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.



PART I. FINANCIAL INFORMATION

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- 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)

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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

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

| | For Three Months Ended on December 31 | | For Six Mo[nths Ended on] Dec[ember 31] |
|---|---|---|---|
| | 2004 | 2003 | 2004 |
| | (Unaudited) | | (Una[udited]) |
| **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

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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

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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.



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.



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, | | Six D |
|---|---|---|---|
| | 2004 | 2003 | 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.

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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