EDT LEARNING INC
Form 10-Q
August 14, 2003

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 JUNE 30, 2003 OR

( ) TRANSITION 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 ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at August 8, 2003 was 15,797,791, net of shares held in treasury.

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A copy of the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available for free on the Company's website, www.edtlearning.com, as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission.

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2003 (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 124
Accounts receivable, net of allowance for doubtful accounts of $424 and $425, respectively	861
Notes receivable, net of allowance for doubtful accounts of $489 and $553, respectively	223
Prepaid and other current assets	101
Total current assets	1,309
Property and equipment, net	429
Goodwill	8,844
Intangible assets, net	1,265
Notes receivable, net of allowance for doubtful accounts of $663 and $607, Respectively	289
Other assets	54
Total assets	$ 12,190
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current portion of long term debt	$ 596
Accounts payable and accrued liabilities	2,005
Current portion of capital lease liabilities	502
Current portion of deferred revenue	752
Total current liabilities	3,855
Long term debt, less current maturities, net of discount of $1,981 and $2,038, Respectively	5,979
Capital lease liabilities, less current maturities	126
Total liabilities	9,960
Commitments and contingencies	
SHAREHOLDERS' EQUITY:	
Common stock, $.001 par value 40,000,000 shares authorized, 17,042,504 and 17,018,184 issued, respectively	17
Additional paid-in capital	32,890

Accumulated deficit	(29,426)
Less: 1,244,713 treasury share at cost	(1,251)
Total shareholders' equity	2,230
Total liabilities and shareholders' equity	$ 12,190

(A) Derived from the audited consolidated financial statements as of March 31, 2003

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED CONSOLIDATED FINANCIAL STAT

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

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Revenues		
Licenses	$ 600	$ 12
Service and maintenance	742	1,119
Total e-Learning revenue	1,342	1,131
Dental contract revenue	83	1,171
Total revenues	1,425	2,302
Operating expenses		
Research and development	565	907
Sales and marketing	312	360
General and administrative	588	713
Depreciation and amortization	107	479
Total operating expenses	1,572	2,459
Loss from operations	(147)	(157)
Interest expense	(351)	(415)
Interest income and other	6	36
Gain on termination of service agreements with Affiliated Practices	14	181
Gain on settlement of debt and other obligations	352	--
Loss before income taxes	(126)	(355)
Income taxes	--	--

Net loss	$ (126)	$ (355)
Net loss per share - basic and diluted	$ (0.01)	$ (0.02)
Number of shares used in calculation of loss per share, basic and diluted	15,798	14,429

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	COMMON STOCK		ADDITIONAL		TREA
	SHARES	AMOUNT	PAID -IN CAPITAL	ACCUMULATED DEFICIT	ST
Balances, April 1, 2003	17,018	$ 17	$ 32,854	$(29,300)	$ (1
Issuances of common stock	24	--	14	--	
Repricing of warrants	--	--	12	--	
Vesting of restricted stock grant	--	--	10	--	
Net loss	--	--	--	(126)	
Balances, June 30, 2003	17,042	$ 17	$ 32,890	$(29,426)	$ (1

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED CONSOLIDATED FINANCIAL S

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

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Net cash used in operating activities	$ (332)	$ (832)

Cash flows from investing activities:		
Repayment of notes receivable	78	337
Proceeds from practice terminations	61	382
Acquisition, royalty earnout	(21)	--
Capital expenditures	--	(72)
Net cash provided by investing activities ...	118	647
Cash flows from financing activities:		
Repayment of long-term debt	(44)	(97)
Repayment of capital lease liabilities	(27)	(155)
Proceeds from stock option exercise	--	17
Net cash used in financing activities	(71)	(235)
Net change in cash and cash equivalents	(285)	(420)
Cash and cash equivalents, beginning of period ...	409	1,498
Cash and cash equivalents, end of period	$ 124	$ 1,078
Non cash investing and financing activities:		
Issuance of common stock for acquisitions	$ --	$ 2,307

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND NATURE OF OPERATIONS

Headquartered in Phoenix, Arizona, EDT Learning, Inc. ("EDT Learning" or the "Company") is a leading provider of e-Learning and Web collaboration software and services. The Company's software has become well recognized for providing industry-leading software with the most robust set of features and functionality. With over 15 years of combined e-Learning expertise, EDT Learning provides proven solutions to corporate, government, and education clients alike. As a comprehensive provider of e-Learning software and services, EDT Learning's products and services are offered either as an integrated suite or sold separately.

The Company began in March of 1998 as a dental practice management company under the name Pentegra Dental Group, Inc. Its formation included the simultaneous rollup of dental practices ("Affiliated Practices") and an initial public offering raising $25 million in initial capital. The Company's initial goals were to provide training and practice enhancement services to its affiliated dental practices spread over 31 states. The Company subsequently shifted its focus away from the dental practice management industry and toward the e-Learning sector in the summer of 2001, and changed its name to EDT Learning, Inc. The Company has elected not to enter into new dental practice management contacts, and intends to not renew existing dental practice

management contracts as they expire.

The unaudited condensed 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 unaudited condensed consolidated financial statements reflect all elimination entries and normal recurring adjustments that are necessary for a fair statement of the results for the interim periods ended June 30, 2003 and 2002.

Fiscal operating results for interim periods are not necessarily indicative of the results for full years. It is suggested that these unaudited condensed 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 as of and for the year ended March 31, 2003, as filed with the SEC.

The accompanying consolidated financial statements have been prepared on a basis which assumes that the Company will continue as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company changed its business model from a dental practice management company to an e-Learning company in the summer of 2001. The Company is currently implementing its e-Learning strategy and has a limited operating history in the e-Learning business.

The Company had a working capital deficiency, and incurred an operating loss and had negative cash flows from operations during the three months ended June 30, 2003 and during fiscal 2003. As part of the Company's legacy business, services were provided to affiliated dental practices in accordance with modified service agreements. Those services generally were access to online enhancement, online payroll processing and online consulting and seminars. As anticipated and previously announced, nearly all of those legacy service agreements terminated during fiscal 2003 which will reduce revenues and cash flow from this source and accordingly will negatively affect the Company's liquidity and operating results. These matters, among others, including those discussed above and the limited operating history as an e-Learning company, raise substantial doubt about the Company's ability to continue as a going concern.

Management's plan with regard to these matters include continued development, marketing and licensing of its e-Learning products and services through both internal growth and acquisition. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient revenues from its products and services to provide adequate cash flows to sustain operations. Continuation of the Company is dependent on

the Company's ability to raise additional equity or debt capital, to increase its e-Learning revenues, to generate positive cash flows from operations and to achieve profitability. The consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might result from the outcome of this uncertainty.

2. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The Company has not materially added to or changed its significant accounting policies since March 31, 2003. For a description of these policies, refer to Note 3 of the consolidated financial statements in the Company's annual report on Form 10-K as of and for the year ended March 31, 2003.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent asset and liabilities. The more significant areas requiring use of estimates relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of income tax assets and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates 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 materially differ from these estimates under different assumption or conditions.

STOCK-BASED COMPENSATION

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation," for disclosure purposes. Under SFAS No. 123, the Company measures compensation expense for its stock-based employee compensation plan using the intrinsic value method prescribed in Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. The Company provides pro forma disclosure of the effect on net income or loss as if the fair value based method prescribed in SFAS No. 123 has been applied in measuring compensation expense.

The fair value for options granted was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for the three months ended June 30, 2003. There were no options granted during the three months ended June 30, 2002.

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Risk free interest rate	3.88%	--
Dividend yield	0%	--
Volatility factors of the expected market price of the Company's common stock	70%	--
Weighted-average expected life of options	5-9 years	--

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS):

	THREE MONTHS ENDED JUNE 30	
	2003	2002
Net Loss, as reported	$ (126)	$ (355
Plus: Stock based employee compensation expense included in reported net income (loss)	--	--
Less: Total stock based employee compensation expense determined using fair value based method	(57)	(164
Pro forma net income (loss)	$ (183)	$ (519
Loss per share:		
Basic and diluted - as reported	$ (0.01)	$ (0.02
Basic and diluted - pro forma	$ (0.01)	$ (0.04

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, SFAS No. 149, "AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" was issued. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003. Adoption of this statement is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

In May 2003, SFAS No. 150, "ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY" was issued. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 is not expected to have a significant effect on the Company's consolidated financial position, results of operations, or cash flows.

