

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

TRINITY LEARNING CORP
Form 10QSB/A
November 05, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A
(Amendment No. 1)

Quarterly Report under Section 13 or 15 (d) of
the Securities Exchange Act of 1934

For the Quarterly Period Ended December 31, 2003

Commission File No. 0-8924

Trinity Learning Corporation
(Exact name of small business issuer as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

73-0981865
(IRS Employer Identification No.)

1831 Second Street, Berkeley, California 94710
(Address of principal executive offices)

(510) 540-9300
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by sections 13 or 15(d) of the Exchange Act during the past 12 months (or such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

As of February 6, 2004, 25,620,401 shares of the issuer's Common Stock, no par value per share, were outstanding.

TRINITY LEARNING CORPORATION AND SUBSIDIARIES

Throughout this report, we refer to Trinity Learning Corporation, together with its subsidiaries, as "we," "us," "our company," "Trinity" or "the Company."

THIS FORM 10-QSB/A FOR THE QUARTER ENDED DECEMBER 31, 2003, CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING STATEMENTS ABOUT THE CONTINUED STRENGTH OF OUR BUSINESS AND OPPORTUNITIES FOR FUTURE GROWTH. IN SOME CASES, YOU CAN IDENTIFY FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS MAY, WILL, SHOULD, EXPECT, PLAN, INTEND, ANTICIPATE, BELIEVE, ESTIMATE, PREDICT, POTENTIAL OR CONTINUE, THE NEGATIVE OF SUCH TERMS OR OTHER COMPARABLE TERMINOLOGY. WE BELIEVE THAT OUR EXPECTATIONS ARE REASONABLE AND ARE BASED ON REASONABLE ASSUMPTIONS. HOWEVER, SUCH FORWARD-LOOKING STATEMENTS BY THEIR NATURE INVOLVE RISKS AND UNCERTAINTIES.

WE CAUTION THAT A VARIETY OF FACTORS, INCLUDING BUT NOT LIMITED TO THE FOLLOWING, COULD CAUSE OUR BUSINESS AND FINANCIAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN FORWARD-LOOKING STATEMENTS: OUR ABILITY TO SUCCESSFULLY INTEGRATE TOUCHVISION, INC. ("TOUCHVISION"), RIVER MURRAY TRAINING PTY LTD ("RMT") AND OUR MAJORITY INTERESTS IN AYRSHIRE TRADING LIMITED ("AYRSHIRE") AND IRCA (PTY.) LTD. ("IRCA"); DETERIORATION IN CURRENT ECONOMIC

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

CONDITIONS; OUR ABILITY TO PURSUE BUSINESS STRATEGIES; PRICING PRESSURES; CHANGES IN THE REGULATORY ENVIRONMENT; OUTCOMES OF PENDING AND FUTURE LITIGATION; OUR ABILITY TO ATTRACT AND RETAIN QUALIFIED PROFESSIONALS; INDUSTRY COMPETITION; CHANGES IN INTERNATIONAL TRADE; MONETARY AND FISCAL POLICIES; OUR ABILITY TO INTEGRATE FUTURE ACQUISITIONS SUCCESSFULLY; AND OTHER FACTORS DISCUSSED MORE FULLY IN MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND RISK FACTORS BELOW, AS WELL AS IN OTHER REPORTS SUBSEQUENTLY FILED FROM TIME TO TIME WITH THE SECURITIES AND EXCHANGE COMMISSION. WE ASSUME NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS.

The Company is filing this Form 10-QSB/A as a result of its determination, as disclosed in its Form 8K filed October 18, 2004, to use the equity method of accounting with respect to the Company's 51% interest in Ayrshire Trading Limited ("Ayrshire") which owns 95% Riverbend Group Holdings (Proprietary) Limited ("Riverbend"), acquired in September 2003, and its 51% interest in IRCA (Proprietary) Limited ("IRCA") acquired in December 2003 rather than consolidating the financial results of these entities with those of the Company, as was reflected in the Company's original report on Form 10-QSB. As a result of this change, gross profit of \$2,112,966 as originally reported for the six months ended December 31, 2003 was reduced by \$552,626 and \$783,995 for Ayrshire and Riverbend, respectively. Operating expense of \$4,567,216 as originally reported for the same period was reduced by \$851,482 and \$948,856 for Ayrshire and IRCA respectively. The Company has also changed the calculation for stock-based compensation to include a volatility factor of 70% where previously we had used a zero volatility factor in the Black-Scholes valuation model. This resulted in additional salary expense of \$160,862

This Amendment continues to reflect circumstances of the date of the original filing of the Form 10-QSB, and we have not made any attempt to modify or update the disclosures contained therein to reflect events that occurred at a later date, except for the items related to the restatement and as otherwise expressly stated herein.

PART I. FINANCIAL INFORMATION

- Item 1. Consolidated Financial Statements
 - Consolidated Balance Sheets December 31, 2003 (Unaudited) and June 30, 2003
 - Consolidated Statements of Operations and Comprehensive Income Three and six months ended December 31, 2003 and 2002 (Unaudited)
 - Consolidated Statements of Cash Flows Three and six months ended December 31, 2003 and 2002 (Unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Controls and Procedures

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 2. Changes in Securities and Use of Proceeds
- Item 3. Defaults upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

- Exhibit 31.1
- Exhibit 31.2

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Exhibit 32.1

Exhibit 32.2

PART I
FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
Trinity Learning Corporation and Subsidiaries
Consolidated Balance Sheet

	December 31 (Unaudited & -----)
Assets	
Current Assets	
Cash	\$ 65
Accounts Receivable	37
Interest Receivable	
Prepaid Expense and Other Current Assets	15

Total Current Assets	1,17

Investments in Associated Companies, at Equity, Net (Notes 2 and 5)	2,72

Property & Equipment (Note 3)	
Furniture & Equipment	5
Accumulated Depreciation	(1)

Net Property & Equipment	3

Intangible Assets (Notes 2 and 4)	
Purchased Intangible Assets	1,73
Accumulated Amortization	(11)

Net Intangible Asset	1,61

Note Receivable (Note 8)	1,00
Other Assets	

Total Assets	\$ 6,56
	=====
Liabilities, Contingently Redeemable Equity and Stockholders' Equity	
Liabilities	
Accounts Payable	\$ 1,13
Accrued Expenses	40
Interest Payable	
Deferred Revenue (Note 1)	21
Notes Payable - Current (Note 10)	1
Notes Payable-Related Parties (Notes 7, 9 and 10)	1

Current Liabilities	1,77

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Notes Payable-Long Term (Note 10)			24
		Total Liabilities	2,02
Contingently Redeemable Equity (Notes 1 and 2)			2,25
Stockholders' Equity			
Common Stock, 100,000,000 Shares Authorized at No Par Value, 25,270,401 and 14,956,641 shares Issued and Outstanding, Respectively			16,13
Accumulated Deficit			(13,79
Subscription Receivable			(3
Accumulated Other Comprehensive Loss			(1
		Total Stockholders' Equity	2,29
Total Liabilities, Contingently Redeemable Equity and Stockholders' Equity			\$ 6,56

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

Trinity Learning Corporation and Subsidiaries Consolidated Statement of Operations and Comprehensive Loss

	Three Months Ended December 31 (Unaudited)		2003 (
	2003 (Restated)	2002	
Revenue			
Sales Revenue	\$ 726,805	\$ 62,660	\$
Cost of Sales	(171,956)	-	(
Gross Profit	554,849	62,660	
Expenses			
Salaries & Benefits	955,828	246,948	1,
Professional Fees	323,816	16,158	
Selling, General & Administrative	355,417	330,203	
Depreciation & Amortization	149,963	58,210	
Total Expense	1,785,024	651,519	2,
Loss from Operations	(1,230,175)	(588,859)	(2,
Other Expense			
Interest Expense, net	25,061	24,074	
Equity in Losses of Associated Companies	397,985	-	
Foreign Currency Loss	3,851	-	
Total Other Expense	426,897	24,074	

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Loss Before Taxes	(1,657,072)	(612,933)	(2,
Taxes	-	-	
Net Loss	<u>\$ (1,657,072)</u>	<u>\$ (612,933)</u>	<u>\$ (2,</u>
Net Loss Per Common Share			
Basic	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>	<u>\$</u>
Diluted	<u>\$ (0.08)</u>	<u>\$ (0.17)</u>	<u>\$</u>
Weighted Average Shares Outstanding	<u>21,570,021</u>	<u>3,602,274</u>	<u>18,</u>

A summary of the components of other comprehensive loss for the three and six months ended December 31, 2003 and 2002 is as follows:

	For the Three Months Ended December 31	
	2003 (Restated)	2002
Net Loss	\$ (1,657,072)	\$ (612,933)
Foreign currency translation	(12,619)	7,520
Comprehensive Loss	<u>\$ (1,669,691)</u>	<u>\$ (605,413)</u>

	For the Six Months Ended December 31	
	2003 (Restated)	2002
Net Loss	\$ (2,602,982)	\$ (1,017,750)
Foreign currency translation	(15,580)	7,520
Comprehensive Loss	<u>\$ (2,618,562)</u>	<u>\$ (1,010,230)</u>

The accompanying notes are an integral part of these financial statements

Trinity Learning Corporation and Subsidiaries
Consolidated Statement of Cash Flows

Six M
De
(U
2003 (Restat

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Cash flows from operating activities:	
Net loss	\$(2,602,98
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	238,80
Stock option compensation	219,58
Equity in losses of associated companies	398,98
Changes in current assets and liabilities, net of business acquired:	
Accounts receivable, net	(179,04
Prepaid expenses and other assets	99,96
Accounts payable, accrued expenses and deferred revenue	443,24
Interest payable	(190,13
Net cash used by operating activities	(1,571,59
Cash flows from investing activities:	
Payment for business acquisitions, net of cash acquired	(828,09
Notes and interest receivable, net	(974,95
Capital expenditures	(16,83
Net cash (used) provided by investing activities	(1,819,89
Cash flows from financing activities:	
Proceeds (Repayments) on related party note payable	(500,00
Borrowings under short term notes	
Financing fees paid	(625,85
Proceeds from sale of common stock	5,073,30
Net cash provided by financing activities	3,947,44
Effect of foreign exchange on cash	15,58
Net increase in cash	571,53
Cash at beginning of period	86,51
Cash at end of period	\$ 658,04

Supplemental information:

Interest paid	\$ 6,70
Issuance of common stock for business acquisitions	\$ 975,00
Issuance of contingently redeemable equity	\$ 2,250,00
Cancellation of common stock and convertible notes payable pursuant to the sale of CBL, net	\$ (592,99

The accompanying notes are an integral part of these financial statements

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Notes to the Financial Statements
December 31, 2003

NOTE 1. ACCOUNTING POLICIES

Overview

We commenced a strategy in 2002 to acquire operating companies in strategic markets that have developed proprietary technology-enabled learning, training and certification services targeted at major customers in worldwide industries. Our mission is to become a leading global learning solution corporation through acquisition, business development and strategic relationships. The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Rule 10-01 of Regulation S-B. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements include the accounts of Trinity Learning Corporation and its consolidated subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and related notes thereto included in the Company's Transition Report on Form 10-KSB for the transition period from October 1, 2002 to June 30, 2003. On August 6, 2003, our board of directors approved a change in our fiscal year-end from September 30 to June 30 to align with those of the companies we had already acquired or were at that time in the process of acquiring. The results of operations for the three months ended September 30, 2003, are not necessarily indicative of the operating results for the full year and future operating results may not be comparable to historical operating results due to our October 1, 2002 acquisition of CBL Global Corporation and related companies ("CBL"), our September 1, 2003 acquisitions of all of the issued and outstanding shares of TouchVision, Inc. ("TouchVision") and of River Murray Training Pty Ltd ("RMT"); and 51% of the issued and outstanding shares of Ayrshire Trading Limited ("Ayrshire") as well as our December 1, 2003 acquisition of Danlas Limited ("Danlas"). Ayrshire owns 95% of the issued and outstanding shares of Riverbend Group Holdings (Pty.) Ltd. ("Riverbend"). These companies are collectively referred to as Riverbend. Danlas owns 51% of IRCA (Proprietary) Limited ("IRCA"). These companies are collectively referred to as IRCA.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

Change in Accounting for Ayrshire / Riverbend and IRCA

As disclosed in our Form 8K dated October 18, 2004, we announced that in the process of preparing and completing its audit for the fiscal year ended June 30, 2004, we reviewed our earlier determination to consolidate the financial statements of our 51% ownership of Ayrshire which owns 95% of Riverbend. This consolidation was reflected in the Company's interim financial statements included in its previously-filed quarterly reports for fiscal 2004. After this review and following discussions by the Company's officers with its predecessor auditor Chisholm, Bierwolf, Nilson & Associates and its current auditor BDO Spencer Steward, the Company's Board of Directors concluded on October 12, 2004 to use the equity method of accounting with respect to the Company's interest in IRCA and Riverbend, rather than consolidating the financial results of these entities with those of the Company.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Our 51% ownership in Ayrshire and in IRCA have been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only includes its share of the investee's net income or loss as a separate line item in its net income. The net income impact is identical whether the equity method of accounting is used or full consolidation is employed. Under the equity method of accounting, the balance

sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is shown as an asset, "Investments in Associated Companies." The equity method of accounting is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control.

