TRINITY LEARNING CORP
Form 10QSB
February 11, 2005

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

FORM 10-QSB

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

For the Quarterly Period Ended December 31, 2004

Commission File No. 0-8924

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

Utah	73-0981865
(State or other jurisdiction of incorporation or organization)	(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 4, 2005 31,932,743 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 FOR THE SIX MONTHS ENDED DECEMBER 31, 2004, 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"), TRINITY LEARNING AS (F/K/A VIRTUAL LEARNING PARTNERS AS) SA ("VILPAS") , AND OUR MAJORITY INTERESTS IN AYRSHIRE TRADING LIMITED ("AYRSHIRE") AND DANLAS LIMITED ("DANLAS"); DETERIORATION IN CURRENT ECONOMIC CONDITIONS; OUR ABILITY TO PURSUE BUSINESS STRATEGIES; PRICING PRESSURES; CHANGES IN THE

REGULATORY ENVIRONMENT; OUTCOMES OF 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.

-2-

PART I. FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
Consolidated Balance Sheets December 31, 2004 (Unaudited) and June 30, 2004 (Audited).
Consolidated Statements of Operations and Comprehensive Loss Three and Six Months Ended December 31, 2004 and 2003. (Unaudited)
Consolidated Statements of Cash Flows Six Months Ended December 31, 2004 and 2003 (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. Unregistered Sales of Equity 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

-3-

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

	December 31, 2004 (Unaudited)
Assets	
Current Assets	
Cash and Cash Equivalents, unrestricted	$ 1,327,421
Accounts Receivable	213,403
Prepaid Expense and Other Current Assets	210,962
Total Current Assets	1,751,786
Equity Investment in and Advances to Associated Companies	1,183,881
Property & Equipment, net	45,057
Goodwill	1,861,655

Intangible Assets, net	362,458
Restricted Cash	4,994,040
Other Assets, net	411,861
Total Assets	$ 10,610,738

Liabilities, Minority Interest, Contingently Redeemable Equity and Stockholders' Equity

Liabilities	
Accounts Payable	$ 774,215
Accounts Payable-Related Parties	41,008
Accrued Expenses	582,565
Interest Payable	6,073
Deferred Revenue	163,532
Contingent Liability	1,552,500
Notes Payable - Current	667,154
Notes Payable - Related Parties	718,962
Current Liabilities	4,506,009
Notes Payable - Long Term	908,392
Notes Payable - Long Term, Related Parties	20,000
Long Term Liabilities	928,392
Warrant to Purchase Common Stock	2,863,363
Equity Investment in and Advances to Associated Company	500,000
Total Liabilities	8,797,764
Commitments	
Minority Interest	299,106
Contingently Redeemable Equity	2,510,000
Stockholders' (Deficit) Equity	
Preferred Stock, 10,000,000 Shares Authorized at No Par Value, No Shares Issued and Outstanding in 2005 or 2004	-
Common Stock, 100,000,000 Shares Authorized at No Par Value, 31,882,743 and 31,040,143 shares Issued and Outstanding at December 31 and June 30, 2004	25,534,793
Accumulated Deficit	(26,551,145)
Other Comprehensive Income	20,220
Total Stockholders' (Deficit) Equity	(996,132)
Total Liabilities, Minority Interest, Contingently Redeemable Equity and Stockholders' (Deficit) Equity	$ 10,610,738

The accompanying notes are an integral part of these financial statements

-4-

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

	For Three Months Ended on December 31		For Six Mo Dec	
	2004	2003	2004	
	(Unaudited)		(Una	
Revenue				
Sales Revenue	$ 907,643	$ 726,805	$ 1,810,497	
Cost of Sales	(37,430)	(171,956)	(218,335	
Gross Profit	870,213	554,849	1,592,162	
Expenses				
Salaries & Benefits	967,567	955,828	1,856,869	
Professional Fees	102,356	323,816	398,943	
Selling, General & Administrative	639,407	355,417	1,128,569	
Depreciation & Amortization	33,389	149,963	81,351	
Total Expense	1,742,719	1,785,024	3,465,732	
Loss from Operations	(872,506)	(1,230,175)	(1,873,570	
Other Expense				
Interest, net	442,361	25,061	672,064	
Debt Issuance	153,178	-	160,372	
Equity in Losses of Associated Companies	590,554	397,985	1,239,055	
Foreign Currency Loss	2,216	3,851	2,216	
Total Other Expense	1,188,309	426,897	2,073,707	
Minority Interest	22,232	-	47,108	
Loss Before Taxes	(2,038,583)	(1,657,072)	(3,900,169	
Taxes	-	-	-	
Net Loss	$ (2,038,583)	$ (1,657,072)	$ (3,900,169	
Net Loss Per Common Share Basic and Diluted	$ (0.07)	$ (0.08)	$ (0.13	
Weighted Average Shares Outstanding	31,282,043	21,570,021	30,894,443	

A summary of the components of other comprehensive gain (loss) for the three and six months ended December 31, 2004 and 2003 is as follows:

	Three Months Ended on	Six Mont

	December 31 2004 (Unaudited)	December 31 2003 (Unaudited)	Dec 2004 (Una
Net Loss	$ (2,038,583)	$ (1,657,072)	$ (3,900,169
Foreign Currency Translation Gain (Loss)	(9,908)	(12,619)	17,681
Comprehensive Loss	$ (2,048,491)	$ (1,669,691)	$ (3,882,488

The accompanying notes are an integral part of these financial statements

-5-

Trinity Learning Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Six Months E 2004 (Unaudited)
Cash flows from operating activities:	
Net loss	$ (3,900,16
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	81,35
Non cash debt issuance	30,44
Non cash interest	611,06
Equity losses of associated companies	1,239,05
Employee stock based compensation	241,98
Non cash financial advisory fees	45,00
Changes in current assets and liabilities:	
Accounts receivable	29,76
Prepaid expenses and other current assets	18,84
Accounts payable	(40,43
Accounts payable-related parties	(36,98
Accrued expenses	(138,62
Deferred revenue	77,84
Interest payable	(15,05
Minority interest	(7,61
Net cash used by operating activities	(1,763,52
Cash flows from investing activities:	
Payment for business acquisitions	(7,31
Payment for business acquisitions - related party	(4,81
Restricted cash	(4,491,00
Advances to associated companies	
Capital expenditures	(16,61
Net cash used by investing activities	(4,519,74
Cash flows from financing activities:	
Repayments under short-term notes	(544,11
Repayments under short-term notes - related party	(155,00
Borrowings under short-term notes and contingent liability	7,672,50

Payments for financing fees	(259,00
Payments for financing fees - related party	
Proceeds from sale of common stock	21,25
Net cash provided by financing activities	6,735,63
Effect of foreign exchange on cash	(17,68
Net (decrease)increase in cash	434,68
Cash at beginning of period	892,73
Cash at end of period	$ 1,327,42
Supplemental information:	
Interest paid	$ 71,11
Warrants issued with convertible notes	$ 2,863,36
Beneficial conversion value of note payable	$ 2,070,78
Cancellation of common stock and convertible notes payable pursuant to the sale of CBL, net	$
Issuance of common stock for business acquisitions	$
Issuance of conditionally redeemable equity	$

The accompanying notes are an integral part of these financial statements

Trinity Learning Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2004

NOTE 1. ACCOUNTING POLICIES

Overview

Trinity Learning is creating a global learning company by acquiring operating subsidiaries that specialize in educational and training content, delivery, and services for particular industries or that target a particular segment of the workforce. Trinity Learning believes that there are product and service synergies between and among our various subsidiaries that position us to create a global learning company that can provide integrated learning services to corporations, organizations, educational institutions, and individual learners, using a variety of delivery technologies, platforms and methods to meet the growing need for global learning solutions. Trinity Learning believes that it will be one of the first companies to be able to serve major multinational employers at multiple levels of their organizations and assist these customers to meet the challenges of a major turnover in the world's workforce over the coming decade. Factors such as demographics, technology, and globalization will require enterprises, organizations and governments around the world to invest in human capital to remain competitive.

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 Item 310 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 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 Annual Report on Form 10-KSB for the year ended June 30, 2004. The results of operations for the three and six months ended December 31, 2004, 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 September 1, 2003 acquisitions of TouchVision, Inc. ("TouchVision"); 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") and March 1, 2004 acquisition of Trinity Learning AS ("VILPAS"). 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.

