EDT LEARNING INC
Form 10-Q
February 14, 2002

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED DECEMBER 31, 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 [X] No [ ]

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at February 11, 2002, was 14,101,855.

FORM 10-Q REPORT INDEX

10-Q PART AND ITEM NO.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	DECEMBER 31, 2001	MA
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 517	$
Accounts receivable, net of allowance for doubtful for doubtful accounts of $662 and $1,147, respectively	654	
Prepaid and other current assets	352	
Notes receivable from Affiliated Practices--current, net	345	
Total current assets	1,868	
Property and equipment, net	2,565	
Intangible assets, net	6,020	

Notes receivable from Affiliated Practices, net	741	
Other assets	198	
Total assets	$ 11,392	$
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of long term debt	$ 9,739	$
Accounts payable and accrued liabilities	1,005	
Current portion of deferred revenue	1,333	
Accrued employment agreement	75	
Current portion of capital lease liabilities	342	
Total current liabilities	12,494	
Long term debt, less current maturities	2,409	
Capital lease liabilities	513	
Deferred revenue	270	
Commitments and contingencies (Note 6)		
SHAREHOLDERS' DEFICIT		
Common stock, $.001 par value 40,000,000 shares authorized, 13,731,485 and 11,721,664 issued	14	
Additional paid-in capital	26,919	
Accumulated deficit	(30,086)	
Less: Treasury shares at cost: 1,179,630 and 1,149,116, respectively	(1,141)	
Total shareholders' deficit	(4,294)	
Total liabilities and shareholders' deficit	$ 11,392	$

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 DECEMBER 31,		NINE MO DECE
	2001	2000	2001
Revenues			
Learning	$ 1,396	$ --	$ 1,681
Dental contracts	1,629	1,966	5,107
Total revenues	3,025	1,966	6,788
Operating expenses			
Research and development	942	--	1,423
Sales and marketing	347	--	772

General and administrative	1,006	966	1,923
Depreciation and amortization	517	513	1,591
Impairment of assets	--	--	--
Total operating expenses	2,812	1,479	5,709
Earnings (loss) from operations	213	487	1,079
Interest expense	254	328	814
Interest income	(53)	(107)	(196)
Other income	(525)	--	(701)
Income (loss) before income taxes and extraordinary item	537	266	1,162
Income taxes	--	--	--
Income (loss) before extraordinary item	537	266	1,162
Extraordinary item - gain on debt forgiveness (net of tax effect of $0)	101	--	101
Net income (loss)	$ 638	$ 266	$ 1,263
Earnings (loss) per common share - basic and diluted:			
Earnings (loss) before extraordinary item	$ 0.04	$ 0.03	$ 0.10
Extraordinary item	0.01	--	0.01
Net earnings (loss)	$ 0.05	$ 0.03	$ 0.11
Weighted average shares outstanding:			
Basic	12,502	10,463	11,205
Diluted	13,111	10,463	11,408

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 SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK
Balances, April 1, 2001	11,722	$ 12	$ 25,809	$(31,349)	$ (1,126)
Issuance of common stock	2,009	2	1,066		
Issuance of warrants			44		
Shares repurchased					(15)
Net income				1,263	
Balances, December 31, 2001	13,731	$ 14	$ 26,919	$(30,086)	$ (1,141)

