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EDT LEARNING INC
Form 10-Q
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED SEPTEMBER 30, 2001 OR
- TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number 1-13725

EDT LEARNING, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

76-0545043
(I.R.S. Employer
Identification No.)

2999 North 44th Street, Suite 650, Phoenix, Arizona
(address of principal executive offices)

85018
(Zip code)

(602) 952-1200
(Registrant's telephone number, including area code)

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

The number of shares of Common Stock of the Registrant, par value \$.001 per share, outstanding at November 5, 2001, was 12,492,034.

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FORM 10-Q REPORT INDEX

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EDT LEARNING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	September 30, 2001 ----- (unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 1,094
Receivables from affiliate practices, net of allowance for doubtful accounts of \$750 and \$1,147, respectively	437
Prepaid and other current assets	234
Notes receivable from Affiliated Practices--current, net	335

Total current assets	2,100
Property and equipment, net	2,678
Intangible assets, net	2,359
Notes receivable from Affiliated Practices, net	757
Other assets	170

Total assets	\$ 8,064

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LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES:

Current portion of long term debt	\$ 8,966
Accounts payable and accrued liabilities	575
Current portion of deferred revenue	778
Accrued employment agreement	248
Current portion of capital lease liabilities	334

Total current liabilities	10,901
Long term debt, less current maturities	2,318
Capital lease liabilities	478
Deferred revenue	367

Commitments and contingencies

SHAREHOLDERS' DEFICIT

Common stock, \$.001 par value 40,000,000 shares authorized, 11,721,664 issued .	12
Additional paid-in capital	25,853
Accumulated deficit	(30,724)
Less: Treasury shares at cost: 1,179,630 and 1,149,116, respectively	(1,141)

Total shareholders' deficit	(6,000)

Total liabilities and shareholders' deficit	\$ 8,064
	=====

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

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EDT LEARNING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues				
Learning	\$ 127	\$ --	\$ 285	\$ 4
Dental contracts	1,709	2,210	3,478	4
	-----	-----	-----	-----
Total revenues	1,836	2,210	3,763	4
Operating expenses				
Research and development	255	--	481	
Sales and marketing	223	--	426	
General and administrative	253	3,288	917	5
Depreciation and amortization	542	638	1,074	1
Impairment of assets	--	18,046	--	23
	-----	-----	-----	-----

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Total operating expenses	1,273	21,972	2,898	29
Earnings (loss) from operations	563	(19,762)	865	(24)
Interest expense	271	336	559	
Interest income	(67)	(81)	(143)	
Other income	(83)	(44)	(176)	
	-----	-----	-----	-----
Income (loss) before income taxes	442	(19,973)	625	(25)
Income taxes	--	--	--	
	-----	-----	-----	-----
Net income (loss)	\$ 442	\$ (19,973)	\$ 625	\$ (25)
	=====	=====	=====	=====
Basic and diluted earnings (loss) per share .	\$ 0.04	\$ (2.00)	\$ 0.06	\$ (
	=====	=====	=====	=====
Weighted average number of share outstanding-- basic and diluted	10,542	9,969	10,557	10
	=====	=====	=====	=====

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

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EDT LEARNING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT
(UNAUDITED)
(IN THOUSANDS)

	Common Stock		Additional	Accumulated	Treasury	S
	Shares	Amount	Paid-In Capital	Deficit	Stock	
	-----	-----	-----	-----	-----	
Balances, April 1, 2001	11,722	\$ 12	\$ 25,809	\$ (31,349)	\$ (1,126)	
Shares repurchased	--	--	--	--	(15)	
Issuance of warrants	--	--	44	--	--	
Net income	--	--	--	625	--	
	-----	-----	-----	-----	-----	
Balances, September 30, 2001	11,722	\$ 12	\$ 25,853	\$ (30,724)	\$ (1,141)	
	=====	=====	=====	=====	=====	

