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TRINITY LEARNING CORP
Form 10QSB
May 23, 2006

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

FORM 10-QSB

Quarterly Report under Section 13 or 1 (d) of
the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2006

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 (IRS Employer Identification No.)
incorporation or organization)

4101 International Parkway, Carrollton, Texas 75007
(Address of principal executive offices)

(972) 309-4000
(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 No

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

As of May 22, 2006, 41,615,513 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 NINE MONTHS ENDED MARCH 31, 2006, 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.

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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: DETERIORATION IN CURRENT ECONOMIC CONDITIONS; OUR ABILITY TO PURSUE BUSINESS STRATEGIES; PRICING PRESSURES; CHANGES IN THE REGULATORY ENVIRONMENT; 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.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets March 31, 2006 (Unaudited) and June 30, 2005 (Audited).

Consolidated Statements of Operations and Comprehensive Loss Three and Nine Months Ended March 31, 2006 and 2005. (Unaudited)

Consolidated Statements of Cash Flows Nine Months Ended March 31, 2006 and 2005 (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Controls and Procedures

PART II. OTHER INFORMATION

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Item 3. Defaults upon Senior Securities

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PART I FINANCIAL INFORMATION

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

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	March 31, 2006	June 30, 2005
	-----	-----
	(Unaudited)	(Audited)
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,250,652	\$ 752,261
Accounts Receivable	4,617,595	3,540,415
Inventory	1,460,141	1,632,750
Prepaid Expense and Other Current Assets	189,900	1,160,272
	-----	-----
Total Current Assets	7,518,288	7,085,698
Property & Equipment, net	5,355,748	5,876,999
Program Inventory, net	3,313,319	5,133,334
Restricted Cash	-	5,091,670
Other Assets, net	-	197,888
	-----	-----
Total Assets	\$16,187,355	\$23,385,589
	=====	=====

See accompanying notes to the consolidated financial statements.

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Trinity Learning Corporation and Subsidiaries
Consolidated Balance Sheets

	March 31, 2006	June 30, 2005
	-----	-----
	(Unaudited)	(Audited)
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable	\$6,257,809	\$3,134,406
Accrued Expenses	3,557,466	1,625,901
Interest Payable	-	23,379
Deferred Revenue	4,687,366	4,042,842
Capital Lease-Current	1,177,817	1,115,666
Notes Payable Current	113,538	663,446
Notes Payable - Related Parties	363,333	1,023,087
	-----	-----
Total Current Liabilities	16,157,329	11,628,727
Obligations under Capital Leases	12,351,625	13,242,920
Notes Payable	4,739,529	1,586,655
Notes Payable Related Parties	20,000	20,000
Equity Investment in Associated Company	-	500,000
Other Long-Term Liabilities	-	7,554
	-----	-----
Long Term Liabilities	17,111,154	15,357,129

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Total Liabilities	33,268,483	26,985,856
Minority Interest	309,210	287,061
Contingently Redeemable Equity	800,000	2,510,000
Stockholders' (Deficit) Equity		
Preferred Stock, 10,000,000 Shares		
Authorized at No Par Value, No Shares		
Issued and Outstanding	-	-
Common Stock, 100,000,000 Shares		
Authorized at No Par Value, 41,615,513		
and 37,719,889 shares Issued and		
Outstanding in March, 2006 and June		
2005, Respectively	33,989,891	32,000,792
Accumulated Deficit	(52,159,501)	(38,266,018)
Deferred Financial Advisor Fees	-	(142,920)
Other Comprehensive Gain (Loss)	(20,728)	10,818
Total Stockholders' Equity	(18,190,338)	(6,397,328)
Total Liabilities and Stockholders' Equity	\$16,187,355	\$23,385,589

See accompanying notes to the consolidated financial statements.