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

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

	NINE MONTHS ENDED DECEMBER 31,	
	2001	2000
Net cash (used in) provided by operating activities	$ (17)	$ 1,146
Cash flows from investing activities:		
Collection of notes receivable	576	264
Proceeds from the sale of property and equipment	86	84
Acquisitions, net of cash acquired	--	(31)
Issuance of notes receivable	--	(24)
Capital expenditures	(17)	(108)
Net cash provided by investing activities	645	185
Cash flows from financing activities:		
Repayment of long-term debt and capital lease liabilities	(1,103)	(830)
Financing costs	(59)	--
Net cash used in financing activities	(1,162)	(830)
Net change in cash and cash equivalents	(534)	501
Cash and cash equivalents, beginning of period	1,057	553
Cash and cash equivalents, end of period	$ 517	$ 1,054
Supplemental disclosures of cash flow information:		
Issuance of common stock for acquisition	$ 995	$ 291
Issuance of common stock to settle debt	$ 72	$ --
Issuance of debt for acquisition	$ 1,102	$ --
Warrants issued in connection with financing costs	$ 44	$ --
Convertible subordinated notes offset against receivables from Affiliated Practices	$ --	$ 540
Conversion of receivables from Affiliated Practices to notes receivables	$ 192	$ 1,927
Treasury stock acquired for payment of receivable from Affiliated Practices and purchase of property and equipment	$ --	$ 975
Notes payable offset against future membership fees	$ --	$ 1,347

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

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 management, the consolidated financial statements reflect all elimination entries and normal adjustments that are necessary for a fair statement of the results for the interim periods ended December 31, 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 nine months ended December 31, 2001, the Company had net income of $638,000 and $1.3 million, respectively and has an accumulated deficit of $30.1 million at December 31, 2001. In addition, the Company used cash flow in operations of $17,000 during the nine months ended December 31, 2001.

As of December 31, 2001, the Company had outstanding total debt (secured and unsecured promissory notes) of $12.1 million. Of that amount, the Company owed Bank One $8.6 million (the "Bank One Indebtedness"). Other than the Bank One Indebtedness, the balance of $3.5 million (the "Other Debt") is owed to various parties with differing maturities as follows: $407,000 are unsecured notes which arose as a part of the Company's initial public offering and are due on March 31, 2003; $201,000 are unsecured promissory notes which were issued to various former shareholders of Omega Orthodontics, Inc. as a part its acquisition by the Company; $1.5 million are unsecured promissory notes which were either issued to former shareholders of Learning-Edge, Inc. or assumed by the Company as part of its acquisition of Learning-Edge, Inc.; $1.3 million are unsecured convertible promissory notes which were issued to dentists who owned dental practices with which the Company affiliated as part of its dental practice management business and are due one half in November 2002 and one half in November 2003.

On June 29, 2001, Bank One extended the due date of the credit facility to July 2, 2002. In connection with the extension, the Company paid $61,000 to Bank One and issued Bank One 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, Bank One will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. 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. 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 pay the principal due on July 2, 2002 absent an extension of that due date. Management believes it will be able to restructure the outstanding balance of the credit facility with Bank One; however, there is no assurance that Bank

One and the Company will be able to agree on mutually acceptable terms and conditions.

In October 2001, the Company issued $1.1 million of subordinated debt to the shareholders of Learning-Edge, Inc. under the terms of the acquisition agreement (the "Learning-Edge Notes"). The Learning-Edge Notes bear interest rates ranging from at 7.5% to 9.0% and are due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital equal to or in excess of $3 million, the payment schedule accelerates as follows:

CAPITAL RAISED	PRINCIPAL TO BE REPAID
$3.0 million	25%
$3.0 to $3.5 million	40%
$3.5 million to $4.0 million	55%
$4.0 to $4.5 million	70%
$4.5 million to $5.0 million	85%
Greater than $5.0 million	100%

In order to increase its liquidity and reorganize its current debt structure, the Company has developed a plan consisting of the following strategies; (i) seek alternative financing arrangements which could include various forms of debt issued to certain financial institutions or investors (ii) implement its e-Learning based strategic business plan, and (iii) possibly accelerate cash collections from affiliated dental practices by offering a repurchase of the dental practices earlier than contractually required. In its attempt to raise additional capital, the Company may issue convertible debt or other equity instruments, which would have a dilutive effect on existing shareholders. In addition, the Company's service agreements with affiliated dental practices begin to expire on March 31, 2003 and will continue to expire through December 31, 2003, which may reduce revenues and cash flow and accordingly could negatively affect the value of an investment in the Company. Acceleration of cash collections related to these service agreements would accelerate the date at which the Company would be required to sustain its operations solely on cash collections derived from e-learning revenues. However, there can be no assurance that the Company's e-Learning strategies will be achieved or that the affiliated dental practices will agree upon terms acceptable to the Company.