Use of Estimates

The preparation of the Company's 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 revenue recognition policy, valuation and allocation of the purchase consideration of the assets and liabilities and assets acquired in business combinations and equity investments in associated companies, our determination of fair value of common stock issued in business combinations and equity investments in associated companies, and the annual valuation and review for impairment of assets acquired and of long-lived assets.

-7-

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 consolidated financial statements include the accounts of the Company and our controlled subsidiaries. All significant intercompany transactions are eliminated in consolidation.

Our 51% ownership in IRCA and our 51% ownership in Ayrshire, which owns 95% of Riverbend, have been accounted for in the financial statements included with this report using the equity method of accounting. 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.

- 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(ring) 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.

- 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(ring) 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.

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 measurable. The excess of cost of an acquired entity over the net amounts assigned to identifiable acquired assets and liabilities assumed is 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 prior to the Company having established a trading market for its stock.

Revenue Recognition

We earn our revenues primarily from service-related contracts, including operations and maintenance services and a variety of technical assistance services. Revenue is generally recognized on a straight-line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern over the contractual term of the arrangement or the expected period, during which those specified services will be performed, whichever is longer. 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. The

Company also earns revenue from the sale of hardware containing software, and accounts for this revenue in accordance with SOP 97-2, Software Revenue Recognition in accordance with EITF 03-5. To date, such revenues have not been significant.

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. We estimate and maintain an allowance for potentially uncollectible accounts and such estimates have historically been within management's expectations. Our cash balances, restricted cash and short-term investments are maintained in accounts held by major banks and financial institutions located primarily in the United States, Norway, South Africa and Australia. No single customer accounts for revenues or receivables greater than 10% of Company totals.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term maturity of these instruments. The carrying value of notes payable approximates fair value because negotiated terms and conditions are consistent with current market rates. Determination of the fair value of notes payable to related parties cannot be estimated because of the favorable conditions given to the Company by these parties not otherwise available from third parties. It is not practicable to estimate the fair value of notes payable issued for acquisitions and equity investments because they were issued at a substantial conversion premium and contain no stated payment terms. The carrying value of equity investments and advances to associated companies approximates fair value. We evaluate such assets on a regular basis by looking at cash flows, market conditions and current and anticipated future performance. In the six months ended December 31, 2004, we incurred an impairment charge of $80,000 to these assets.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms. Management regularly evaluates the need for an 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. Management has determined that there is no need for an allowance as of December 31 and June 30, 2004.

Property and Equipment

Property and equipment are stated at cost. 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 loss is identified, it is recorded as a loss in that period.

Deferred Charges

The Company capitalizes costs associated with the issuance of debt instruments. These costs are amortized on a method that approximates the interest method over the term of the debt agreements. Amortization expenses for deferred charges were $30,443 and $0 for the six months ended December 31, 2004 and 2003, respectively.

-9-

Restricted Cash

Restricted cash within noncurrent assets consists primarily of $4,491,000 on deposit in a restricted account as security for the $5.5 million convertible term note with Laurus Master Fund, Ltd. In addition, $503,040 ($500,000 with accrued interest of $3,040) is on deposit with Standard Bank and restricted for use as collateral for an operating line of credit at IRCA. This provision is part of the Company's contractual arrangement with IRCA. Should IRCA default on its line of credit with Standard Bank, these funds may be seized by Standard Bank.

Fair Value of Common Stock

Contingently redeemable equity represents the value of shares of our common stock issuable upon the conversion of notes payable in excess of the face value of these notes issued in the acquisition of VILPAS and the acquisition of equity interest in each of the Riverbend and IRCA transactions. The stock arrangements are dependent on the satisfaction of certain conditions by us, most notably the listing of our common stock a major stock exchange in the United States of America, for which there are financial requirements for listing. The valuation and allocation process relies on significant assumptions made by management, in particular, the value of the shares to be issued as described above to effect the purchase prior to the Company having established a trading market for its stock. When it becomes probable that redemption will occur, the Company will record changes in fair value in the Statement of Operations.

Allocation of Purchase Consideration in Business Combinations

The Company accounts for its investments in its subsidiaries using the purchase method of accounting. 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. The Company amortizes identifiable intangible assets over their useful life unless that life is determined to be indefinite. The 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.

Allocation of Purchase Consideration for Equity Investments in Associated Companies

The excess of the consideration paid for equity investments in associated companies over our pro rata share of the investee's net assets is allocated to intangibles and goodwill similar to a purchase business combination. 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. The Company amortizes identifiable intangible assets over their useful life unless that life is determined to be indefinite. In each of the Riverbend and the IRCA transactions, the Company received an option, exercisable under certain conditions, to acquire the additional 49% of each of those companies. Using the Black Scholes option valuation model, a value was assigned to each of the intangible assets associated with those options. The 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. The value of the Equity Investments in Associated Companies is tested for impairment on an annual basis. At June 30, 2004, based on actual performance and forecasts for future performance, the value of the IRCA investment after application of current year losses and amortization of intangible assets, was written down to $0 and impairment expense of $884,963 was recorded in the statement of operations. An allowance for doubtful loan receivable in the amount of $80,000 was established at September 30, 2004 for our loan to IRCA Australia.

Software Development Costs

Software development costs related to software that the company licenses to customers 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 (Loss) 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 including shares 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 release of escrow shares, the 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, 2004 and 2003, respectively.

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

- Stock options to purchase 5,570,000 shares of common stock at prices ranging from $0.05 to $0.85 per share were outstanding at December 31, 2004; 3,542,000 options were outstanding at December 31, 2003 at purchase prices varying from $0.05 to $0.50 per share.
- Warrants to purchase 21,884,950 shares of common stock at prices ranging from $0.05 to $2.00 per share were outstanding December 31, 2004; warrants to purchase 18,714,950 shares of common stock at prices ranging from $0.50 to $2.00 per share were outstanding at December 31, 2003.
- At December 31, 2004 and 2003, we held 0 and 662,500 shares in escrow, respectively.
- At December 31, 2004, we had the following convertible notes outstanding: (i) a convertible non-interest-bearing promissory note in the amount of $20,000 was convertible into 2,000,000 shares of our common stock for our investment in Ayrshire, (ii) a convertible non-interest-bearing promissory note in the amount of $20,000 was convertible into 2,500,000 shares of our common stock for our investment in Danlas / IRCA, (iii) a convertible promissory note in the amount of $500,000 convertible into 1,000,000 shares of our common stock for our investment in VILPAS, and (iv) a convertible promissory note totaling $5,500,000 convertible into an indeterminable amount of shares of our common stock.
- At December 31, 2003, we had the following convertible notes outstanding: (i) a convertible non-interest-bearing promissory note in the amount of $20,000 was convertible into 2,000,000 shares of our common stock for our investment in Ayrshire, and (ii) a convertible non-interest-bearing promissory note in the amount of $20,000 was convertible into 2,500,000 shares of our common stock for our investment in Danlas / IRCA.

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003	Six [Months Ended] D[ecember 31,] 2004
Numerator-Basic / Diluted			
Net (loss) available for common stockholders	$ (2,038,583)	$ (1,657,072)	$ (3,900,
Denominator-Basic / Diluted			
Weighted-average common stock outstanding	31,282,043	21,570,021	30,894,
Basic (loss) per share	$ (0.07)	$ (0.08)	$ (0

Stock-based Compensation

The Company has adopted the fair value based method of accounting for stock-based employee compensation in accordance with Statement of Financial Accounting Standards Number 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). In accordance with SFAS 123, option expense of $241,983 and $219,584 was recognized for the six months ended December 31, 2004 and 2003, respectively. The expense was calculated using the Black Scholes valuation model with the following assumptions:

	December 31, 2004	December 31, 2003
Five-Year Risk Free Interest Rate	3.39%	3.27%
Dividend Yield	Nil	Nil
Volatility	70%	70%
Average Expected Term (Years to Exercise)	5	5

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.

Recently Issued Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46, ("FIN 46"), Consolidation of Variable Interest Entities ("VIE"). Fin No. 46 requires that if a company holds a controlling interest in a VIE, the assets, liabilities and results of the VIE's activities should be consolidated in the entity's financial statements. In December 2003, the FASB revised FIN No. 46 which, among other revisions, resulted in the deferral of the effective date of applying the provisions of FIN No. 46 to the first interim or annual period ending after December 15, 2004 for qualifying VIE's. The Company believes it has no VIE's and adoption of FIN 46, as revised, did not have a material impact on our consolidated financial condition or results of operations for the six months ended December 31, 2004 and 2003.