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

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EDT LEARNING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

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	Sep

	2001

Net cash provided by operating activities	\$ 36
Cash flows from investing activities:	
Collection of notes receivable	44
Proceeds from property and equipment	8
Issuance of notes receivable	-
Capital expenditures	(

Net cash provided by investing activities	52

Cash flows from financing activities:	
Repayment of long-term debt and capital leases liabilities	(79
Financing costs	(5

Net cash used in financing activities	(85

Net change in cash and cash equivalents	4
Cash and cash equivalents, beginning of period	1,05

Cash and cash equivalents, end of period	\$ 1,09
	=====
Supplemental disclosures of cash flow information:	
Warrants issued in connection with financing costs	\$ 4
Convertible subordinated notes offset against receivables from Affiliated Practices	-
Conversion of receivables from Affiliated Practices to notes receivables	-
Treasury stock acquired for payment of receivable from Affiliated Practices and	
purchase of property and equipment	-
Notes payable offset against future membership fees	-

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

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EDT LEARNING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

EDT Learning, Inc., formerly e-dentist.com, Inc. (the "Company") provides a comprehensive array of e-Learning content, handling and delivery services that are customized to each client. The Company also provides practice management services to dental practices throughout the United States.

The unaudited consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes the presentation and disclosures herein are adequate to make the information not misleading, but do not purport to be a complete presentation inasmuch as all note disclosures required by generally accepted accounting principles are not included. In the opinion of

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management, the consolidated financial statements reflect all elimination entries and normal adjustments that are necessary for a fair presentation of the results for the interim periods ended September 30, 2001 and 2000.

Fiscal operating results for interim periods are not necessarily indicative of the results for full years. It is suggested that these consolidated financial statements be read in conjunction with the financial statements of the Company and related notes thereto, and management's discussion and analysis related thereto, all of which are included in the Company's annual report on Form 10-K for the year ended March 31, 2001, as filed with the SEC.

RECENT EVENTS, LIQUIDITY AND MANAGEMENT PLANS

A name change of the Company to "EDT Learning, Inc." was approved by the Board of Directors in June 2001 and was approved by the shareholders at the August 2, 2001 Annual Shareholders Meeting. The name change was done to more accurately reflect the Company's current business model and expansion of its business offering which focuses on providing e-Learning tools and systems to corporate clients inside and outside the dental industry.

During fiscal 2001, the Company incurred a net loss of \$24.9 million and had an accumulated deficit of \$31.3 million at March 31, 2001. In addition, the Company had cash flow from operations of \$1.4 million during the year ending March 31, 2001. During the three and six months ended September 30, 2001, the Company had net income of \$442,000 and \$625,000, respectively and has an accumulated deficit of \$30.7 million at September 30, 2001. In addition, the Company generated cash flow from operations of \$367,000 during the six months ended September 30, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company issued 393,182 warrants to acquire shares of the Company's common stock at \$0.42 per share. The warrants were valued at \$32,000. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid \$61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of \$25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

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In order to increase its liquidity, the Company has developed the following strategies; (i) implement its revised eCommerce and e-Learning based strategic alternative described above, (ii) reducing costs in the Company's corporate office, and (iii) raising additional capital through a private placement. However, there can be no assurance that the Company's strategies will be

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achieved.

2. SIGNIFICANT ACCOUNTING POLICIES

EARNINGS PER SHARE

Earnings per share are computed based upon the weighted average number of shares of Common Stock and Common Stock equivalents outstanding during each period. Diluted earnings per share are not separately presented because such amounts would be the same as amounts computed for basic earnings per share.

Outstanding options and warrants to purchase approximately 2,390,967 and 1,932,773 shares of Common Stock at exercise prices above the market value of Common Stock were excluded from the calculation of earnings per share for the three and six month periods ended September 30, 2001 and 2000, respectively, because their effect would have been antidilutive.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

NEW PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The company does not anticipate any financial statement impact with the adoption of this statement.

