EDT LEARNING INC
Form 10-K
July 15, 2002

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

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2002.

[ ] TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM __________ TO __________.

COMMISSION FILE NUMBER __________

EDT LEARNING, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	76-0545043
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

2999 N. 44TH STREET, SUITE 650
PHOENIX, ARIZONA 85018
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(602) 952-1200
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at June 11, 2002 was 14,134,096.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders of the Registrant to be held on August 16, 2002 are incorporated by reference into Part III of this Report.

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FORWARD - LOOKING STATEMENTS

Statements contained in this Report, which are not historical in nature, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are included in Item 1. "Business", Item 5. "Market for Registrant's Common Stock and Related Shareholder Matters" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." In addition, forward looking information is provided regarding the development of an eBusiness strategy, the modifications of Management Services Agreements with Affiliated Practices, projections of the Company's future earnings, funding of the Company's operations and capital expenditures, payment or nonpayment of dividends and liquidity needed for the future.

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, risks associated with affiliations, fluctuation in operating results because of affiliations, changes in government regulations, competition, growth of existing dental practices and the potential need for additional funding. These risks and other factors as may be identified from time to time are described in further detail in the Company's reports filed with the Securities and Exchange Commission or in the Company's press releases.

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

OVERVIEW

Headquartered in Phoenix, Arizona, EDT Learning is a leading provider of custom, comprehensive e-Learning business solutions for corporate clients seeking to train non-technical users (individuals with less computer experience.) The Company supports organizations requiring internal training, product demonstration and customer education programs with the goal of mapping e-Learning solutions to business results.

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 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. As early as 1997 the Company delivered proprietary learning systems communication to its remote affiliated offices through its user interface and database driven communication system that employed the Internet and browser technology. 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. (now trading as AMEX:EDT). Beginning in April of 2000, the Company modified the affiliated service agreements with its affiliated dental practices to provide for a fixed fee, limited practice management services and a reduction in the agreement term from 40 years to five years. Commensurate with that change in fiscal 2001, the Company recorded a one-time $23 million charge against earnings related to the elimination of goodwill previously associated with those affiliated service agreements.

The Company changed its business model from a dental practice management company to an e-Learning company in the first quarter of fiscal 2001. The Company is currently implementing its e-Learning strategy, has a limited operating history with regard to its e-Learning business and is continuing the development and enhancement of its e-Learning product and service offerings and related revenue streams. The Company acquired two e-Learning entities during 2002 and one e-Learning company subsequent to year end and is currently integrating the operations of these entities.

The Company reported a working capital deficit and negative cash flow from operations for fiscal year 2002. Also, the Company's management service agreements with the affiliated dental practices begin to expire on April 1, 2003 and will continue to expire through December 31, 2003, which will reduce revenues and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results. These items 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.

E-LEARNING PRODUCTS AND SERVICES

EDT Learning offers a powerful combination of customizable products including:

* An award winning proprietary instructional design tool (IST) and custom content development system;
* User-intuitive online instruction delivery in both instructor-led live (synchronous) and student self-paced (asynchronous) formats;
* A comprehensive learning management system (LMS); and,
* An award-winning suite of Human Resource software and tools which include:
    * Learning Manager (helps managers effectively track and administer the learning and development processes);
    * People Search (provides tools for sourcing, screening and selecting qualified individuals);
    * Performance Coach (equips managers, supervisors and team leaders with the tools to establish goals and, provide consistent, meaningful feedback to employees); and,

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    * Career Planner (provides employers and employees with tools to match their career objectives with internal opportunities.

The Internet has the potential to significantly improve the procurement, deployment and management of learning. However, existing offerings do not take full advantage of the Internet and were not designed to serve as an integrated solution capable of improving the manner in which learning is developed, delivered, and managed across the extended enterprise. The Company believes it is positioned to capture the cross-selling opportunity and to leverage its existing infrastructure using the scale provided by an integrated product. The need to adhere to a structured process for content development cannot be overlooked even though the pressure to produce new programs faster and less expensively is increasing. The Company has produced a streamlined content creation system that reduces development time and the expense of delivering interactive training. This rapid development process incorporates the use of the proprietary IST development tool. This content authoring development tool translates content into html, eliminating the need for programmers to manipulate content into code. This makes it simple for content experts to arrange, re-arrange, add or delete any type of rich media file within training modules because the process-driven authoring tool guides them through each step with years of best practice standards already built in. The result is increased delivery speed, lower cost, greater flexibility, and better response to business change requirements.