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Trinity Learning Corporation
Consolidated Statement of Operations

	For Three Months Ended		For Nine Months Ended	
	March 31		March 31	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Revenue				
Sales Revenue	\$ 6,147,414	\$ 518,095	\$20,171,919	\$ 2,328,592
Cost of Sales	(1,746,910)	(62,228)	(4,482,252)	(280,563)
Gross Profit	4,400,504	455,867	15,689,667	2,048,029
Expense				
Salaries & Benefits	4,258,007	754,393	13,541,418	2,611,262
Professional Fees	1,007,449	380,368	2,099,264	779,311
Professional Fees				
Related Parties	-	-	-	-
Selling, General &				
Administrative	5,361,524	1,404,012	11,265,928	2,532,581
Depreciation &				
Amortization	174,577	24,520	487,059	105,871
Total Expenses	10,901,557	2,563,293	27,393,669	6,029,025
Loss from Operations	(6,201,053)	(2,107,426)	(11,104,002)	(3,980,996)

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Other Expense				
Interest, net	(475,677)	(480,335)	(2,775,431)	(992,023)
Equity Losses and				
Impairment of				
Investment in				
Associated Companies	-	(538,291)	-	(1,837,719)
Debt Conversion	-	(22,834)	(1,614,064)	(183,206)
Gain due to				
non-conversion of				
contingently				
redeemable stock	2,210,000	-	2,210,000	-
Gain (Loss) on Sale				
of Assets	-	-	1,000	-
Foreign Currency				
Gain (Loss)	-	(65)	(184)	(2,281)
Total Other Expense	1,734,323	(1,041,525)	(2,178,679)	(3,015,229)
Minority Interest	-	44,935	(10,801)	92,043
Loss Before Taxes	(4,666,730)	(3,104,016)	(13,893,482)	(6,904,182)
Income Taxes	-	-	-	-
Total Income Tax Expense	-	-	-	-
Net Loss	\$ (4,666,730)	\$ (3,104,016)	\$ (13,893,482)	\$ (6,904,182)
Net Loss Per Share				
Basic and Diluted	\$ (0.11)	\$ (0.10)	\$ (0.34)	\$ (0.22)
Weighted Average				
Shares Outstanding	4,607,388	32,372,341	39,454,326	31,386,772

See accompanying notes to the consolidated financial statements.

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Trinity Learning Corporation
Consolidated Statement of Operations

A summary of the components of other comprehensive loss for the three and nine months ended March 31, 2006 and 2005 follows:

	For Three Months Ended		For Nine Months Ended	
	March 31		March 31	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Net Loss	\$ (4,666,730)	\$ (3,104,016)	\$ (13,893,482)	\$ (6,904,182)
Foreign Currency				
Translation Gain/(Loss)	2,652	5,591	(31,547)	23,272
Comprehensive Loss	(4,664,078)	(3,098,425)	(13,925,029)	(6,880,910)

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See accompanying notes to the consolidated financial statements.

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Trinity Learning Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended March 31,	
	2006	2005
	(Unaudited)	
	-----	-----
Cash flows from operating activities:		
Net loss	\$(13,893,482)	\$(6,904,182)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	487,059	105,871
Bad debt expense	465,800	1,000,000
Gain due to non-conversion of contingently redeemable stock	(2,210,000)	-
Foreign currency translation gain/loss	184	-
Non cash debt issuance	-	53,277
Non cash interest expense	50,533	1,097,771
Equity losses of associated companies	-	1,837,719
Employee stock based compensation	800,000	241,983
Non cash financial advisory fees	594,470	75,000
Debt conversion expenses	3,682,047	
Program inventory	1,820,015	-
Changes in current assets and liabilities, net of businesses acquired and sold:		
Accounts receivable	(1,077,180)	(19,830)
Prepaid expenses and other current assets	970,373	58,523
Accounts payable and accrued expenses	5,054,967	66,895
Accounts payable-related party	-	(77,988)
Inventory	172,609	-
Accrued expenses	-	(62,720)
Deferred revenue	644,524	76,992
Interest payable	(23,379)	2,255
Minority interest	22,149	(67,179)
	-----	-----
Net cash provided (used) by operating activities	(2,439,311)	(2,515,613)
	-----	-----
Cash flows from investing activities:		
Payment for business acquisitions	-	(7,314)
Payment for business acquisitions related party	-	(4,815)
Restricted cash	5,091,670	(4,491,000)
Advances to associated companies	-	-
Capital expenditures	(1,295)	(16,611)
	-----	-----
Net cash provided (used) by investing activities	5,090,375	(4,519,740)
	-----	-----
Cash flows from financing activities:		
Repayment for capital leases	(829,144)	-
Borrowings under notes	100,000	-

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Borrowings under notes related party	-	-
Repayments under borrowings	(5,323,529)	-
Repayments under short-term notes	-	(544,118)
Repayments under short-term notes related party	(750,000)	(155,000)
Borrowing under notes and contingent liability	-	7,672,500
Borrowings under long-term liabilities	4,500,000	-
Payments for financing fees	-	(259,000)
Other financing activities	150,000	106,415
Proceeds from sale of common stock	-	21,250
	-----	-----
Net cash provided (used) by financing activities	(2,152,673)	6,842,047
	-----	-----
Effect of foreign exchange on cash	-	(23,272)
Net increase (decrease) in cash	498,391	(216,578)
	-----	-----
Cash at beginning of period	752,261	892,739
	-----	-----
Cash at end of period	\$ 1,250,652	\$ 676,161
	=====	=====

See accompanying notes to the consolidated financial statements.

