31
Item 6. Exhibits	31
SIGNATURE	32
EX-31.1 Section 302 Certification of CEO	
EX-31.2 Section 302 Certification of CFO	
EX-32.1 Section 906 Certification of CEO	
EX-32.2 Section 906 Certification of CFO	

Table of Contents

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SKILLSOFT PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED, IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	APRIL 30, 2006	JANUARY 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,465	$ 51,937
Short-term investments	37,678	21,632
Restricted cash	4,907	5,039
Accounts receivable, net	47,904	85,681
Prepaid expenses and other current assets	19,679	22,006
Total current assets	165,633	186,295
Property and equipment, net	10,038	10,231
Intangible assets, net	6,563	8,711
Goodwill	92,058	93,929
Deferred tax assets, net	694	694
Other assets	43	42
Total assets	$ 275,029	$ 299,902
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,302	$ 3,819
Accrued expenses	41,481	53,795
Deferred revenue	117,918	136,699
Total current liabilities	161,701	194,313
Long term liabilities	3,137	3,317
Commitments and contingencies (Note 11)		
Stockholders equity:		
Ordinary shares, E0.11 par value: 250,000,000 shares authorized; 107,939,792 and 107,344,243 shares issued at April 30, 2006 and January 31, 2006, respectively	11,852	11,773
Additional paid-in capital	565,596	562,052
Treasury stock, at cost, 6,533,884 ordinary shares	(24,524)	(24,524)
Deferred compensation		(465)
Accumulated deficit	(441,761)	(445,814)
Accumulated other comprehensive loss	(972)	(750)
Total stockholders equity	110,191	102,272
Total liabilities and stockholders equity	$ 275,029	$ 299,902

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

Table of Contents

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

	THREE MONTHS ENDED April 30,	
	2006	**2005**
Revenue	$ 54,653	$ 53,327
Cost of revenue (1)	6,451	5,834
Gross profit	48,202	47,493
Operating expenses:		
Research and development (1)	9,965	9,917
Selling and marketing (1)	23,257	24,211
General and administrative (1)	7,280	6,284
Amortization of intangible assets	2,148	2,246
Restructuring		703
Restatement SEC investigation	252	250
Total operating expenses	42,902	43,611
Operating income	5,300	3,882
Other income / (expense), net	10	(110)
Interest income	805	356
Interest expense	(66)	(61)
Loss on sale of assets, net		(681)
Income before provision for income taxes	6,049	3,386
Provision for income taxes	1,996	919
Net income	$ 4,053	$ 2,467
Net income per share (Note 9):		
Basic	$ 0.04	$ 0.02
Basic weighted average shares outstanding	101,037,377	105,662,213
Diluted	$ 0.04	$ 0.02
Diluted weighted average shares outstanding	102,888,751	105,877,094

(1) Stock-based compensation included in cost of revenue and operating expenses:

	THREE MONTHS ENDED April 30, 2006	THREE MONTHS ENDED April 30, 2005
Cost of revenue	$ 6	$
Research and development	383	48
Selling and marketing	769	181
General and administrative	623	8
	$ 1,781	$ 237

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

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

	THREE MONTHS ENDED APRIL 30,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 4,053	$ 2,467
Adjustments to reconcile net income to net cash provided by operating activities -		
Stock-based compensation	1,781	237
Depreciation and amortization	1,484	1,226
Amortization of intangible assets	2,148	2,246
Recovery of bad debts	(303)	(226)
Loss on disposition		681
Provision for income tax non-cash	1,754	785
Changes in current assets and liabilities:		
Accounts receivable, net	38,546	38,835
Prepaid expenses and other current assets	2,625	286
Accounts payable	(1,541)	760
Accrued expenses, including long-term	(12,949)	(16,192)
Deferred revenue	(19,507)	(17,861)
Net cash provided by operating activities	18,091	13,244
Cash flows from investing activities:		
Purchases of property and equipment	(1,270)	(979)
Capitalized software development costs		(1,247)
Purchases of investments	(24,509)	(3,748)
Maturity of investments	8,370	10,225
Release of restricted cash, net	132	
Net cash (used in) / provided by investing activities	(17,277)	4,251
Cash flows from financing activities:		
Exercise of stock options	605	242
Proceeds from employee stock purchase plan	1,703	1,336
Payments to acquire treasury stock		(6,163)
Net cash provided by / (used in) financing activities	2,308	(4,585)
Effect of exchange rate changes on cash and cash equivalents	406	(118)
Net increase in cash and cash equivalents	3,528	12,792
Cash and cash equivalents, beginning of period	51,937	34,906
Cash and cash equivalents, end of period	$ 55,465	$ 47,698