The Company offers custom Self-Paced, Interactive Learning solutions developed specifically to help organizations solve business objectives. This training method is rapidly emerging as a more mainstream alternative to traditional methods (training delivered in a room with a live instructor to a live audience). While instructor-led sessions have their advantages, the economics and logistical headaches involved in coordinating an instructor, student body, course outline and classroom have forced many organizations to find other ways to supplement instructor-led training. The Company believes when students control their own pace and sequence, they can better manage their time and complete the course-work with higher material retention. Combined with the Company's LMS, Self-Paced students can easily see where they are in a module at any given time because the LMS records and displays that information in real-time. Both the student and the organization have complete information on course progress and results.

In addition to interactive web-based asynchronous training, the Company offers a synchronous (live instructor-led) learning solution utilizing advanced audio and graphics. The student is provided this instructor-led classroom experience through the use of third party software and a Java-enabled application. This live online classroom enables the student to interact with instructors and other students and offers advanced features such as real-time surveys, un-interrupted questioning of the instructor, and chat with other students. The Company's innovative solution delivers engaging interactive content over the Internet while voice portions are delivered using an analog phone line to maximize bandwidth connections.

The Company's LMS was created to be a web-based content delivery and data management system. It was developed to specific design requirements to meet the skill level of its customer base. Specifically, content needed to be delivered over low bandwidth connections and needed to be cross browser compatible. In addition, the Company needed to be able to integrate student profiles with its other online products and report the information to its customers' learning administrators. The testing system is database enabled which provides the flexibility for the learning administrator to create test questions and determine specific testing requirements. The LMS can provide multiple test environments to meet user needs and the administrator also has the ability to change the questions.

COMPETITIVE ADVANTAGE

To be able to compete in this growing and evolving market, the Company has identified what it believes is a competitive advantage, a desirable and differentiated e-Learning solution and an effective marketing strategy. The Company's established competencies, size, and comprehensive solution all contribute to what it believes to be a significant barrier to entry in its specific part of the e-Learning market. By combining a proprietary instructional design tool, user-intuitive online delivery, the Company's LMS, and a suite of WorkForce Management Solutions, the Company provides uniquely effective and efficient custom e-Learning solutions. The Company believes that this comprehensive approach allows organizations to implement e-Learning faster, more efficiently and without the risks inherent in integrating multiple vendors and products.

SALES AND MARKETING

The Company's marketing strategy is focused on building and expanding relationships in its existing customer base, establishing channels to penetrate the Fortune 1000, and attempting to penetrate the mid market. Although currently

a majority of the Company's e-Learning revenue is short-term content development revenue, the Company looks to obtain multi-year agreements providing long-term revenues and a backlog of training revenues. The Company utilizes both direct and indirect sales through channel partners to achieve market coverage. Our direct sales force focuses on mid-sized and enterprise level customers. Our channel sales force focuses on potential resellers of our product that are currently selling off-the-shelf content or partners with similar customer profiles. The sales team is organized by territory and named accounts.

The Company has historical expertise and a customer base of leading corporations in focused markets, with special emphasis in Product Training; Call Center Training; Software Training; Human Resources Training and Soft Skills Education. Its client list includes those inside and outside of the Fortune 1000 including Federal Express, Hilton Hotels, International Paper, Time Warner, Oral-B, Zeiss Optical, Wells Fargo, Bank of America, Discover Card, Deluxe Checks, and many others.

EMPLOYEES

As of March 31, 2002, the Company employed 52 persons at its corporate offices and 9 persons at its Memphis, Tennessee office. None of the Company's employees are represented by collective bargaining agreements. The Company considers its employee relations to be good.