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 September 1, 2003. Adoption of SFAS 150 did not have a significant impact on the Company's financial statements for the six months ended December 31, 2004 and 2003.

On December 17, 2003, the Staff of the Securities and Exchange Commission (SEC or the Staff) issued Staff Accounting Bulletin No. 104 ("SAB 104"), "Revenue Recognition," which supersedes SAB 101, "Revenue Recognition in Financial Statements." SAB 104's primary purpose is to rescind accounting guidance contained in SAB 101 related to multiple element revenue arrangements, superseded as a result of the issuance of EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB 104 rescinds the SEC's Revenue Recognition in Financial Statements Frequently Asked Questions and Answers (the "FAQ") issued with SAB 101 that had been codified in SEC Topic 13, Revenue Recognition. Selected portions of the FAQ have been incorporated into SAB 104. While the wording of SAB 104 has changed to reflect the issuance of

EITF 00-21, the revenue recognition principles of SAB 101 remain largely unchanged by the issuance of SAB 104. SAB 104 applies to our service related contracts. We do not have material multiple element arrangements and thus SAB 104 does not impact our financial statements nor is adoption of SAB 104 considered a change in accounting principle.

On April 9, 2004, FASB issued FASB Staff Position No. FAS 129-1, "Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities" ("FSP 129-1"). FSP 129-1 clarifies that the disclosure requirements of Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" applies to all contingently convertible securities and to their potentially dilutive effects on earnings per share ("EPS"), including those for which the criteria for conversion have not been satisfied, and thus are not included in the computation of diluted EPS. The guidance in FSP 129-1 is effective immediately and applies to all existing and newly created securities. Our required FSP 129-1 disclosures are included above under "Earnings (Loss) Per Share." Our contingently redeemable equity is convertible to shares of our common stock; however, the conversion would be anti-dilutive.

In September 2004, the Emerging Issues Task Force reached a final consensus on Issue No. 04-08, "The Effect of Contingently Converted Debt on Diluted Earnings per Share" ("EITF 04-08"). Contingently convertible debt instruments are financial instruments that add a contingent feature to a convertible debt instrument. The conversion feature is triggered when one or more specified contingencies occur and at least one of these contingencies is based on market price. Prior to the issuance of EITF 04-08, SFAS 128 had been widely interpreted to allow the exclusion of common shares underlying contingently convertible debt instruments from the calculation of diluted "EPS" in instances where conversion depends on the achievement of a specified market price of the issuer's shares. The consensus requires that these underlying common shares be included in the diluted EPS computations, if dilutive, regardless of whether the market price contingency or any other contingent factor has been met. Our contingently redeemable equity is convertible to shares of our common stock; however, the conversion would be anti-dilutive.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payment" ("Revised SFAS 123"). Revised SFAS 123 replaces SFAS 123 and supersedes APB 25. Revised SFAS 123 is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. Revised SFAS 123 requires that the costs resulting from all share-based payment transactions be recognized in the financial statements. Revised SFAS 123 applies to all awards granted after the effective date, except if prior awards are modified, repurchased or cancelled after the effective date. Revised SFAS 123 also amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows", to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. The Company implemented SFAS 123 when it became effective, therefore Revised SFAS 123 is not expected to have an impact on our financial statements.

Reclassifications

Certain reclassifications have been made to the fiscal 2004 consolidated financial statements and notes to conform to the fiscal 2005 presentation with no effect on consolidated net loss, or accumulated deficit.

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. 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 following the closing, to be used for working capital. As of December 31, 2004, we had loaned TouchVision a total of $360,000 pursuant to this agreement. This loan has been eliminated in consolidation at December 31, 2004. We had previously loaned TouchVision the sum of $200,000 in June and July, 2003 by way of bridge financing pending completion of the acquisition. This loan has also been eliminated in consolidation at December 31, 2004.

The following table summarizes the TouchVision assets acquired and liabilities assumed as of the closing date in connection with $625,000 common stock issued and acquisition related costs of $85,417 ($4,815 of which was incurred in the six months ended December 31, 2004):

Cash acquired	$ 102,357
Tangible assets acquired	269,213
Intangible assets acquired	350,281
Goodwill	914,815
Total assets acquired	1,636,666
Liabilities assumed	926,249
Net assets acquired	$ 710,417

The acquisition was accounted for using the purchase method of accounting. Intangible assets are being amortized over varying periods, as indicated by independent valuations, using the straight-line method. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and intangible assets was determined by an independent, third-party professional valuation firm. As the merger consideration was paid entirely in shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The goodwill arising from the acquisition is allocated to the United States geographic segment.

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. 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 following table summarizes the RMT assets acquired and liabilities assumed

as of the closing date in connection with $350,000 common stock issued and acquisition related costs of $15,425:

Cash acquired	$ 37,979
Tangible assets acquired	78,673
Intangible assets acquired	18,000
Goodwill	376,517
Total assets acquired	511,169
Liabilities assumed	145,744
Net assets acquired	$ 365,425

The acquisition was accounted for using the purchase method of accounting. Intangible assets are being amortized over varying periods, as indicated by independent valuations, using the straight-line method. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and intangible assets was determined by an independent, third-party professional valuation firm. As the merger consideration was paid entirely in shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The goodwill arising from the acquisition is allocated to the Australian geographic segment.

On March 1, 2004, we completed the acquisition of all the issued and outstanding shares of VILPAS (f/k/a Virtual Learning Partners AS). In consideration for the VILPAS shares we issued a convertible non-interest-bearing promissory note in the principal amount of $500,000, which note is convertible from time to time but no later than August 5, 2005 into a maximum of 1,000,000 shares of our common stock. The value of shares issuable upon conversion (based upon a $0.80 per share value) in excess of the note amount has been classified as contingently redeemable equity. Of these shares, up to 20% may be withheld in satisfaction for any breach of warranties by the former shareholders of VILPAS. 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 VILPAS 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 February 5, 2005, subject to a six-month extension in the event a listing application is in process on such date. A listing application was in process on that date.

The following table summarizes the VILPAS assets acquired and liabilities assumed as of the closing date in connection with the $500,000 convertible note payable issued, the $300,000 recorded as conditionally redeemable equity in our balance sheet and acquisition related costs of $58,362 ($7,314 of which was incurred during the six months ended December 31, 2004):

Cash acquired	$ 1,052,270
Tangible assets acquired	339,986
Intangible assets acquired	210,177
Goodwill	570,323
Total assets acquired	2,172,756
Liabilities assumed	1,017,937

Minority interest	294,636
Net assets acquired	$ 860,183

The acquisition was accounted for using the purchase method of accounting. Intangible assets are being amortized over varying periods, as indicated by an independent valuation, using the straight-line method. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and intangible assets was determined by an independent, third-party professional valuation firm. As the merger consideration was paid entirely with a promissory note with no payment terms and convertible into shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The goodwill arising from the acquisition is allocated to the European geographic segment.

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. 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 $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. The value of shares issuable upon conversion (based upon a $0.50 per share value) in excess of the note amount has been classified as contingently redeemable equity. 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 of December 31, 2004, no shares had been issued in exchange for the convertible promissory note.

In connection with this acquisition, we agreed to make a non-interest-bearing loan of $1,000,000 to Ayrshire. We advanced $300,000 at closing of the acquisition and $700,000 on November 3, 2003. The loan to Ayrshire has been accounted for as an advance to associated company. 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. The Company has allocated $425,000 of the consideration paid to this intangible asset.

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 a convertible promissory note in

the aggregate principal amount of $20,000 convertible under certain conditions into a maximum of 2,500,000 shares of the Company's common stock, (ii) agreed to advance $500,000 in cash to Danlas 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 value of shares issuable upon conversion (based upon a $0.50 per share value) in excess of the note amount has been classified as contingently redeemable equity. 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. The $500,000 deposited as collateral in support of a bank line of credit is classified as restricted cash in the Company's balance sheet. In consideration of the operating results for the year ended June 30, 2004 and management's estimate of future cash flows, the Company wrote down its remaining investment in IRCA of approximately $884,962 to $0 in the fiscal year ended June 30, 2004.

As part of the Danlas transaction, we issued two convertible notes of $10,000 each with which to purchase the remaining 49% of IRCA. However, the notes are only 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. The Company has allocated $75,000 of the consideration paid to this option.