In July 2003, the EITF reached a consensus on EITF 03-5, "Applicability of AICPA SOP 97-2 to Non-Software Deliverables." EITF 03-5 provides accounting guidance on whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software are within the scope of SOP 97-2. In general, any non-software deliverables are within the scope of SOP 97-2 if the software deliverable is essential to its functionality. Companies are required to adopt this consensus in the first reporting period (annual or interim) beginning after ratification by the FASB, which is expected to be August 13, 2003. The Company believes the adoption of EITF 03-5 will not have a material impact on the Company's financial position or results of operations.

3. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the reporting period. Diluted earnings per share are computed similar to basic earnings per share while giving effect to all potential dilutive common stock equivalents that were outstanding during the period. For the three months

ended June 30, 2003 and 2003, options and warrants to purchase 8,435,977 and 8,347,315 shares of common stock were excluded from the computation of diluted earnings per share because of their anti-dilutive effect. Furthermore, a restricted stock grant of 450,000 shares and 500,000 shares contingently issuable in the Quisic acquisition has been excluded from the earnings per share calculations.

4. SEGMENT INFORMATION

During the three months ended June 30, 2003 and 2002, the Company had two reportable segments, learning and dental practice management. The e-Learning segment included revenues and operating expenses related to the development and sale of the Company's e-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. Summary financial information of the segments is as follows:

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Revenues:		
Licenses	$ 600	$ 12
Service and maintenance	742	1,119
Total e-Learning revenues	1,342	1,131
Dental practice management	83	1,171
Total revenues	$ 1,425	$ 2,302
Operating expenses:		
e-Learning	$ 1,522	$ 1,222
Dental practice management	50	1,237
Total operating expenses	$ 1,572	$ 2,459
Loss from operations:		
e-Learning	$ (180)	$ (91)
Dental practice management	33	(66)
Total loss from operations	$ (147)	$ (157)
Capital expenditures:		
e-Learning	$ --	$ 72
Dental practice management	--	--
Total capital expenditures	$ --	$ 72

	JUNE 30, 2003	MARCH 31, 2003
Total assets:		

e-Learning	$ 10,965	$ 11,081
Dental practice management	1,225	1,342
Total assets	$ 12,190	$ 12,423

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill consisted of the following:

	JUNE 30, 2003	MARCH 31, 2003
	(IN THOUSANDS)	
Goodwill.........................	$ 8,844	$ 8,823

The changes in the carrying amount of the goodwill for the three months ended June 30, 2003:

	LEARNING SEGMENT
Balance, March 31, 2003.....................................	$ 8,823
LearnLinc royalty earnout.................................	21
Balance, June 30, 2003......................................	$ 8,844

Intangible assets consisted of the following (in thousands):

	JUNE 30, 2003		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
AMORTIZED INTANGIBLE ASSETS:			
Deferred offering costs .	$ 1,020	$ (270)	$ 750
Purchase software	675	(174)	501
Customer relationship ...	32	(18)	14
	$ 1,727	$ (462)	$ 1,265

	MARCH 31, 2003		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
AMORTIZED INTANGIBLE ASSETS:			
Deferred offering costs .	$ 1,020	$ (249)	$ 771
Purchase software	675	(118)	557
Customer relationship ...	32	(14)	18

$ 1,727	$ (381)	$ 1,346

6. ACCOUNT PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	JUNE 30, 2003	MARCH 31, 2003
	(IN THOUSANDS)	
Accounts payable trade	$ 832	$ 681
Accrued state sales tax	32	384
Accrued interest	320	310
Amount payable to Quisic shareholders	200	150
Amounts related to acquisitions	71	73
Accrued salaries and related benefits	137	160
Amount payable to third party providers	120	37
Deferred rent liability	116	89
Lease termination liability	103	101
Other	74	55
Total accounts payable and accrued liabilities	$ 2,005	$ 2,040

7. LONG-TERM DEBT

Long-term debt consisted of the following:

	JUNE 30, 2003	MARCH 31, 2003
	(IN THOUSANDS)	
Convertible redeemable subordinated notes	$ 5,775	$ 5,775
Convertible subordinated notes, Series A	849	849
Subordinated promissory notes	1,072	1,072
Shareholders' notes payable	391	430
Notes payable	469	503
	8,556	8,629
Less: current portion of long-term debt .	(596)	(728)
discount	(991)	(1,019)
beneficial conversion feature	(990)	(1,019)
Long-term debt	$ 5,979	$ 5,863

In March 2002, the Company completed a Private Placement Offering (the "Offering") raising capital of $5,775,000. Under the terms of the Offering, the Company issued convertible redeemable subordinated notes ("the notes") and warrants to purchase 5,775,000 shares of the Company's common stock. The notes bear interest at 12% per annum and require quarterly interest payments with the

principal due at maturity on March 29, 2012. The note holders may convert the notes into shares of the Company's common stock at a price equal to $1.00 per share. The Company may force redemption of the notes into shares of the Company's common stock at the conversion price, if at any time the closing price of the Company's common stock equals or exceeds $3.00 per share for 20 consecutive trading days. The notes are subordinated to any present or future senior indebtedness, with no waiver required.

The exercise price for the warrants is $3.00 per share. The Company may force redemption of the warrants into shares of the Company's common stock at the exercise price, if at any time the closing price of the Company's common stock equals or exceeds $5.50 per share for 20 consecutive trading days. The warrants expire on March 29, 2005. The fair value of the warrants was estimated using a Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. The fair value was then used to calculate a discount of $1,132,000, which is being amortized to interest expense over ten years, the term of the notes. As the carrying value of the notes is less than the conversion value, a beneficial conversion feature of $1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized to interest expense over the term of the notes. Upon conversion, any remaining discount associated with the beneficial conversion feature will be expensed in full at the time of conversion.

In October 2001, the Company issued $1.1 million of subordinated promissory notes to the shareholders of Learning-Edge, Inc. under the terms of the acquisition agreement (the "Learning-Edge Notes"). The Learning-Edge Notes bear interest at rates ranging from at 7.5% to 9.0% and are due in two equal installments on April 5, 2005 and on October 1, 2005, respectively. If the Company raises additional capital equal to or in excess of $3 million, 25% of the principal of the Learning-Edge Notes is to be repaid. For each $500,000 raised above $3 million, the repayment percentage increases by 15%. If more than $5 million is raised, 100% of the principal of the Learning-Edge Notes is to be repaid. The holders of the Learning-Edge Notes waived the accelerated payment schedule in relation to the Offering.

The Convertible Subordinated Notes Series A Securities ("Series A Securities") were issued in connection with the acquisition of certain Affiliated Practices. The Series A Securities bear interest at 12% and can be converted to Common Stock of the Company at conversion prices ranging from $6.75 to $7.00 per share. The conversion period began on November 1, 1999 and ends on July 1, 2004. The principal amount of the Series A Securities, if not converted, is payable on July 1, 2004.

In connection with the IPO, the Company issued $468,000 of notes payable to certain shareholders formerly owning preferred stock. The notes bear 6% interest and were originally payable on the earlier of March 30, 2003 or the date upon which the Company offers and sells an amount of equity securities equal or greater to the gross proceeds of the IPO. During the three months ended June 30, 2003 and the year ended March 31, 2003, $4,000 and $58,000 of accrued

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interest on certain of these notes was added to the principal balance and the maturity date was extended to April 1, 2005. The new principal balance on the extended notes is $267,000 and the interest rate was increased to 10%. The remaining $124,000 is currently past due.

In connection with the acquisition of certain assets of LearnLinc Corporation, the Company issued a $250,000 note payable. The note bears interest at 6% with quarterly interest payments and is due on December 13, 2003.

The aggregate maturities of long-term debt excluding capital leases for each of the next five years subsequent to June 30, 2003 were as follows (in thousands):

Amounts past due	$ 124
2004	472
2005	1,653
2006	532
2007	--
2008	--
Thereafter	5,775
	$ 8,556

8. STOCK OPTION PLANS AND WARRANTS

The Company grants stock options under its 1997 Stock Compensation Plan (the "Plan"). The Company recognizes stock-based compensation issued to employees at the intrinsic value between the exercise price of options granted and the fair value of stock for which the options may be exercised. However, pro forma disclosures as if the Company recognized stock-based compensation at the fair value of the options themselves are presented below.

Under the Plan, the Company is authorized to issue 3,500,000 shares of Common Stock pursuant to "Awards" granted to officers and key employees in the form of stock options.

There were 1,788,313 options granted under the Plan at June 30, 2003. The Compensation Committee administers the Plan. These stock options have contractual terms of 10 years and have an exercise price no less than the fair market value of the stock at grant date. The options vest at varying rates over a one to five year period.