There can be no assurance that these efforts to improve operating results and cash flows will be sufficient to allow the Company to meet its obligations in a timely manner, that the Company will be successful in obtaining alternative financing or that the Company's creditors will agree with its plan. If the plan is not successful, management believes it will be able to restructure the outstanding balance of the credit facility with Bank One; however, there is no assurance that Bank One and the Company will be able to agree on mutually acceptable terms and conditions. Therefore, there is substantial doubt about the Company's ability to continue as a going concern past the due date of the credit facility. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer contracts, bad debts, intangible assets, income taxes, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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. Outstanding options and warrants to purchase approximately 1,767,080 and 1,616,167 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 nine month periods ended December 31, 2001 and 2000, respectively, because their effect would have been antidilutive.

NEW PRONOUNCEMENTS

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. Management will apply this Statement on all business combinations initiated after June 30, 2001.

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 $4.3 million of goodwill included in its balance sheet at December 31, 2001.

Goodwill amortization for the three and nine months ended December 31, 2001 was $23,000 and $69,000, 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 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.

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.

3. SEGMENT INFORMATION

During the three and nine month periods ended December 31, 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 DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2001	2000	2001	2000
Revenues				
Learning	$ 1,396	$ --	$ 1,682	$ --
Dental practice management	1,629	1,966	5,106	6,395
Total revenues	3,025	1,966	6,788	6,395
Operating expenses				
Learning	1,289	--	2,197	--
Dental practice management	1,523	1,479	3,513	30,851
Total operating expenses	2,812	1,479	5,710	30,851
Earnings (loss) from operations				
Learning	107	--	(515)	--
Dental practice management	106	487	1,593	(24,456
Total earnings (loss) from operations	$ 213	$ 487	$ 1,078	$(24,456

4. EXTRAORDINARY ITEM

In December 2001, a settlement agreement was reached regarding the amount to be paid to the former Chief Dental Officer of the Company under the terms of his amended employment agreement. The remaining balance due was $248,000 and was payable on July 31, 2001. Under the terms of the settlement, the Company agreed to pay this individual $75,000 and issue 53,571 shares valued at $72,000. The remaining balance of $101,000 was forgiven by the individual and has been reflected as extraordinary income.

5. COMMON STOCK

In December 2001, the Company issued its chief executive officer 450,000 restricted shares of the Company's common stock. The shares 100% vest after 10 years from the date of grant. The shares were valued at $405,000 based on the closing price of the stock on the date of grant. The vesting accelerates based on the Company's share price as follows:

PERFORMANCE CRITERIA SHARES	VESTED
Share price trades for $4.50 per share for 20 consecutive days	150,000 shares
Share price trades for $8.50 share for 20 consecutive days	150,000 shares
Share price trades for $12.50 per share for 20 consecutive days	150,000 shares

6. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

The Company has pending lawsuits against nine 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.

7. 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 $1.1 million of debt under the terms of the acquisition agreement. The debt bears interest at rates ranging from 7.5% to 9.0% and is due in two equal installments on October 1, 2003 and on October

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1, 2004, respectively. If the Company raises additional capital in excess of $3 million, the payment schedule accelerates (See Note 1). The Company also assumed approximately $1.3 million of Learning-Edge debt as part of this acquisition. The operating results of Learning-Edge are included with the Company's as of October 1, 2001.