Purchased Intangible Assets

Changes in the net carrying amount of goodwill for the six months ended December 31, 2004 is as follows:

Balance as of June 30, 2004	$ 1,849,526
Goodwill acquired during the period	12,129
Balance as of December 31, 2004	$ 1,861,655

SFAS 142 requires goodwill and other intangible assets to be tested for impairment at least annually. We regularly evaluate whether events and circumstances have occurred which indicate a possible impairment of goodwill and other intangible assets. In evaluating whether there is an impairment of goodwill and other intangible assets, we evaluate the performance of each subsidiary relative to its performance in prior periods, its budget and its upcoming three year forecast. We also evaluate the revenue achieved per share of our common stock issued as part of the purchase consideration in relation to market capitalization of publicly traded training companies for current and prior periods. Based on our review of the goodwill and other intangible assets, we concluded that we did not have any impairment of goodwill at December 31, 2004.

-16-

The values assigned to other intangible assets are considered appropriate based on independent valuations. The following table sets forth the Company's acquired other intangible assets at December 31 and June 30, 2004, respectively, which will continue to be amortized:

	December 31, 2004				Jun	
	Gross Carrying Amount	Weighted Average Life in Months	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Weight Averag Life i Month
Trade names and trademarks	$ 156,841	58	$ 43,942	$ 112,899	$ 156,841	
Backlog	40,600	36	10,944	29,656	40,600	
Current and core technology	152,317	9	66,867	85,450	152,317	
Customer relationships	175,100	55	43,647	131,453	175,100	
Other intangibles	53,600	13	50,600	3,000	53,600	
Total	$ 578,458	38	$ 216,000	$ 362,458	$ 578,458	

Five Year Amortization schedule:

Fiscal Year	Amount
2005	$ 63,571
2006	126,475
2007	83,547
2008	60,302
2009	28,563
Thereafter	-
Total	$ 362,458

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 accumulated deficit of $1,314,277 resulting from the accumulated operating loss for CBL between October 2002 and December 2003 as well as other comprehensive income of $30,128 for the same period are included in our consolidated accumulated deficit and accumulated other comprehensive income at December 31, 2004. 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 our common stock which were cancelled were recorded as a $461,063 net credit to our common stock.

Pro Forma Results

The operating results of CBL, TouchVision, RMT and VILPAS have been included in the accompanying consolidated financial statements from the date of acquisition forward and, for CBL, up to the date of divestiture. In December 2003, we completed the sale of our interest in CBL to the former owners of CBL. Accordingly, CBL business' results of operations were included from July 1, 2003 to December 31, 2003. The business results of operations of RMT and TouchVision are included for the period September 1, 2003 through December 31, 2004. The business results for VILPAS are included for the period July 1, 2004 through December 31, 2004.

-17-

The following unaudited pro forma financial information for the three and six months ended December 31, 2003 presents the combined results of operations of the Company and TouchVision, RMT, and VILPAS assuming the acquisitions occurred July 1, 2003. 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 months ended December 31, 2003. The unaudited pro forma financial 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.

	(Pro Forma) Three Months Ended December 31, 2003	(Pro Forma) Six Months Ended December 31, 2003
Revenues	$ 1,133,737	$ 2,326,935
Gross Profit	961,780	$ 1,881,737
Operating Loss	$ (815,846)	$ (1,522,073)
Net Loss	$ (864,730)	$ (1,591,030)
Net Loss per Common Share	$ (0.03)	$ (0.05)

NOTE 3 - PROPERTY AND EQUIPMENT

Scheduled below are the assets, cost, and accumulated depreciation at December 31, 2004 and June 30, 2004, respectively and depreciation expense for the six months ended December 31, 2004 and 2003, respectively.

	Asset Cost		Depreciation Expense		Accumulated Depreciation	
	12/31/2004	6/30/2004	12/31/2004	12/31/2003	12/31/2004	6/30/2004
Furniture & Equipment	$ 59,119	$ 53,733	$ 8,851	$ 4,862	$ 14,062	$ 16,573

NOTE 4 - EQUITY INVESTMENTS IN AND ADVANCES TO ASSOCIATED COMPANIES

At December 31, 2004, the principal components of Equity Investments in and Advances to Associated Companies were the following:

	Ayrshire	IRCA
Equity investment as of July 1, 2004	$ 842,935	$ -
Advances	1,000,000	80,000
Provision for advances	-	(80,000)
Equity in losses of unconsolidated subsidiary	(659,054)	(500,000)
Balance December 31, 2004	$ 1,183,881	$ (500,000)

The financial position of Ayrshire / Riverbend at December 31, 2004 was:

	Ayrshire
Income statement information:	
Revenue	$ 994,143
Operating loss	$ (214,808)
Net Loss	$ (556,703)
Financial position information:	
Current assets	$ 698,570
Noncurrent assets	$ (205,509)
Current Liabilities	$ 343,350
Long-term liabilities	$ 1,459,058

The consideration paid for our investment in Ayrshire was $1,379,871. This amount comprises legal and financial advisory fees of $379,871 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. Equity Investments in Associated Companies are periodically reviewed for impairment. The difference between our investment and our pro rata share of Ayrshire's net assets has been allocated to goodwill and to intangible assets. Equity Investments in Associated Companies are periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period. As of December 31, 2004, no such impairment was incurred.

The consideration paid for our investment in IRCA was $2,178,049. This amount comprises legal, financial advisory and consultancy fees of $928,049 including the payment to Mr. Steynberg of $607,165 plus 2,500,000 shares of our common stock valued at $0.50 per share. The net asset value of IRCA at acquisition date was $2,704,870 and our pro rata share of their net assets was $1,379,484. The difference between our investment and our pro rata share of IRCA's net assets has been allocated to goodwill and to intangible assets. Equity Investments in Associated Companies are periodically reviewed for impairment. When such impairment is identified, it is recorded as a loss in that period. As of June 30, 2004, we recognized an impairment loss for IRCA of $884,963.

In connection with 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 partial consideration for our December 1, 2003 purchase of 51% of IRCA, we agreed to make a non-interest-bearing loan of $80,000 to IRCA Australia, which was advanced during fiscal 2004. Based on management's evaluation of the collectibility of this loan receivable, we provided an allowance for doubtful loan receivable for $80,000 during the six months ended December 31, 2004.

The other amortizable intangible assets are being amortized over varying periods, as indicated by independent valuations, using the straight-line method. The values assigned to the intangible assets are considered appropriate based on independent valuations. The identifiable intangible assets are being amortized over varying periods ranging from three to five years, as indicated by independent valuations, and using the straight-line method.

The following table sets forth the Company's acquired intangible assets in equity investments at December 31, 2004 which will continue to be amortized:

	2004			
	Gross Carrying Amount	Weighted Average Life in Months	Accumulated Amortization	Ca A
Backlog	$ 123,142	55	$ 36,012	$
Current and core technology	28,101	36	12,094	
Distributor relationships	122,579	60	32,478	
Maintenance Contracts	67,345	60	19,283	
In-Process R&D	20,833	0	20,833	
Option value	425,000	Indefinite	-	
Total	$ 787,000		$ 120,700	$

Five Year Amortization schedule:

Fiscal Year	Amount
2005	$ 37,395
2006	75,095
2007	63,828
2008	55,346
2009	9,636
Thereafter	-
Total	$ 241,300

NOTE 5 - COMMITMENTS

Total rental expense included in operations for operating leases for the six months ended December 31, 2004 and 2003, respectively, amounted to $175,865 and $78,702. The operating leases pertain to office space used by the Company for its operations. Certain lease rentals contain renewal options and provide for payment of property taxes and operating expenses. These operating lease agreements expire at varying dates through 2008.

Total minimum lease commitments as of December 31, 2004:

Calendar Year	Amount
2005	$ 432,160
2006	345,635
2007	322,169
2008	134,237
Thereafter	-
Total	$ 1,234,201

As part of the Company's contractual arrangement with IRCA, we agreed to place $500,000 on deposit with Standard Bank and restrict the funds for use as collateral for an operating line of credit at IRCA. This deposit is classified as restricted cash. Should IRCA default on its line of credit with Standard Bank, these funds may be seized by Standard Bank.