Emerging Issues Task Force Issue 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority Voting Interest but the Minority Shareholders Have Certain Approval or Voting or Veto Rights" (EITF 96-16) provides guidance as to the distinction between protective rights of the minority shareholder which do not overcome the presumption of consolidation and substantive participating rights of the minority shareholder. Substantive participating rights that allow the minority shareholder to participate in establishing operating and capital decisions in the ordinary course of business, overcome the presumption that the investor should consolidate the investee.

- o In the Riverbend transaction, Section 20.2.11.3 of the Definitive Agreement ("the Agreement") between Trinity, the majority owner in Ayrshire, and Great Owl Limited ("Great Owl"), the minority owner in Ayrshire, prevents Ayrshire and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof" or "incur unbudgeted capital expenditure of US\$150,000 per item or US\$500,000 per annum." Also, pursuant to Section 18.3 of the Agreement, Trinity and Great Owl are "each entitled to appoint an equal number of directors to the board of directors" of Ayrshire. These substantive participating rights of the minority shareholder preclude consolidation of this investment and will remain in effect until Trinity owns 100% of Ayrshire.
- o In the IRCA transaction, Section 20.1.19.3 of the Sale of Shares Agreement ("SOS Agreement") between Danlas Limited, a wholly owned subsidiary of Trinity, and IRCA Investments (Pty.) Ltd. ("IRCA Investments"), the minority shareholder in IRCA, prevents IRCA and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof, or to its strategic plans or marketing strategy or incur unbudgeted capital expenditure in excess of R200,000 (two hundred thousand Rand) per item or R800,000 (eight hundred thousand Rand) in total per annum." Also, pursuant to Section 19 of the SOS Agreement, Danlas and IRCA Investments are "each entitled to appoint equal number of directors to the board of directors" of IRCA. These substantive participating rights of the minority shareholder will remain in effect until Danlas owns 60% of IRCA.

Principles of Consolidation and Basis of Presentation

On August 6, 2003, our board of directors approved a change in our fiscal year-end from September 30 to June 30 to align with those of the companies we had already acquired or were at that time in the process of acquiring. Our

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

consolidated financial statements include the accounts of the company and our wholly-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation.

Our 51% ownership in Ayrshire and in IRCA, respectively, have been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only includes its share of the investee's net income or loss as a separate line item in its net income. The net income impact is identical whether the equity method of accounting is used or full consolidation is employed. Under the equity method of accounting, the balance sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is recorded as an asset, "Investments in Associated Companies." The equity method of accounting is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control. (See Notes 2 and 5).

Use of Estimates

The preparation of the Company's unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires it to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and costs during the reporting periods.

Actual results could differ from those estimates. On an ongoing basis, the Company reviews its estimates based on information that is currently available. Changes in facts and circumstances may cause the Company to revise its estimates. Significant estimates include:

Purchase Accounting. The Company accounts for its investments in its subsidiaries using the purchase method of accounting. Intangible assets are recognized apart from goodwill if they are contractual in nature or separately identifiable. Acquisitions are measured on the fair value of consideration exchanged and, if the consideration given is not cash, measurement is based on the fair value of the consideration given or the fair value of the assets acquired whichever is more reliably measured. The excess of cost of an acquired entity over the net amounts assigned to acquired assets and liabilities assumed shall be recognized as goodwill. The valuation and allocation process relies on significant assumptions made by management. In particular, the value of the shares issued to effect the purchase.

Identifiable Intangible Assets. The Company amortizes identifiable intangible assets over their useful life unless that life is determined to be indefinite. The remaining useful life of an intangible asset that is being amortized is evaluated each reporting period as to whether events and circumstances warrant a revision to the remaining period of amortization. Goodwill is not amortized and is tested for impairment on an annual basis. The implied fair value of goodwill is determined by allocating fair value to all assets and liabilities acquired; the excess of the price paid over the amounts assigned to assets and liabilities acquired is the implied fair value of goodwill.

Revenue Recognition

We earn our revenues primarily from service-related contracts, including operations and maintenance services and a variety of technical assistance services, and are accounted for over the period of performance, in proportion to

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

the costs of performance, evenly over the period, or over units of production. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. The Company determines whether criteria (3) and (4) are met based on judgments regarding the nature of the fee charged for services rendered and products delivered and the collectibility of those fees.

Deferred Revenue

We record deferred revenue which are amounts that have been billed in advance of services provided. Deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the contract period. We acquired approximately \$60,000 of deferred revenue in connection with the acquisition of TouchVision, Inc. As of December 31, 2003, and June 30, 2003, deferred revenue was \$214,036 and \$0, respectively. The Company anticipates that substantially all such amounts will be earned over the next twelve months.

Allowance for Uncollectible Accounts Receivable

Our accounts receivable are reduced by an allowance for accounts that may become uncollectible in the future. We base our estimated allowance for uncollectible accounts primarily on management's evaluation of the financial condition of our clients. Management regularly evaluates the adequacy of the allowance for uncollectible accounts by taking into consideration factors such as the type of client; governmental agencies or private sector; trends in actual and forecasted credit quality of the client, including delinquency and late payment history; and current economic conditions that may affect a client's ability to pay.

Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of trade receivables. Concentrations of credit risk with respect to trade receivables are limited due to the large number of clients that comprise our customer base and their dispersion across different business and geographic areas. Our cash balances and short-term investments are maintained in accounts held by major banks and financial institutions located primarily in the United States and Australia. We estimate and maintain an allowance for potentially uncollectible accounts and such estimates have historically been within management's expectations.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. In the year assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in income. Depreciation is provided on the straight-line method using estimated lives ranging from three to five years for property and equipment. Leasehold improvements are amortized over the length of the lease or estimated useful life, whichever is less. Property and equipment is periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period.

Notes Receivable

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Notes receivable includes advances made to our subsidiaries in advance of the acquisition of that subsidiary. When the acquisition is finalized and should that subsidiary be consolidated, the note receivable will be reclassified to intercompany notes receivable and eliminated in consolidation. Notes receivable also includes advances made to associated companies accounted for using the equity method of accounting. Notes receivable from associated companies are evaluated quarterly for collectibility and amounts deemed uncollectible are written off in the period they are deemed uncollectible.

Contingently Redeemable Equity

Contingently redeemable equity are shares of our common stock issuable upon the conversion of notes payable upon the satisfaction of certain conditions pursuant to a contingent stock arrangement. The contingent stock arrangement is dependent on the satisfaction of certain conditions by us, most notably the listing of our common stock on a major stock exchange in the United States of America, for whom there are financial requirements for listing. The value of the contingently redeemable equity is based on the number of shares to be issued at \$0.50 per share.

Software Development Costs

Software development costs are charged to expense as incurred until technological feasibility is attained. Technological feasibility is attained when the Company's software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short with immaterial amounts of development costs incurred during this period. Accordingly, software costs have not been capitalized other than product development costs acquired through technology business combinations and technology purchases.

Earnings per Share

Basic earnings (loss) per common share is computed by dividing net income (loss) available for common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share ("DEPS") is computed giving effect to all dilutive potential shares of shares issued but held in escrow, common stock issuable upon the conversion of notes payable or the exercise of stock options and warrants. DEPS is computed by dividing net income (loss) available for common stockholders by the weighted-average common shares and dilutive potential common shares that were outstanding during the period. Shares from the release of escrow shares, conversion of notes payable or the exercise of options and warrants for common shares were not included in the computation of DEPS, because their inclusion would have been antidilutive for the three and six months ended December 31, 2003 and 2002.

If the company were to include all potential shares in the calculation, the following items would be included:

- o Stock options to purchase 3,542,000 shares of common stock at prices ranging from \$0.05 to \$0.50 per share were outstanding at December 31, 2003; no options were outstanding at December 31, 2002.
- o Warrants to purchase 18,714,950 shares of common stock at prices ranging from \$0.05 to \$2.00 per share were outstanding at December 31, 2003; no warrants were outstanding at December 31, 2002.

- o At December 31, 2003 and 2002, we held 372,500 and 1,000,000 shares in escrow, respectively.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

- o In consideration for the Ayrshire shares, we issued a convertible non-interest-bearing promissory note in the amount of \$20,000, which was outstanding at December 31, 2003 and was convertible into 2,000,000 shares of our common stock.
- o In consideration for our investment in IRCA, we issued a convertible non-interest-bearing promissory note in the amount of \$20,000, which was outstanding at December 31, 2003 and was convertible into 2,500,000 shares of our common stock.
- o At December 31 2002, we had the following convertible notes outstanding: (i) a convertible promissory note in the principal amount of \$500,000 convertible into an undeterminable number of shares of our common stock, (ii) 1,000,000 convertible notes payable convertible into 500,000 shares of our common stock, (iii) \$245,000 convertible notes payable convertible into an indeterminable number of shares of our common stock, and (iv) \$114,787 convertible notes payable convertible into 2,200,000 shares of our common stock.

	Three Months Ended December 31,		Si
	2003	2002	200
Numerator-Basic / Diluted			
Net (loss) available for common stockholders	\$ (1,657,072)	\$ (612,933)	\$ (2,60
Denominator-Basic / Diluted			
Weighted-average common stock outstanding	21,570,021	3,602,274	18,77
Basic (loss) per share	\$ (0.08)	\$ (0.17)	\$

Stock options to purchase 3,542,000 shares of common stock at prices ranging from \$0.05 to \$0.50 per share were outstanding at December 31, 2003; no options were outstanding at December 31, 2002. Warrants to purchase 18,714,950 shares of common stock at prices ranging from \$0.05 to \$2.00 per share were outstanding at December 31, 2003; no warrants were outstanding at December 31, 2002. At December 31, 2003 and 2002, we held 372,500 and 1,000,000 shares in escrow, respectively. In consideration for the Ayrshire shares, we issued a convertible non-interest-bearing promissory note in the amount of \$20,000, which was outstanding at December 31, 2003 and was convertible into 2,000,000 shares of our common stock. In consideration for our investment in IRCA, we issued a convertible non-interest-bearing promissory note in the amount of \$20,000, which was outstanding at December 31, 2003 and was convertible into 2,500,000 shares of our common stock. At December 31 2002, we had the following convertible notes outstanding: (i) a convertible promissory note in the principal amount of \$500,000 convertible into an undeterminable number of shares of our common stock, (ii) 1,000,000 convertible notes payable convertible into 500,000 shares of our common stock, (iii) \$245,000 convertible notes payable convertible into an indeterminable number of shares of our common stock, and (iv) \$114,787 convertible notes payable convertible into 2,200,000 shares of our common stock.

Stock-Based Compensation

In January 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends FASB Statement 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years, including interim periods beginning after December 15, 2002. SFAS 148 also requires disclosure of pro-forma results on the interim basis as if the Company had applied the fair value recognition provisions of SFAS 123. The Company adopted the fair value based method of accounting for stock-based employee compensation during the transition period from October 1, 2002 to June 30, 2003 and there was not a material impact to the financial results of the Company (see Note 12-Stock Option Plan).

Goodwill and Other Intangibles Resulting from Business Acquisitions

The Company adopted Statement of Financial Accounting Standard No. 142 ("SFAS 142"), "Goodwill and other Intangible Assets," at the beginning of fiscal 2003. As required, the Company identified its reporting units and the amounts of other intangible assets, and other assets and liabilities allocated to those reporting units. This Statement addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. SFAS No.142 provides that (i) goodwill and indefinite-lived intangible assets will no longer be amortized, (ii) impairment will be measured using various valuation techniques based on discounted cash flows, (iii) goodwill will be tested for impairment at least annually at the reporting unit level, (iv) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (v) intangible assets with finite lives will be amortized over their useful lives. The Company does not have any intangible assets with indefinite lives. See Note 2 "Acquisitions and Divestitures" for more information.

Recently Issued Accounting Standards

In June 2002, the FASB issued Statement of Financial Accounting Standard No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 replaces Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" in its entirety and addresses significant issues relating to recognition, measurement and reporting costs associated with an exit or disposal activity, including restructuring activities. Under EITF Issue No. 94-3, a liability is recognized, measured and reported as of the date of an entity's commitment to an exit plan. Pursuant to SFAS 146, a liability is recorded on the date on which the obligation is incurred and should be initially measured at fair value. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS 146 on July 1, 2003 and adoption of SFAS 146 did not significantly impact the Company's financial statements.