Trinity Learning Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Nine Months Ended March 31,
2006 2005
(Unaudited)

Supplemental information:		
Interest paid	\$ 1,310,676	\$ 71,119
Warrants issued with convertible notes	\$ -	\$ 2,863,363
Beneficial conversion value of note payable	\$ -	\$ 2,070,784

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See accompanying notes to the consolidated financial statements.

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Trinity Learning Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2006

GENERAL

Trinity Learning has elected to omit substantially all footnotes to the consolidated financial statements for the three and nine months ended March 31, 2006 since there have been no material changes (other than indicated in other footnotes) to the information previously reported by the Company in their Annual Report filed on Form 10-KSB for the fiscal year ended June 30, 2005.

UNAUDITED INFORMATION

The information furnished herein was taken from the books and records of the Company without audit. However, in the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

OTE 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.

We operate through our primary operating subsidiary, Trinity Workplace Learning, located in our 205,000 square foot digital multimedia production center in Carrollton, Texas, in the greater Dallas metropolitan area. At this Global Learning Center we create, distribute and archive rich media for workplace learning and certification for approximately 7,000 corporate, institutional and government customers in healthcare, industrial services, and public safety including homeland security, first responders, and federal agencies. We distribute content to our customers through a variety of learning media including satellite, broadband, e-learning, CD-ROM, and DVDs. Our proprietary brands include The Law Enforcement Training Network, HomelandOne, the Fire and Emergency Training Network, and others. In our healthcare industry vertical we participate in 17 distinct accreditations for medical-related continuing professional education and certification.

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While our strategic focus is to grow our assets and operations in North America, we continue to also explore acquisition and alliance candidates in Western Europe and we continue to maintain ownership positions in small operating subsidiaries in Australia, Norway and California and we have an ongoing investment in a learning company in South Africa.

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.

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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, 2005. The results of operations for the three and nine months ended March 31, 2006, 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 April 1, 2005 acquisition of Primedia Workplace Learning.

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.

NOTE 2 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 businesses, 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

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short- or the long-term. Based upon our cash balance at May 1, 2006 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 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, 2005 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.

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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, material assets or 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 May 1, 2006, 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.

Effective April 1, 2005, Trinity Learning Corporation (the "Company") entered into and closed an asset purchase agreement (the "Asset Purchase Agreement") with PRIMEDIA Inc. and two PRIMEDIA affiliates (collectively, "PRIMEDIA"), whereby PRIMEDIA sold to the Company certain assets related to its PRIMEDIA Workplace Learning division ("PWPL"). The assets comprised those relating to PWPL's Healthcare Group, Government

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Services Group, Industrial Services Group, Shared Services Group, and all other assets of PWPL, including all of the assets of PRIMEDIA Digital Video Holdings LLC, excluding only those assets primarily related to the operations of PWPL's Financial Services Group and/or PWPL's Interactive Medical Network business (such acquired assets referred to collectively hereinafter as the "Business"). These assets are comprised of content libraries, trademarks, brands, intellectual property, databases, and physical assets. Included in the sale are certain video production and distribution capabilities used to deliver integrated learning solutions to professionals in the homeland security, healthcare, industrial, fire & emergency, government, law enforcement and private security markets currently served by PWPL. The consolidated financial statements reflect the consolidation of this entity into our company.

Results of Operations

THIRD QUARTER ENDED MARCH 31, 2006 AS COMPARED TO THE THIRD QUARTER ENDED MARCH 31, 2005

Our revenues for third quarter 2006 were \$6,147,414, as compared to \$518,095 for the third quarter 2005. This increase in revenues is due primarily to the acquisition of Primedia Workplace Learning. The three month period in 2005 comprises three months' revenue of RMT, TouchVision and VILPAS while 2006 includes revenues of RMT, TouchVision, VILPAS and Trinity Workplace Learning.