-20-

NOTE 6 - OTHER ASSETS

Supplemental Balance Sheet Information as of December 31, 2004 (unaudited) and June 30, 2004 (audited):

	December 31, 2004 (Unaudited)	June 30, 2004 (Audited)
Other assets:		
Deferred debt issuance costs, net of accumulated amortization of $30,443 and $0, respectively	$ 243,556	$ -
Other assets	168,305	142,856
Other assets, net	$ 411,861	$ 142,856

NOTE 7 - RELATED PARTY TRANSACTIONS

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 Messrs. Cole, Mooney and Swindells. At our August

19, 2003 meeting, our board of directors voted to suspend the Advisory Agreement indefinitely. 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 our common stock in March 2003. The remaining balance of $205,000 was paid in full to GCP as of June 30, 2004.

As of July 31, 2002, we entered into an Advisory Agreement with European American Securities, Inc. ("EAS"), a private entity of which Mr. Swindells is a principal, pursuant to which EAS agreed to provide financial advisory and investment banking services to us in connection with various equity and/or debt transactions. 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, at EAS' option, in cash or our common stock. On October 2, 2003, we renewed the agreement with EAS on terms similar to those contained in the first agreement. On January 1, 2004, we amended the October 2003 agreement for services rendered in connection with our senior convertible bridge note offering, which closed on May 28, 2004, for which we paid EAS a fee of 10%. Through June 30, 2004, EAS had earned a total of $1,065,104 pursuant to our arrangement with them, of which $345,450 was earned in connection with private equity and/or debt transactions and $719,654 was earned for advisory services in connection with certain acquisitions. In January 2004, 250,000 shares with a fair market value of $375,000 were paid to EAS in the Company's common stock. As of December 31, 2004, the balance owed to EAS was $41,008. On May 27, 2004, European American Perinvest Group, a subsidiary of EAS, invested $100,000 in our 2004 senior convertible bridge note offering. On May 28, 2004, this investment was converted to 166,699 restricted shares of our common stock.

During the period August 2001 to June 30, 2003, Mr. Swindells advanced a total of $925,000 to us by way of short-term non-interest bearing convertible working capital loans, as follows: $145,000 during the fiscal year ended September 30, 2001 and $780,000 during the transition period from October 1, 2002 to June 30, 2003. We repaid $500,000 of the total amount owing in September 2003 and issued an aggregate of 850,000 shares of our common stock to Mr. Swindells in November 2003 in payment of the balance of $425,000. During the period June 2004 to October 2004, Mr. Swindells advanced us $155,000 for use as working capital. On August 10, 2004 we repaid $50,000 of this amount and on November 2, 2004 we paid the remaining balance of $105,000. On October 14, 2004, Mr. Swindells exercised warrants to purchase 300,000 shares of our common stock at $0.05 per share.

In October 2002, we (i) issued convertible promissory notes in the aggregate principal amount of $500,000 (the "Bridge Financing Notes") to certain individuals and entities, and (ii) in connection with the issuance of the Bridge Financing Notes, issued warrants to the holders of the notes to purchase additional shares of common stock. Of the total principal amount of the Bridge Financing Notes, $55,000 was advanced by GCP and $120,000 by Mr. Swindells. On May 19, 2003, the aggregate principal amount of the Bridge Financing Notes and

accrued interest thereon of $34,745 was converted into 1,336,867 shares of common stock at a price of $0.40 per share. The warrants issued in connection with the Bridge Financing Notes are exercisable for a period of one year at a price of $0.05 per share, and contain a net issuance provision whereby the holders may elect a cashless exercise of such warrants based on the fair market value of the common stock at the time of conversion. On March 26, 2004, GSP exercised its warrants in a cashless exercise for which it received a total of 126,042 shares of common stock.

In connection with our acquisition of our interest in IRCA, we entered into an

agreement with Titan Aviation Ltd. ("Titan"), a private company held in a trust of which Mr. Martin Steynberg and other business partners are the beneficiaries. Pursuant to this agreement, we paid Titan on May 14, 2004 the sterling equivalent of 4,000,000 South African Rand ($607,165) in consideration for various services rendered to IRCA. Mr. Steynberg, who is a stockholder in IRCA Investments (Proprietary) Limited, which owns 25.1% of IRCA became a director of our company on January 1, 2004 pursuant to the terms of the IRCA acquisition.

William Jobe, one of our directors, was paid a total of $59,500 during the period December 2003 to May 2004 and in September 2004 he was paid $4,815 as compensation for merger and acquisition services associated with our acquisition of TouchVision.

From time to time, Jan-Olaf Willums, an officer of VILPAS, as well as companies of which he is a director, have advanced funds to VILPAS. The current balance of $183,552 owing to Mr. Willums, of which $111,485 bears interest at 8% per annum and $72,067 is non-interest bearing, has no fixed terms of repayment.

NOTE 8 - NOTES PAYABLE

On July 29, 2004, we issued a secured promissory note ("Note") in the principal amount of $500,000 to Oceanus Value Fund, L.P. ("Oceanus") and bearing interest at the rate of twelve percent (12%) per annum. In connection with the issuance of the Note, we also issued to Oceanus a five-year warrant to purchase up to 125,000 shares of our common stock at a price of $1.00 per share. As such, a value attributable to the warrants using the Black Scholes option valuation model of $188,842 was determined and recorded as a discount on notes payable. On September 1, 2004, we repaid the principal and accrued interest owing on the Note.

On August 31, 2004, we entered into a series of agreements with Laurus Master Fund, Ltd. ("Laurus") whereby we issued to Laurus (i) a secured convertible term note ("Term Note") in the principal amount of $5.5 million and (ii) a five-year warrant to purchase up to 1,600,000 shares of our common stock at a price of $0.81 per share. Of the Term Note proceeds, $4,491,000 was deposited in a restricted account as security for the total loan amount and for use by us to make acquisitions as approved by Laurus; the outstanding principal balance of $500,000 was repaid to Oceanus and the remainder of the loan proceeds was used for operating needs. The principal amount of the Term Note carries an interest rate of prime plus two percent, subject to adjustment, and we must make monthly principal payments of at least $22,059, commencing November 1, 2004, toward the outstanding non-restricted principal amount. Any remaining outstanding principal and interest are due in full on August 31, 2007. The principal amount of the Term Note and accrued interest thereon are convertible into shares of our common stock at a price of $0.72 per share, subject to anti-dilution adjustments. A value attributable to the warrants using the Black Scholes option valuation model of $2,863,363 was determined and recorded as a liability and a discount on notes payable. A value attributable to the beneficial conversion feature of the note using the Black Scholes option valuation model of $2,070,784 was determined and recorded as a credit to common stock and a discount on notes payable.

During the period June 2004 to October 2004, Mr. Swindells advanced us $155,000 for use as working capital. On August 10, 2004 we repaid $50,000 of this amount and on November 2, 2004 we paid the remaining balance of $105,000.

As of December 31, 2004 and June 30, 2004, notes payable consisted of the following:

	December 31, 2004 (Unaudited)	June 30, 2004
Notes payable to third parties:		
Convertible note payable, net of unamortized discount of $2,545,211 attributed to warrant and unamortized discount of $1,840,696 attributable to beneficial conversion; interest at prime plus 2% payable monthly, principal payments of $22,059 on the outstanding non-restricted principal amount due the first of each month beginning November 1, 2004 until August 31, 2007 when any remaining principal and interest are due.	$ 1,069,976	$ -
Note payable to two credit unions; interest payable monthly, principal due in full February 5, 2005, unsecured, interest at 12% per annum.	250,000	250,000
Third party creditors; unsecured, non-interest bearing and no fixed terms of repayment.	-	10,810
Third party individuals; due September 1, 2006, unsecured, interest at 10% per annum, interest payable monthly, principal due in full at maturity.	92,271	73,560
Bank note payable; due October 18, 2006, secured by Company vehicle, interest at 11.0% per annum, monthly payments of interest and principal.	21,702	12,103
Revolving bank lines of credit; unsecured, interest ranging from prime plus 2.625% to prime plus 6.75%, monthly payment of principal and interest.	132,441	133,128
Revolving third party line of credit; unsecured, interest at prime plus 1.99%, monthly payments of interest and principal.	9,156	11,182
Notes payable to related parties:		
Note payable to related party; no fixed terms of repayment; unsecured; interest at 6% per annum.	15,410	13,297
Convertible note payable to a related party, unsecured, interest, non-interest bearing, no fixed terms of repayment.	-	50,000
Note payable to a related party; unsecured, interest at 8% per annum on $111,485; non-interest bearing on $72,067. No fixed terms of repayment.	183,552	177,179
Notes payable for acquisitions and equity investments:		
Convertible note payable to a related party for VILPAS purchase; due August 5, 2005, unsecured, non-interest bearing.	500,000	500,000