Following is a summary of the status of the Company's stock options as of June 30, 2003:

	NUMBER OF SHARES UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICES
Outstanding at March 31, 2003	1,835,865	$ 1.82
Granted	70,000	0.50
Exercised	--	
Forfeited	(117,552)	0.59
Expired	--	
Outstanding at June 30, 2003	1,788,313	$ 1.87

The following table summarizes information about stock options outstanding at June 30, 2003:

	OPTIONS OUTSTANDING			OPTIONS EXERCIS
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
	(SHARE DATA IN THOUSANDS)			
$ 0.01 - $ 0.99	1,029,581	$ 0.54	7.81	629,169
$ 1.00 - $ 1.99	107,125	1.59	7.20	96,175
$ 2.00 - $ 2.99	430,000	2.22	6.03	378,000
$ 3.00 - $ 8.50	221,607	7.31	4.85	201,929
	1,788,313			1,305,273

The following table summarizes information about stock purchase warrants outstanding at June 30, 2003:

	WARRANTS OUTSTANDING			WARRANTS EXERCI
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES
	(SHARE DATA IN THOUSANDS)			
$ 0.42 - $ 0.42	543,182	$ 0.42	8.15	543,182
$ 0.44 - $ 0.44	132,972	0.44	8.21	132,972
$ 0.50 - $ 0.50	25,000	0.50	2.51	25,000
$ 1.50 - $ 1.50	171,510	1.50	8.56	171,510
$ 3.00 - $ 3.00	5,775,000	3.00	1.75	5,775,000
	6,647,664			6,647,664

In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its chief executive officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the chief executive officer. 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, which is recorded as

compensation expense ratably over the ten-year vesting period.

The vesting of the incentive shares accelerates based on the Company's share price as follows:

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

9. COMMITMENTS AND CONTINGENCIES

The Company is subject to various commitments and contingencies as described in Note 16 to the consolidated financial statements in the Companies annual report on Form 10-K as of and for the year ended March 31, 2003. The significant items included were Lease Commitments, Employment Agreements, Litigation and Royalty Agreements. During the three month period ended June 30, 2003, the following commitments and contingencies arose or were settled:

The Company's wholly owned subsidiary, TW Acquisition Subsidiary, Inc. was a respondent in a claim asserted by the Tennessee Department of Revenue alleging a sales and use tax liability of approximately $384,000 from sales made by its predecessor, ThoughtWare Technologies, Inc. The Company was notified on July 29, 2003, that the sales tax assessment was abated. Accordingly, the Company has reversed $352,000 of the accrued liability as of June 30, 2003. As the purchase allocation period to the acquisition was closed, the $352,000 was recorded as other income rather than a reduction to goodwill.

Effective May 1, 2003, certain employees of the Company terminated their employment with the Company and created a new company, Interactive Alchemy, Inc. ("IA"). The Company entered into a non-cancelable three-year subcontractor agreement with IA whereby the Company is required to source its custom content development services through IA. The Company provides IA with certain facilities and administrative support for which in exchange it receives a specified amount of support services. Furthermore, the agreement provides for a specified fee sharing arrangement between the Company and IA for all custom content development services provided. During the three month period ended June 30, 2003, the Company incurred approximately $151,000 of fees to IA in connection with this agreement.

10. SUBSEQUENT EVENTS

The Company is in the process of raising $1 million to $1.5 million of additional capital through a private placement offering. Under the terms of the offering, the Company intends to sell 20 units at $50,000 each, or a total of $1 million in gross proceeds, with an additional 10 units available for sale at the discretion of the Company, which would increase the gross proceeds to $1.5 million in the event the additional units are issued. Each unit will consist of 50,000 shares of preferred stock and a warrant to purchase 25,000 shares of common stock. The preferred stock in each unit, which will have a par value of $0.01, will be convertible into 100,000 shares of common stock at a price of $0.50 per share (subject to adjustment in certain events). The warrants are

exercisable at a price of $1.50 per share and will expire three years after the date of issuance of the warrant. The Company will pay an 8% dividend to holders of the preferred stock, and the dividend will be cumulative. The preferred stock will be non-voting and non-participating. The placement agent is to be paid a commission totaling 10% of gross proceeds, plus a 3% non-accountable expense allowance. Through August 12, 2003, the Company has received subscriptions for approximately $1,000,000 and has extended the offering through August 31, 2003. The Company intends to file a Form 8-K in early September 2003 with the full results of the offering.

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

STATEMENTS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K THAT INVOLVE WORDS LIKE "ANTICIPATES," "EXPECTS," "INTENDS," "PLANS," "BELIEVES," "SEEKS," "ESTIMATES" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH FORWARD-LOOKING STATEMENTS INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM ANTICIPATED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, OUR DEPENDENCE ON OUR PRODUCTS OR SERVICES, MARKET DEMAND FOR OUR PRODUCTS AND SERVICES, OUR ABILITY TO ATTRACT AND RETAIN CUSTOMERS AND CHANNEL PARTNERS, OUR ABILITY TO EXPAND OUR TECHNOLOGICAL INFRASTRUCTURE TO MEET THE DEMAND FROM OUR CUSTOMERS, OUR ABILITY TO RECRUIT AND RETAIN QUALIFIED EMPLOYEES, THE ABILITY OF CHANNEL PARTNERS TO SUCCESSFULLY RESELL OUR SERVICES, THE STATUS OF THE OVERALL ECONOMY, THE STRENGTH OF COMPETITIVE OFFERINGS, THE PRICING PRESSURES CREATED BY MARKET FORCES, AND THE OTHER RISKS DISCUSSED HEREIN. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT ARE BASED ON INFORMATION AVAILABLE TO US AS OF THE DATE HEREOF. WE EXPRESSLY DISCLAIM ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, TO REFLECT ANY CHANGE IN OUR EXPECTATIONS OR IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED. OUR REPORTS ARE AVAILABLE FREE OF CHARGE AS SOON AS REASONABLY PRACTICABLE AFTER WE FILE THEM WITH THE SEC AND MAY BE OBTAINED THROUGH OUR WEBSITE.

OVERVIEW

As of June 30, 2003 we offered to our customers a wide array of e-Learning and training products and services. Our four-product suite (LearnLinc, MeetingLinc, ConferenceLinc, and SupportLinc) also lets customers collaborate and present over the Internet in one-to-one, one-to-many, and many-to-many communication formats. Our Web collaboration suite of products is sold in both an application service provider ("ASP") or hosted basis (a periodic license) and on a purchase client hosted basis (client server software sold as a non-periodic, perpetual license). While we are a comprehensive provider of e-Learning products, over the past 15 months we shifted our focus away from our lower margin custom content service business and toward our higher margin software products with particular emphasis since December of 2002 on our Web collaboration and virtual classroom suite led by LearnLinc.

In addition to our web collaboration and virtual classroom software, we also offer software that facilitates the management of users and e-Learning content through EDT's Learning Management System (LMS). Our LMS has been combined with a suite of workforce management solutions (the ThoughtWare Suite), which includes Career Planner, Job Seeker, and Performance Coach. Our LMS software is offered in an ASP format using a periodic per user per period annual license agreement.

For the development of custom online content we offer an award winning content development software, (i-Canvas) which is sold on an individual user perpetual license basis. We continue to provide to our customers award winning custom content services including the development of online course material specific to our customers. Custom content services are bid on a project-by-project basis and revenue is recognized on the percentage-of-completed contract method.

Finally, we offer a library of online courses focused upon the training of executives on essential business topics, including an online "mini-MBA" program. Customers subscribe for a period of time per course, with the license providing for access over typically one year from date the students first access of the course.

The Company began operations in March of 1998 under the name Pentegra Dental Group, Inc. Its formation included the simultaneous roll-up of 50 businesses and an initial public offering. The Company's initial goals were to provide training and practice enhancement services nationwide to our affiliated dental practices including the use of our proprietary Web-based management and financial reporting system. Beginning in April of 2000, the Company modified its affiliated service agreements and commensurate with that change the Company recorded certain charges against earnings during the fiscal year ending March 31, 2001. The Company evolved from its legacy business into its current e-Learning focus during its fiscal year 2002, and accordingly, changed its name to EDT Learning, Inc. (now trading as AMEX:EDT).