DENTAL PRACTICE SERVICES

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

At March 31, 2002, 2001 and 2000, the Company had service agreements with 62, 85 and 96 practices in 22, 28 and 29 states respectively.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders in the fourth quarter of fiscal 2002.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the executive officers of the Company (ages are as of March 31, 2002):

James M. Powers, Jr.	46	Chairman, President and Chief Executive Officer
Charles M. Sanders	45	Senior Vice President, Chief Operation Officer and Chief Financial Officer
James L. Dunn, Jr.	40	Senior Vice President, General Counsel and Chief Development Officer

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JAMES M. POWERS, JR., MBA
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
James Powers, Jr., has served as Chairman, President and CEO of the Company since December 1998. Mr. Powers guided the Company through its initial growth and acquisition phase and subsequent transformation from a dental practice management company to a provider of uniquely effective and efficient custom e-Learning solutions supporting companies in multi-industries. Dr. Powers joined the Company through the merger with Liberty Dental Alliance, Inc., a Nashville based company where he was the Founder, Chairman and President. Prior to founding Liberty, he was a Founder and Chairman of Clearidge, Inc., a privately held bottled water company in Nashville, Tennessee, that became one of the largest, independent bottlers in the Southeast and was sold to Suntory, Inc. Powers also is a Founder and Director of Barnhill's Country Buffet, Inc., a chain of 43 restaurants in the Southeast. He received a Doctor of Dental Surgery Degree from The University of Tennessee and received his MBA from Vanderbilt

University's Owen Graduate School of Management.

CHARLES SANDERS
SENIOR VICE PRESIDENT, CHIEF OPERATING OFFICER & CHIEF FINANCIAL OFFICER
Charles Sanders, joined the Company as Senior Vice President, Chief Operating Officer in October 1999 and accepted the Chief Financial Officer responsibilities in August 2000. Mr. Sanders is an integration specialist and an experienced veteran of over 20 years in the healthcare industry. He most recently was president of a $250 million division of a large physician management company where he substantially increased profitability and was responsible for marketing, operations, finance, human resources, and information systems serving over 3875 employed and affiliated physicians located in five states. Mr. Sanders' extensive background in operations, finance and information technology includes experience as the CFO of a $75 million multi-site medical facility and the regional IT director of a national HMO. Mr. Sanders received a B.S.B.A. from Northern Arizona University in 1979.

JAMES L. DUNN, JR., JD, CPA
GENERAL COUNSEL, SENIOR VICE PRESIDENT, AND CHIEF DEVELOPMENT OFFICER
James L. Dunn, Jr., assisted with the formation of the Company and was an integral part of the road show management team during the Company's initial public offering. While the Company's focus was as a consolidator of dental practices in the dental industry, Mr. Dunn was responsible for all development and consolidation activities including the acquisition of dental practices and dental practice management companies. In the first twelve months of operation, he managed the acquisition of over fifty (50) dental practices thereby doubling the Company's annual revenue to $57 Million. Mr. Dunn assumed the role of General Counsel in March of 2000 and managed the legal transition of the Company from its dental management beginnings to its current e-learning focus. He is an attorney and CPA receiving his law degree from Southern Methodist University School of Law in 1987 and his Bachelor's Degree in Business Administration-Accounting from Texas A & M University in 1984.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

MARKET INFORMATION, HOLDERS AND DIVIDEND

The Company's Common Stock has been traded on the American Stock Exchange system under the symbol "EDT" since August 25, 2000, prior to that the Company's Common Stock was traded on the American Stock Exchange System under the symbol "PEN". The following table sets forth the range of the reported high and low sales prices of the Company's Common Stock for the year, ended March 31, 2002 and 2001:

2002	HIGH	LOW
First Quarter	$0.63	$0.41
Second Quarter	$0.50	$0.31
Third Quarter	$1.79	$0.44
Fourth Quarter	$1.45	$0.90

2001	HIGH	LOW
First Quarter	$1.63	$0.50
Second Quarter	$0.63	$0.38

Third Quarter	$0.44	$0.19
Fourth Quarter	$0.73	$0.22

As of June 11, 2002, there were approximately 296 holders of record of Common Stock, as shown on the records of the transfer agent and registrar of Common Stock. The number of record holders does not bear any relationship to the number of beneficial owners of the Common Stock. The last reported sale price of the Common Stock on the American Stock Exchange as of March 31, 2002 was $1.00 per share.