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

Table of Contents

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

1. THE COMPANY

SkillSoft PLC (the Company or SkillSoft) was incorporated in Ireland on August 8, 1989. The Company is a leading provider of comprehensive e-learning content and technology products for businesses and information technology (IT) professionals within global enterprises. SkillSoft PLC is the result of a merger between SmartForce PLC and SkillSoft Corporation on September 6, 2002 (the Merger).

2. BASIS OF PRESENTATION

The accompanying, unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of management, the condensed consolidated financial statements reflect all material adjustments (consisting only of those of a normal and recurring nature) which are necessary to present fairly the consolidated financial position of the Company as of April 30, 2006 and, the results of its operations and cash flows for the three months ended April 30, 2006 and 2005. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2006. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

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

The Company considers all highly liquid investments with original maturities of 90 days or less at the time of purchase to be cash equivalents. At April 30, 2006 and January 31, 2006, cash equivalents consisted mainly of commercial paper, short-term federal agency notes and money market funds. The Company considers the cash held in certificates of deposit with a commercial bank to secure certain facility leases and to secure funds to defend named, former and current executives, and board members of SmartForce PLC for actions arising out of the SEC investigation and litigation related to the 2002 securities class action, to be restricted cash. The Company accounts for its investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). Under SFAS No. 115, securities that the Company does not intend to hold to maturity are reported at market value, and are classified as available-for-sale. At April 30, 2006, the Company s investments had an average remaining maturity of approximately 81 days. These investments are classified as current assets in the accompanying condensed consolidated balance sheets as they mature within one year.

4. REVENUE RECOGNITION

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

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

The pricing for the Company s SkillChoice multi-modal learning (SMML) licenses varies based on the content offering selected by the customer, the number of users within the customer s organization and the length of the license agreement. A SMML license provides customers access to a full range of learning products including courseware, Referenceware, simulations, mentoring and prescriptive assessment.

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

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

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

The Company also derives revenue from extranet hosting/ASP services and online mentoring services. The Company recognizes revenue related to extranet hosting/ASP services and online mentoring services on a straight-line basis over the period the services are provided. Upfront fees are recorded over the contract period.

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

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

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

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

The Company records as deferred revenue amounts that have been billed in advance for products or services to be provided. Deferred revenue includes the unamortized portion of revenue associated with license fees for which the Company has received payment or for which amounts have been billed and are due for payment in 90 days or less for resellers and 180 days or less for direct customers. In addition, deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the license period.

SkillSoft contracts often include an uptime guarantee for solutions hosted on the Company s server whereby customers would be entitled to credits in the event of nonperformance. The Company also retains the right to remedy any nonperformance event prior to issuing a credit. Historically, the Company has not incurred substantial costs relating to this guarantee and the Company currently accrues for such costs as they are incurred. The Company reviews these costs on a regular basis as actual experience and other information becomes available; and should they become more substantial, the Company would accrue an estimated exposure and

7

Table of Contents

consider the potential related effects of the timing of recording revenue on its license arrangements. The Company has not accrued any costs related to these warranties in the accompanying consolidated financial statements.

5. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company has several stock-based compensation plans under which employees, officers, directors and consultants may be granted stock options to purchase the Company s ordinary shares, generally at the market price on the date of grant. The options become exercisable over various periods, typically four years and have a maximum term of ten years. As of April 30, 2006, 8,427,168 ordinary shares remain available for future grant as stock options under the Company s stock option plans. Please see Note 9 of the Notes to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K as filed with the SEC on April 13, 2006 for a detailed description of the Company s stock option plans.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS Statement No. 123(R) (SFAS 123(R)), Share-Based Payment , which is a revision of SFAS Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, (Opinion 25), Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach on SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123(R) must be adopted for fiscal years starting after June 15, 2005. As a result, the Company adopted SFAS 123(R) on February 1, 2006.