During the three months ended June 30, 2003, the Company had two reportable segments, e-Learning and dental practice management. The e-Learning segment included revenues and operating expenses related to the development and sale of the Company's e-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. Summary financial information of these segments is as follows:

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
Revenues:		
Licenses	$ 600	$ 12
Service and maintenance	742	1,119
Total e-Learning revenues	1,342	1,131
Dental practice management	83	1,171
Total revenues	$ 1,425	$ 2,302
Operating expenses:		
e-Learning	$ 1,522	$ 1,222
Dental practice management	50	1,237
Total operating expenses	$ 1,572	$ 2,459
Loss from operations:		
e-Learning	$ (180)	$ (91)

Dental practice management	33	(66)
Total loss from operations ..	$ (147)	$ (157)
Capital expenditures:		
e-Learning	$ --	$ 72
Dental practice management	--	--
Total capital expenditures ..	$ --	$ 72

	JUNE 30, 2003	MARCH 31, 2003
Total assets:		
e-Learning	$ 10,965	$ 11,081
Dental practice management	1,225	1,342
Total assets	$ 12,190	$ 12,423

RESULTS OF OPERATIONS

As of June 30, 2003, we offered to our customers a wide array of e-Learning and training products and services. Since December of 2002 we have placed special emphasis on sales and marketing efforts that have been directed at our virtual classroom Web casting and online collaboration four-product suite led by LearnLinc. We continue to offer for those seeking to manage users and e-Learning content EDT's Learning Management System, which has been combined with a suite of workforce management solutions - which includes Career Planner, Job Seeker, and Performance Coach. For the development of custom online content we offer an award winning content development software, i-Canvas and award winning custom content services, which have been providing proven results for over 15 years. Finally, we offer a library of online courses focused upon the training of executives on essential business topics.

The Company has implemented its e-Learning strategy. The Company acquired the assets of two e-Learning entities during fiscal 2003 and acquired two e-Learning entities during fiscal 2002.

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

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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 April 1, 2005 and on October 1, 2005, respectively. The Company also assumed approximately $2.9 million of Learning-Edge debt as part of this acquisition. The operating results of Learning-Edge are included with the Company as of October 1, 2001.

On January 15, 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 $1.5 million of ThoughtWare debt as part of this acquisition. Since January 2002, operating results of ThoughtWare are included with the Company's results from operations.

On June 14, 2002, the Company acquired certain assets of Quisic Corporation ("Quisic"); a California based private e-Learning company for in an asset purchase and common stock purchase transaction that involved the issuance of 2,000,000 common shares to certain shareholders of Quisic. An additional 500,000 shares of common stock of the Company were contingently issuable upon the achievement of certain cash basis sales targets, as defined, for the 12-month period following the close of the acquisition. As of June 30,2003, the cash basis sales targets were not achieved. The operating results of Quisic have been included in the consolidated operations of the Company commencing June 17, 2002.

The purchase agreement also provides for the Company to remit to the seller, during the 5 year period following the close of the acquisition, 100% of the first $1,250,000 of proceeds and 50% of the remaining proceeds from the sales of software licenses for certain specified products, as defined, and collection of notes. Since the closing date of the acquisition and through June 30, 2003, the Company has collected funds subject to this provision of the agreement totaling $200,000, all of which has been withheld and not remitted to the seller as of June 30, 2003 in accordance with the Company's understanding of the escrow and indemnity provisions of the Asset Purchase Agreement.

Effective November 4, 2002, the Company acquired certain assets of Mentergy, Inc. ("Mentergy"), a wholly owned subsidiary of Mentergy, Ltd, in exchange for $500,000 and the assumption of $462,000 of liabilities. In addition, the Company has agreed to pay a royalty of 20% for all revenues collected from the sale or license of LearnLinc software over a three-year period. The first $600,000 of sales is not subject to the royalty. The maximum amount due under the Royalty Agreement is $5,000,000. The Company intends to account for any such amounts collected as additional purchase consideration in accordance with EITF No. 95-8 at the time such amounts are remitted to the seller. As of June 30, 2003, the Company has collected $708,000 related to this royalty agreement and has recorded additional purchase consideration of $21,000. The operating results are included with the Company's as of November 4, 2002.

As a part of our legacy business we provided services to certain affiliated practices in accordance with modified service agreements. Those services generally included access to online enhancement, access to online payroll processing, access to online consulting and seminars. For the fiscal years ending March 31, 2003 and 2002, we earned dental revenues of $3.1 million and $6.6 million, respectively. As anticipated and previously announced, nearly all of those legacy service agreements terminated during fiscal 2003. In fiscal 2004, $200,000 is anticipated in dental revenues and $235,000 from the collection of notes receivable from those dental practices that had executed a legacy management services agreement ("Affiliated Practices").

The operations of the Company involve many risks, which, even through a combination of experience, knowledge and careful evaluation, may not be overcome. These risks include the fact that the market for e-learning products and services is in the early stages of development and may not grow to a sufficient size or at a sufficient rate to sustain the Company's business. The Company also faces intense competition from other e-learning providers and may be unable to compete successfully. Many of the Company's existing and potential competitors have longer operating histories and significantly greater financial, technical and other resources and therefore may be able to more quickly respond to changing opportunities or customer requirements. New competitors are also likely to enter this market in the future due to the lack of significant barrier to entry in the market share.

REVENUES

Total revenues generated for the three months ended June 30, 2003 and June 30, 2002 were $1.4 million and $2.3 million respectively, a decrease of $900,000. e-Learning revenues for the three months ended June 30, 2003 and June 30, 2002 were $1.3 million and $1.1 million, respectively, an increase of $588,000 in licenses and a decrease of $377,000 in e-Learning service and

maintenance revenues. The increase is a result of the Company's continuing expansion into the e-Learning marketplace and has been fueled by the acquisitions in fiscal 2003 of certain assets of LearnLinc and Quisic. Revenue from dental contracts decreased by $1.1 million from $1.2 million for the three months ended June 30, 2002 to $83,000 for the three months ended June 30, 2003 due to the previously announced and planned modification and termination of certain dental management service contracts. As anticipated and previously announced, nearly all of those legacy management service agreements terminated during fiscal 2003 and only $200,000 is anticipated to be earned as dental revenue for fiscal 2004.

OPERATING EXPENSES

Operating expenses consist of research and development, sales and marketing, general and administrative, and depreciation and amortization expenses. The Company incurred operating expenses of $1.6 million for the three months ended June 30, 2003, a decrease of $900,000 from $2.5 million for the three months ended June 30, 2002. This is due to decreases in salaries and wages of $480,000, advertising and printing of $55,000, office expenses of $35,000, telephone of $16,000, $121,000 of legal fees and $372,000 in depreciation and amortization expense. These were offset by increases of $103,000 in product development costs and $103,000 of bad debt expense. The Company has reduced head count from a high of 83 in June of 2002 to 38 at June 30, 2003. In addition, the Company has streamlined its operations by closing non-essential facilities and consolidating those functions in its Phoenix and Troy locations.

Research and development expenses represent expenses incurred in connection with the provision of e-learning services, development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses for the three months ended June 30, 2003 and June 30, 2002 were $565,000 and $907,000, respectively, a decrease of $342,000. The decrease is a result of the Company's closure of the Memphis and Los Angeles offices, reducing headcount by 25 since June 30, 2002 and salaries and wages by $278,000.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were $312,000 and $360,000 for the three months ended June 30, 2003 and June 30, 2002, respectively, a decrease of $48,000. The decrease is a result of a decrease in advertising and printing of $45,000 and travel expenses of $5,000.

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 expense, professional services, travel, office costs and other general corporate expenses. During the three months ended June 30, 2003 and June 30,2002, general and administrative expenses were $588,000 and $713,000, respectively, a decrease of $125,000. The change in General and administrative expenses was primarily due to increases in bad debt expense of $103,000, $25,000 in other taxes and $18,000 in occupancy costs; and decreases in legal fees of $121,000, compensation and related benefit expense of $112,000, office expenses of $14,000, investor

relations of $26,000, and travel expenses of $10,000. The Company continues efforts to reduce overhead, with those efforts including the elimination of facilities, equipment, and personnel.

For the three months ended June 30, 2003 and June 30, 2002 depreciation and amortization expense was $107,000 and $479,000, respectively. Beginning in fiscal 2003 the Company ceased amortizing goodwill in accordance with SFAS No. 142. The decrease is also attributed to the modification and termination of the service agreements that returned ownership of the dental practice equipment to the related dental practices.

INTEREST EXPENSE

Interest expense of $351,000 in for the three months ended June 30, 2003 decreased by $64,000 from $415,000 for the three months ended June 30, 2002. The decrease was primarily a result of a reduction in interest expense associated with the Company's interest bearing liabilities.

GAIN ON TERMINATION AND RESTRUCTURING OF SERVICE CONTRACTS WITH AFFILIATED PRACTICES

The gains of $14,000 and $181,000 for the three months ended June 30, 2003 and 2002 relate to a variety of transactions with Affiliated Practices, including the results of negotiated settlements, the results of litigation to enforce contracts and modified service agreements.