The Company has not paid any cash dividends on its Common Stock in the past and does not plan to pay any cash dividend on its Common Stock in the foreseeable future. The Company's Board of Directors intends, for the foreseeable future, to retain earnings to finance the continued operation and expansion of the Company's business.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data of the Company that has been derived from consolidated financial statements that have been audited. The selected financial data should be read in conjunction with the Company's consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

STATEMENT OF OPERATIONS DATA:

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000	YEAR ENDE MARCH 31 1999
Net revenue	$ 9,264	$ 8,320	$ 56,988	$ 38,824
Operating expenses	8,227	32,708	59,476	36,940
Earnings (loss) from operations	1,037	(24,388)	(2,488)	1,884
Income (loss) before income taxes and extraordinary item	1,540	(24,987)	(3,497)	1,717
Income tax expense (benefit)	--	--	2,213	(525
Net income (loss) before extraordinary item	1,540	(24,987)	(5,710)	2,242
Extraordinary item, net	4,265	70	350	--
Net income (loss)	5,805	(24,917)	(5,360)	2,242
Preferred stock dividend	--	--	--	--
Income (loss) attributable to common stock	$ 5,805	$(24,917)	$ (5,360)	$ 2,242
Earnings (loss) per common share - basic:				
Earnings (loss) before extraordinary item	$ 0.13	$ (2.38)	$ (0.55)	$ 0.29

Extraordinary item	0.36	.01	0.03	--
Net earnings (loss)	$ 0.49	$ (2.37)	$ (0.52)	$ 0.29
Earnings (loss) per common share - diluted:				
Earnings (loss) before extraordinary item	$ 0.12	$ (2.38)	$ (0.55)	$ 0.29
Extraordinary item	0.34	.01	0.03	--
Net earnings (loss)	$ 0.47	$ (2.37)	$ (0.52)	$ 0.29
BALANCE SHEET DATA:				
Cash and cash equivalents	$ 1,498	$ 1,051	$ 553	$ 1,047
Working capital (deficit)	(1,538)	(1,440)	1,330	4,224
Total assets	15,587	9,191	37,906	37,127
Long-term debt, less current maturities	6,499	11,461	14,829	13,134
Total shareholder's equity (deficit)	3,534	(6,654)	19,007	20,760

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

Headquartered in Phoenix, Arizona, EDT Learning is a leading provider of custom, comprehensive e-Learning business solutions for corporate clients seeking to train non-technical users (individuals with less computer experience). The Company supports organizations requiring internal training, product demonstration and customer education programs with the goal of mapping e-Learning solutions to business results.

HISTORY

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 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. As early as 1997 the Company delivered proprietary learning systems communication to its remote affiliated offices through its user interface and database driven communication system that employed the Internet and browser technology. 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. (now trading as

AMEX:EDT). Beginning in April of 2000, the Company modified the affiliated service agreements with its affiliated dental practices to provide for a fixed fee, limited practice management services and a reduction in the agreement term from 40 years to five years. Commensurate with that change in fiscal 2001, the Company recorded a one-time $23 million charge against earnings related to the elimination of goodwill previously associated with those affiliated service agreements.

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

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

The Company recognizes revenue and profit as work progresses on learning contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Customers sometimes request modifications to

projects in progress which may result in significant revisions to cost estimates and profit recognition, and the Company may not be successful in negotiating additional payments related to the changes in scope of requested services. Provisions for any estimated losses on uncompleted contracts are made in the period in which such losses become evident. There were no such losses at March 31, 2002.

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

The Company has made acquisitions of companies having operations or technology in areas within its strategic focus and has recorded goodwill and other intangible assets associated with the acquisitions. Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value of the goodwill and other intangible assets, thereby possibly requiring an impairment charge in the future. As of March 31, 2002, no such impairment has been identified by the Company.

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

RESULTS OF OPERATIONS

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

In connection with the execution of its e-learning strategy, the Company acquired two companies during the year ended March 31, 2002, Learning-Edge and ThoughtWare Technologies, Inc.

On October 1, 2001, the Company acquired all of the outstanding capital stock of Learning-Edge, Inc.; an Arizona based private e-learning company. The Company issued 1,950,000 common shares and $1.1 million of debt under the terms of the acquisition agreement. The debt bears interest at rates ranging from 7.5% to 9.0% and is due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital in excess of $3 million, the payment schedule accelerates (see Liquidity and Capital Resources). 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.

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

At March 31, 2002, 2001 and 2000, the Company had service agreements with 62, 85 and 96 practices in 22, 28 and 29 states respectively. The Company periodically assesses the need for impairment of its intangible assets related to its service agreements and recorded a $23 million impairment charge during the year ended March 31, 2001.