In June 2001, the Financial Accounting Standard Board issued SFAS 141, "Business Combinations" which requires that all business combinations be accounted for using the purchase method. In addition, this Statement requires that intangible assets be recognized as assets apart from goodwill if certain criteria are met. As the provisions of this Statement apply to all business combinations initiated after June 30, 2001, Management will consider the impact of this statement for future combinations.

In June 2001, the Financial Accounting Standard Board issued SFAS 142, "Goodwill and Other Intangible Assets" which established Standards for reporting acquired goodwill and other intangible assets. This Statement accounts for goodwill based on the reporting units of the combined entity into which an acquired entity is integrated. In accordance with the statement, goodwill and indefinite lived intangible assets will not be amortized but will be tested for impairment at least annually at the reporting unit level and the amortization period of intangible assets with finite lives will not be limited to forty years. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001 with early application permitted for entities with fiscal years beginning after March 15, 2001. The Company has \$183,000 of goodwill included in its balance sheet at September 30, 2001. Goodwill amortization for the three and six months ended September 30, 2001 was \$23,000 and \$46,000, respectively and is currently expected to approximate \$92,000 for the year ended March 31, 2002 before the provisions of SFAS 142 are applied. Implementation of SFAS 142 by the Company would result in elimination

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of amortization of goodwill from acquisition under the purchase method of accounting. The statement does not result in the elimination of amortization of the Company's service agreements because under the scope of the statement only goodwill resulting from acquisitions under the purchase method of accounting, and not other identifiable intangible assets, is subject to being no longer amortized.

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3. SEGMENT INFORMATION

During the three and six month periods ended September 30, 2001, the Company had two reportable segments, learning and dental practice management. The learning segment included revenues and operating expenses related to the development and sale of the Company's learning products. The dental practice segment included revenues from service contracts, operating expenses related to the delivery of the dental services and other non-operating expenses.

There are no intersegment revenues. The Company does not review assets by operating segment.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
Learning	\$ 127	\$ --	\$ 285	\$ --
Dental practice management	1,709	2,210	3,478	4,428
	1,836	2,210	3,763	4,428
Operating expenses				
Learning	478	--	907	--
Dental practice management	795	21,972	1,991	29,373
	1,273	21,972	2,898	29,373
Earnings (loss) from operations				
Learning	(351)	--	(622)	--
Dental practice management	914	(19,762)	1,487	(24,945)
	563	(19,762)	865	(24,945)
Non operating expenses				
Learning	--	--	--	--
Dental practice management	121	211	240	536
	121	211	240	536
Income (loss) before income taxes				
Learning	(351)	--	(622)	--
Dental practice management	793	(19,973)	1,247	(25,481)
	\$ 442	\$ (19,973)	\$ 625	\$ (25,481)

4. COMMITMENTS AND CONTINGENCIES

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LEGAL PROCEEDINGS

The Company has pending lawsuits against five Affiliated Practices for defaulting in the payment of the required Service Fees. In each of those cases, the Company is seeking damages equal to past due and remaining service fees, consequential damages equal to the value of the intangible practice asset and attorney's fees. Two Affiliated Practices have in response filed a counter-claim alleging breach of contract, misrepresentation and securities violations. The Company believes that those counter-claims are without merit and that the Company will prevail in defense to the alleged counterclaims.

The Company is also the defendant in a lawsuit in which the plaintiff claims breach of the premises lease associated with an Affiliated Practice. The Company as a defendant tenant is seeking indemnity from the Affiliated Practice and believes that it will recover any damages suffered from the responsible Affiliated Practice.

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ACCRUED EMPLOYMENT AGREEMENT

The accrued employment agreement is payable to the former Chief Dental Officer of the Company. Pursuant to the terms of the agreement, as amended, the remaining balance of \$248,000 was payable on July 31, 2001. Payment of the remaining balance is in dispute.