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GAIN ON SETTLEMENT OF DEBT AND OTHER OBLIGATIONS

During the three months ended June 30, 2003, the Company recognized a gain of $352,000 relating to a state sales tax settlement. As part of the acquisition of ThoughtWare in January of 2002, the Company assumed a sales and use tax liability of $384,000. On July 29, 2003, the Company was notified by the state taxing authorities that the amount due relating to the sales tax would be removed from the assessment resulting in a net amount due of $32,000. As the purchase allocation period to the acquisition was closed, the $352,000 was recorded as other income rather than a reduction to goodwill.

INCOME TAX EXPENSE

The Company recorded no tax benefit during the three months ended June 30, 2003 or 2002 because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its e-Learning business strategy. At March 31, 2003, the Company has a net deferred tax asset of $9.9 million with a corresponding valuation allowance. The Company's tax benefits are scheduled to expire over a period of six to fourteen years.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a working capital deficiency, incurred an operating loss and had negative cash flows from operations during the three months ended June 30, 2003. As part of the Company's legacy business, services were provided to affiliated dental practices in accordance with modified service agreements. Those services generally were access to online enhancement, online payroll processing and online consulting and seminars. As anticipated and previously announced, nearly all of those legacy service agreements terminated during

fiscal 2003 which will reduce revenues and cash flow from this source and accordingly will negatively affect the Company's liquidity and operating results. These matters, among others, including those discussed above and the limited operating history as an e-Learning company, raise substantial doubt about the Company's ability to continue as a going concern.

Management's plan with regard to these matters includes continued development, marketing and licensing of its e-Learning products and services. Although management continues to pursue these plans, there is no assurance that the Company will be successful in obtaining sufficient revenues from its products and services to provide adequate cash flows to sustain operations.

In order to increase its liquidity, the Company has developed a plan consisting of the following strategies; (i) implement its e-Learning based strategic business plan and (ii) restructure or extend outstanding obligations to reduce cash outflows for debt service and (iii) seek if necessary funding from the placement of debt or equity securities providing additional capital. However, there can be no assurance that the Company's e-Learning strategies will be achieved or that creditors of the Company will accept delayed or reduced sums or that the Company will be able to acquire additional sums.

The Company's service agreements with affiliated dental practices nearly all terminated during fiscal 2003 which will reduce revenues and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results. During the three months ended June 30, 2003 and 2002, the Company received $61,000 and $382,000 respectively, in cash from terminating the service agreements with affiliated practices. These cash collections accelerate the date at which the Company will 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. The Company currently does not have existing working capital and does not generate positive cash flows from operations. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the near term.

As of June 30, 2003, the Company had a working capital deficit of $2.5 million. Current assets included $124,000 in cash, $861,000 in accounts receivable and $223,000 in notes receivable. Current liabilities consisted of $752,000 of deferred revenue, $1.1 million of current maturities of long-term debt and capital leases and $2.0 million in accounts payable and accrued liabilities.

Cash used in operating activities was $332,000 during the three months ended June 30, 2003 and $832,000 during the three months ended June 30, 2002. Cash used in operating activities during the three months ended June 30, 2003

was primarily attributable to a net loss of $126,000, increases in accounts receivable and prepaid expenses of $186,000 and $68,000, respectively and a decrease in deferred revenue of $65,000. These items were partially offset by $107,000 of depreciation and amortization expense and discount accretion on debt of $57,000. Cash used in operating activities during the three months ended June 30, 2002 was primarily attributable to a net loss of $355,000, decreases in deferred revenue and accounts payable and accrued liabilities of $549,000 and $406,000, respectively. These items were offset by $479,000 of depreciation and amortization expense.

Cash provided by investing activities was $118,000 and $647,000 for the three months ended June 30, 2003 and June 30, 2002, respectively. Cash provided by investing activities for the three months ended June 30, 2003 was primarily

due to $78,000 from the repayment of notes receivable and proceeds received from practice terminations of $61,000. Cash provided by investing activities during the three months ended June 30, 2002 was primarily due to proceeds received from practice terminations of $382,000 and the repayment of notes receivable of $337,000.

Cash used in financing activities was $71,000 during the three months ended June 30, 2003, and $235,000 during the three months ended June 30, 2002. Cash used in financing activities during the three months ended June 30, 2003 was due to the repayment of debt and capital leases of $71,000. Cash used in financing activities during the three months ended June 30, 2002 was primarily attributable to the repayment of debt and capital leases totaling $252,000.

The Company is in the process of raising $1 million to $1.5 million of additional capital through a private placement offering. Under the terms of the offering, the Company intends to sell 20 units at $50,000 each, or a total of $1 million in gross proceeds, with an additional 10 units available for sale at the discretion of the Company, which would increase the gross proceeds to $1.5 million in the event the additional units are issued. Each unit will consist of 50,000 shares of preferred stock and a warrant to purchase 25,000 shares of common stock. The preferred stock in each unit, which will have a par value of $0.01, will be convertible into 100,000 shares of common stock at a price of $0.50 per share (subject to adjustment in certain events). The warrants are exercisable at a price of $1.50 per share and will expire three years after the date of issuance of the warrant. The Company will pay an 8% dividend to holders of the preferred stock, and the dividend will be cumulative. The preferred stock will be non-voting and non-participating. The placement agent is to be paid a commission totaling 10% of gross proceeds, plus a 3% non-accountable expense allowance. Through August 12, 2003, the Company has received subscriptions for approximately $1,000,000 and has extended the offering through August 31, 2003. The Company intends to file a Form 8-K in early September 2003 with the full results of the offering.

In March 2002, the Company completed a Private Placement Offering (the "Offering") raising capital of $5,775,000. Under the terms of the Offering, the Company issued convertible redeemable subordinated notes ("the notes") and warrants to purchase 5,775,000 shares of the Company's common stock. The notes bear interest at 12% per annum and require quarterly interest payments with the principal due at maturity on March 29, 2012. The note holders may convert the notes into shares of the Company's common stock at a price equal to $1.00 per share. The Company may force redemption of the notes into shares of the Company's common stock at the conversion price, if at any time the closing price of the Company's common stock equals or exceeds $3.00 per share for 20 consecutive trading days. The notes are subordinated to any present or future senior indebtedness, with no waiver required.

The exercise price for the warrants is $3.00 per share. The Company may force redemption of the warrants into shares of the Company's common stock at the exercise price, if at any time the closing price of the Company's common stock equals or exceeds $5.50 per share for 20 consecutive trading days. The warrants expire on March 29, 2005. The fair value of the warrants was estimated using a Black-Scholes pricing model with the following assumptions: contractual and expected life of three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. The fair value was then used to calculate a discount of $1,132,000, which is being amortized to interest expense over ten years, the term of the notes. As the carrying value of the notes is less than the conversion value, a beneficial conversion feature of $1,132,000 was calculated and recorded as an additional discount to the notes and is being amortized to interest expense over the term of the notes. Upon conversion, any remaining discount associated with the beneficial conversion feature will be expensed in full at the time of conversion.

In October 2001, the Company issued $1.1 million of subordinated promissory notes to the shareholders of Learning-Edge, Inc. under the terms of the acquisition agreement (the "Learning-Edge Notes"). The Learning-Edge Notes bear interest at rates ranging from at 7.5% to 9.0% and are due in two equal installments on April 5, 2005 and on October 1, 2005, respectively. If the Company raises additional capital equal to or in excess of $3 million, 25% of the principal of the Learning-Edge Notes is to be repaid. For each $500,000 raised above $3 million, the repayment percentage increases by 15%. If more than $5 million is raised, 100% of the principal of the Learning-Edge Notes is to be

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repaid. The holders of the Learning-Edge Notes waived the accelerated payment schedule in relation to the Offering.

The Convertible Subordinated Notes Series A Securities ("Series A Securities") were issued in connection with the acquisition of certain Affiliated Practices. The Series A Securities bear interest at 12% and can be converted to Common Stock of the Company at conversion prices ranging from $6.75 to $7.00 per share. The conversion period began on November 1, 1999 and ends on July 1, 2004. The principal amount of the Series A Securities, if not converted, is payable on July 1, 2004.

In connection with the IPO, the Company issued $468,000 of notes payable to certain shareholders formerly owning preferred stock. The notes bear 6% interest and were originally payable on the earlier of March 30, 2003 or the date upon which the Company offers and sells an amount of equity securities equal or greater to the gross proceeds of the IPO. During the three months ended June 30, 2003 and the year ended March 31, 2003, $4,000 and $58,000 of accrued interest on certain of these notes was added to the principal balance and the maturity date was extended to April 1, 2005. The new principal balance on the extended notes is $267,000 and the interest rate was increased to 10%. The remaining $124,000 is currently past due.