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. The Company cannot assure investor s that it will be able to contend effectively with such increased competition.

REVENUES

Total revenues generated for the year ended March 31, 2002 ("fiscal 2002") and March 31, 2001 ("fiscal 2001") were $9.3 million and $8.3 million respectively, an increase of $1.0 million. The Company recognized $2.7 million in learning revenues in fiscal 2002. There were no learning revenues in fiscal 2001 due to the Company's previous business strategy. Revenue from dental contacts decreased by $1.7 million in fiscal 2002 as compared to fiscal 2001 due to the modification and termination of certain dental contracts. Dental contract revenue will continue to decline as the contracts reach their expiration dates, generally over the next 12 to 21 months.

Total revenues generated for the year ended March 31, 2001 ("fiscal 2001") and March 31, 2000 ("fiscal 2000") were $8.3 million and $57.0 million respectively, a decrease of $48.7 million. The decrease is primarily due to the modification and termination of the service agreements and the resulting elimination of pass through revenue and expense reporting. Net revenue generated by paying the operating expenses of the Affiliated Practices was $46.4 million in fiscal 2000. There were no learning revenues in fiscal 2001 or fiscal 2000.

OPERATING EXPENSES

Operating expenses consist of research and development, sales and marketing, general and administrative, depreciation and amortization expenses and impairment of assets. The Company incurred operating expenses of $8.2 million in fiscal 2002, a decrease of $24.5 million from fiscal 2001, operating expenses of $32.7 million, primarily due to the Company's strategic change of business and the absence of the $23 million impairment charge recorded fiscal 2001.

Fiscal 2001 operating expenses were $32.7 million, a $26.8 million decrease from fiscal 2000 operating expenses of $59.5 million. The decrease is primarily due to the elimination of pass thought revenue and expense reporting. Dental reimbursed expenses were $0 and $46.4 million in fiscal 2001 and 2000, respectively. General and administrative expenses decreased by $3.3 million and depreciation and amortization expenses decreased by $136,000 during fiscal 2001. These decreases were offset by the impairment charge of $23 million recorded in fiscal 2001.

Research and development expenses include 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 were $2.3 million for fiscal 2002 and are a result of the Company's decision to implement its eCommerce and e-learning strategy. There were no research and development expenses during fiscal 2001or fiscal 2000.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were $1.1 million for fiscal 2002 and are a result of the Company's decision to implement its eCommerce and e-learning strategy. There were no sales and marketing expenses during fiscal 2001or fiscal 2000.

General and administrative expenses consist of the corporate expenses of the Company. These corporate expenses include salaries and benefits of executive, finance and administrative personnel, rent, bad debt expense,

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professional services, travel (primarily related to practice development), office costs and other general corporate expenses.

During fiscal 2002 and 2001, general and administrative expenses were $2.7 million and $7.3 million respectively, a decrease of $4.6 million. General and administrative expenses decreased primarily due to the Company's change in strategy and reduction in dental practice management activity and was composed of decreases in bad debt expense of $2.3 million; salaries and wages of $1.1 million; professional services of $546,000; office and telephone of $304,000; insurance of $185,000 and travel expenses of $167,000.

Fiscal 2001 general and administrative expenses were $7.3 million, a $3.3 million decrease from fiscal 2000 operating expenses of $10.6 million. The decrease is primarily due to decreases in bad debt expense of $2.8 million, professional fees of $209,000, seminars and education of $156,000, and salaries and wages of $97,000.

Fiscal 2002 depreciation and amortization expenses were $2,089,000, a $279,000 decrease from fiscal 2001 depreciation and amortization expenses of $2,386,000. The decrease is primarily due to the modification and terminations of the service agreements that returned ownership of dental practice equipment to the related dental practices. A portion of this decrease was offset by depreciation of the property and equipment purchased in the acquisitions of Learning-Edge, Inc. and ThoughtWare Technologies, Inc.

Fiscal 2001 depreciation and amortization expenses were $2,368,000, a $136,000 decrease from fiscal 2000 depreciation and amortization expenses of $2,504,000. The decrease is primarily due to the modification and terminations of the service agreements as noted above.