EITF Consensus Issue No.00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables" was first discussed at the July 2000 EITF meeting and was issued in February 2002. Certain revisions to the scope of the language were made and finalized in May 2003. EITF 00-21 addresses the accounting for multiple element revenue arrangements, which involve more than one deliverable or unit of accounting in circumstances, where the delivery of those units takes place in different accounting periods. EITF 00-21 requires disclosures of the accounting policy for revenue recognition of multiple element revenue arrangements and the nature and description of such arrangements. The accounting and reporting requirements are effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company has completed its initial evaluation and adoption of EITF 00-21 does not have a significant impact on the Company's financial statements. The Company continues its evaluation to

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

determine whether the reporting requirements of EITF 00-21 will impact the Company's financial statements in the future.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. As permitted, the Company adopted SFAS 150 on October 1, 2003 and adoption of SFAS 150 did not significantly impact the Company's financial statements.

Reclassifications

Certain reclassifications have been made to the 2002 financial statements and notes to conform to the 2003 presentation with no effect on consolidated net loss, equity or cash flows as previously reported.

NOTE 2 - Acquisitions and Divestitures

We commenced a strategy in 2002 to acquire operating companies in strategic markets that have developed proprietary technology-enabled learning, training and certification services targeted at major customers in

worldwide industries. Our mission is to become a leading global learning solution corporation through acquisition, business development and strategic relationships.

On September 1, 2003, we completed the acquisition of all of the issued and outstanding shares of TouchVision, a California corporation that is in the business of providing technology-enabled information and learning systems to healthcare providers, financial services companies and other industry segments. In consideration for the TouchVision shares, we issued an aggregate of 1,250,000 restricted shares of our common stock, of which 312,500 shares are subject to the terms of an escrow agreement as collateral for the indemnification obligations of the former TouchVision shareholders. The determination of purchase price was based on, among other things, annual revenue for the two preceding years relative to comparable market based values for publicly traded companies. We also agreed to loan to TouchVision the sum of \$20,000 per month for the twelve-month period following closing, to be used for working capital. We had previously loaned TouchVision the sum of \$50,000 in June and July, 2003 by way of bridge financing pending completion of the acquisition. The results of operations for TouchVision have been consolidated in the Company's financial statements since the date of acquisition.

On September 1, 2003, we completed the acquisition of all of the issued and outstanding shares of RMT, an Australian company that is in the business of providing workplace training programs for various segments of the food production industry, including viticulture and horticulture. In consideration for the shares of RMT we issued 700,000 restricted shares of our common stock, of which 350,000 shares are subject to the terms of an escrow agreement as collateral for the indemnification obligations of the former RMT shareholders. The determination of purchase price was based on, among other things, annual revenue for the two preceding years relative to comparable market based values for publicly traded companies. We also loaned US\$49,000 to RMT for the purpose of repaying outstanding loans advanced to RMT by its former shareholders. The loan has been classified as an intercompany loan and eliminated in

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

consolidation. The results of operations for RMT have been consolidated in the Company's financial statements since the date of acquisition.

On September 1, 2003, we completed the acquisition of 51% of the issued and outstanding shares of Ayrshire that owns 95% of Riverbend, a South African company that provides learning services to corporations and individuals in South Africa. In consideration for the Ayrshire shares, we issued a convertible non-interest-bearing promissory note in the amount of \$20,000, which amount is convertible from time to time but no later than December 30, 2006 into a maximum of 2,000,000 shares of our common stock. Of these shares, up to 400,000 may be withheld in satisfaction for any breach of warranties by the former shareholders of Ayrshire. The determination of purchase price was based on, among other things, annual revenue for the two preceding years relative to comparable market based values for publicly traded companies. The Ayrshire shares are subject to escrow and pledge agreements and will be reconveyed to the former shareholders in the event of a default by us of certain terms and conditions of the acquisition agreements, including, among other things, a voluntary or involuntary bankruptcy proceeding involving us or the failure by us to list our shares of common stock on a major stock exchange by December 30, 2006. The results of operations for Ayrshire, using the equity method, have been included in the Company's financial statements since the date of acquisition.

As part of the Ayrshire transaction, we also acquired the option to purchase the remaining 49% of Ayrshire, subject to certain limitations. The option is exercisable for a period of ten years from the day upon which the average closing price per share of the Company's common stock for a period of ten days equals or exceeds \$2.00. The purchase consideration for the remaining 49% is 1,500,000 shares of our common stock.

As further consideration for the Ayrshire shares, we agreed to make a non-interest-bearing loan of \$1,000,000 to Ayrshire, \$300,000 of which was advanced at closing of the acquisition and \$700,000 was advanced on November 3, 2003. The loan to Ayrshire has been recorded accounted for as a note receivable (See Note 8).

On December 1, 2003, we completed the acquisition of all the issued and outstanding shares of Danlas, a British Virgin Islands Company that owns 51% of IRCA (Proprietary) Limited ("IRCA"), a South African company specializing in corporate learning, certification and risk mitigation in the area of safety, health environment and quality assurance ("SHEQ"). IRCA operates in South Africa, England and the United States through various operating subsidiaries. Danlas also holds options to acquire the remaining 49% of IRCA. In consideration for the Danlas shares, the Company (i) issued three convertible promissory notes in the aggregate principal amount of \$40,000 and convertible under certain conditions into a maximum of 4,500,000 shares of the Company's common

stock, (ii) agreed to advance \$500,000 in cash to establish an international sales force, (iii) provided \$500,000 as collateral for an operating line of credit and, (iv) provided certain future profit thresholds are met, agreed to issue up to an additional 1,000,000 shares of the Company's common stock. The first promissory note for \$20,000 convertible to 2,500,000 shares has been classified as contingently redeemable equity at \$0.50 per share. The determination of purchase price was based on, among other things, annual revenue for the two preceding years relative to comparable market based values for publicly traded companies. The results of operations for IRCA, using the equity method, have been included in the Company's financial statements since the date of acquisition.

As part of the Danlas transaction, we issued two convertible notes of \$10,000 which to purchase the remaining 49% of IRCA. However, the notes are only

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

effective should Danlas be able to exercise two options for the remaining 49% of IRCA. The options are exercisable for the period December 1, 2003 to December 31, 2005 commencing the day upon which the average closing price per share of the Company's common stock for a period of ten days equals or exceeds \$2.00. The purchase consideration for the remaining 49% is 2,000,000 shares of our common stock. As no value has been received, no value has been assigned in our financial statements for these instruments.

Emerging Issues Task Force Issue 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority Voting Interest but the Minority Shareholders Have Certain Approval or Voting or Veto Rights" (EITF 96-16) provides guidance as to the distinction between protective rights of the minority shareholder which do not overcome the presumption of consolidation and substantive participating rights of the minority shareholder. Substantive participating rights that allow the minority shareholder to participate in establishing operating and capital decisions in the ordinary course of business, overcome the presumption that the investor should consolidate the investee.

- o In the Riverbend transaction, Section 20.2.11.3 of the Definitive Agreement ("the Agreement") between Trinity, the majority owner in Ayrshire, and Great Owl Limited ("Great Owl"), the minority owner in Ayrshire, prevents Ayrshire and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof" or "incur unbudgeted capital expenditure of US\$150,000 per item or US\$500,000 per annum." Also, pursuant to Section 18.3 of the Agreement, Trinity and Great Owl are "each entitled to appoint an equal number of directors to the board of directors" of Ayrshire. These substantive participating rights of the minority shareholder preclude consolidation of this investment and will remain in effect until Trinity owns 100% of Ayrshire.

- o In the IRCA transaction, Section 20.1.19.3 of the Sale of Shares Agreement ("SOS Agreement") between Danlas Limited, a wholly owned subsidiary of Trinity, and IRCA Investments (Pty.) Ltd. ("IRCA Investments"), the minority shareholder in IRCA, prevents IRCA and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof, or to its strategic plans or marketing strategy or incur unbudgeted capital expenditure in excess of R200,000 (two hundred thousand Rand) per item or R800,000 (eight hundred thousand Rand) in total per annum." Also, pursuant to Section 19 of the SOS Agreement, Danlas and IRCA Investments are "each entitled to appoint equal number of directors to the board of directors" of IRCA. These substantive participating rights of the minority shareholder will remain in effect until Danlas owns 60% of IRCA.

Purchased Intangible Assets

Of the total purchase price paid for the TouchVision acquisition, approximately \$1,340,749 has been allocated to purchased intangible assets and are being amortized on a straight line basis over a useful life of five years until an independent valuation is performed and identifiable intangible assets can be recognized apart from goodwill and their useful lives established.

Of the total purchase price paid for the RMT acquisition, approximately \$390,630 has been allocated to purchased intangible assets and are being amortized on a straight line basis over a useful life of five years until an independent valuation is performed and identifiable intangible assets can be recognized apart from goodwill and their useful lives established.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Investments in Associated Companies, at Equity

The consideration paid for our investment in Ayrshire was \$1,175,235. This amount comprises legal and financial advisory fees of \$175,235 plus 2,000,000 shares of our common stock valued at \$0.50 per share. The net asset value of Ayrshire at acquisition date was \$1,806,886 and our pro rata share of their net assets was \$875,463. Investments in Associated Companies, at Equity are periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period. As of December 31, 2003, no such impairment was incurred.

The consideration paid for our investment in IRCA was \$1,952,841. This amount comprises legal, financial advisory and consultancy fees of \$702,841 including the payment to Mr. Steynberg of \$612,668 plus 2,500,000 shares of our common stock valued at \$0.50 per share. The net asset value of Ayrshire at acquisition date was \$2,704,870 and our pro rata share of their net assets was \$1,379,484. Investments in Associated Companies, at Equity are periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period. As of December 31, 2003, no such impairment was incurred.

Divestitures

In December 2003, we sold our interest in CBL Global Corporation and its Australian subsidiaries (collectively "CBL") to Messrs. Scammell and Kennedy, the former owners of CBL. In conjunction with the management buyout, we entered into a Settlement Agreement with respect to our litigation with CBL. Pursuant to the terms of the agreement, we conveyed all of our interest in CBL back to the former owners in exchange for surrender and cancellation of 3,000,000 shares of Company stock issued to them in connection with acquisition of CBL and the cancellation of \$1,000,000 in convertible notes payable to them. Also as a result of the divestiture, \$222,151 owed by CBL to Messrs. Kennedy and Scammell is no longer an obligation of the Company. Through CBL's strategic alliance with IRCA, Trinity will continue to market CBL-related workplace learning content and products in Africa.

As a result of the divestiture, the results of operations for CBL through the date of divestiture, December 21, 2003 of \$368,036 have been included in the results of operation presented with this report. The accumulated deficit \$1,314,277 resulting from the accumulated operating loss for CBL between October 2002 and December 2003 as well as a comprehensive income of \$20,073 are included with our consolidated accumulated deficit and accumulated other comprehensive income at December 31, 2003. The net fair value of the assets and liabilities divested, net of \$1,000,000 convertible note payable which was cancelled, the intercompany receivable from CBL and the cancellation of 3,000,000 shares of shares of our common stock which was cancelled were recorded as a \$592,997 credit to our common stock. No gain or loss was recognized in the Consolidated Statement of Operations as a result of the divestiture.

Pro Forma Results

The operating results of CBL, TouchVision, and RMT have been included from the date of acquisition forward. TouchVision and RMT's results of operations for the months of July and August 2003 were not included in the Company's consolidated statements of operations.

The following unaudited pro forma financial information presents the combined results of operations of the Company, TouchVision and RMT as if these acquisitions had occurred at July 1, 2002. In December 2003, we completed the sale of our interest in CBL to the former owners of CBL. Accordingly, CBL's business operating results are not included in the Company's combined unaudited pro forma financial information for the three and six month periods ended December 31, 2003, and 2002, respectively. The unaudited pro forma financial

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

information is not intended to represent or be indicative of the consolidated results of the operations of the Company that would have been reported had these acquisitions been completed as of the dates presented, nor should it be taken as a representation of the future consolidated results of operations of the Company.

	Three Months Ended December 31		Six Months Ended December 31	
	2003	2002	2003	2002
Revenues	\$ 647,316	\$ 692,357	\$ 1,393,018	\$ 1,420,959
Gross Profit	\$ 475,361	550,611	889,153	1,112,625
Operating Loss	\$ (890,715)	\$ (257,776)	\$(1,575,428)	\$ (534,452)
Net Loss	\$ (898,054)	\$ (278,425)	\$(1,596,234)	\$ (575,575)
Net Loss per Common Share	\$ (0.04)	\$ (0.01)	\$ (0.09)	\$ (0.03)

Finalization of Purchase Price

Certain information necessary to complete the purchase accounting and our valuation of our equity method investees is not yet available, including the completion of independent valuations of the intangible assets for each of the three acquisitions. Purchase accounting will be finalized upon receipt of these independent valuations.