In connection with the acquisition of certain assets of LearnLinc Corporation, the Company issued a $250,000 note payable. The note bears interest at 6% with quarterly interest payments and is due on December 13, 2003.

Effective May 1, 2003, certain employees of the Company terminated their employment with the Company and created a new company, Interactive Alchemy, Inc. ("IA"). The Company entered into a non-cancelable three-year subcontractor agreement with IA whereby the Company is required to source its custom content development services through IA. The Company provides IA with certain facilities and administrative support for which in exchange it receives a specified amount of support services. Furthermore, the Company's fee sharing arrangement generally provides for the Company and IA to receive 20% and 80% of all custom content development services provided, respectively.

CONTRACTUAL OBLIGATIONS

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at June 30, 2003 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN YEAR TWO	DUE IN YEAR THREE	DUE IN YEARS FOUR AND FIVE

Long term debt	$ 8,556	$ 596	$ 1,653	$ 532	$ --
Capital lease obligations	628	502	115	11	--
Operating lease obligations ..	2,338	619	556	506	391
Base salary commitments under employment agreements	840	465	375	--	--
Total contractual obligations	$ 12,362	$ 2,182	$ 2,698	$ 1,049	$ 391

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America 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. The more significant areas requiring use of estimates relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets, and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates 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 materially differ from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are included in the Company's annual report on Form 10-K for the year ended March 31, 2003 as filed with the SEC.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, SFAS No. 149, "AMENDMENT OF STATEMENT 133 ON DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" was issued. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003. Adoption of this statement is not expected to have a significant effect on the Company's consolidated financial position or results of operations.

In May 2003, SFAS No. 150, "ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY" was issued. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 is not expected to have a significant effect on the Company's consolidated financial position, results of operations, or cash flows.

In July 2003, the EITF reached a consensus on EITF 03-5, "Applicability of AICPA SOP 97-2 to Non-Software Deliverables." EITF 03-5 provides accounting guidance on whether non-software deliverables (e.g., non-software related

equipment or services) included in an arrangement that contains software are within the scope of SOP 97-2. In general, any non-software deliverables are within the scope of SOP 97-2 if the software deliverable is essential to its functionality. Companies are required to adopt this consensus in the first reporting period (annual or interim) beginning after ratification by the FASB, which is expected to be August 13, 2003. The Company believes the adoption of EITF 03-5 will not have a material impact on the Company's financial position or results of operations.

ADDITIONAL RISK FACTORS THAT MAY AFFECT OUR OPERATING RESULTS AND THE MARKET PRICE OF OUR COMMON STOCK

You should carefully consider the risks described below. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could be adversely affected.

WE HAVE A LIMITED OPERATING HISTORY, WHICH MAKES IT DIFFICULT TO EVALUATE OUR BUSINESS.

We have a limited operating history in the e-Learning business and particularly as a provider of web conferencing and web collaboration software. While the organizations that we have acquired have been engaged in the e-Learning business for over ten years, we only recently acquired those assets and you should not rely on our historical results as an indication of our future performance. Over the past 12 months we have made significant changes to our product mix and service mix, our growth strategies, our sales and marketing plans, and other operational matters, including a significant reduction in our employee base. As a result, it may be difficult to evaluate an investment in our company, and we cannot be certain that our business model and future operating performance will yield the results that we intend. In addition, the competitive and rapidly changing nature of the e-Learning and Web conferencing markets makes it difficult for us to predict future results. Our business strategy may be unsuccessful and we may be unable to address the risks we face.

THE COMPANY FACES RISKS ENCOUNTERED BY EARLY-STAGE COMPANIES IN INTERNET-RELATED BUSINESSES AND MAY BE UNSUCCESSFUL IN ADDRESSING THESE RISKS.

The Company faces risks frequently encountered by early-stage companies in new and rapidly evolving markets. Specific risks the Company faces relate to the demand for e-Learning products and services, and broad and timely acceptance of the Company's e-Learning products and services. The Company may fail to adequately address these risks and, as a consequence, its business may suffer. To address these risks, the Company must:

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- successfully introduce and attract new customers to its e-Learning products;
- successfully implement its sales and marketing strategy to generate sufficient revenues to sustain operations;
- foster existing relationships its customers to provide for continued or recurring business; and
- successfully address and establish new products and technologies.

THE COMPANY'S QUARTERLY OPERATING RESULTS ARE UNCERTAIN AND MAY FLUCTUATE SIGNIFICANTLY.

The Company's operating results have varied significantly from quarter to quarter and are likely to continue to fluctuate as a result of a variety of factors, many of which the Company cannot control. Factors that may adversely affect the Company's quarterly operating results include:

- the size and timing of product orders;
- the mix of revenue from custom services and software products;
- the market acceptance of the Company's products and services;
- the Company's ability to develop and market new products in a timely manner and the market acceptance of these new products;
- the timing of revenues and expenses relating to the Company's product sales; and,
- the timing of revenue recognition.

Expense levels are based, in part, on expectations as to future revenue and to a large extent are fixed in the short term. To the extent the Company is unable to predict future revenue accurately, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall.

WE HAVE SIGNIFICANT OPERATING LOSSES AND HAVE LIMITED FINANCIAL RESOURCES

We have incurred substantial operating losses and have limited financial resources at our disposal. We have substantial current and long-term obligations that we will not be able to satisfy without additional debt and/or equity capital and ultimately generating profits and cash flows from our e-Learning operations. As we transition from the management of dental practices, from which we received substantial cash flows during the past two years, to being a provider of e-Learning services, we will need to show growth and financial improvement in our e-Learning operating segment. We may not be successful in raising additional debt or equity capital and may not become profitable in our e-Learning business. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the near term.

OUR AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN

Our consolidated financial statements have been prepared on a basis which assumes that we will continue as a going concern and which contemplates the realization of our assets and the satisfaction of our liabilities and commitments in the normal course of business. The Company has a significant working capital deficiency, and has suffered substantial recurring losses and negative cash flows from operations. Also, the Company's management service agreements with the affiliated dental practices nearly all expired during fiscal 2003 and will continue to expire through December 31, 2003, which will reduce revenues and cash flows from this source and accordingly will negatively affect the Company's liquidity and operating results. These matters, among others, and the limited operating history as an e-Learning company, caused our independent accountants to express their substantial doubt about as to our ability to continue as a going concern.

YOUR OWNERSHIP INTEREST IN THE COMPANY WILL BE DILUTED UPON ISSUANCE OF SHARES WE HAVE RESERVED FOR FUTURE ISSUANCE

On June 30, 2003, 17,042,504 shares of our common stock were outstanding, of which 1,244,713 were held in treasury, and 14,782,000 additional shares of our common stock were reserved for issuance. The issuance of these additional shares will reduce your percentage ownership in the Company.

The following shares were reserved for issuance as of June 30, 2003:

- Issued and outstanding stock options to purchase shares totaling approximately 1,788,000;
- Issued and outstanding warrants to purchase shares totaling approximately 6,648,000;
- A restricted stock grant to receive shares totaling approximately 450,000;
- Shares issuable upon the conversion of convertible redeemable subordinated notes totaling approximately 5,775,000; and
- Shares issuable upon the conversion of convertible Series A subordinated notes totaling approximately 121,000.

The existence of these reserved shares coupled with other factors, such as the relatively small public float, could adversely affect prevailing market prices for our common stock and our ability to raise capital through an offering of equity securities.

THE LOSS OF THE SERVICES OF THE COMPANY'S SENIOR EXECUTIVES AND KEY PERSONNEL WOULD LIKELY CAUSE THE COMPANY'S BUSINESS TO SUFFER.

The Company's success depends to a significant degree on the performance of the senior management team listed elsewhere in this Memorandum. The loss of any of these individuals could harm the Company's business. The Company does not maintain key person life insurance for any officers or key employees other than James Powers. The Company's success also depends on its ability to attract, integrate, motivate and retain additional highly skilled technical, sales and marketing, and professional services personnel. To the extent the Company is unable to attract and retain a sufficient number of additional skilled personnel, the Company's business will suffer.

THE COMPANY'S INTELLECTUAL PROPERTY MAY BECOME SUBJECT TO LEGAL CHALLENGES, UNAUTHORIZED USE OR INFRINGEMENT, ANY OF WHICH COULD DIMINISH THE VALUE OF ITS PRODUCTS AND SERVICES.