DENTAL REIMBURSED EXPENSES

Under the terms of the original services agreement with an Affiliated Practice, the Company served as the exclusive manager and administrator of all non-dental services relating to the operation of an Affiliated Practice. The obligations of the Company included assuming responsibility for the operating expenses incurred in connection with managing the dental centers. These expenses included salaries, wages and related costs of non-dental personnel, dental supplies and laboratory fees, rental and lease expenses, promotion and marketing costs, management information systems and other operating expenses incurred at the Affiliated Practices. In addition, the Company incurred general and administrative expenses related to the financial and administrative management of dental operations, insurance, training and development and other typical corporate expenditures.

INCOME TAX EXPENSE

The Company recorded no tax expense during fiscal 2002 due to the utilization of its net operating loss carryforward. At March 31, 2002, the Company has a net deferred tax asset of $5.8 million with a corresponding valuation allowance. Additionally, the Company also has $4.5 million of available deductions related to the increase in tax basis of the assets acquired in the Affiliations. The Company's tax benefits are scheduled to expire over a period of six to fourteen years.

The Company recorded no tax benefit during fiscal 2001 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 eBusiness plan. At March 31, 2001, the Company has a net deferred tax asset of $9.6 million with a corresponding valuation allowance.

Income tax expense for fiscal 2000 totaled $2.2 million. The expense arose primarily because the Company recorded a valuation allowance for its entire deferred tax asset. The Company recorded the valuation allowance because it concluded it is not likely it would be able to recognize the tax assets because of no operating history of its new implementation of eBusiness plan and the modification of its management services agreements.

RECENT ACCOUNTING PROUNCEMENTS

In June 2001, the Financial Accounting Standard Board issued SFAS 142, "Goodwill and Other Intangible Assets" which established standards for reporting acquired goodwill and other intangible assets. This statement accounts for goodwill based on the reporting units of the combined entity into which an acquired entity is integrated. In accordance with the statement, goodwill and indefinite life intangible assets will not be amortized but will be tested for impairment at least annually at the reporting unit level and the amortization period of intangible assets with finite lives will not be limited to forty years. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001 with early application permitted

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for entities with fiscal years beginning after March 15, 2001. The statement is also effective for business combinations subsequent to June 30, 2001, whether or not the statement has been adopted in full. The Company has $7.6 million of goodwill included in its balance sheet at March 31, 2002. Of this balance, $7.3 million relates to acquisitions closed subsequent to June 30, 2001, and is not being amortized. Goodwill amortization for the year ended March 31, 2002 was $91,000 before the provisions of SFAS 142 were applied. Implementation of SFAS 142 by the Company would result in elimination of amortization of goodwill from acquisition under the purchase method of accounting. The statement does not result in the elimination of amortization of the Company's service agreements because under the scope of the statement only goodwill resulting from acquisitions under the purchase method of accounting, and not other identifiable intangible assets, is subject to being no longer amortized.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this stop must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The Company expects to complete that first step of the goodwill impairment test during the first quarter of fiscal 2003. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. Intangible assets deemed to have an indefinite life will be tested for impairment using a one-step process, which compares the fair value to the carrying amount of the asset as of the beginning of the fiscal year and pursuant to the requirements of SFAS 142 will be completed during the first quarter of fiscal 2003. Any impairment loss resulting from the transitional impairment test will be reflected as the cumulative effect of a change in accounting principle in the first quarter of fiscal 2003. The Company has not yet determined what effect these impairment tests will have on the Company's earnings and financial position.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associates with the retirement of tangible long-lived assets and the associates asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 is not expected to have a material impact on the financial position and results of operations of the Company.

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

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 includes among other things, the rescission of SFAS No. 4, which required that gains and losses from early extinguishments of debt be classified as an extraordinary item, net of related income tax effects. Under the new guidance of SFAS No. 145, losses from early extinguishments of debt will be classified as extraordinary items when the losses are considered unusual in nature and infrequent in occurrence. SFAS No. 145 will be effective for the Company on April 1, 2004.

LIQUIDITY AND CAPITAL RESOURCES

The Company changed its business model from a dental practice management company to an e-Learning company in the first quarter of fiscal 2001. The Company is currently implementing its e-Learning strategy, has a limited operating history with regard to its e-Learning business and is continuing the development and enhancement of its e-Learning product and service offerings and related revenue streams. The Company acquired two e-Learning entities during 2002 and one e-Learning company subsequent to year end and is currently integrating the operations of these entities.