Convertible note payable to a related party for IRCA purchase; due December 31, 2005, unsecured, non-interest bearing.	20,000	20,000
Convertible note payable to a related party for Riverbend purchase; due December 31, 2006, unsecured, non-interest bearing.	20,000	20,000
Total notes payable	2,314,508	1,271,259
Less: current maturities	(1,386,116)	(1,159,430)
Long-term notes payable	$ 928,392	111,829

-23-

Maturity schedule for notes payable:

Fiscal Year	Amount
2005	$ 796,970
2006	795,557
2007	377,405
2008	4,730,483
2009	-
Sub-total	6,700,415
Less: unamortized note discount	(4,385,907)
Total	$ 2,314,508

NOTE 9 - 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 six months ended December 31, 2004 and 2003, respectively:

	December 31, 2004		December 31, 2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price

Outstanding at beginning of year	5,570,000	$ 0.42	2,447,000	$ 0.23
Granted	100,000	0.85	1,660,000	0.50
Exercised	-	-	-	-
Canceled	100,000	0.25	565,000	0.24
Outstanding at December 31	5,570,000	$ 0.43	3,542,000	$ 0.36
Exercisable at December 31	3,253,503	$ 0.41	1,448,938	$ 0.30

Stock options outstanding and exercisable under 2002 Stock Plan as of December 31, 2004 are as follows:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Number of Options Vested (Exercisable)	Weigh Avera Exerc Pric
$0.05	500,000	$ 0.05	2.77	406,490	$
$0.25	700,000	0.25	2.95	535,758	
$0.50	4,270,000	0.50	3.87	2,277,866	
$0.85	100,000	0.85	4.67	33,389	
	5,570,000	$ 0.43	3.67	3,253,503	$

-24-

There are 1,884,590 options available for grant at December 31, 2004. The weighted average grant date fair value of options granted as of December 31, 2004 is $0.51.

NOTE 10 - WARRANTS

Through December 31, 2004, the Company had issued warrants for purchase of its common stock to investors and service providers in connection with its financing transactions. The principal terms of the warrants are summarized below:

Description	Number of Shares	Exercise Price per Share
October 2002 Equity Private Placement	500,000	$ 1.00
October 2002 Equity Private Placement Bonus Warrants (1)	250,000	2.00
May 2003 Equity Private Placement	2,438,000	1.00
May 2003 Equity Private Placement	7,708,600	1.00
May 2003 Bonus Warrants (1)	5,073,300	2.00
Warrants Issued to Financial Advisors	200,050	0.60
Warrants Issued to Investment Bank	20,000	0.50
Warrants Issued to Mr. Swindells on note conversion	850,000	1.00
Bonus Warrants to Mr. Swindells (1)	425,000	2.00

2004 Bridge Loan Warrant	2,695,000	1.00
Warrant Issued to Oceanus Value Fund	125,000	1.00
Warrant Issued to Laurus Funds	1,600,000	0.81
Total	21,884,950	$ 1.24

(1) Bonus warrants are issuable upon exercise of the original warrant.

NOTE 11 - SEGMENT AND RELATED INFORMATION (UNAUDITED)

We operate as a single business segment; however, our consolidated subsidiaries are organized geographically into reporting segments consisting of the United States Division, the European Division, the Australia Division and the South Africa Division. Our United States division comprises our corporate operations and subsidiaries domiciled in the United States of America. The European division comprises subsidiaries domiciled in Europe; the Australia Division comprises subsidiaries domiciled in Australia. The South Africa division comprises non-consolidated subsidiaries domiciled in South Africa accounted for using the equity method of accounting.

As of and for the six months ended December 31, 2004:

	Revenue	Operating Loss	Depreciation & Amortization	Investment Losses in Associated Companies	Accounts Receivable	Goodwill	Pr Equi
United States	$ 579,576	$(1,700,089)	$ 43,808	$ -	$ 89,584	$ 914,815	$
Europe	931,160	(136,784)	31,500	-	41,592	570,323	
Australia	299,761	(36,697)	6,043	-	82,227	376,517	
South Africa	-	-	-	(1,239,055)	-	-	
Total	$ 1,810,497	$(1,873,570)	$ 81,351	$(1,239,055)	$ 213,403	$ 1,861,655	$

As of and for the six months ended December 31, 2003:

	Revenue	Operating Loss	Depreciation & Amortization	Investment Losses in Associated Companies	Accounts Receivable	Goodwill	Pr Eq
United States	$ 508,479	$(1,781,682)	$ 106,833	$ -	$ 245,065	$ -	$
Europe	-	-	-	-	-	-	
Australia	472,319	(369,713)	131,968	-	125,175	-	
South Africa	-	-	-	(398,980)	-	-	
Total	$ 980,798	$(2,151,395)	$ 238,801	$ (398,980)	$ 370,240	$ -	$

=========== =========== =========== =========== =========== =========== ===

NOTE 12 - STOCKHOLDERS' EQUITY

On July 29, 2004, we issued a secured promissory note in the principal amount of $500,000 to Oceanus Value Fund, L.P. ("Oceanus"). In connection with the issuance of the note, we also issued to Oceanus a five-year warrant to purchase up to 125,000 shares of our common stock at a price of $1.00 per share. A value attributable to the warrants using the Black Scholes option valuation model of $188,842 was determined and recorded as a discount on notes payable.

On August 31, 2004, we entered into a series of agreements with Laurus whereby we issued to Laurus (i) a secured convertible term note in the principal amount of $5.5 million and (ii) a five-year warrant to purchase up to 1,600,000 shares of our common stock at a price of $0.81 per share. Of the note proceeds, $4,491,000 was deposited in a restricted account as security for the total loan amount and for use by us to make acquisitions as approved by Laurus; the outstanding principal balance of $500,000 was repaid to Oceanus and the remainder of the loan proceeds was used for operating needs. The principal amount of the Term Note carries an interest rate of prime plus two percent, subject to adjustment, and we must make monthly principal payments of at least $22,059, commencing November 1, 2004, toward the outstanding non-restricted principal amount. The principal amount of the Term Note and accrued interest thereon are convertible into shares of our common stock at a price of $0.72 per share, subject to anti-dilution adjustments. A value attributable to the warrants using the Black Scholes option valuation model of $2,863,363 was determined and recorded as a liability and a discount on notes payable. A value attributable to the beneficial conversion feature of the Term Note using the Black Scholes option valuation model of $2,070,784 was determined and recorded as a credit to common stock and a discount on notes payable.

Finally, an aggregate of 417,600 shares of the Company's restricted stock at a deemed price of $0.90 per share was issued to several persons pursuant to three agreements in consideration for financial advisory services rendered to our company. During the six months ended December 31, 2004, 425,000 shares of the Company's common stock were issued at $0.05 per share for the exercise of warrants resulting in gross proceeds to the Company of $21,250.

NOTE 13 - GOING CONCERN

To meet our present and future liquidity requirements, we are continuing 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. Based upon our cash balance at February 1, 2005 we will not be able to sustain operations for more than two months without additional sources of financing. 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.

NOTE 14 - SUBSEQUENT EVENTS

On January 7, 2005, we closed an offering of Notes in the aggregate principal

amount of $1,552,500. The Notes mature in twelve months and accrue interest at a rate of 9% per annum. The principal amount of the Notes and accrued interest thereon are convertible into shares of our common stock at any time prior to the due date of the Notes, at a conversion price of $0.73 per share. In connection with the issuance of the Notes, we also issued three-year warrants to purchase an aggregate of 2,126,712 shares of our common stock at an exercise price of $1.50 per share. This transaction classifies as a Type 1 subsequent event and has therefore been accounted for in the financial statements as a contingent liability.

On January 14, 2005, our registration statement related to the offer and sale of up to 36,572,999 shares of common stock went effective. These shares include 8,800,000 shares that are issuable pursuant to the terms of a convertible promissory note and 1,600,000 shares issuable upon the exercise of warrants, both issued to Laurus. Our prospectus was supplemented on February 2, 2005 to (i) provide information regarding the offering of "Notes" in the aggregate principal amount of $1,552,500 which closed on January 7, 2005; (ii) the resignation of our Chief Financial Officer, Christine R. Larson, on January 21, 2005; and (iii) the execution of an amended agreement ("amending Agreement") with Laurus. The Amending Agreement provides that the conversion price under the Term Note will be changed to $0.45 from $0.72 for the first $250,000 aggregate principal amount of the Term Note converted into shares of our common stock on or after January 31, 2005, and we agreed to register the additional shares of its common stock that will be issuable as a result of this change in conversion price.