As permitted by SFAS 123, the Company historically accounted for share-based payments to employees using Opinion 25 s intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. The Company has adopted the modified prospective method alternative outlined in SFAS 123(R). A modified prospective method is one in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. As a result, the Company is amortizing the unamortized stock-based compensation expense related to unvested option grants issued prior to the adoption of SFAS 123(R), whose fair value was calculated utilizing a Black-Scholes Option Pricing Model. In addition, SFAS 123(R) requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas, SFAS 123 permitted companies to record forfeitures based on actual forfeitures, which was the Company s historical policy under SFAS 123.

The stock-based compensation expense reduced both basic and diluted earnings per share by $0.02 for the three months ended April 30, 2006. These results reflect stock compensation expense of $1.8 million and no related tax benefit, due to the Company s full valuation allowance on its U.S. deferred tax assets, for the three months ended April 30, 2006. In accordance with the modified-prospective transition method of SFAS 123(R), results for prior periods have not been restated. As of April 30, 2006, there was $2.0 million of unrecognized compensation expense related to non-vested share awards that is expected to be primarily recognized through fiscal 2007.

Prior to adopting SFAS 123(R), the Company accounted for stock-based compensation under Opinion 25. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to the three month period ending April 30, 2005.

		THREE MONTHS ENDED APRIL 30, 2005
Net income		
As reported	$	2,467
Add: Stock-based compensation expense recognized under Opinion 25		237
		(4,809)

Less: Total stock-based compensation expense determined under fair value based method for all awards		
Pro forma net loss	$	(2,105)
Basic and diluted net income (loss) per share		
As reported	$	0.02
Pro forma net loss	$	(0.02)

The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options prior to and after adopting SFAS 123(R). The estimated fair value of employee stock options is amortized to expense using the straight-line method over the vesting period. The weighted average information and assumptions used for the grants are as follows:

	THREE MONTHS ENDED APRIL 30,	
	2006	2005
Risk-free interest rates	5.03%	3.97% - 4.33%
Expected dividend yield		
Volatility factor	60%	76%
Expected lives	4 years	7 years
Weighted average fair value of options granted	$2.53	$ 2.72
Weighted average remaining contractual life of options outstanding	5.74 years	6.58 years

The Company s assumed dividend yield of zero is based on the fact that it has never paid cash dividends and have no present intention to pay cash dividends. Since adoption of SFAS 123(R) on February 1, 2006, the expected stock-price volatility assumption used by the Company has been based on a blend of implied volatility in conjunction with calculations of the Company s historical volatility determined over a period commensurate with the expected term of its option grants. The implied volatility is based on exchange traded options of the Company s stock. The Company believes that using a blended volatility assumption will result in the best estimate of expected volatility. Prior to adoption of SFAS 123(R), the expected volatility was based on historical volatilities of the underlying stock, only. The assumed risk-free interest rate is the U.S. Treasury security rate with a term equal to the expected life of the option. The assumed expected life is based on company-specific historical experience. With regard to the estimate of the expected life, the Company considers the exercise behavior of past grants and the pattern of aggregate exercises. The Company looked at historical option grant cancellation and termination data in order to determine its assumption of forfeiture rate which was 11.6% as of April 30, 2006. Prior to the adoption of SFAS 123(R), forfeitures were not estimated at the time of award and adjustments were reflected in pro forma net income disclosures as forfeitures occurred.

For shares purchased under the 2004 Employee Share Purchase Plan (ESPP), the Company uses a Black-Scholes option-pricing model, with the following assumptions: an assumed risk-free interest rate of 4.79% for the three months ended April 30, 2006, an expected volatility factor of 39% for the three months ended April 30, 2006 and an expected life of six months, with the assumption that dividends will not be paid.