The Company reported a working capital deficit and negative cash flow from operations for fiscal year 2002. Also, the Company's management service agreements with the affiliated dental practices begin to expire on April 1, 2003 and will continue to expire through December 31, 2003, which will reduce revenues and cash flow from this source and accordingly could negatively affect

the Company's liquidity and operating results. These items 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.

In order to increase its liquidity, the Company has developed a plan consisting of the following strategies; (i) continued implementation of its e-Learning based strategic business plan through both internal growth and acquisition and (ii) acceleration of cash collections from affiliated dental practices by offering a sale of the dental practices management service agreements earlier than contractually required.

The Company has made other acquisitions, and management expects that other e-learning businesses will be acquired in the future. There can be no assurance that the Company will be able to identify or reach mutually agreeable terms with acquisition candidates and their owners, or that the Company will be able to profitably manage additional businesses or successfully integrate such additional businesses into the Company at all, or without substantial costs, delays or other problems. There can be no assurance that businesses acquired will achieve sales and profitability that justify the investment made by the Company. Any inability on the part of the Company to control these risks effectively and integrate and manage acquired businesses could have a material adverse effect on the Company. Acquisitions may result in increased depreciation and amortization expense; increase interest expense, increased financial leverage or decrease operating results.

The Company's service agreements with affiliated dental practices begin to expire on March 31, 2003 and will continue to expire through December 31, 2003, which will reduce revenues and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results. During fiscal 2002, the Company received $2.9 million in cash from terminating the service agreements with Affiliated Practices. These cash collections accelerate the date at which the Company would be required to sustain its operations solely on cash collections derived from e-learning revenues. However, there can be no assurance that the Company's e-learning strategies will be achieved or that the affiliated dental practices will continue to agree upon terms acceptable to the Company.

At March 31, 2002, the Company had a working capital deficit of $1.5 million. Current assets included $1.5 million in cash and $1.4 million in accounts and notes receivable. Current liabilities consisted of $853,000 of deferred revenue, $1.8 million of current maturities of long-term debt and capital leases and $2.2 million in accounts payable and accrued liabilities.

During fiscal 2002, the Company used $2.2 million for operating activities, primarily from the use of working capital. The Company generated $1.4 million cash from operating activities during fiscal 2001 and used $0.6 million for operating activities in fiscal 2000.

The Company had outstanding total debt (secured and unsecured promissory notes) of $7.8 million at March 31, 2002. Of that amount, the Company has $4.6 million of convertible redeemable subordinated notes, which mature on March 29, 2012. The remaining balance of $3.2 million is owed to various parties with differing maturities as follows: $398,000 are unsecured notes which arose as part of the Company's initial public offering and are due on March 30, 2003; $121,000 are unsecured promissory notes of which were issued to former shareholders of Omega Orthodontics, Inc. or were assumed by the Company as part of its acquisition of Omega Orthodontics, Inc. and are due in fiscal 2003 and 2004. $1.5 million are unsecured promissory notes of which $1.1 million were issued to former shareholders of Learning-Edge, Inc. and $0.4 million were assumed by the Company as part of its acquisition of Learning-Edge, Inc. These notes mature in fiscal 2004 and 2005. $1.2 million are unsecured convertible promissory notes which were issued to dentists which the Company affiliated with as part of its dental practice management business and are due one half in November 2002 and one half in November 2003.

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at March 31, 2002 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN ONE TO THREE YEARS	DUE IN FOUR T FIVE YEARS
Long term debt	$ 8,968	$ 1,337	$ 1,856	$ --
Capital lease obligations	1,127	530	580	17
Operating lease obligations	2,843	583	1,087	889
Total commitments	$ 12,938	$ 2,450	$ 3,523	$ 906

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 principle 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 twenty 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 twenty 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 3 years, volatility of 75%, divided yield of 0% and a risk-free rate of 3.87%. The fair value was then used to calculate the discount of $1,132,000 in accordance with APB No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants," which will be amortized to interest expense over the next three years. 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 will be 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.

The proceeds from the Offering were used to retire the Bank One credit facility and to provide working capital for the Company. The Company paid $4.4 million to Bank One to retire the $8.6 million credit facility resulting in a $4.2 million extraordinary gain. The credit facility was collateralized by liens on certain of the Company's assets, including its rights under the management services agreements, accounts receivable and notes receivable. The liens were released in connection with the retirement of the facility.