-27-

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 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 Annual Report on Form 10-KSB for the fiscal year ended June 30, 2004, filed on December 3, 2004, under the heading Information Regarding Forward-Looking Statements and elsewhere. Investors should review this quarterly report on Form 10-QSB in combination with our Annual 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

Our financial statements are prepared using accounting principles generally accepted in the United States of America generally 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. Based upon our cash balance at February 1, 2005, we will not be able to sustain operations for more than two

months without additional sources of funding. 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.

Accounting for Riverbend and IRCA

In September and December 2003, we completed the acquisition, respectively, of our interest in Riverbend and IRCA. Our interim financial statements as originally filed for the periods ending September 30, 2003 and December 31, 2003 and March 31, 2004 reflected the consolidation of those entities with our company. Our investments in Riverbend and IRCA have been re-classified in our year-end audited financial statements as equity investments and, accordingly, the financial results of these companies have not been consolidated with our financial statements. We have filed amended quarterly reports for the periods ended September 30 and December 31, 2003 and March 31, 2004 that reflect this change in accounting treatment.

Results of Operations

Second Quarter Ended December 31, 2004 as Compared to the Second Quarter Ended December 31, 2003

Our sales revenues for second quarter 2005 were $907,643, as compared to $726,805 for the second quarter 2004. This increase in revenues is due to the acquisition ("acquisition") of VILPAS in March 2004. The three month period in 2003 comprises three months' revenue of CBL and three months each of RMT and TouchVision while the three month period in 2004 comprises three months' revenue of RMT, TouchVision and VILPAS.

Costs of sales, which consist of labor and hardware costs, and other incidental expenses, was $37,430 for the second quarter 2005 as compared to $171,956 for the second quarter 2004, resulting in gross profit of $870,213 for the second quarter 2005, as compared to $554,849 for the second quarter 2004. This decrease in costs and increase in gross profit was due to a decrease in product sales with a corresponding decrease in cost of goods sold for hardware. Also, contractors' costs decreased due to an outside contractor being utilized for installations for one major project.

Operating expenses for second quarter 2005 were $1,742,719 as compared to $1,785,024 for the second quarter 2004. This slight decrease was due primarily to decreases in selling, general and administrative costs as well as amortization expense.

Other Expense of $1,188,309 was $761,412 greater than that for the second quarter 2004. This increase is primarily due to losses in associated companies accounted for on an equity basis of $590,554 and an increase in interest expense of $417,300 and debt issuance costs of $153,178. Losses in associated companies comprise Riverbend ($433,800) and IRCA ($156,754). Included in interest expense of $442,361 is $411,180 attributable to amortization of discounts on the Laurus

and Oceanus notes of $348,352 and $62,828, respectfully.

We reported net loss available for common stockholders of $2,038,583, or $0.07 per share for the second quarter 2005, compared with a net loss of $1,657,072 or $0.08 per share for second quarter 2004.

Six Months Ended December 31, 2004 as Compared to the Six Months Ended December 31, 2003

Our sales revenues for the six months ended December 31, 2004 were $1,810,497, as compared to $980,798 for the six months ended December 31, 2003. This increase in revenues was primarily due to the TouchVision, RMT and VILPAS acquisitions ("acquisitions") in September 2003 and March 2004, respectively, offset by the divestiture of CBL in December 2003. The six month period in 2003 comprises six months' revenue of CBL and four months each of RMT and TouchVision while the six month period in 2004 comprises six months' revenue of RMT, TouchVision and VILPAS.

Costs of sales, which consist of labor and hardware costs, and other incidental expenses, was $218,335 for the six months ended December 31, 2004 as compared to $204,453 for the six months ended December 31, 2003, resulting in gross profit of $1,592,162 for the six months ended December 31, 2004, as compared to $776,345 for the six months ended December 31, 2003. These increases in both costs and gross profit were due to and associated with increased revenues resulting from the acquisitions completed by us in September 2003 and March 2004 offset by the divestiture of CBL in December 2003.

Operating expenses for the six months ended December 31, 2004 were $3,465,732 as compared to $2,927,740 for the six months ended December 31, 2003. This increase was due primarily to a significant increase in selling, general and administrative expenses which increased $503,558 from $625,011 for the six months ended December 31, 2003. This increase is largely due to the addition of the three new subsidiaries. However, professional fees decreased $141,438 as did depreciation and amortization expense by $157,450; again, due to the divestiture of CBL in December 2003. Salaries and benefits expense also increased $333,322 due to the addition of the new subsidiaries and additional finance and management staff hired in Trinity corporate operations.

Other Expense of $2,073,707 for the six months ended December 31, 2004 was $1,622,120 greater than that for the six months ended December 31, 2003. This increase in expense is primarily due to an increase in losses of $840,075 in associated companies accounted for on an equity basis, and an increase in interest expense of $623,711. Losses in associated companies comprise Riverbend ($659,055) and IRCA ($580,000). Included in interest expense of $672,060 is $611,068 attributable to amortization of discounts on the Laurus and Oceanus notes of $548,240 and $62,828, respectfully.

We reported net loss available for common stockholders of $3,900,169, or $0.13 per share for the six months ended December 31, 2004, compared with a net loss of $2,602,982 or $0.14 per share for the six months ended December 31, 2003.

-29-

The operating results of CBL, TouchVision, and RMT have been included in the accompanying consolidated financial statements from the date of acquisition forward and, for CBL, up to the date of divestiture. Accordingly, CBL business' results of operations were included from July 1, 2003 to December 22, 2003. The business results of operations of RMT and TouchVision are included for the period September 1, 2003 through December 31, 2004. The business results for

VILPAS are included for the period July 1, 2004 through December 31, 2004.

The following unaudited pro forma financial information presents the combined results of operations of the Company and TouchVision, RMT, and VILPAS assuming the acquisitions occurred July 1, 2003. The unaudited pro forma financial 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.

	(Pro Forma) Three Months Ended December 31, 2003	(Pro Forma) Six Months Ended December 31, 2003
Revenues	$ 1,133,737	$ 2,326,935
Gross Profit	961,780	$ 1,881,737
Operating Loss	$ (815,846)	$ (1,522,073)
Net Loss	$ (864,730)	$ (1,591,030)
Net Loss per Common Share	$ (0.03)	$ (0.05)

On a pro forma basis, sales revenue of $907,643 for the three months ended December 31, 2004 was $226,094 less than that for the three months ended December 31, 2003. On a pro forma basis the decline in revenue is primarily attributable to TouchVision where revenue declined $221,000 when compared to the prior year. On a pro forma basis, gross profit had similar trends.

On a pro forma basis, operating loss of $872,506 for the first three months ended December 31, 2004 was $56,660 greater than that for the three months ended December 31, 2003. The increase is primarily a result of losses sustained in TouchVision and increased operating costs in Trinity corporate operations because of staff additions and increased legal fees.

On a pro forma basis, Other Expense of $1,188,309 for the three months ended December 31, 2004 is $1,139,425 greater than that in the prior year primarily because of the $590,554 increase in Equity Losses in Associated Companies and amortization of the note discounts of $411,180 as well as the $153,178 in debt issuance costs described above.

On a pro forma basis, sales revenue of $1,810,497 for the six months ended December 31, 2004 was $516,438 less than that for the six months ended December 31, 2003. On a pro forma basis the decline in revenue is primarily attributable to TouchVision where revenue declined $400,000 when compared to the prior year. On a pro forma basis, gross profit had similar trends.

On a pro forma basis, operating loss of $1,873,570 for the first six months ended December 31, 2004 was $351,497 greater than that for the six months ended December 31, 2003. The increase is primarily a result of losses sustained in TouchVision.

On a pro forma basis, Other Expense of $2,073,704 for the six months ended

December 31, 2004 is $2,004,750 greater than that in the prior year primarily because of the $1,239,055 in Equity Losses in Associated Companies and amortization of the note discounts of $611,068 as well as the debt issuance costs of $160,373 described above.