5. ACQUISITION OF LEARNING-EDGE, INC.

On October 1, 2001, the Company acquired all of the outstanding capital stock of Learning-Edge, Inc., an Arizona based private e-learning company. The Company issued 1,950,000 common shares and \$850,000 of debt under the terms of the acquisition agreement. The debt is due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital in excess of \$3 million, the payment schedule accelerates. The Company also assumed approximately \$1,000,000 of Learning-Edge debt as part of this acquisition.

In connection with the acquisition of Learning-Edge, Inc., the Company issued 132,972 warrants to acquire shares of the Company's common stock at \$0.44 per share. The warrants were issued on September 10, 2001 and were valued at \$12,000.

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

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE BASED ON CURRENT PLANS AND EXPECTATIONS OF THE COMPANY AND INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL FUTURE ACTIVITIES AND RESULTS OF OPERATIONS TO BE MATERIALLY DIFFERENT FROM THAT SET FORTH IN THE FORWARD-LOOKING STATEMENTS. IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER INCLUDE, AMONG OTHERS, RISKS ASSOCIATED WITH AFFILIATIONS, FLUCTUATIONS IN OPERATING RESULTS BECAUSE OF AFFILIATIONS AND VARIATIONS IN STOCK PRICE, CHANGES IN GOVERNMENT REGULATIONS, COMPETITION, RISKS OF OPERATIONS AND GROWTH OF EXISTING AND NEW AFFILIATED DENTAL PRACTICES, AND RISKS DETAILED IN THE COMPANY'S SEC FILINGS.

OVERVIEW

As an extension of its educational and training background, the Company has broadened its reach to focus on the larger growing e-Learning and corporate

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training market. With the launch of the Company's state of the art learning management system and its e-Learning engine, the Company now provides a comprehensive array of e-Learning content, hosting and delivery services to corporations, inside and outside the dental and healthcare industries. The Company's synchronous and asynchronous content delivery solutions provide an array of e-Learning products that are customized to each corporate client. The Company is positioning itself in the corporate training sector of the e-Learning marketplace leveraging its existing infrastructure and using scale provided by an integrated product.

The Company continues to provide services to its Affiliated Practices in accordance with the modified Service Agreements and derive revenues. The actual terms of the various Service Agreements vary slightly on a case-by-case basis, depending on negotiations with the individual Affiliated Practices. Those Modified Agreements require in general that the Company provide: access to online practice enhancement services; access to online tools and payroll services; access to certain on-site consulting and seminar programs; and the use of the tangible assets owned by the Company located at each affiliated dental practice location. The service fees payable under the modified Service Agreements are guaranteed by the owner-dentists.

RECENT EVENTS, LIQUIDITY AND MANAGEMENT PLANS

A name change of the Company to "EDT Learning, Inc." was approved by the Board of Directors in June 2001 and was approved by the shareholders at the August 2, 2001 Annual Shareholders Meeting. The name change was done to more accurately reflect the Company's current business model and expansion of its business offering which focuses on providing e-Learning tools and systems to corporate clients inside and outside the dental industry.

During fiscal 2001, the Company incurred a net loss of \$24.9 million and had an accumulated deficit of \$31.3 million at March 31, 2001. In addition, the Company had cash flow from operations of \$1.4 million during the year ending March 31, 2001. During the three and six months ended September 30, 2001, the Company had net income of \$442,000 and \$625,000, respectively and has an

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accumulated deficit of \$30.7 million at September 30, 2001. In addition, the Company generated cash flow from operations of \$367,000 during the six months ended September 30, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company issued 393,182 warrants to acquire shares of the Company's common stock at \$0.42 per share. The warrants were valued at \$32,000. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid \$61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of \$25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be

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available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

In order to increase its liquidity, the Company has developed the following strategies; (i) implement its revised eCommerce and e-Learning based strategic alternative described above, (ii) reducing costs in the Company's corporate office, and (iii) raising additional capital through a private placement. However, there can be no assurance that the Company's strategies will be achieved.