A summary of share option activity under the Company s plan during the three months ended April 30, 2006 is as follows:

Share Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding, January 31, 2006	16,239,090	$ 7.73	5.99	
Granted	25,000	5.00		
Exercised	(170,085)	3.56		
Cancelled	(130,337)	12.28		
Outstanding, April 30, 2006	15,963,668	$ 7.73	5.74	$ 12,981

Exercisable, April 30, 2006	15,317,502	$ 7.87	5.69	$ 12,193

6. SPECIAL CHARGES

MERGER AND EXIT COSTS

Activity in the Company s merger and exit costs, which are included in accrued expenses (see Note 13) and long-term liabilities, was as follows (in thousands):

9

Table of Contents

	EMPLOYEE SEVERANCE AND RELATED COSTS	CLOSEDOWN OF FACILITIES	OTHER	TOTAL
Merger and exit accrual January 31, 2006	$ 1,186	$ 3,457	$ 169	$ 4,812
Payments made during the three months ended April 30, 2006	(396)	(172)	(11)	(579)
Merger and exit accrual April 30, 2006	$ 790	$ 3,285	$ 158	$ 4,233

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

Year ended January 31,	
2007 (remaining 9 months)	$ 2,631
2008	551
2009	493
2010	518
Thereafter	40
Total	$ 4,233

RESTRUCTURING, SEC INVESTIGATION AND OTHER PROFESSIONAL FEES

Activity in the Company s restructuring accrual was as follows (in thousands):

	FACILITY LEASE OBLIGATIONS
Total restructuring accrual as of January 31, 2006	$ 1,987
Payments made during the three months ended April 30, 2006	(70)
Total restructuring accrual as of April 30, 2006	$ 1,917

7. GOODWILL AND INTANGIBLE ASSETS

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

	APRIL 30, 2006			JANUARY 31, 2006		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Internally developed software/courseware	$ 28,257	$ 25,146	$ 3,111	$ 28,257	$ 23,414	$ 4,843
Customer contracts	13,018	10,466	2,552	13,018	10,055	2,963
Trademarks and trade names	905	5	900	905		905
	42,180	35,617	6,563	42,180	33,469	8,711
Goodwill	92,058		92,058	93,929		93,929

	$ 134,238	$ 35,617	$ 98,621	$ 136,109	$ 33,469	$ 102,640

The change in goodwill at April 30, 2006 from the amount recorded at January 31, 2006 was due primarily to the Company s utilization of the tax benefit of net operating loss carryforwards assumed as part of the Merger.

	Total
Gross carrying amount of goodwill, January 31, 2006	$ 93,929
Utilization of tax benefit	(1,754)
Other	(117)
Gross carrying amount of goodwill, April 30, 2006	$ 92,058

Amortization expense for the remainder of fiscal 2007 and the following fiscal years is expected to be as follows (in thousands):

Fiscal Year	**Amortization Expense**
2007	$ 4,026
2008	1,625
2009	12
Total	$ 5,663

Table of Contents

The Company will be conducting its annual impairment test of goodwill for fiscal 2007 in the fourth quarter.

8. COMPREHENSIVE INCOME/(LOSS)

SFAS No. 130, Reporting Comprehensive Income, requires disclosure of all components of comprehensive income/(loss) on an annual and interim basis. Comprehensive income/(loss) is defined as the change in equity of a business enterprise during a period resulting from transactions, other events and circumstances related to non-owner sources. Comprehensive income for the three months ended April 30, 2006 and 2005 was as follows (in thousands):

	THREE MONTHS ENDED APRIL 30,	
	2006	**2005**
Comprehensive income:		
Net income	$ 4,053	$ 2,467
Other comprehensive income/(loss) -		
Foreign currency adjustment	(298)	(12)
Unrealized holding losses	76	(28)
Comprehensive income	$ 3,831	$ 2,427

Accumulated other comprehensive income as of April 30, 2006 and January 31, 2006 was as follows (in thousands):

	THREE MONTHS ENDED APRIL 30, 2006	**YEAR ENDED JANUARY 31, 2006**
Unrealized holding gains/(losses)	$ 61	$ (15)
Foreign currency adjustment	(1,033)	(735)