The Company's success depends in large part on its proprietary technology. If the Company fails to successfully enforce its intellectual property rights, the value of these rights, and consequently the value of its products and services to its customers, could diminish substantially. It may be possible for third parties to copy or otherwise obtain and use its intellectual property or trade secrets without the Company's authorization, and it may also be possible for third parties to independently develop substantially equivalent intellectual property. Currently, the Company does not have patent protection in place related to its products and services. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect trade secrets or to determine the validity and scope of the proprietary rights of others. From time to time the Company has received, and may in the future receive, notice of claims of infringement of other parties' proprietary rights. Such claims could result in costly litigation and could divert management and technical resources. These types of claims could also delay product shipment or require the Company to develop non-infringing technology or enter into royalty or licensing agreements, which agreements, if required, may not be available on reasonable terms, or at all.

A DETERIORATION OF GENERAL ECONOMIC CONDITIONS MAY MATERIALLY AND ADVERSELY AFFECT THE COMPANY'S BUSINESS.

The Company's revenues are subject to fluctuation as a result of general economic conditions. The Company's customers may reduce their expenditures for education and training during economic downturns. Therefore, a continued economic downturn could adversely affect the Company's business.

WE OFFER OUR WEB COLLABORATION PRODUCTS ON AN ASP BASIS SO IF WE DO NOT INCREASE THE CAPACITY OF OUR INFRASTRUCTURE IN EXCESS OF CUSTOMER DEMAND, CUSTOMERS MAY EXPERIENCE SERVICE PROBLEMS.

We expect the demand on our ASP business to increase significantly. Accordingly, we must increase our capacity to keep pace with that growth in demand. To accommodate increased customer usage requires a significant increase in the capacity of our infrastructure and may cause us to invest significant resources or capital. If we fail to increase our capacity in a timely and efficient manner, customers may experience service problems that could cause us to lose customers and decrease our revenue.

COMPETITION IN THE WEB CONFERENCING SERVICES MARKET IS INTENSE AND WE MAY BE UNABLE TO COMPETE SUCCESSFULLY, PARTICULARLY AS A RESULT OF RECENT ANNOUNCEMENTS FROM LARGE SOFTWARE COMPANIES.

The market for web conferencing services is relatively new, rapidly evolving and intensely competitive. Competition in our market will continue to intensify and may force us to reduce our prices, or cause us to experience reduced sales and margins, loss of market share and reduced acceptance of our services. Many of our competitors have larger and more established customer bases, longer operating histories, greater name recognition, broader service offerings, more employees and significantly greater financial, technical, marketing, public relations and distribution resources than we do. We expect that we will face new competition as others enter our market to develop web conferencing services. These current and future competitors may also offer or develop products or services that perform better than ours. In addition, acquisitions or strategic partnerships involving our current and potential competitors could harm us in a number of ways.

FUTURE REGULATIONS COULD BE ENACTED THAT EITHER DIRECTLY RESTRICT OUR BUSINESS OR INDIRECTLY IMPACT OUR BUSINESS BY LIMITING THE GROWTH OF INTERNET-BASED BUSINESS AND SERVICES.

As commercial use of the Internet increases, federal, state and foreign agencies could enact laws or adopt regulations covering issues such as user privacy, content and taxation of products and services. If enacted, such laws or regulations could limit the market for our products and services. Although they might not apply to our business directly, we expect that laws or rules regulating personal and consumer information could indirectly affect our business. It is possible that such legislation or regulation could expose companies involved in providing Internet-based services to liability, which could limit the growth of Web use generally and thereby reduce demand for our products and services. Such legislation or regulation could dampen the growth in Web usage and decrease its acceptance as a medium of communications and commerce.

WE DEPEND LARGELY ON ONE-TIME SALES TO GROW REVENUES.

A high percentage of our revenue is attributable to one-time purchases by our customers rather than long term recurring contracts. As a result, our

inability to continue to obtain new agreements and sales may result in lower than expected revenue, and therefore, harm our ability to sustain operations or profitability on a consistent basis, which could also cause our stock price to decline. Further, because we face competition from larger better-capitalized companies, we could face increased downward pricing pressure that could cause a decrease in our gross margins.

OUR OPERATING RESULTS MAY SUFFER IF WE FAIL TO DEVELOP AND FOSTER OR VALUE ADDED RESELLER OR DISTRIBUTION RELATIONSHIPS.

We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any particular minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. Our inability of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and therefore, harm our ability to sustain profitability on a consistent basis.

THE GROWTH OF OUR BUSINESS SUBSTANTIALLY DEPENDS ON OUR ABILITY TO SUCCESSFULLY DEVELOP AND INTRODUCE NEW SERVICES AND FEATURES IN A TIMELY MANNER.

We acquired our Web collaboration, Web conferencing and virtual classroom software in November of 2002. With our focus upon that product suite our growth depends on our ability to continue to develop new features, products and services around that suite and line of products. We may not successfully identify, develop and market new products and features in a timely and cost-effective manner. If we fail to develop and maintain market acceptance of our existing and new products to offset our continuing development costs, then our net losses will increase and we may not be able to sustain profitability on a consistent basis.

IF WE FAIL TO OFFER COMPETITIVE PRICING, WE MAY NOT BE ABLE TO ATTRACT AND RETAIN CUSTOMERS.

Because the Web conferencing market is relatively new and still evolving, the prices for these services are subject to rapid and frequent changes. In many cases, businesses provide their services at significantly reduced rates, for free or on a trial basis in order to win customers. Due to competitive factors and the rapidly changing marketplace, we may be required to significantly reduce our pricing structure, which would negatively affect our revenue, margins and our ability to sustain profitability on a consistent basis. We have an existing channel and distribution network that provides growing revenues and contributes to our high margin software sales. These distribution partners are not obligated to distribute our services at any particular minimum level. As a result, we cannot accurately predict the amount of revenue we will derive from our distribution partners in the future. Our inability of our distribution partners to sell our products to their customers and increase their distribution of our products could result in significant reductions in our revenue, and therefore, harm our ability to sustain profitability on a consistent basis.

OUR INTERNATIONAL DISTRIBUTOR NETWORK MAY CAUSE COSTS THAT ARE NOT ANTICIPATED.

We continue to expand internationally through our value added reseller network and OEM partners. We have limited experience in international operations and may not be able to compete effectively in international markets. We face certain risks inherent in conducting business internationally, such as: our

inability to establishing and maintain effective distribution channels and partners; the varying technology standards from country to country; our inability to effectively protect our intellectual property rights or the code to our software; our inexperience with inconsistent regulations and unexpected changes in regulatory requirements in foreign jurisdictions; language and cultural differences; fluctuations in currency exchange rates; our inability to effectively collecting accounts receivable; or our inability to manage sales and other taxes imposed by foreign jurisdictions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discusses our exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates. Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have not traded or otherwise bought and sold derivatives nor do we expect to in the future. We also do not invest in market risk sensitive instruments for trading purposes.

The primary objective of the Company's investment activity is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of cash equivalents in a variety of money market funds.

As of June 30, 2003, the carrying value of our outstanding convertible redeemable subordinated notes was approximately $3.8 million at a fixed interest rate of 12%. In certain circumstances, we may redeem this long-term debt. Our other components of indebtness bear fixed interest rates of 6% to 9%. Because the interest rates on these instruments are fixed, a hypothetical 10% change in interest rates would not have a material impact on our financial condition, revenues or operations. Increases in interest rates could, however, increase the interest expense associated with future borrowings, if any. We do not hedge against interest rate increases.

ITEM 4. CONTROLS AND PROCEDURES

We evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring that we disclose the required information in a timely manner and in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and forms of the Securities and Exchange Commission. Management, including our principal executive officer and principal financial officer, supervised and participated in the evaluation. The evaluation was completed within the 90-day period prior to the filing of this Form 10-Q. The principal executive officer and principal financial officer concluded, based on their review, that our disclosure controls and procedures, as defined by Exchange Act Rules 13a-14(c) and 15d-14(c), are effective and ensure that we disclose the required information in reports that we file under the Exchange Act and that the filings are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues if any, within a company have been detected.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has pending lawsuits against three affiliated practices for defaulting in the payment of the required service fees. 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. The Company is also party to two other legal disputes arising from the ordinary course of its e-Learning business.

On August 27, 2002 Computer Associates International Inc., filed in the Superior Court of the State of Arizona in and for the County of Maricopa claiming breach of software license/agreement and other fees for services in the amount of $389,000. The Company thereafter filed an answer and counterclaim on October 4, 2002 alleging damages in the amount of $389,000.