NOTE 3 - Property and Equipment

The Company capitalizes furniture and equipment purchases in excess of \$5,000 or at lower amounts based on local jurisdiction. Capitalized amounts are depreciated over the useful life of the assets using the straight-line method of depreciation. Scheduled below are the assets, cost, and accumulated depreciation at December 31, 2003 and June 30, 2003, respectively and depreciation expense for the six months ended December 31, 2003 and 2002, respectively.

	Asset Cost		Depreciation Expense		Accumulated Depreciat	
	12/31/2003	06/30/03	12/31/2003	06/30/2002	12/31/2003	06/30/2002
Furniture & Equipment	\$ 52,675	\$ 53,385	\$ 17,225	\$ 80	\$ 17,225	\$ 7,8

NOTE 4 - Intangible Assets

The Company capitalized intangible assets in its acquisitions of CBL, TouchVision and RMT. The amounts capitalized were equal to the difference between the consideration paid for acquisitions including any liabilities assumed and the value of the other assets acquired. The intangible assets are being amortized over a five-year period using the straight-line method. The values assigned to the intangible assets are considered appropriate - until the

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Company receives independent valuations - based on average annual revenues earned from licensing of these assets over the two year period ended September 30, 2003 and December 31, 2003, respectively, and the expectation that future revenues for the five year period subsequent to the acquisition will equal or exceed this amount. Scheduled below is the asset cost and accumulated amortization at December 31, 2003 and June 30, 2003, respectively, and amortization expense for the six months ended December 31, 2003 and 2002, respectively:

	Asset Cost		Amortization Expense		Accumulated	Amortization
	12/31/2003	06/30/2003	12/31/2003	06/30/2002	12/31/2003	06/30/2003
	-----	-----	-----	-----	-----	-----
Intangible Asset	\$1,731,379	\$1,118,312	\$ 221,576	\$ -	\$ 112,240	\$ 167,747
	=====	=====	=====	=====	=====	=====

NOTE 5 - Investments in Associated Companies, at Equity

At December 31, 2003, the principal components of Investments in Associated Companies, at Equity was our 51 % ownership in Ayrshire which owns 95% of Riverbend and our 51% ownership of IRCA:

	Ayrshire	IRCA
	-----	-----
Equity investment	\$ 1,175,235	\$ 1,952,841
Equity in loss of unconsolidated subsidiary	(294,767)	(104,213)
	-----	-----
Balance December 31, 2003	\$ 880,468	\$ 1,848,628
	=====	=====

Financial position of Ayrshire and of IRCA for the four and 1 month periods, respectively, ended December 31, 2003.

	Ayrshire	IRCA
	-----	-----
Income statement information:		
Revenue	\$ 1,238,650	\$ 942,896
	=====	=====
Operating loss	\$ (479,947)	\$ (83,195)
	=====	=====
Loss before minority interest	\$ (417,901)	(186,740)
	=====	=====
Net loss after loss attributable to minority interest	\$ (294,767)	\$ (104,213)
	=====	=====
Financial position information:		
Current assets	\$ 2,302,252	\$ 2,573,840
	=====	=====
Noncurrent assets	\$ 202,496	\$ 3,176,455
	=====	=====

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Current liabilities	\$ 980,359	\$ 3,701,428
	=====	=====
Long-term liabilities	\$ 1,324,544	\$ -
	=====	=====

Investments in Associated Companies, at Equity are periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period

NOTE 6 - Commitments

Total rental expense included in operations for operating leases for the six months ended December 31, 2003 and 2002, amounted to \$78,702 and \$27,637, respectively. Certain lease rentals are subject to renewal options and escalation based upon property taxes and operating expenses. These operating lease agreements expire at varying dates through 2005.

Total Minimum Lease Commitments as of December 31, 2003:

Calendar Year	Amount
-----	-----
2004	\$ 129,735
2005	26,693
2006	-
2007	-
Thereafter	-
Total	\$ 156,427
	=====

NOTE 7 - Legal Proceedings

On September 12, 2003, we filed a Complaint in the United States District Court for the District of Utah, Central Division, against CBL Global (f/k/a CBL Acquisition Corporation), and Robert Stephen Scammell, the sole shareholder of CBL-California, (Case No. 2:03CV00798DAK) alleged, among other things, that Scammell and CBL-California provided us with misstated financial statements prior to our merger in October 2002 with CBL-California and CBL Global. On September 18, 2003, we filed a First Amended Complaint and Jury Demand, which added as defendants CBL Global and Brian Kennedy, the sole shareholder of CBL-Australia. The First Amended Complaint alleged causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated there under, for violations of Section 20(a) of the Securities Exchange Act of 1934, for declaratory relief and breach of contract, for common law fraud, and for negligent misrepresentation.

The First Amended Complaint alleged, among other things, that the defendants were advised by CBL-California's accountant on September 18, 2002 that CBL-California's financial statements were misstated, and alleged that new restated financial statements were issued on September 19, 2002. The First Amended Complaint alleged, however, that the restated financial statements were not provided to us prior to the October 1, 2002 closing of the merger.

In December, 2003, we sold our interests in CBL Global and its Australian subsidiaries (collectively "CBL") to Messrs. Scammell and Kennedy, the former owners of CBL. In conjunction with the management buyout, we entered into a Settlement Agreement with respect to our litigation with CBL. Pursuant to the terms of the agreement, we conveyed all of our interest in CBL back to the former owners in exchange for surrender and cancellation of 3,000,000 shares of Company stock issued to them in connection with acquisition of CBL and the cancellation of \$1,000,000 in convertible notes payable to them. Also as a

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

result of the divestiture, \$222,151 owed by CBL Global to Messrs. Kennedy and Scammell is no longer an obligation of the Company.

As a result of the divestiture, the results of operations for CBL through the date of divestiture, December 21, 2003 of \$368,036 have been included in the results of operation presented with this report. The accumulated deficit \$1,314,277 resulting from the accumulated operating loss for CBL between October 2002 and December 2003 as well as a comprehensive income of \$20,073 are included with our consolidated accumulated deficit and accumulated other comprehensive at December 31, 2003. The net fair value of the assets and liabilities divested, net of \$1,000,000 convertible note payable which was cancelled, the intercompany receivable from CBL and the cancellation of 3,000,000 shares of shares of our common stock which was cancelled were recorded as a \$592,997 credit to our common stock. No gain or loss was recognized in the Consolidated Statement of Operations as a result of the divestiture.

NOTE 8 - Notes Receivable

On June 5, 2003, we agreed to lend TouchVision \$50,000 in two equal installments of \$25,000 each. Interest accrued on the unpaid principal amount of the note at a rate equal to six percent per year. Interest accrued under the note is paid annually, with the first payment due June 5, 2004. All unpaid principal and interest are due June 29, 2005. At June 30, 2003, \$25,000 had been advanced to TouchVision and accrued interest totaled \$41. Subsequent to the TouchVision acquisition on September 1, 2003, this note receivable was reclassified to intercompany notes receivable and eliminated in consolidation at December 31, 2003.

As further consideration for our September 1, 2003 purchase of 51% of Ayrshire, we agreed to make a non-interest-bearing loan of \$1,000,000 to Ayrshire, \$300,000 of which was advanced at closing of the acquisition and \$700,000 was advanced on November 3, 2003. The note is due December 30, 2006 provided that if by December 2005, an option to purchase the additional 49% of Ayrshire has not been exercised, the loan shall be repayable in five equal annual installments, the first installment being payable on December 31, 2007 and the remaining installments payable in yearly intervals thereafter. As part of the agreement, we may exercise the option to acquire the remaining 49% of Ayrshire in consideration for the issuance of an additional 1,500,000 shares of our common stock.

NOTE 9 - Related Party Transactions

From time to time, Ms. Barbara McPherson and Ms. Ildi Hayman, officers of RMT, have advanced funds to RMT. The current balance of \$15,379 is due December 31, 2004 and accrues interest at a rate of 6% per annum.

On December 17, 2003, we entered into an agreement with Titan Aviation Ltd ("Titan"), a Guernsey company, for the purpose of having Titan act as our representative in our acquisition of IRCA. Mr. Martin Steynberg, a member of our board of directors, is the managing director of Titan. Mr. Steynberg is a shareholder in IRCA Investments (Proprietary) Limited which owns 49% of IRCA. Under the terms of the agreement, we will pay Titan four million rand or approximately \$612,668. This amount has been included with accounts payable as of December 31, 2003. This amount has been included in Accounts Payable at March 31, 2004.

As of July 15, 2002, Trinity entered in a two-year Advisory Agreement with Granite Creek Partners, LLC ("GCP") (formerly Kings Peak Advisors, LLC) with automatic renewal for a 12-month period. Under the terms of the Advisory

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Agreement, GCP agreed to provide the Company with general corporate, financial, business development and investment advisory services on a non-exclusive basis. GCP is a private company whose principals are Douglas Cole and Edward Mooney, who are officers and directors of Trinity, and Mr. Swindells. The Advisory Agreement was suspended in August 2003.

The Advisory Agreement provided that GCP would be compensated for its various advisory services as follows: (i) for general corporate advisory services, an initial retainer of \$25,000 and a fee of \$20,000 per month throughout the term of the agreement, payable, at GCP's option, in shares of common stock at a price per share equal to \$0.025; (ii) for financial advisory services, a fee based on 10% of the gross proceeds of any equity financings and/or 1.5% of any gross proceeds of debt financings that are completed by underwriters or placement agents introduced by GCP, as well as any fees which may be due to GCP for its assistance in identifying prospective investors pursuant to terms and conditions of offering memoranda issued by the Company; (iii) for merger and acquisition services involving a transaction resulting from a contact provided by GCP, a sliding fee based on a percentage of the value of the

transaction, subject to an additional \$100,000 bonus in the event the transaction is valued at \$3,000,000 or more; (iv) in respect of general business development advisory services, a fee to be negotiated with GCP based upon certain agreed-upon fee parameters between the parties; and (v) in respect of debt, credit or leasing facilities, a fee to be negotiated on a case-by-case basis.

Trinity acknowledged that it was indebted to GCP for prior services rendered since April 1, 2002 in the amount of \$30,000, up to 50% of which amount is payable, at GCP's option, in shares of common stock at a price per share of \$0.025. The total number of shares of common stock issuable to GCP under the Advisory Agreement may not exceed 4,400,000 shares. Through December 31, 2003, GCP had earned a total of \$315,000 under the Advisory Agreement, \$110,000 of which was converted into 4,400,000 shares of common stock in March 2003. Of the balance of \$205,000, \$187,087 has been paid to GCP, leaving a balance owing at December 31, 2003 of \$17,913.

As of July 31, 2002, we entered into a Advisory Agreement with European American Securities, Inc. ("EAS"), for whom Mr. Swindells is a director, pursuant to which EAS agreed to provide financial advisory and investment banking services to the Company in exploration of the following strategic alternatives: (a) a private placement of the Company's convertible promissory notes, (b) a private placement of the Company's common or preferred stock, and (c) one or more possible purchase transactions by the Company. In exchange for such services, we agreed to pay EAS a retainer fee of \$5,000 per month and a commission ranging from 5% to 7% based on the type of transaction consummated, such fees to be paid in cash or our common stock, at EAS' option. Through December 31, 2003, EAS had earned a total of \$734,773 under the Advisory Agreement. Of the balance of \$734,773, \$429,773 has been paid to EAS, leaving a balance owing at December 31, 2003 of \$305,000. In January 2004, at EAS' election, \$250,000 or 250,000 shares was paid to EAS in the Company's common stock.

As of August 8, 2002, Trinity formalized a Debt Conversion Agreement with Global Marketing Associates, Inc. ("GMA"), holder of a convertible promissory note (the "GMA Note") in the principal amount of \$166,963, pursuant to which the principal amount of the note, along with accrued interest thereon, was made convertible, under certain conditions, into 3,200,000 shares of common stock. The GMA Note was originally issued in November 2000 to the Company's former attorneys and was subsequently acquired by Pacific Management Services, Inc., who assigned the note to GMA; both entities are unrelated to Trinity. GMA subsequently assigned the right to acquire 2,600,000 of the 3,200,000 shares of common stock into

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

which the note is convertible, to several persons, including Messrs. Cole, Mooney and Swindells. Pursuant to the assignment, Messrs. Cole and Mooney each acquired the right to acquire 600,000 shares of the common stock into which the GMA Note is convertible and Mr. Swindells acquired the right to acquire 1,000,000 shares. Fifty percent of the shares issuable upon the conversion of the GMA Note are subject to a two-year lock-up provision that restricts transfer of such shares without prior written consent of Trinity's board of directors. Between December 2002 and March 2003, 3,200,000 shares of our common stock were issued pursuant to this arrangement. The shares were issued at \$0.052 per share.