REVENUES

Total revenues generated for the three months ended September 30, 2001 and 2000 were \$1.8 million and \$2.2 million respectively, a decrease of \$374,000. The Company recognized \$127,000 in learning revenues in the three months ended September 30, 2001. There were no learning revenues in the three months ended September 30, 2000. Revenue from dental contacts decreased by \$501,000 during the three months ended September 30, 2001 as compared to the three months ended September 30, 2000 due to the modification and termination of certain dental contracts. Dental contract revenue will continue to decline as the contracts reach their expiration dates, generally over the next 18 to 27 months.

Total revenues generated for the six months ended September 30, 2001 and 2000 were \$3.8 million and \$4.4 million respectively, a decrease of \$665,000. The Company recognized \$285,000 in learning revenues in the six months ended September 30, 2001. There were no learning revenues in the six months ended September 30, 2000. Revenue from dental contacts decreased by \$950,000 during the six months ended September 30, 2001 as compared to the six months ended September 30, 2000 due to the modification and termination of certain dental contracts. Dental contract revenue will continue to decline as the contracts reach their expiration dates, generally over the next 18 to 27 months.

OPERATING EXPENSES

The Company incurred operating expenses of \$1.3 million and \$22 million for the three months ended September 30, 2001 and 2000, respectively. The Company incurred operating expenses of \$2.9 million and \$29.4 million for the six months ended September 30, 2001 and 2000, respectively. Operating expenses consist of research and development, sales and marketing, general and administrative, depreciation and amortization expenses and impairment of assets.

Research and development expenses include expenses associated with the development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses were \$255,000 and \$481,000 for the three and six months ended September 30, 2001 and are a result of the Company's decision to implement its eCommerce and e-learning strategy. There were no research and development expenses during the three and six months ended September 30, 2000.

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Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were \$223,000 and \$426,000 for the three and six months ended September 30, 2001 and are a result of the Company's decision to implement its eCommerce and e-learning strategy. There were no sales and marketing expenses during the three and six months ended September 30, 2000

General and administrative expenses consist of the corporate expenses of

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the Company. These corporate expenses include salaries and benefits of executive, finance and administrative personnel, rent, bad debt expenses, professional services, travel (primarily related to practice development), office costs and other general corporate expenses.

For the three months ended September 30, 2001 and 2000, general and administrative expenses were \$253,000 and \$3.3 million respectively, a decrease of \$3.0 million. General and administrative expenses decreased primarily due to decreases in bad debt expenses of \$2 million; salaries and wages of \$509,000; professional services of \$372,000 and insurance of \$130,000 during the three months ended September 30, 2001 compared with three months ended September 30, 2000.

For the six months ended September 30, 2001 and 2000, general and administrative expenses were \$917,000 and \$5.1 million respectively, a decrease of \$4.2 million. General and administrative expenses decreased primarily due to decreases in bad debt expenses of \$2.2 million; salaries and wages of \$849,000; professional services of \$786,000; insurance of \$149,000 and travel of \$100,000 during the six months ended September 30, 2001 compared with six months ended September 30, 2000.

The Company recorded impairment charges of \$18 million and \$23 million for the three and six months ended September 30, 2000, respectively. There were no impairment charges during the three and six months ended September 30, 2001.

INCOME TAX EXPENSE

The Company recorded no tax expense during the three and six months ended September 30, 2001 due to the expected utilization of the Company's net operating loss carry-forwards. At September 30, 2001, the Company has a net deferred tax asset of \$9.4 million with a corresponding valuation allowance. The Company also has \$6.1 million of available deductions related to the increase in tax basis of the assets acquired in the dental practice affiliations.