The purchase price has been calculated as follows:

	(IN THOUSANDS)
Issuance of EDT Learning common stock valued at $0.51	

per share	$ 995
Issuance of EDT Learning debt	1,102
Estimated acquisition costs	200
Net purchase price, including acquisition costs	$ 2,297
Assumed liabilities	3,221
Total purchase price	$ 5,518

The total purchase price has been allocated to assets acquired and liabilities assumed based upon their estimated fair values in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". The excess purchase price over the estimated fair value of the tangible assets acquired and liabilities assumed has been assigned to goodwill while EDT Learning completes its assessments of Learning-Edge's operations in order to determine whether or not separately identifiable intangible assets exist. At this time, no separately identifiable intangible assets have been noted. EDT Learning expects to complete the assessment during March 2002.

The purchase price has been allocated as follows:

	PURCHASE PRICE ALLOCATION (IN THOUSANDS)
Current assets	$ 782
Property and equipment	274
Other long-term assets	4,161
Current liabilities	(2,802)
Long-term obligations, excluding current maturities	(1,420)
Common stock, net of treasury shares	(2)
Capital in excess of par value	(993)
Accumulated deficit	--
	$ --

The following unaudited pro forma summary of financial information presents the Company's combined results of operations as if the acquisition of Learning-Edge had occurred at the beginning of the periods presented, after including the impact of certain adjustments including: (i) the application of a normal profit margin to contract in process at the date of acquisition and (ii) increase in amortization of goodwill and decrease in depreciation of property and equipment.

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	NINE MONTHS ENDED DECEMBER 31,	
	2001	2000
	PROFORMA	PROFORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues	$ 7,318	$ 7,327
Loss from operations	(127)	(24,803)
Net loss before extraordinary items	(98)	(25,563)
Loss per basic and diluted share	$ (0.01)	$ (2.10)

Weighted average shares outstanding:		
Basic	13,155	12,152
Diluted	13,358	12,152

The pro forma financial information presented does not purport to indicate what the combined results of operations would have been had the merger occurred at the beginning of the periods presented or the results of operations that may be obtained in the future. Additionally, the pro forma financial information presented does not reflect the anticipated cost savings resulting from the integration of the Company's and Learning-Edge's operations.

8. SUBSEQUENT EVENT

In January 2002, the Company acquired all of the outstanding capital stock of ThoughtWare Technologies, Inc. a Tennessee based private company. The Company issued 1,550,000 common shares under the terms of the acquisition agreement. The Company also assumed approximately $1 million of ThoughtWare debt as part of this acquisition. The transaction will be recorded as of January 1, 2002.

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 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. 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 to the Company under the modified Service Agreements are guaranteed by the owner-dentists.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon it's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to customer contracts, bad debts, intangible assets, income taxes, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company recognizes revenue and profit as work progresses on learning contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Customers sometimes request modifications to projects in progress which may result in significant revisions to cost estimates and profit recognition, and the Company may not be successful in negotiating additional payments related to the changes in scope of requested services. If significant vendor obligations or customer acceptance clauses exist, revenues are deferred until such obligations have been met or customer acceptance has occurred. Provisions for any estimated losses on uncompleted contracts are made in the period in which such losses become evident. There were no such losses at December 31, 2001.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company has made acquisitions of companies having operations or technology in areas within its strategic focus and has recorded goodwill associated with the acquisitions. Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge in the future. As of December 31, 2001, no such impairment has been identified by the Company.

The Company has recorded a full valuation allowance to reduce its net deferred tax assets because it has concluded that it is not likely it will be recognized 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. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

REVENUES

Total revenues generated for the three months ended December 31, 2001 and 2000 were $3.0 million and $2.0 million respectively, an increase of $1.0 million. The Company recognized $1.4 million in learning revenues in the three months ended December 31, 2001. There were no learning revenues in the three months ended December 31, 2000. Revenue from dental contacts decreased by $337,000 during the three months ended December 31, 2001 as compared to the three months ended December 31, 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 15 to 24 months.

Total revenues generated for the nine months ended December 31, 2001 and 2000 were $6.8 million and $6.4 million respectively, a decrease of $400,000. The Company recognized $1.7 million in learning revenues in the nine months ended December 31, 2001. There were no learning revenues in the nine months ended December 31, 2000. Revenue from dental contacts decreased by $1.3 million during the nine months ended December 31, 2001 as compared to the nine months ended December 31, 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 15 to 24 months.