From time to time, since inception of our current operating strategy, Mr. Swindells has provided short-term working capital loans on a non-interest bearing basis. During our previous fiscal year, we were advanced \$145,000 by Mr. Swindells, and during the transition period from October 1, 2002 to June 30, 2003, we were advanced an additional \$780,000 by Mr. Swindells. The principal may be converted into such other debt or equity securities financings that we may issue in private offerings while the loan is outstanding. In September 2003, we repaid \$500,000 on the \$925,000 note balance then outstanding. In November 2003, the remaining balance of \$425,000 was converted in to 850,000 shares of common stock and issued to Mr. Swindells.

NOTE 10 - Notes Payable

At December 31, 2003, notes payable to accredited investors and related parties totaled \$274,168 as compared with \$2,147,151 at June 30, 2003. The notes bear interest between the rates of 0% and 10% per annum. Certain notes are convertible into the Company's common stock.

The Company has the following notes payable obligations:

	December 31, 2003	June 200
	-----	-----
Note payable to bank due October 29, 2004, plus interest payable annually at 9.5%, secured by vehicle.	\$ 15,715	\$
Note payable to related parties due December 21, 2004, plus interest payable at 7% per annum, see Note 9.	15,379	
Borrowings under revolving line of credit issued by a bank, plus interest payable at prime plus 2.625%.	99,950	
Borrowings under revolving line of credit issued by a bank, plus interest payable at prime plus 6.75%.	34,076	
Borrowings under revolving line of credit issued by a third party creditor, plus interest payable at prime plus 1.99%.	15,003	
Notes payable to third party individuals, due September 1, 2006, plus interest payable at 10% per annum.	94,045	
Unsecured notes payable to related parties, see Note 7 for due date, plus accrued interest at a rate of 7% per annum.	-	222
Convertible notes payable to related parties, see Note 7 for due date, plus accrued interest at a rate of 7% per annum.	-	1,000
	-----	-----

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

	Total Notes Payable	274,168	2,147
Less: Current Maturities		31,094	(2,147)
		-----	-----
	Long Term Notes Payable	\$ 243,074	\$
		=====	=====

NOTE 11 - Stockholders' Equity

On December 2, 2002, at a special meeting of our shareholders, the 2002 Stock Plan was approved. The Plan allowed for a maximum aggregate number of shares that may be optioned and sold under the plan of (a) 3,000,000 shares, plus (b) an annual 500,000 increase to be added on the last day of each fiscal year beginning in 2003 unless a lesser amount is determined by the board of directors. The plan became effective with its adoption and remains in effect for ten years unless terminated earlier. On December 30, 2003, the board of directors amended the 2002 Stock Plan to allow for a maximum aggregate number of shares that may be optioned and sold under the plan of (a) 6,000,000 shares, plus (b) an annual 1,000,000 increase to be added on the last day of each fiscal year beginning in 2004 unless a lesser amount is determined by the board of directors. Options granted under the plan vest 25% on the day of the grant and the remaining 75% vests monthly over the next 36 months. As of December 31, and June 30, 2003, 4,047,000 and 2,447,000 options, respectively, have been granted at prices ranging from \$0.05 per share to \$0.50 per share of which 1,453,390 and 963,625 were vested as of December 31 and June 30, 2003, respectively.

Between January and April 2003, we received subscriptions to our December 2002 Private Placement Memorandum totaling \$250,000 from outside investors to purchase 250,000 units at a price of \$1.00 per unit. Each unit entitles the holder to two shares of our common stock and two three year warrants, each to purchase an additional share of common stock for \$1.00 per share. If all warrants are fully exercised by the holder of such warrants, a bonus warrant will be issued entitling the holder to purchase one additional share of common stock for \$2.00.

Between June and October 2003, we received subscriptions to our May 2003 Private Placement Memorandum ("May 2003 PPM") totaling \$5,073,300 from outside investors to purchase 5,073,300 units at a price of \$1.00 per unit. Each unit entitles the holder to two shares of our common stock and two three year warrants, each to purchase an additional share of common stock for \$1.00 per share. If all warrants are fully exercised by the holder of such warrants, a bonus warrant will be issued entitling the holder to purchase one additional share of common stock for \$2.00. In connection with the May 2003 Private Placement, we issued to various financial advisors, 567,160 additional shares of our common stock and five-year warrants to purchase 200,050 shares of our common stock.

As of July 31, 2002, we entered into an Advisory Agreement with EAS, for whom Mr. Swindells is a director, pursuant to which EAS agreed to provide financial advisory and investment banking services to the Company in exploration of the following strategic alternatives: (a) a private placement of the Company's convertible promissory notes, (b) a private placement of the Company's common or preferred stock, and (c) one or more possible purchase transactions by the Company. In exchange for such services, we agreed to pay EAS a retainer fee of \$5,000 per month and a commission ranging from 5% to 7% based on the type of transaction consummated; such fees to be paid in cash or our common stock, at EAS' option. Through December 31, 2003, EAS had earned a total of \$734,773 under the Advisory Agreement. Of the balance of \$734,773, \$429,773 has been paid to EAS, leaving a balance owing at December 31, 2003 of \$305,000. In January 2004, at EAS' election, \$250,000 or 250,000 shares was paid to EAS in the Company's common stock.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

In December 2003, we completed the sale of our interests in CBL Global and CBL to the former owners of CBL. In conjunction with the management buyout, we entered into a Settlement Agreement with respect to our litigation with CBL as described in our 10KSB filed with the U.S. Securities and Exchange Commission. We acquired CBL from its former owners in October 2002. Pursuant to the terms of the agreement, we have conveyed all our interest in CBL back to the former owners in exchange for surrender and cancellation of all shares of Trinity stock issued to them in connection with the acquisition of CBL and the of approximately \$1,000,000 in convertible notes payable to them. As a result of the sale, we recorded an increase in stockholders' equity of \$592,997.

From time to time, since inception of our current operating strategy, Mr. Swindells has provided short-term working capital loans on a non-interest bearing basis. During our previous fiscal year, we were advanced \$145,000 by Mr. Swindells, and during the transition period from October 1, 2002 to June 30, 2003, we were advanced an additional \$780,000 by Mr. Swindells. The principal may be converted into such other debt or equity securities financings that we may issue in private offerings while the loan is outstanding. In September 2003, we repaid \$500,000 on the \$925,000 note balance then outstanding. In November 2003, the remaining balance of \$425,000 was converted into 850,000 shares of common stock and issued to Mr. Swindells.

Finally, 100,000 shares of the Company's common stock were issued to Mr. Posner for finders' fees for the Riverbend transaction.

NOTE 12 - Stock Option Plan

On December 2, 2002, at a special meeting of our shareholders, the 2002 Stock Plan was approved. The Plan allowed for a maximum aggregate number of shares that may be optioned and sold under the plan of (a) 3,000,000 shares, plus (b) an annual 500,000 increase to be added on the last day of each fiscal year beginning in 2003 unless a lesser amount is determined by the board of directors. The plan became effective with its adoption and remains in effect for ten years unless terminated earlier. On December 30, 2003, the board of directors amended the 2002 Stock Plan to allow for a maximum aggregate number of shares that may be optioned and sold under the plan of (a) 6,000,000 shares, plus (b) an annual 1,000,000 increase to be added on the last day of each fiscal year beginning in 2004 unless a lesser amount is determined by the board of directors. Options granted under the plan vest 25% on the day of the grant and the remaining 75% vests monthly over the next 36 months.

The following schedule summarizes the activity during the three months ended December 31, 2003.

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at September 30, 2003	3,182,000	\$ 0.23
Options Granted	925,000	0.50
Options Exercised	-	-
Options Canceled	565,000	0.24
	-----	-----
Options Outstanding at December 31, 2003	3,542,000	\$ 0.36
	=====	=====
Options Exercisable at December 31, 2003	1,448,938	\$ 0.30
	=====	=====

The following schedule summarizes the activity during the six months ended December 31, 2003.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at June 30, 2003	2,447,000	\$ 0.23
Options Granted	1,660,000	0.50
Options Exercised	-	-
Options Canceled	565,000	0.24
	-----	-----
Options Outstanding at December 31, 2003	3,542,000	\$ 0.36
	=====	=====
Options Exercisable at December 31, 2003	1,448,938	\$ 0.30
	=====	=====

In accordance with Statement of Financial Accounting Standards Number 123, "Accounting for Stock-Based Compensation," option expense of \$121,070 and \$219,584 was recognized for the three months and six months ended December 31, 2003, respectively:

	December 31, 2003

Five-Year Risk Free Interest Rate	3.27%
Dividend Yield	Nil
Volatility	70%
Average Expected Term (Years to Exercise)	5

Stock options outstanding and exercisable under 2002 Stock Plan as of December 31, 2003 are as follows:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Number of Options Vested	Average Weighted Exercise Price
-----	-----	-----	-----	-----	-----
\$0.05	600,000	\$0.05	3.8	334,110	\$0.05
\$0.25	1,049,000	\$0.25	3.9	540,164	\$0.25
\$0.50	1,893,000	\$0.50	4.7	574,664	\$0.50

NOTE 13 - Going Concern

Our financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Currently, we do not have significant cash or other material assets, nor do we have an established source of revenues sufficient to cover our operating costs and to allow us to continue as a going concern. We do not currently possess a financial institution source of financing and we cannot be certain that our existing sources of cash will be adequate to meet our liquidity requirements. However, we have undertaken the following to meet our liquidity requirements:

- (a) Seek additional funding through senior convertible bridge notes to raise sufficient funds to continue operations and fund its ongoing development, merger and acquisition activities. In January 2004, we commenced a \$3,000,000 offering of senior convertible bridge notes to accredited investors, the proceeds of which will be used for (i) corporate administration, (ii) the expansion of subsidiary operations,

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

and (iii) expenses and funds advanced for acquisitions in 2003. In conjunction with the offering, we have engaged various financial advisory firms and other finders to identify prospective investors. We anticipate closing the offering by February 29, 2004.

- (b) Generate sufficient cash flow to sustain and grow subsidiary operations and, if possible, create excess cash flow for corporate administrative expenses through our operating subsidiaries; and
- (c) Identify prospective acquisition targets with sufficient cash flow to fund subsidiary operations, as well as potentially generating operating cash flow that may sustain corporate administrative expenses.

Trinity's future capital requirements will depend on its ability to successfully implement these initiatives and other factors, including our ability to maintain our existing customer base and to expand our customer base into new geographic markets, and overall financial market conditions in the United States and other countries where we will seek prospective investors.

NOTE 14 - Subsequent Events

We have entered into a definitive agreement to acquire Virtual Learning Partners SA ("VILPAS"), a learning services company headquartered in Oslo, Norway. We anticipate closing this transaction within the next 30 days. We will acquire VILPAS through a combination of stock and cash payments. Among its various business development initiatives, VILPAS is majority owner of FunkWeb, also headquartered in Oslo. FunkWeb is a leading provider of workplace training and retraining for disabled persons. In conjunction with national and local employment programs, FunkWeb has a successful track record in providing disabled persons with skills, certifications and job placement services primarily related to information technologies, web-based systems, and computing. The minority partner in FunkWeb is the Norwegian Federation of Functionally Disabled People, a non-government organization (NGO) representing many of the country's associations and programs for the disabled.

Beginning February 2004, we had received subscriptions to our January 2004 Offering of up to \$3,000,000 Senior Convertible Bridge Notes (the "Notes") totaling \$1,060,000. The Notes will mature in twelve months plus accrued interest at a rate of 7% per annum. The Notes will be convertible at 80% of the "Next Equity Financing" offering price. The Next Equity Financing shall mean a common stock equity financing in which proceeds equal or exceed \$5,000,000, which shall include any principal or interest accrued under the Notes. The Company expects to complete the Next Equity Financing in early 2004. In addition, for each \$1.00 invested, the investor shall receive a 5 year warrant to purchase a share of the Company's common stock at \$1.00 per share.

On February 23, 2004, Trinity Learning Corporation (the "Company") announced that it had entered into an Agreement and Plan of Merger (the "Merger Agreement") with ProsoftTraining, a Nevada corporation ("Prosoft"), and MTX Acquisition Corp., a Utah corporation and a wholly-owned subsidiary of Prosoft (the "Merger Sub"), pursuant to which the Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation wholly-owned by Prosoft (the "Merger"). Upon completion of the Merger, holders of Company common stock will be entitled to receive one (1) share (the "Exchange Ratio") of Prosoft common stock for each share of Company common stock held by them. Prosoft will assume all outstanding options to purchase shares of Company common stock, which will become exercisable to purchase the number of shares of Prosoft common stock at the exercise price as adjusted by the Exchange Ratio. The Merger is intended to be a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended. The consummation of the Merger is subject to the approval of the stockholders of each of the Company and Prosoft,

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

effectiveness of the Form S-4 Registration Statement to be filed by Prosoft, regulatory approvals, satisfactory agreements with certain creditors and other customary closing conditions.