Costs of sales, which consist of labor, hardware costs, cost of goods sold and other incidental expenses, was \$1,746,910 for the third quarter 2006 as compared to \$62,228 for the third quarter 2005, resulting in gross profit of \$4,400,504 for the third quarter 2006, as compared to \$455,867 for the third quarter 2005. This increase in costs and in gross profit was due to the acquisition of Primedia Workplace Learning. Operating expenses for third quarter 2006 were \$10,601,557 as compared to \$2,563,293 for the third quarter 2005. This increase was due primarily to acquisition of Primedia Workplace Learning along with increases in selling, general and administrative costs as well as amortization expense.

Other Expense for the third quarter of 2006 reflected income of \$1,734,323 compared to expense of \$1,041,525 for the third quarter 2005. This income is primarily due to recognizing a gain on the non-conversion of contingently redeemable stock of \$2,210,000.

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We reported net loss available for common stockholders of \$4,666,730 or \$0.11 per share for the third quarter 2006, compared with a net loss of \$3,104,016 or \$0.10 per share for the third quarter 2005.

NINE MONTHS ENDED MARCH 31, 2006 AS COMPARED TO THE NINE MONTHS ENDED MARCH 31, 2005

Our sales revenue for the nine months ended March 31, 2006 were \$20,171,919, as compared to \$2,328,592 for the nine months ended March 31, 2005. This increase in revenues was primarily due to the acquisition of Primedia Workplace Learning. The nine month period in 2005 comprises nine months' revenue of RMT, TouchVision and Vilpas while the nine month period in 2006 comprises nine months' of RMT, TouchVision, Vilpas and Trinity Workplace Learning.

Costs of sales, which consist of labor and hardware costs, and other incidental expenses, was \$4,482,252 for the nine months ended March 31, 2006 as compared to \$280,563 for the nine months ended March 31, 2005,

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resulting in gross profit of \$15,689,667 for the nine months ended March 31, 2006 as compared to \$2,048,029 for the nine months ended March 31, 2005. This increase is due primarily to acquisition of Primedia Workplace Learning.

Operating expenses for the nine months ended March 31, 2006 were \$26,793,669 as compared to \$6,029,025 for the nine months ended March 31, 2005. This increase was due primarily to the acquisition of Primedia Workplace Learning resulting in increases in selling, general and administrative costs as well as depreciation and amortization expense.

Other Expense of \$2,178,679 for the nine months ended March 31, 2006 was \$836,550 less than that for the nine months ended March 31, 2005. This decrease in expense is primarily due to a gain recognized on the non-conversion of contingently redeemable stock of \$2,210,000 and prior year losses in associated companies of \$1,837,719 offset by a loss on conversion of notes payable \$1,430,858 and increases in net interest expense of \$1,783,408. Included in interest expense of \$2,775,431 is \$1,495,564 attributable to amortization of discounts on the Laurus note.

We reported net loss available for common stockholders of \$13,293,482 or \$0.34 per share for the nine months ended March 31, 2006, compared with a net loss of \$6,904,182 or \$0.22 per share for the nine months ended March 31, 2005.

Liquidity and Capital Resources

Our expenses are currently greater than our revenues. We have a history of losses, and our accumulated deficit as of March 31, 2006 was \$52,159,501 as compared to \$38,266,018 as of June 30, 2005.

At March 31, 2006, we had an unrestricted cash balance of \$1,250,652 compared to \$752,261 at June 30, 2005. Net cash used by operating activities during the nine months ended March 31, 2006 was \$2,439,311. Net cash generated by investing activities was \$5,090,375 for the nine months ended March 31, 2006. Net cash used by financing activities during the nine months ended March 31, 2006 was 2,152,673.

Accounts receivable increased from \$3,540,415 at June 30, 2005 to \$4,617,595 at March 31, 2006. This increase is due primarily to increased sales efforts to our customers.

Accounts payable increased from \$3,134,406 at June 30, 2005 to \$6,257,809 at March 31, 2006. Accrued expenses increased from \$1,625,901 at June 30, 2005 to \$3,557,466 at March 31, 2006. The changes in accounts payable and accrued expenses are attributable to the negative cash flow.

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.