OPERATING EXPENSES

The Company incurred operating expenses of $2.8 million and $1.5 million for the three months ended December 31, 2001 and 2000, respectively. The Company incurred operating expenses of $5.7 million and $30.9 million for the nine months ended December 31, 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 incurred in connection with the provision of content creation services and other professional services, development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses were $942,000 and $1.4 million for the three and nine months ended December 31, 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 nine months ended December 31, 2000.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were $347,000 and $772,000 for the three and nine months ended December 31, 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 nine months ended December 31, 2000.

General and administrative expenses consist of the corporate expenses of 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 December 31, 2001 and 2000, general and administrative expenses were $1.0 million and $966,000 respectively, an decrease of $40,000. General and administrative expenses increased primarily due to increases in bad debt expenses of $165,000 and professional services of $56,000. These increases were partially offset by decreases in salaries and wages of $80,000; travel of $46,000; insurance of $27,000 and telephone of $18,000 during the three months ended December 31, 2001 compared with three months ended December 31, 2000.

For the nine months ended December 31, 2001 and 2000, general and administrative expenses were $1.9 million and $6.1 million respectively, a decrease of $4.2 million. General and administrative expenses decreased primarily due to decreases in bad debt expenses of $2.1 million; salaries and wages of $929,000; professional services of $730,000; insurance of $176,000 and travel of $146,000 during the nine months ended December 31, 2001 compared with nine months ended December 31, 2000.

The Company recorded impairment charges of $23 million for the nine months ended December 31, 2000, respectively. There were no impairment charges during the three or nine months ended December 31, 2001.

INCOME TAXES

For the three and nine months ended December 31, 2001, the Company recorded no tax benefit because it concluded it was not likely it would be able to recognize it's net deferred 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. At December 31, 2001, the Company has a net deferred tax asset of $9.2 million with a corresponding valuation allowance

LIQUIDITY AND CAPITAL RESOURCES

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 nine months ended December 31, 2001, the Company had net income of $638,000 and $1.3 million, respectively and has an accumulated deficit of $30.1 million at December 31, 2001. In addition, the Company used cash flow in operations of $17,000 during the nine months ended December 31, 2001.

As of December 31, 2001, the Company had outstanding total debt (secured and unsecured promissory notes) of $12.1 million. Of that amount, the Company owed Bank One $8.6 million (the "Bank One Indebtedness"). Other than the Bank One Indebtedness, the balance of $3.5 million (the "Other Debt") is owed to various parties with differing maturities as follows: $407,000 are unsecured notes which arose as a part of the Company's initial public offering and are due on March 31, 2003; $201,000 are unsecured promissory notes which were issued to various former shareholders of Omega Orthodontics, Inc. as a part its acquisition by the Company; $1.5 million are unsecured promissory notes which were either issued to former shareholders of Learning-Edge, Inc. or assumed by the Company as part of its acquisition of Learning-Edge, Inc.; $1.3 million are unsecured convertible promissory notes which were issued to dentists who owned dental practices with which the Company affiliated as part of its dental practice management business and are due one half in November 2002 and one half in November 2003.

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at December 31, 2001 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN ONE TO THREE YEARS	DUE IN FOUR TO FIVE YEARS
Long term debt	$12,148	$ 9,739	$ 2,409	$ --
Capital lease obligations	855	342	492	21
Operating lease obligations	736	405	331	--
Total commitments	$13,739	$10,486	$ 3,232	$ 21

On June 29, 2001, Bank One extended the due date of the credit facility to July 2, 2002. In connection with the extension, the Company paid $61,000 to Bank One and issued Bank One 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, Bank One will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. 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. 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 pay the principal due on July 2, 2002 absent an extension of that due date. Management believes it will be able to restructure the outstanding balance of the credit facility with Bank One; however, there is no assurance that Bank One and the Company will be able to agree on mutually acceptable terms and conditions.