On November 4, 2002 two former employees of Quisic Corporation, filed in the Superior Court of the State of California for the County of Los Angeles Central District claiming damages in the amount of $6.4 million against the Board of Directors of Quisic Corporation resulting from their employment termination by Quisic alleging among other things breach of contract. The Company is a third party defendant with a mere allegation of successor liability

to the extent the Quisic defendants are found liable and to the extent the plaintiff proves successor liability by the Company. The Company only acquired certain assets of Quisic Corporation in an asset purchase transaction and does not believe it has any successor liability. The Company believes that it will prevail in these matters.

While in the opinion of management, resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

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

Additional Disclosures Concerning Mr. Brian L. Berry: Brian Berry has served as EDT Learning's Vice President of Finance and principal financial officer since August of 2002 and prior to that served as the Corporate Controller for the Company since October of 1998. In 1999, the Securities and Exchange Commission initiated a Rule 102(e) proceeding against Mr. Berry, among others, in his role as manager for Coopers & Lybrand and their audit of the fiscal 1994 financial statements of California Micro Devices, Inc. An

administrative hearing was held in 2000 and the Administrative Law Judge dismissed the claim in 2001. Subsequently, the Division of Enforcement of the SEC appealed that decision and on July 29, 2003, the SEC reversed the decision of the Administrative Law Judge, finding that Mr. Berry, among others, violated Generally Accepted Auditing Standards in connection with certain limited aspects of the audit. It was undisputed that senior management of California Micro Devices, in connection with the audit, intentionally misled Mr. Berry and the Coopers & Lybrand audit team. The SEC has concluded that Mr. Berry should be barred from practicing before it. Mr. Berry intends to appeal the decision of the Commission and seek a stay of the order. Based on a motion filed by Mr. Berry, the Commission has granted a 60 day stay of their own decision, in order to allow him to seek similar relief from the Court of Appeals. Mr. Berry will be seeking to overturn the Commission's ruling and to reinstate the dismissal of the claim against him. The Company cannot predict at this time what, if any, impact the Commission's decision will have on Mr. Berry's role with the Company.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1(1)	Restated Certificate of Incorporation of Pentegra Dental Group, Inc.
3.2(1)	Bylaws of Pentegra Dental Group, Inc.
3.3(7)	Restated Certificate of Incorporation of Pentegra Dental Group, Inc.
3.4(7)	Amendment of Bylaws of Pentegra Dental Group, Inc.
3.5(8)	Restated Certificate of Incorporation of e-dentist.com, Inc.
++3.6	Certificate of Designations of Series A Preferred Stock
4.1(1)	Form of certificate evidencing ownership of Common Stock of Pentegra Dental Group, Inc.
4.2(1)	Form of Registration Rights Agreement for Owners of Founding Affiliated Practices
4.3(1)	Registration Rights Agreement dated September 30, 1997 between Pentegra Dental Group, Inc. and the stockholders named therein
4.4(2)	Form of Stockholders' Agreement for Owners of Affiliated Practices
4.5(3)	Form of Indenture from Pentegra Dental Group, Inc. to U.S. Trust Company of Texas, N.A., as Trustee relating to the Convertible Debt Securities
4.6(7)	Form of certificate evidencing ownership of Common Stock of e-dentist.com, Inc.
4.7(8)	Form of Convertible Redeemable Subordinated Note
4.8(8)	Form of Redeemable Warrant (2002 Private Placement Offering)

++4.9	Form of Redeemable Warrant (2003 Private Placement Offering)
+10.1(1)	Pentegra Dental Group, Inc. 1997 Stock Compensation Plan
+10.2(1)	Form of Service Agreement
10.3(4)	Credit Agreement dated June 1, 1998 between Bank One, Texas, N.A. and Pentegra Dental Group, Inc.
10.4(5)	Modification to Credit Agreement between Pentegra Dental Group, Inc. and Bank One, Texas, N.A. dated September 9, 1998
10.5(5)	Agreement and Plan of Merger among Pentegra Dental Group, Inc., Liberty Dental Alliance, Inc., Liberty Acquisition Corporation, James M. Powers, Jr., Sylvia H. McAlister and William Kelly dated as of November 13, 1998
10.6(2)	First Amendment to Credit Agreement by and among Pentegra Dental Group, Inc. and Bank One, Texas, N.A. dated as of February 9, 1999
10.7(2)	First Amendment to the Agreement and Plan of Merger by and among Pentegra Dental Group, Inc., Liberty Dental Alliance, Inc., Liberty Acquisition Corporation, James M. Powers, Jr., Sylvia H. McAlister and William Kelly dated as of January 29, 1999
10.8(6)	Third Amendment to Credit Agreement
+10.9(7)	Employment Agreement dated November 12, 2000 between e-dentist.com and James M. Powers, Jr.
+10.10(7)	Employment Agreement dated February 15, 2001 between e-dentist.com and Charles Sanders
+10.11(7)	Employment Agreement dated February 15, 2001 between e-dentist.com and James Dunn, Jr.
10.12(7)	Asset Purchase Agreement by and among e-dentist.com, Inc. and Dexpo.com, Inc. 10.13(7) Fourth Amendment of Credit Agreement
10.14(9)	Plan of Reorganization and Agreement of Merger by and among EDT Learning, Inc., Edge Acquisition Subsidiary, Inc. and the Stockholders of Learning-Edge, Inc.
10.15(10)	Plan of Reorganization and Agreement of Merger by and among EDT Learning, Inc., TW Acquisition Subsidiary, Inc., ThoughtWare Technologies, Inc. and the Series B Preferred Stockholder of ThoughtWare Technologies, Inc.
10.16(11)	Asset Purchase Agreement by and among EDT Learning, Inc., and Quisic Corporation. Common Stock Purchase Agreement by and between EDT Learning, Inc., Investor Growth Capital Limited, A Guernsey Corporation and Investor Group, L.P., A Guernsey Limited Partnership and Leeds Equity Partners III, L.P.
10.16(12)	Asset Purchase Agreement by and among EDT Learning, Inc., and Mentergy, Inc. and its wholly-owned subsidiaries, LearnLinc Corp and Gilat-Allen Communications, Inc.
++10.17	Subcontractor Agreement between EDT Learning, Inc. and Interactive Alchemy, Inc.

6(13)	Letter re Change in Certifying Accountant
++31.1	Chief Executive Officer Section 302 Certification
++31.2	Principal Financial Officer Section 302 Certification
++32.1	Chief Executive Officer Section 906 Certification
++32.2	Principal Financial Officer Section 906 Certification

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(1) Previously filed as an exhibit to EDT Learning's Registration Statement on Form S-1 (No. 333-37633), and incorporated herein by reference.
(2) Previously filed as an exhibit to EDT Learning's Registration Statement on Form S-4 (No. 333-78535), and incorporated herein by reference.
(3) Previously filed as an exhibit to EDT Learning's Registration Statement on Form S-4 (No. 333-64665), and incorporated herein by reference.
(4) Previously filed as an exhibit to EDT Learning's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998.
(5) Previously filed as an exhibit to EDT Learning's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.
(6) Previously filed as an exhibit to EDT Learning's Annual Report on Form 10-K for the year ended March 31, 2000.
(7) Previously filed as an exhibit to EDT Learning's Annual Report on Form 10-K for the year ended March 31, 2001.
(8) Previously filed as an exhibit to EDT Learning's Annual Report on Form 10-K for the year ended March 31, 2002.
(9) Previously filed as an exhibit to EDT Learning's Form 8-K filed October 16, 2001.
(10) Previously filed as an exhibit to EDT Learning's Form 8-K filed January 30, 2002
(11) Previously filed as an exhibit to EDT Learning's Form 8-K filed July 2, 2002.
(12) Previously filed as an exhibit to EDT Learning's Form 8-K filed December 20, 2002.
(13) Previously filed as an exhibit to EDT Learning's Form 8-K filed April 3, 2003.
\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.
++ Furnished herewith as an Exhibit

(B) REPORTS ON FORM 8-K.

A Report on Form 8-K was filed April 3, 2003 reporting the dismissal by EDT Learning, Inc. of PricewaterhouseCoopers LLP as its independent accountants and engagement of BDO Seidman, LLP. No financial statements were filed with this report.

A Report on Form 8-K was filed July 1, 2003 furnishing under Item 12 our press release announcing our operating results for the year ended March 31, 2003.

A Report on Form 8-K was filed August 13, 2003 furnishing under Item 12 our press release announcing our operating results for the quarter ended June 30, 2003.

SIGNATURES

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: August 14, 2003

By: /s/ James M. Powers, Jr.

Chairman of the Board, President
and Chief Executive Officer

By: /s/ Brian L. Berry

Vice President of Finance
(Principal Financial Officer)