We continued to seek equity and debt financing in fiscal 2006 to support our growth and to finance recent and proposed acquisitions:

On March 2, 2006, Jack Rutherford purchased 625,000 shares of Common Stock of the Company at \$0.16 per share or \$100,000. In addition we issued 625,000 warrants exercisable at \$0.20 per share to Mr. Rutherford in consideration of the purchase. We further issued 250,000 warrants

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exercisable at \$0.15 per share to Mr. Rutherford in consideration for a loan made in the amount of \$100,000 by Mr. Rutherford to the Company on March 1, 2006. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 3, 2006, William T. Merrill purchased 156,250 shares of Common Stock of the Company at \$0.16 per share or \$25,000. In addition we issued 156,250 warrants exercisable at \$0.20 per share to Mr. Merrill in consideration of the purchase. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 3, 2006, David Spada purchased 156,250 shares of Common Stock of the Company at \$0.16 per share or \$25,000. In addition we issued 156,250 warrants exercisable at \$0.20 per share to Mr. Spada in consideration of the purchase. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 31, 2006, the Company entered into a Securities Purchase Agreement (the "Securities Agreement") with certain accredited investors for the issuance of up to an aggregate of \$8,500,000 in face amount of 15% Senior Secured Convertible Debentures (the "Debentures") maturing March 31, 2010, and four year warrants (the "Warrants") to purchase an aggregate of 13,600,000 share of common stock of the Company. The Debentures accrue interest at a rate of 15% per annum and we issued to Palisades Master Fund LP a face amount of \$4,500,000 in Debentures and warrants to purchase an aggregate of 7,200,000 shares of common stock pursuant to the first closing which occurred on March 31, 2006. The Company claims an exemption from the registration requirements of the Act for the private placement of these securities pursuant to Section 4(2) of the Act and/or Regulation D promulgated thereunder since, among other things, the transaction did not involve a public offering, the investors were accredited investors and/or qualified institutional buyers, the investors had access to information about the company and their investment, the investors took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

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 May 1, 2006 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

On March 2, 2006, Jack Rutherford purchased 625,000 shares of Common Stock of the Company at \$0.16 per share or \$100,000. In addition we issued 625,000 warrants exercisable at \$0.20 per share to Mr. Rutherford in consideration of the purchase. We further issued 250,000 warrants exercisable at \$0.15 per share to Mr. Rutherford in consideration for a loan made in the amount of \$100,000 by Mr. Rutherford to the Company on March 1, 2006. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 3, 2006, William T. Merrill purchased 156,250 shares of Common Stock of the Company at \$0.16 per share or \$25,000. In addition we issued 156,250 warrants exercisable at \$0.20 per share to Mr. Merrill in consideration of the purchase. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

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On March 2, 2006, Jack Rutherford loaned to the Company an amount of \$100,000 which is convertible pursuant to the terms of the loan into 625,000 shares of Common Stock. In addition we issued 625,000 warrants exercisable at \$0.20 per share to Mr. Rutherford in consideration of the loan made. We further issued 250,000 warrants exercisable at \$0.15 per share to Mr. Rutherford in consideration for the loan made in the amount of \$100,000 by Mr. Rutherford to the Company on March 1, 2006. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 3, 2006, William T. Merrill loaned to the Company an amount of \$25,000 which is convertible pursuant to the terms of the loan into 156,250 shares of Common Stock. In addition we issued 156,250 warrants exercisable at \$0.20 per share to Mr. Merrill in consideration of the loan made. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

On March 3, 2006, David Spada loaned to the Company an amount of \$25,000 which is convertible pursuant to the terms of the loan into 156,250 shares of Common Stock. In addition we issued 156,250 warrants exercisable at \$0.20 per share to Mr. Spada in consideration of the loan made. The issuance of these securities was made in reliance on Section 4(2) of the Securities Act as a transaction not involving any public offering. No advertising or general solicitation was employed in offering the securities, and the issuance of the securities was made to an existing shareholder of our company.

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investors took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

The Company paid investment banking fees of \$405,000 in connection with the loan (or financing).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following exhibits are filed herewith:

- 10.1 Employment Agreement dated as of February 1, 2006, by and between the Company and Doug Cole.
- 10.2 Employment Agreement dated as of February 1, 2006, by and between the Company and Patrick Quinn.
- 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.

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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

May 22, 2006

By: /S/ DENNIS J. CAGAN

Dennis J. Cagan
Chief Executive Officer

May 22, 2006

By:/S/ Patrick R. Quinn

Patrick R. Quinn
Chief Financial Officer