We operate as a single business segment; however, our consolidated subsidiaries are organized geographically into reporting segments consisting of the United States Division, the European Division, the Australia Division and the South Africa Division. Our United States division comprises our corporate operations and subsidiaries domiciled in the United States of America. The European division comprises subsidiaries domiciled in Europe; the Australia Division comprises subsidiaries domiciled in Australia. The South Africa division comprises non-consolidated subsidiaries domiciled in South Africa accounted for using the equity method of accounting.

As of and for the six months ended December 31, 2004:

	Revenue	Operating Loss	Depreciation & Amortization	Investment Losses in Associated Companies	Accounts Receivable	Goodwill	Pr Equi
United States	$ 579,576	$(1,700,089)	$ 43,808	$ -	$ 89,584	$ 914,815	$
Europe	931,160	(136,784)	31,500	-	41,592	570,323	
Australia	299,761	(36,697)	6,043	-	82,227	376,517	
South Africa	-	-	-	(1,239,055)	-	-	
Total	$ 1,810,497	$(1,873,570)	$ 81,351	$(1,239,055)	$ 213,403	$ 1,861,655	$

As of and for the six months ended December 31, 2003:

	Revenue	Operating Loss	Depreciation & Amortization	Investment Losses in Associated Companies	Accounts Receivable	Goodwill	Pr Eq
United States	$ 508,479	$(1,781,682)	$ 106,833	$ -	$ 245,065	$ -	$
Europe	-	-	-	-	-	-	
Australia	472,319	(369,713)	131,968	-	125,175	-	
South Africa	-	-	-	(398,980)	-	-	
Total	$ 980,798	$(2,151,395)	$ 238,801	$ (398,980)	$ 370,240	$ -	$

The following describes underlying trends in the businesses of each of our three operating subsidiaries.

VILPAS. The Norwegian government is currently refining its mandates with regard to functionally disabled workers, with funding now targeted at not only training of the handicapped but also at subsidizing direct employment of handicapped and challenged individuals. FunkWeb, a majority owned subsidiary of VILPAS, is in the process of revising some of its programs and market strategies to be able to participate in government programs aimed directly at increasing employment among

functionally disabled workers. There is little or no seasonality to the business of VILPAS. The majority of operating costs are fixed costs, with some variable costs incurred related to cost of instructors, which costs may vary depending upon enrollment.

RMT. Over the past year there has been a general reduction in Australian government subsidies for corporate training. As a result, RMT and other Registered Training Organizations must rely on competitive advantages to retain clients and to attract new customers. Accordingly, RMT is in the process of developing new products and services to expand its reach beyond the Australian viticulture industry. There is little or no seasonality to RMT's business. New investment for courseware may increase in the coming fiscal year as RMT develops new courses to market in Australia and in markets outside Australia. Variable costs for RMT primarily include one-time and ongoing expenses for outsourced course development and, at times, instructors. Presently, RMT sells its products and services in Australia in local currency (Australian Dollars) and there is little or no effect from currency exchange. In the future, if RMT is successful in selling in markets outside of Australia, foreign exchange factors may impact the ability of RMT to market and compete in a profitable manner.

TouchVision. TouchVision has begun to expand its business into developing new software and consulting services for the hospital and healthcare market, while continuing to supply industry sectors it has focused on in the past. We believe investments in technology infrastructure by hospitals and healthcare providers will be stable in the coming fiscal years. There is little or no seasonality to the business of TouchVision. In addition to sales through its existing sales force, TouchVision is in the process of establishing distribution arrangements with outside companies selling to the healthcare industry. Depending on sales channel mix, some sales through outside agents may result in lower retained revenues but, due to corresponding lower fixed costs, these sales may nonetheless have a positive impact on the bottom line.

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, 2004 was $26,551,141 as compared to $22,650,976 as of June 30, 2004.

At December 31, 2004, we had an unrestricted cash balance of $1,327,421 compared to $892,739 at June 30, 2004. Net cash used by operating activities during the six months ended December 31, 2004 was $1,763,529, attributable primarily to our loss from operations of $3,900,169. Net cash generated by financing activities was $6,735,632 for the six months ended December 31, 2004 representing the net of subscriptions received as well as borrowings and repayments under short and long-term notes of $6,973,382 less fees associated with debt issuance of $259,000. Of these funds, an aggregate of $185,000 was advanced to our consolidated subsidiaries and $4,491,000 was deposited in a bank in support of future acquisitions.

Accounts receivable decreased from $243,164 at June 30, 2004 to $213,403 at December 31, 2004. This decrease is due to the timing of billings to and collections from our customers as well as the decrease in revenue at TouchVision.

Accounts payable decreased from $892,639 at June 30, 2004 to $815,223 at December 31, 2004. Accrued expenses decreased from $721,192 at June 30, 2004 to $582,565 at December 31, 2004. These changes are attributable to expenses incurred by the three subsidiaries we acquired during fiscal year 2004 and our

continuing corporate expansion during the year as well as timing of billings from and payments to our creditors.

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 six months ended December 31, 2004 and 2003, were $16,611 and $16,838, respectively.

We continued to seek equity and debt financing in first quarter 2005 to support our growth and to finance recent and proposed acquisitions. In this regard, on July 29, 2004, we issued a secured convertible promissory note in the principal amount of $500,000 to Oceanus Value Fund, L.P. ("Oceanus"). On September 1, 2004, we repaid the principal owing on the promissory note plus accrued proceeds from the Laurus transaction described below.

On August 31, 2004, we entered into a series of agreements with Laurus Master Fund, Ltd. ("Laurus") whereby we issued to Laurus (i) a secured convertible term note in the principal amount of $5.5 million and (ii) a five-year warrant to purchase up to 1,600,000 shares of our common stock at a price of $0.81 per share. Of the note proceeds, $233,000 was used for operations, $4,491,000 was deposited in a restricted account as security for the total loan amount and for use by us to make acquisitions as approved by Laurus; however, funds may be released for operations at a rate of 25% of the dollar volume of our stock for a twenty day period, and the outstanding principal balance of $500,000 was repaid to Oceanus. The principal amount of the note carries an interest rate of prime plus two percent, subject to adjustment, and we must make monthly principal payments of at least $22,059, commencing November 1, 2004, toward the outstanding non-restricted principal amount. The principal amount of the note and accrued interest thereon is convertible into shares of our common stock at a price of $0.72 per share, subject to anti-dilution adjustments.

On January 7, 2005, we closed an offering of convertible notes ("Notes") in the aggregate principal amount of $1,552,500. The Notes mature in twelve months and accrue interest at a rate of 9% per annum. The principal amount of the Notes and accrued interest thereon are convertible into shares of our common stock at any time prior to the due date of the Notes, at a conversion price of $0.73 per share. In connection with the issuance of the Notes, we also issued three-year warrants to purchase an aggregate of 2,126,712 shares of our common stock at an exercise price of $1.50 per share.

To meet our present and future liquidity requirements, we are continuing 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. Based upon our cash balance at February 1, 2005 we will not be able to sustain operations for more than two months without additional sources of financing. 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

Trinity Learning maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with other members of management, of the effectiveness of the design and operation of our disclosure controls and procedures at 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 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

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter, an aggregate of 425,000 restricted shares of the Company's common stock were issued at $0.05 per share upon the exercise of previously-issued warrants, resulting in gross proceeds to the Company of $21,250.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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

(a) Exhibits

The following exhibits are filed herewith:

10.1 Amended Agreement dated October 12, 2004 between the Company and Hyacinth Resources, Inc.

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

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

(b) Reports on Form 8-K

1. On October 18, 2004, we filed a Current Report on Form 8-K, reporting under Items 4.02, 7.01 and 9.01 non-reliance on previously issued financial statements as well as a letter to the stockholders from the company's chief executive officer.

2. On December 8, 2004, we filed a Current Report on Form 8-K, reporting under Items 7.01 and 9.01 that we had issued a corporate newsletter.

3. On December 10, 2004, we filed a Current Report on Form 8-K reporting under Items 4.01 and 9.01 the dismissal of our auditors.

-34-

4. On December 13, 2004, we filed a Current Report on Form 8-K reporting under Item 4.01 the appointment of new auditors.

5. On December 22, 2004, we filed a Current Report on Form 8-K reporting sales of unregistered equity securities under Item 3.02.

-35-

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

February 11, 2005

By: /S/ DOUGLAS D. COLE

Douglas D. Cole
Chief Executive Officer

February 11, 2005

By: /S/ EDWARD P. MOONEY

Edward P. Mooney
President and Chief Financial Officer