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

Our fiscal year ends on June 30. This management's discussion and analysis of financial condition and results of operations and other portions of this Quarterly Report on Form 10-QSB/A contain forward looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by this forward looking information. Factors that could cause or contribute to such differences include, but are not limited to, those discussed or referred to in the Transition Report on Form 10-KSB for the period ended June 30, 2003, filed on November 17, 2003, under the heading Information Regarding Forward-Looking Statements and elsewhere. Investors should review this quarterly report on Form 10-QSB/A in combination with our Transition Report on Form 10-KSB in order to have a more complete understanding of the principal risks associated with an investment in our common stock. This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this document.

OVERVIEW

We commenced a strategy in 2002 to acquire operating companies in strategic markets that have developed proprietary technology-enabled learning, training and certification services targeted at major customers in worldwide industries. Our mission is to become a leading global learning solution corporation through acquisition, business development and strategic relationships. We earn revenues from selling our services to medium to large companies and organizations that provide workplace training and certification to their employees. The principal components of our costs of sales are labor costs for employees who are directly involved in providing services to clients. Other costs of sales include expenses associated with specific projects including materials and incidental expenses. Operating expenses include salaries and benefits for management, administrative, marketing and sales personnel, research and development, occupancy and related overhead costs.

Following our initial acquisition of CBL and related companies, discussed below, our corporate development efforts in 2003 and 2004 have been concentrated on the identification of additional acquisition candidates including due diligence, negotiation of terms and conditions, and the development of integration and financing strategies for each acquisition. We have also focused on raising growth capital through private placements to be used as working capital for Trinity and our subsidiaries. On September 1, 2003 and December 1, 2003, respectively, we completed the following four non-related acquisitions. On February 23, 2004, we announced that we had entered into an Agreement and Plan of Merger with ProsoftTraining. Additional information concerning these transactions and the various companies involved were filed on Forms 8-K.

TouchVision (California)

We completed the acquisition of all of the issued and outstanding shares of TouchVision, Inc., a California corporation ("TouchVision") that is in the business of providing technology-enabled information and learning systems to healthcare providers, financial services companies and other industry segments.

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

In consideration for the TouchVision shares, we issued an aggregate of 1,250,000 restricted shares of our common stock, of which 312,500 shares are subject to the terms of an escrow agreement as collateral for the indemnification obligations of the former TouchVision shareholders. We also agreed to loan to TouchVision the sum of \$20,000 per month for the twelve-month period following closing, to be used for working capital. We had previously loaned TouchVision the sum of \$50,000 in June and July, 2003 by way of bridge financing pending completion of the acquisition. In connection with the acquisition, TouchVision entered into substantially similar employment agreements with each of Messrs. Gregory L. Roche and Larry J. Mahar, the former principals of TouchVision, which have a term of two years and provide for annual salaries of \$120,000. On October 1, 2003, we advanced \$150,000 to TouchVision, the proceeds of which were used to pay off a loan payable to a bank, which was guaranteed by the Small Business Administration.

River Murray Training Pty. Ltd. (Australia)

We completed the acquisition of all of the issued and outstanding shares of River Murray Training Pty Ltd ("RMT") an Australian company that is in the business of providing workplace training programs for various

segments of the food production industry, including viticulture and horticulture. In consideration for the shares of RMT we issued 700,000 restricted shares of our common stock, of which 350,000 shares are subject to the terms of an escrow agreement as collateral for the indemnification obligations of the former RMT shareholders. We also loaned US\$49,000 to RMT for the purpose of repaying outstanding loans advanced to RMT by its former shareholders.

Riverbend Group Holdings (Proprietary) Limited (South Africa)

We completed the acquisition of 51% of the issued and outstanding shares of Ayrshire Trading Limited, a British Virgin Islands company ("Ayrshire") that owns 95% of Riverbend Group Holdings (Proprietary) Limited ("Riverbend"), a South African company that provides learning services to corporations and individuals in South Africa. We also acquired the option to purchase the remaining 49% of Ayrshire. In consideration for the Ayrshire shares, we issued a convertible non-interest-bearing promissory note in the amount of US\$20,000, which amount is convertible from time to time, but no later than December 30, 2006, into a maximum of 2,000,000 restricted shares of our common stock. Of these shares, up to 400,000 may be withheld in satisfaction for any breach of warranties by the former shareholders of Ayrshire. The Ayrshire shares are subject to escrow and pledge agreements will be reconveyed to the former shareholders in the event of a default by us of certain terms and conditions of the acquisition agreements, including, among other things, a voluntary or involuntary bankruptcy proceeding involving us or the failure by us to list our shares of common stock on a major stock exchange by December 30, 2006.

As further consideration for the Ayrshire shares, we agreed to make a non-interest-bearing loan of U.S. \$1,000,000 to Ayrshire, \$300,000 of which was advanced at closing and the remaining \$700,000 was advanced on November 3, 2003. We may exercise an option to acquire the remaining 49% of Ayrshire in consideration for the issuance of 1,500,000 shares of our common stock, subject to certain adjustments.

Our 51% ownership in Ayrshire has been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

includes its share of the investee's net income or loss as a separate line item in its net income. The net income impact is identical whether the equity method of accounting is used or full consolidation is employed. Under the equity method of accounting, the balance sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is recorded as an asset, "Investment in Associated Company." The equity method of accounting is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control.

IRCA

On December 1, 2003, we completed the acquisition of all the issued and outstanding shares of Danlas, a British Virgin Islands Company that owns 51% of IRCA (Proprietary) Limited ("IRCA"), a South African company specializing in corporate learning, certification and risk mitigation in the area of safety, healthy environment and quality assurance ("SHEQ"). IRCA operates in South Africa, England and the United States through various operating subsidiaries. Danlas also holds options to acquire the remaining 49% of IRCA.

In consideration for the Danlas shares, the Company (i) issued three convertible promissory notes in the aggregate principal amount of \$40,000 and convertible into a maximum of 4,500,000 shares, under certain conditions, of the Company's common stock, (ii) agreed to advance \$500,000 in cash to establish an international sales force, (iii) provided \$500,000 for certain bank guarantees and, (iv) provided certain future profit thresholds are met, agreed to issue up to an additional 1,000,000 shares of the Company's common stock. The first promissory note for \$20,000 convertible to 2,500,000 shares has been classified as contingently redeemable equity at \$0.50 per share.

Our 51% ownership in IRCA has been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only includes its share of the investee's net income or loss as a separate line item in its net income. The net income impact is identical whether the equity method of accounting is used or

full consolidation is employed. Under the equity method of accounting, the balance sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is recorded as an asset, "Investment in Associated Company." The equity method of accounting is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control.

ProsoftTraining

On February 23, 2004, Trinity Learning Corporation (the "Company") announced that it had entered into an Agreement and Plan of Merger (the "Merger Agreement") with ProsoftTraining, a Nevada corporation ("Prosoft"), and MTX Acquisition Corp., a Utah corporation and a wholly-owned subsidiary of Prosoft (the "Merger Sub"), pursuant to which the Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation wholly-owned by Prosoft (the "Merger"). Upon completion of the Merger, holders of Company common stock will be entitled to receive one (1) share (the "Exchange Ratio") of Prosoft common stock for each share of Company common stock held by them. Prosoft will assume all outstanding options to purchase shares of Company common stock, which will become exercisable to purchase the number of shares of Prosoft common stock at the exercise price as adjusted by the Exchange Ratio. The Merger is intended to be a tax-free reorganization under Section 368(a) of

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

the Internal Revenue Code of 1986, as amended. The consummation of the Merger is subject to the approval of the stockholders of each of the Company and Prosoft, effectiveness of the Form S-4 Registration Statement to be filed by Prosoft, regulatory approvals, satisfactory agreements with certain creditors and other customary closing conditions.

Competency Based Learning, Inc.

In December 2003, we completed the sale of our interests in CBL Global Corporation ("CBL Global") and its Australian subsidiaries (collectively "CBL") to the former owners of CBL. In conjunction with the management buyout, we entered into a Settlement Agreement with respect to our litigation with CBL as described in our 10KSB filed with the U.S. Securities and Exchange Commission. We acquired CBL from its former owners in October 2002. Pursuant to the terms of the agreement, we have conveyed all our interest in CBL back to the former owners in exchange for surrender and cancellation of all shares of Trinity stock issued to them in connection with the acquisition of CBL and the of approximately \$1,000,000 in convertible notes payable to them. Also as a result of the divestiture, \$222,151 owed by CBL Global to Messrs. Kennedy and Scammell is no longer an obligation of the Company. We made the decision to divest our company of CBL following our acquisition in the autumn of 2003 of the four companies described above. Continued operation of CBL would have required significant cash infusion on behalf of the Company. Through CBL's strategic alliance with IRCA, Trinity will continue to market CBL-related workplace learning content and products in Africa.

Change in Accounting for Ayrshire / Riverbend and IRCA

As disclosed in our Form 8K dated October 18, 2004, we announced that in the process of preparing and completing its audit for the fiscal year ended June 30, 2004, we reviewed our earlier determination to consolidate the financial statements of our 51% ownership of Ayrshire which owns 95% of Riverbend. This consolidation was reflected in the Company's interim financial statements included in its previously-filed quarterly reports for fiscal 2004. After this review and following discussions by the Company's officers with its predecessor auditor Chisholm, Bierwolf, Nilson & Associates and its current auditor BDO Spencer Steward, the Company's Board of Directors concluded on October 12, 2004 to use the equity method of accounting with respect to the Company's interest in IRCA and Riverbend, rather than consolidating the financial results of these entities with those of the Company.

Our 51% ownership in Ayrshire and in IRCA have been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only includes its share of the investee's net income or loss as a separate line item in its net income. The net income impact is identical whether the equity method of accounting is used or full consolidation is employed. Under the equity method of accounting, the balance sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is shown as an asset, "Investments in Associated Companies." The equity method of accounting

is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control.

Emerging Issues Task Force Issue 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority Voting Interest but the Minority Shareholders Have Certain Approval or Voting or Veto Rights" (EITF 96-16)

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

provides guidance as to the distinction between protective rights of the minority shareholder which do not overcome the presumption of consolidation and substantive participating rights of the minority shareholder. Substantive participating rights that allow the minority shareholder to participate in establishing operating and capital decisions in the ordinary course of business, overcome the presumption that the investor should consolidate the investee.

- o In the Riverbend transaction, Section 20.2.11.3 of the Definitive Agreement ("the Agreement") between Trinity, the majority owner in Ayrshire, and Great Owl Limited ("Great Owl"), the minority owner in Ayrshire, prevents Ayrshire and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof" or "incur unbudgeted capital expenditure of US\$150,000 per item or US\$500,000 per annum." Also, pursuant to Section 18.3 of the Agreement, Trinity and Great Owl are "each entitled to appoint an equal number of directors to the board of directors" of Ayrshire. These substantive participating rights of the minority shareholder preclude consolidation of this investment and will remain in effect until Trinity owns 100% of Ayrshire.

- o In the IRCA transaction, Section 20.1.19.3 of the Sale of Shares Agreement ("SOS Agreement") between Danlas Limited, a wholly owned subsidiary of Trinity, and IRCA Investments (Pty.) Ltd. ("IRCA Investments"), the minority shareholder in IRCA, prevents IRCA and its subsidiaries from approving, canceling or effecting "material changes to the annual budget or any modification thereof, or to its strategic plans or marketing strategy or incur unbudgeted capital expenditure in excess of R200,000 (two hundred thousand Rand) per item or R800,000 (eight hundred thousand Rand) in total per annum." Also, pursuant to Section 19 of the SOS Agreement, Danlas and IRCA Investments are "each entitled to appoint equal number of directors to the board of directors" of IRCA. These substantive participating rights of the minority shareholder will remain in effect until Danlas owns 60% of IRCA.

Change in Fiscal Year

On August 6, 2003, our board of directors approved a change in our fiscal year-end from December 31 to June 30 to align it with those of the companies we had already acquired or were at that time in the process of acquiring. The information presented in Transition Report on Form 10-KSB relates to the transition period October 1, 2002 through June 30, 2003.

Results for the first six months of fiscal year 2004 include four month's results of operations for the two companies we recently acquired as well as CBL's activity for the first six months of fiscal year 2004. Revenues from our clients were \$980,798 for the first six months of fiscal year 2004, compared with \$62,660 for the six month period ended December 2002. Of the total increase in revenues from our clients, \$810,758 was due to the two acquisitions described above that we made during the first quarter of fiscal year 2004.