In October 2001, the Company issued $1.1 million of subordinated debt to the shareholders of Learning-Edge, Inc. under the terms of the acquisition agreement (the "Learning-Edge Notes"). The Learning-Edge Notes bear interest rates ranging from at 7.5% to 9.0% and are due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital equal to or in excess of $3 million, the payment schedule accelerates as follows:

CAPITAL RAISED	PRINCIPAL TO BE REPAID
$3.0 million	25%
$3.0 to $3.5 million	40%
$3.5 million to $4.0 million	55%
$4.0 to $4.5 million	70%
$4.5 million to $5.0 million	85%
Greater than $5.0 million	100%

In order to increase its liquidity and reorganize its current debt structure, the Company has developed a plan consisting of the following strategies; (i) seek alternative financing arrangements which could include various forms of debt issued to certain financial institutions or investors (ii) implement its e-Learning based strategic business plan, and (iii) possibly accelerate cash collections from affiliated dental practices by offering a repurchase of the dental practices earlier than contractually required. In its attempt to raise additional capital, the Company may issue convertible debt or other equity instruments, which would have a dilutive effect on existing shareholders. In addition, the Company's service agreements with affiliated dental practices begin to expire on March 31, 2003 and will continue to expire through December 31, 2003, which may reduce revenues and cash flow and accordingly could negatively affect the value of an investment in the Company. Acceleration of cash collections related to these service agreements would accelerate the date at which the Company would be required to sustain its operations solely on cash collections derived from e-learning revenues. However, there can be no assurance that the Company's e-Learning strategies will be achieved or that the affiliated dental practices will agree upon terms acceptable to the Company.

There can be no assurance that these efforts to improve operating results and cash flows will be sufficient to allow the Company to meet its obligations in a timely manner, that the Company will be successful in obtaining alternative financing or that the Company's creditors will agree with its plan. If the plan is not successful, management believes it will be able to restructure the outstanding balance of the credit facility with Bank One; however, there is no assurance that Bank One and the Company will be able to agree on mutually acceptable terms and conditions. Therefore, there is substantial doubt about the Company's ability to continue as a going concern past the due date of the credit facility. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Cash generated from investing activities for the nine months ended December 31, 2001 and 2000 resulted from the collection of notes receivable of $576,000 and $264,000, respectively. The Company also received $86,000 and $84,000 from the disposition of property and equipment for the nine months ended December 31, 2001 and 2000, respectively. Cash used in investing activities was $17,000 and $108,000 for the purchases of capital equipment for the nine months ended December 31, 2001 and 2000, respectively. Uses of cash also include the issuance of notes receivable to affiliated practices of $24,000 in the nine months ended December 31, 2000.

Cash used in financing activities for the nine months ended December 31, 2001 and 2000 included payments on the Company's long-term debt and capital leases of $1.1 million and $830,000, respectively.

NEW PRONOUNCEMENTS

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. Management will apply this Statement on all business combinations initiated after June 30, 2001.

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 $4.3 million of goodwill included in its balance sheet at December 31, 2001.

Goodwill amortization for the three and nine months ended December 31, 2001 was $23,000 and $69,000, 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 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.

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.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has pending lawsuits against nine 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.

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

1) Current Report on Form 8-K dated October 1, 2001 was filed October 16, 2001 (Item 2. Acquisition or Disposition of Assets).

2) Current Report on Form 8-K/A dated October 1, 2001 was filed December 17, 2001 (Item 7. Financial statements and exhibits) which contained the audited financial statements of Learning-Edge, Inc. for the year ended December 31, 2000 and the unaudited financial statements of Learning-Edge, Inc. for the nine months ended September 30, 2001.

3) Current Report on Form 8-K dated January 30, 2002 (Item 2. Acquisition or Disposition of Assets).

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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.

Dated: February 14, 2002

By: /s/ Charles Sanders

Charles Sanders
Sr. Vice President-Chief
Financial Officer