For the three and six months ended September 30, 2000, the Company recorded no tax benefit because it concluded it was not likely it would be able to recognize the related tax asset due to the lack of operating history and implementation of its learning business plan, modification of its management service agreements and maturity of its line of credit.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001 the Company had a working capital deficit of \$8.8 million. Current assets included \$1.1 million in cash and \$772,000 in accounts and notes receivable. Current liabilities consisted of \$9.3 million of current maturities of long-term debt and capital leases, \$778,000 of deferred revenue and \$575,000 in accounts payable and accrued liabilities.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company issued 393,182 warrants to acquire shares of the Company's common stock at \$0.42 per share. The warrants were valued at \$32,000. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid \$61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of \$25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to

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July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002,

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however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

Cash generated from investing activities for the six months ended September 30, 2001 and 2000 resulted from the collection of notes receivable of \$448,000 and \$164,000, respectively. The Company also received \$86,000 from the disposition of property and equipment for the six months ended September 30, 2001. Cash used in investing activities was \$8,000 and \$59,000 for the purchases of capital equipment for the three months ended June 30, 2001 and 2000, respectively. Uses of cash also include the issuance of notes receivable to affiliated practices of \$24,000 in the six months ended September 30, 2000.

Cash used in financing activities for the six months ended September 30, 2001 and 2000 included payments on the Company's long-term debt and capital leases of \$791,000 and \$585,000, respectively.

NEW PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The company does not anticipate any financial statement impact with the adoption of this statement.

In June 2001, the Financial Accounting Standard Board issued SFAS 141, "Business Combinations" which requires that all business combinations be accounted for using the purchase method. In addition, this Statement requires that intangible assets be recognized as assets apart from goodwill if certain criteria are met. As the provisions of this Statement apply to all business combinations initiated after June 30, 2001, Management will consider the impact of this statement for future combinations.

In June 2001, the Financial Accounting Standard Board issued SFAS 142, "Goodwill and Other Intangible Assets" which established Standards for reporting acquired goodwill and other intangible assets. This Statement accounts for goodwill based on the reporting units of the combined entity into which an acquired entity is integrated. In accordance with the statement, goodwill and indefinite lived intangible assets will not be amortized but will be tested for impairment at least annually at the reporting unit level and the amortization period of intangible assets with finite lives will not be limited to forty years. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001 with early application permitted for entities with fiscal years beginning after March 15, 2001. The Company has \$183,000 of goodwill included in its balance sheet at September 30, 2001. Goodwill amortization for the three and six months ended September 30, 2001 was \$23,000 and \$46,000, respectively and is currently expected to approximate

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\$92,000 for the year ended March 31, 2002 before the provisions of SFAS 142 are applied. Implementation of SFAS 142 by the Company would result in elimination of amortization of goodwill from acquisition under the purchase method of accounting. The statement does not result in the elimination of amortization of the Company's service agreements because under the scope of the statement only goodwill resulting from acquisitions under the purchase method of accounting, and not other identifiable intangible assets, is subject to being no longer amortized.

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PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has pending lawsuits against five Affiliated Practices for defaulting in the payment of the required Service Fees. In each of those cases, the Company is seeking damages equal to past due and remaining service fees, consequential damages equal to the value of the intangible practice asset and attorney's fees. Two Affiliated Practices have in response filed a counter-claim alleging breach of contract, misrepresentation and securities violations. The Company believes that those counter-claims are without merit and that the Company will prevail in defense to the alleged counter-claims.

The Company is also the defendant in a lawsuit in which the plaintiff claims breach of the premises lease associated with an Affiliated Practice. The Company as a defendant tenant is seeking indemnity from the Affiliated Practice and believes that it will recover any damages suffered from the responsible Affiliated Practice.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS OF 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

None

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SIGNATURE

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

EDT LEARNING, INC.

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Dated: November 13, 2001

By: /s/ Charles Sanders

Charles Sanders
Sr. Vice President-Chief Financial
Officer

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