We believe that the acquisitions we completed in the first quarter of fiscal year 2004 will shift our business in the direction of markets that we believe offer good growth potential for the Company.

Critical Accounting Policy and Management Judgment

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

made its best estimate and judgments of certain amounts included in the financial statements, giving consideration to materiality. Historically, our estimates have not materially differed from actual results. Application of these accounting policies, however, involves exercise of judgment and use of assumptions as to future uncertainties. As a result, actual results could differ from these estimates.

Material accounting policies that we believe are the most critical to investor's understanding of our financial results and condition and require complex management judgment have been expanded and are discussed below. Information regarding our other accounting policies is included in our Transition Report on Form 10-KSB for the transition period ended June 30, 2003. No other material changes to such information have occurred during the six months ended December 31, 2003.

1. **Consolidation Policy.** Our consolidated financial statements include the accounts of the company and our wholly-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. Our 51% ownership in Ayrshire and in IRCA have been accounted for in the financial statements included with this report using the equity method of accounting. The equity method of accounting requires an investor to incorporate its pro rata share of the investee's earnings into its earnings. However, rather than include each component, e.g. sales, cost of sales, operating expenses, the investor only includes its share of the investee's net income or loss as a separate line item in its income. The net income impact is identical whether the equity method of accounting is used or full consolidation is employed. Under the equity method of accounting, the balance sheet of the investee is not consolidated with the balance sheet of the investor. Rather, the fair value of the consideration paid is recorded as an asset, "Investment in Associated Company." The equity method of accounting is used for investments in which the investor has significant influence over the operations of the investee but lacks operating control.
2. **Revenue Recognition.** We earn our revenues primarily from service-related contracts, including operations and maintenance services and a variety of technical assistance services, and are accounted for over the period of performance, in proportion to the costs of performance, evenly over the period, or over units of production. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. The Company determines whether criteria (3) and (4) are met based on judgments regarding the nature of the fee charged for services rendered and products delivered and the collectibility of those fees.
3. **Deferred Revenue.** We record deferred revenue which are amounts that have been billed in advance of products or services provided. Deferred revenue includes amounts which have been billed and not collected for which revenue is being recognized ratably over the contract period. We acquired approximately \$60,000 of deferred revenue in connection with the acquisition of TouchVision, Inc. As of September 30, 2003, and June 30, 2003, deferred revenue was \$127,016 and \$0, respectively. The Company anticipates that substantially all such amounts will be earned over the next twelve months.
4. **Contingently Redeemable Equity.** Contingently redeemable equity are shares of our common stock issuable upon the conversion of notes payable upon the satisfaction of certain conditions pursuant to a

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

contingent stock arrangement. The contingent stock arrangement is dependent on the satisfaction of certain conditions by us, most notably the listing of our common stock on a major stock exchange in the United States of America, for whom there are financial requirements for listing. The value of the contingently redeemable equity is based on the number of shares to be issued at \$0.50 per share.

5. Common Stock Valuation. To determine the value of the stock issued for the September 1, 2004 consideration paid for subsidiaries and the investment in its equity method of accounting investee, the Company used a value of \$0.50 per share of common stock as the fair value. Such determination is based upon its then current fundraising efforts in which the Company raised in excess of \$3,000,000 at \$0.50 per share.
6. Allocation of Consideration for Investments in Subsidiaries. The excess of the consideration paid for subsidiaries over the fair value of acquired tangible assets less the fair value of acquired liabilities is assigned to intangible assets and goodwill. The Company obtains an independent third party valuation to ascertain the amount to allocate to identifiable intangible assets and the useful lives of those assets.

Adoption of Statements of Financial Accounting Standards

In June 2002, the FASB issued Statement of Financial Accounting Standard No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 replaces Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" in its entirety and addresses significant issues relating to recognition, measurement and reporting costs associated with an exit or disposal activity, including restructuring activities. Under EITF Issue No. 94-3, a liability is recognized, measured and reported as of the date of an entity's commitment to an exit plan. Pursuant to SFAS 146, a liability is recorded on the date on which the obligation is incurred and should be initially measured at fair value. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS 146 on July 1, 2003 and adoption of SFAS 146 did not significantly impact the Company's financial statements.

EITF Consensus Issue No.00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables" was first discussed at the July 2000 EITF meeting and was issued in February 2002. Certain revisions to the scope language were made and finalized in May 2003. EITF 00-21 addresses the accounting for multiple element revenue arrangements, which involve more than one deliverable or unit of accounting in circumstances, where the delivery of those units takes place in different accounting periods. EITF 00-21 requires disclosures of the accounting policy for revenue recognition of multiple element revenue arrangements and the nature and description of such arrangements. The accounting and reporting requirements are effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company has completed its initial evaluation and adoption of EITF 00-21 does not have a significant impact on the Company's financial statements. The Company continues its evaluation to determine whether the reporting requirements of EITF 00-21 will impact the Company's financial statements in the future.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends FASB

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Statement 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosure in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years, including interim periods beginning after December 15, 2002, and thus, this disclosure is included in the table below. SFAS 148 also requires disclosure of pro-forma results on the interim basis as if the Company had applied the fair value recognition provisions of SFAS 123. The Company changed to the fair value based method of accounting for stock-based employee compensation during the transition period from October 1, 2002 to June 30, 2003. Adopting SFAS 148 did not impact the financial results of the Company significantly.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. The accounting and reporting requirements will be effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. Currently, we do not have any derivative instruments and do not anticipate entering into any derivative contracts. Accordingly, adoption of SFAS 149 does not have a significant impact to our financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. As permitted, the Company will adopt SFAS 150 on October 1, 2003. The Company does not anticipate adoption of SFAS 150 to significantly impact the Company's financial statements.

Related Party Transactions

From time to time, Ms. McPherson and Ms. Hayman, officers of RMT, have advanced funds to RMT. The current balance of \$15,379 is due December 31, 2004 and accrues interest at a rate of 6% per annum.

On December 17, 2003, we entered into an agreement with Titan Aviation Ltd ("Titan"), a Guernsey company, for the purpose of having Titan act as our representative in our acquisition of IRCA. Mr. Martin Steynberg, a member of our board of directors, is the managing director of Titan. Mr. Steynberg is a shareholder in IRCA Investments (Proprietary) Limited which owns 49% of IRCA. Under the terms of the agreement, we will pay Titan four million rand or approximately \$612,668 on March 1, 21004. This amount has been included with accounts payable as of December 31, 2003.

As of August 8, 2002, we formalized a Debt Conversion Agreement with Global Marketing Associates, Inc. ("GMA"), holder of a convertible promissory note (the "GMA Note") in the principal amount of \$166,963, pursuant to which the principal amount of the note, along with accrued interest thereon, was made convertible, under certain conditions, into 3,200,000 shares of common stock. The GMA Note

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

was originally issued in November 2000 to our company's former attorneys and was subsequently acquired by Pacific Management Services, Inc., who assigned the note to GMA; both entities are unrelated to us. GMA subsequently assigned the right to acquire 2,600,000 of the 3,200,000 shares of common stock into which the note is convertible, to several persons, comprising Messrs. Cole, Mooney, and Swindells as well as European American Securities, Inc. ("EAS"). Pursuant to the assignment, Messrs. Cole and Mooney each acquired the right to acquire 600,000 shares of the common stock into which the GMA Note is convertible and Mr. Swindells acquired the right to acquire 1,000,000 shares. As of January 2003, all 3,200,000 shares of our common stock had been issued pursuant to the terms of the GMA Note. Fifty percent of the shares issuable upon the conversion of the GMA Note are subject to a two-year lock-up provision that restricts transfer of such shares without prior written consent of our board of directors.

As of July 15, 2002, we entered in a two-year Advisory Agreement with Granite Creek Partners, LLC ("GCP"), formerly King's Peak Advisors, LLC, automatically renewable for an additional 12-month period. Under the terms of the Advisory Agreement, GCP agreed to provide us with general corporate, financial, business development and investment advisory services on a non-exclusive basis. These services include assisting with the identification of placement agents, underwriters, lenders and other sources of financing, as well as additional qualified independent directors and members of management. GCP is a private company whose principals are Douglas Cole and Edward Mooney, who are officers and directors of our company, and Theodore Swindells. At its August 19, 2003 meeting, the board of directors' voted to suspend the Advisory Agreement from August 15, 2003 until January 2004. Through December 31, 2003, GCP had earned a total of \$315,000 under the Advisory Agreement, \$110,000 of which was converted into 4,400,000 shares of common stock in March 2003. Of the balance of \$205,000, \$187,087 was paid to GCP, leaving a balance owing at December 31, 2003 of \$17,913. The Advisory Agreement was suspended in August 2003.

As of July 31, 2002, we entered into a Advisory Agreement with EAS pursuant to which EAS agreed to provide financial advisory and investment banking services to the Company in exploration of the following strategic alternatives: (a) a private placement of the Company's convertible promissory notes, (b) a private placement of the Company's common or preferred stock, and (c) one or more possible purchase transactions by the Company. In exchange for such services, we agreed to pay EAS a retainer fee of \$5,000 per month and a commission ranging from 5% to 7% based on the type of transaction consummated, such fees being payable in cash or the Company's common stock at EAS' option. Through December 31, 2003, EAS had earned a total of \$734,773 under the Advisory Agreement. Of the balance of \$734,773, \$429,773 has been paid to EAS, leaving a balance owing at December 31, 2003 of \$305,000 of which \$250,000 or 250,000 shares in the Company's common stock was paid to EAS in January 2004.

From time to time, since inception of our current operating strategy, Mr. Swindells has provided short-term working capital loans on a non-interest bearing basis. During our previous fiscal year, we were advanced \$145,000 by Mr. Swindells, and during the transition period from October 1, 2002 to June 30, 2003, we were advanced an additional \$780,000 by Mr. Swindells. The principal may be converted into such other debt or equity securities financings that we may issue in private offerings while the loan is outstanding. In September 2003, we repaid \$500,000 on the loan balance then outstanding. In November 2003, the remaining balance of \$425,000 was converted to 850,000 shares of common stock and issued to Mr. Swindells.

RESULTS OF OPERATIONS

Second Quarter Ended December 31, 2003 Compared to December 31, 2002

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

Our gross sales revenues were \$726,805 for the quarter ended December 31, 2003, as compared to \$62,660, the amount we reported for the quarter ended December 31, 2002. The increase in revenues was due to the acquisitions of TouchVision and RMT ("acquisitions") which provided the revenues for the second quarter of fiscal year 2004.

Costs of sales for the quarter ended December 31, 2003 were \$171,956 and consist of labor and hardware costs, and other incidental expenses, as compared to \$0 for the same period last year. This increase was a result of the acquisitions, which increased costs of sales.

Our gross profit was \$554,849 for the quarter ended December 31, 2003, as compared to \$62,660, the amount we reported for the quarter ended December 31, 2002. The increase in gross profit was due to the acquisitions, which provided \$473,335 in gross profit.

Operating expense for the quarter ended December 31, 2003 was \$1,785,024 as compared with \$651,519 for the same period same period in the prior year. The increase in operating expenses was due in part to the additional operating costs of the acquisitions totaling \$531,600. Trinity corporate expenses increased \$379,329 to \$778,401 when compared to the same period last year. This increase is attributable to increased salaries and benefits expense in support of our new strategy and 2002 Stock Plan expense of \$121,070. At December 31, 2003 there were eight full time employees in Trinity corporate as compared to two employees at December 31, 2002.

Other expense of \$426,897 was \$402,823 greater than the prior year and is attributable to the losses in our equity investments in associated companies of \$397,985 of which \$104,213 is attributable to IRCA and \$293,772 is attributable to Ayrshire / Riverbend.

We reported net loss available for common shareholders of \$1,657,072 or \$0.07 per share on a diluted basis, for the quarter ended December 31, 2003, compared with a net loss of \$612,933, or \$0.10 per share on a diluted basis, for the same period last year.

Six Months Ended December 31, 2003 Compared to December 31, 2002

Our gross sales revenues were \$980,798 for the six months ended December 31, 2003, as compared to \$62,660, the amount we reported for the six months ended December 31, 2002. The increase in revenues was primarily due to the TouchVision and RMT acquisitions ("acquisitions") which provided the revenues for the second six months of fiscal year 2004.

Costs of sales for the six months ended December 31, 2003, which consist of labor and hardware costs, and other incidental expenses, were \$204,453, as compared to \$0 for the same period last year. This increase was a result of the acquisitions, which increased costs of sales.

Our gross profit was \$776,345 for the six months ended December 31, 2003, as compared to \$62,660, the amount we reported for the six months ended December 31, 2002. The increase in gross profit was due to the acquisitions, which provided \$606,611 in gross profit.

Operating expense for the six months ended December 31, 2003 increased to \$2,927,740 as compared with \$1,049,570 for the same period last year. The increase in operating expenses of \$1,878,170 was due to the acquisitions (\$681,400), six months of operating costs in CBL as compared to three months in the prior year (\$241,047) and increased Trinity corporate costs (\$666,447). The increase in Trinity corporate costs is primarily due to an increase in salaries and benefits costs of \$537,963 of which \$219,584 is for the 2002 Stock Plan. At December 31, 2003 there were eight full time employees in Trinity corporate as

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

compared to two employees at December 31, 2002.

Other expense of \$451,587 was \$420,743 greater than the prior year and is attributable to the losses in our equity investments in associated companies of \$398,980 of which \$104,213 is attributable to IRCA and \$294,767 is attributable to Riverbend.

We reported net loss available for common shareholders of 2,602,982, or \$0.14 per share on a diluted basis, for the six months ended December 31, 2003, compared with a net loss of \$1,017,754 or \$0.28 per share on a diluted basis, for the same period last year.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have a history of losses, and our accumulated deficit as of December 31, 2003 was \$13,791,895, as compared to \$11,188,913 as of June 30, 2003.

At December 31, 2003, we had a cash balance of \$658,048 as compared to \$86,511 at June 30, 2003. Net cash used by operating activities during the six months ended December 31, 2003 was \$1,571,590, attributable primarily to our loss from operations of \$2,602,982. Cash generated by financing activities was \$3,947,441 for the six months ended December 31, 2003 representing the net of repayments under short-term notes of \$500,000, financing fees of \$625,859 and \$5,073,300 in proceeds from issuance of common stock.

Accounts receivable increased from \$42,719 at June 30, 2003 to \$370,240 at December 31, 2003. This increase is due to receivables owed to the two subsidiaries we acquired in September 2003.

Accounts payable increased from \$391,872 at June 30, 2003 to \$1,132,177 at December 31, 2003. This increase is attributable to expenses incurred in connection with our acquisitions, and our continuing corporate expansion during the year.

We commenced a private offering of our securities in May 2003. As of October 31, 2003, we had closed the offering and raised an aggregate of \$5,073,300. Of these funds, \$141,719, \$87,108 and \$277,625, were advanced as loans to our subsidiaries, CBL, RMT, and TouchVision, respectively, \$1,000,000 and \$20,000 were advanced as loans to our equity method investees Ayrshire / Riverbend and IRCA, respectively, \$625,859 was paid in commissions to financial advisors for fundraising activities, and \$500,000 was repaid on short-term promissory notes to a related party.

As a professional services organization we are not capital intensive. Capital expenditures historically have been for computer-aided instruction, accounting and project management information systems and general-purpose computer equipment to accommodate our growth. Capital expenditures, excluding purchases financed through capital lease, during the first six months of fiscal years 2004 and 2003 were \$16,838 and \$6,389, respectively.

Currently, we do not have significant cash or other material assets, nor do we have an established source of revenues sufficient to cover our operating costs and to allow us to continue as a going concern. We do not currently possess a financial institution source of financing and we cannot be certain that our existing sources of cash will be adequate to meet our liquidity requirements. However, we have undertaken the following to meet our liquidity requirements:

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

- (a) Seek additional funding through senior convertible bridge notes to raise sufficient funds to continue operations and fund its ongoing development, merger and acquisition activities. In January 2004, we commenced a \$3,000,000 offering of senior convertible bridge notes to accredited investors, the proceeds of which will be used for (i) corporate administration, (ii) the expansion of subsidiary operations, and (iii) expenses and commitments made for acquisitions in 2003. In conjunction with the offering, we have engaged various financial advisory firms and other finders to identify prospective investors. We anticipate closing the offering by February 29, 2004.
- (b) Generate sufficient cash flow to sustain and grow subsidiary operations and, if possible, create excess cash flow for corporate administrative expenses through our operating subsidiaries; and
- (c) Identify prospective acquisition targets with sufficient cash flow to fund subsidiary operations, as well as potentially generating operating cash flow that may sustain corporate administrative expenses.

Trinity's future capital requirements will depend on its ability to successfully implement these initiatives and other factors, including our ability to maintain our existing customer base and to expand our customer base into new geographic markets, and overall financial market conditions in the United States and other countries where we will seek prospective investors.

To meet our present and future liquidity requirements, we will continue to seek additional funding through private placements, conversion of outstanding loans and payables into common stock, development of the business of our newly-acquired subsidiaries, collections on accounts receivable, and through additional acquisitions that have sufficient cash flow to fund subsidiary operations. There can be no assurance that we will be successful in obtaining more debt and/or equity financing in the future or that our results of operations will materially improve in either the short- or the long-term. If we fail to obtain such financing and improve our results of operations, we will be unable to meet our obligations as they become due. That would raise substantial doubt about our ability to continue as a going concern.

ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to that evaluation, and there were no significant deficiencies or material weaknesses in such controls requiring corrective actions.

PART II

OTHER INFORMATION

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

ITEM 1. LEGAL PROCEEDINGS

On September 12, 2003, we filed a Complaint in the United States District Court for the District of Utah, Central Division, against CBL Global Corporation ("CBL Global") (f/k/a CBL Acquisition Corporation), and Robert Stephen Scammell, the sole shareholder of CBL-California, (Case No. 2:03CV00798DAK) alleging, among other things, that Scammell and CBL-California provided us with misstated financial statements prior to our merger in October 2002 with CBL-California and CBL Global. On September 18, 2003, we filed a First Amended Complaint and Jury Demand, which added as defendants CBL-Global and Brian Kennedy, the sole shareholder of CBL-Australia. The First Amended Complaint alleges causes of action for violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated there under, for violations of Section 20(a) of the Securities Exchange Act of 1934, for declaratory relief and breach of contract, for common law fraud, and for negligent misrepresentation.

The First Amended Complaint alleged, among other things, that the defendants were advised by CBL-California's accountant on September 18, 2002 that CBL-California's financial statements were misstated, and alleges that new restated financial statements were issued on September 19, 2002. The First Amended Complaint alleged, however, that the restated financial statements were not provided to us prior to the October 1, 2002 closing of the merger.

In December, 2003, we sold our interests in CBL Global and its Australian subsidiaries (collectively "CBL"), Messrs. Scammell and Kennedy, to the former owners of CBL. In conjunction with the management buyout, we entered into a Settlement Agreement with respect to our litigation with CBL. Pursuant to the terms of the agreement, we have conveyed all of our interest in CBL back to the former owners in exchange for surrender and cancellation of 3,000,000 shares of Trinity stock issued to them in connection with acquisition of CBL and the cancellation of \$1,000,000 in convertible notes payable to them. Also as a result of the divestiture, \$222,151 owed by CBL Global to Messrs. Kennedy and Scammell is no longer an obligation of the Company.

ITEM 2. CHANGES IN SECURITIES

Recent Sales of Unregistered Securities

On December 1, 2003, we completed the acquisition of all the issued and outstanding shares of Danlas, a British Virgin Islands Company that owns 51% of IRCA (Proprietary) Limited ("IRCA"), a South African company specializing in corporate learning, certification and risk mitigation in the area of safety, health environment and quality assurance ("SHEQ"). IRCA operates in South Africa, England and the United States through various operating subsidiaries. Danlas also holds options to acquire the remaining 49% of IRCA. In consideration for the Danlas shares, the Company (i) issued three convertible promissory notes in the aggregate principal amount of \$40,000 and convertible into a maximum of 4,500,000 shares of the Company's common stock, (ii) agreed to advance \$500,000 in cash to establish an international sales force, (iii) provided \$500,000 for certain bank guarantees and, (iv) provided certain future profit thresholds are met, agreed to issue up to an additional 1,000,000 shares of the Company's common stock., which has been recorded as contingently redeemable equity in stockholders' equity at \$0.50 per share. In our opinion, the offer and sale of these securities was exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated there under.

During the period June 1, 2003 to October 31, 2003, we sold by way of private placement an aggregate of 5,073,300 units at a price of \$1.00 per unit, for aggregate consideration of \$5,073,300. Each unit comprised two shares of our common stock and two warrants, each exercisable for one additional share of our common stock. In addition, each unit carried the right to acquire an additional

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

warrant to purchase, under certain conditions, up to one additional share of common stock. In connection with the private placement, we paid \$470,510 in commissions and issued to various financial advisors 567,160 additional shares of our common stock and five-year warrants to purchase 200,050 shares of our common stock. In our opinion, the offer and sale of these securities was exempt by

virtue of Section 4(2) of the Securities Act and the rules promulgated there under.

During the period from September 27, 2002 to June 30, 2003 we issued convertible unsecured promissory notes to Mr. Swindells, who lends money to us from time to time on a non-interest bearing basis, in the total principal amount of \$925,000. The principal may be converted into such other debt or equity securities financings that we may issue in private offerings while the note is outstanding. In September 2003, we repaid \$500,000 on the note balance then outstanding. In November 2003, the remaining balance of \$425,000 was converted in to 850,000 shares of common stock and issued to Mr. Swindells. In our opinion, the offer and sale of these securities was exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated there under.

As of July 31, 2002, we entered into an Advisory Agreement with EAS pursuant to which EAS agreed to provide financial advisory and investment banking services to the Company in exploration of the following strategic alternatives: (a) a private placement of the Company's convertible promissory notes, (b) a private placement of the Company's common or preferred stock, and (c) one or more possible purchase transactions by the Company. In exchange for such services, we agreed to pay EAS a retainer fee of \$5,000 per month and a commission ranging from 5% to 7% based on the type of transaction consummated, such fees being payable in cash or the Company's common stock at EAS' option. Through December 31, 2003, EAS had earned a total of \$734,773 under the Advisory Agreement. Of the balance of \$734,773, \$429,773 has been paid to EAS, leaving a balance owing at December 31, 2003 of \$305,000 of which \$250,000 or 250,000 shares in the Company's common stock was paid to EAS in January 2004. In our opinion, the offer and sale of these securities was exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated there under.

Through February 18, 2004, we had received subscriptions to our January 2004 Offering of up to \$3,000,000 Senior Convertible Bridge Notes (the "Notes") totaling \$935,000. The Notes will mature in twelve months plus accrued interest at a rate of 7% per annum. The Notes will be convertible at 80% of the "Next Equity Financing" offering price. The Next Equity Financing shall mean a common stock equity financing in which proceeds equal or exceed \$5,000,000, which shall include any principal or interest accrued under the Notes. The Company expects to complete the Next Equity Financing in early 2004. In addition, for each \$1.00 invested, the investor shall receive a 5 year warrant to purchase a share of the Company's common stock at \$1.00 per share.

Finally, 100,000 shares of the Company's common stock were issued to Mr. Posner in January 2004 for finders' fees for the Riverbend transaction. In our opinion, the offer and sale of these securities was exempt by virtue of Section 4(2) of the Securities Act and the rules promulgated there under.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

None.

ITEM 5. OTHER INFORMATION

None.

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

(a) Exhibits

The following exhibits were filed with our 10 QSB on February 23, 2004:

- 10.1 Agreement dated August 9, 2003 between the Company and London Court Ltd.
- 10.2 Agreement dated May 30, 2003 between the Company and ACAP Financial, Inc.
- 10.3 Agreement dated May 29, 2003 between the Company and Merriman Curhan Ford & Co.

- 10.4 Agreement dated April 11, 2003 between the Company and TN Capital Equities, Ltd.
- 10.5 Agreement dated December 17, 2003 between the Company and Titan Aviation Ltd.

The following exhibits are filed herewith:

- 31.1 Certification of the Company's Chief Executive Officer.
- 31.2 Certification of the Company's Chief Financial Officer.

- 32.1 Certification of the Company's Chief Executive Officer.
- 32.2 Certification of the Company's Chief Financial Officer.

(b) Reports on Form 8-K

- 1. On November 18, 2003, we filed a Current Report on Form 8-K concerning our acquisition of River Murray Training Pty. Ltd.
- 2. On November 25, 2003, we filed a Current Report on Form 8-K amending the report on Form 8-K filed on September 16, 2003, concerning our acquisition of TouchVision, Inc.
- 3. On November 28, 2003, we filed a Current Report on Form 8-K amending the report on Form 8-K filed on September 16, 2003, concerning our acquisition of Riverbend Group Holding (Pty.) Ltd.
- 4. On December 17, 2003 we filed a Current Report on Form 8-K concerning our acquisition of Danlas Limited.

SIGNATURES

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

TRINITY LEARNING CORPORATION

Edgar Filing: TRINITY LEARNING CORP - Form 10QSB/A

October 28, 2004

By: /S/ DOUGLAS D. COLE

Douglas D. Cole
Chief Executive Officer

October 28, 2004

By: /S/ CHRISTINE R. LARSON

Christine R. Larson
Chief Financial Officer