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"). During fiscal 2002, $55,000 of these notes were returned by the holders to offset amounts owed to the Company. The Learning-Edge Notes bear interest rates ranging from at 7.5% to

9.0% and are due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital equal to or in excess of $3 million, the payment schedule accelerates as follows:

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

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

In fiscal 2002, 2001 and 2000, the Company entered into capital lease agreements for the purchase of equipment of $373,000, $22,000 and $1.4 million, respectively.

Cash generated from investing activities was from the $2.9 million in cash received from service agreement termination in fiscal 2002, from the collection of notes receivable of $743,000, $533,000 and $116,000 in fiscal 2002, 2001 and 2000, respectively. Cash used in investing activities was $40,000, $138,000 and $347,000 for the purchases of capital equipment in fiscal 2002, 2001 and 2000, respectively, and $118,000 related to acquisitions in fiscal 2002. Uses of cash

also include the issuance of notes receivable to Affiliated Practices of $0, $24,000 and $279,000 in fiscal 2002, 2001 and 2000, respectively.

The Company received $5.8 million from the Offering in fiscal 2002. There were no draws on the Bank One credit facility in fiscal 2002 or 2001. In fiscal 2000, $2.1 million was drawn on the Bank One credit facility. During fiscal 2002, 2001 and 2000, $5.8 million, $1.2 million and $984,000 was used to repay long-term debt, including the retirement of the Bank One credit facility.

ITEM 7A. 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 March 31, 2002, the carrying value of our outstanding convertible redeemable subordinated notes was approximately $3.5 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

INDEX TO FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of
EDT Learning, Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of EDT Learning, Inc. and its Subsidiaries at March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has experienced recurring negative cash flows from operations and working capital deficits that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP
Phoenix, Arizona

July 11, 2002

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

	MARCH 2002
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,4
Accounts receivable, net of allowance for doubtful accounts of $754 and $1,147, respectively	8
Prepaid expenses and other current assets	4
Notes receivable from affiliated practices-current, net of allowance for doubtful accounts of $402 and $323, respectively	5
Total current assets	3,2
Property and equipment, net	2,1
Intangible assets, net	9,4
Notes receivable from affiliated practices, net of allowance for doubtful accounts of $690 and $1,766, respectively	4
Other assets	2
Total assets	$ 15,5
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	
Current liabilities:	
Current portion of long term debt	$ 1,3
Accounts payable and accrued liabilities	2,2
Current portion of deferred revenue	8
Current portion of capital lease liabilities	4
Total current liabilities	4,8
Long term debt, less current maturities	5,3
Capital lease liabilities	5
Deferred revenue	1
Total liabilities	10,9
Commitments and contingencies (Note 16)	
Shareholders' equity (deficit):	
Common stock, $.001 par value 40,000,000 shares authorized, 15,281,485 and 11,721,664 issued, respectively	
Additional paid-in capital	31,3
Accumulated deficit	(25,5
Less: Treasury shares at cost: 1,179,630 and 1,149,116, respectively	(1,1

Total shareholders' equity (deficit)	4,6
Total liabilities and shareholders' equity (deficit)	$ 15,5

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

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

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001
Revenues:		
Learning	$ 2,682	$ --
Dental contracts	6,582	8,320
Total revenues	9,264	8,320
Operating expenses:		
Research and development	2,323	--
Sales and marketing	1,123	--
Dental reimbursed expenses	--	--
General and administrative	2,692	7,340
Depreciation and amortization	2,089	2,368
Impairment of assets	--	23,000
Total operating expenses	8,227	32,708
Earnings (loss) from operations	1,037	(24,388)
Interest expense	1,040	1,358
Interest income	(238)	(352)
Other income	(1,305)	(407)
	(503)	599
Income (loss) before income taxes and extraordinary item	1,540	(24,987)
Income tax expense	--	--
Income (loss) before extraordinary item	1,540	(24,987)
Extraordinary item - gain on debt forgiveness (net of tax effect of $0)	4,265	70
Net income (loss)	$ 5,805	$(24,917)
Earnings (loss) per common share - basic:		
Earnings (loss) before extraordinary item	$ 0.13	$ (2.38)

Extraordinary item	0.36	0.01
Net earnings (loss)	$ 0.49	$ (2.37)
Earnings (loss) per common share - diluted:		
Earnings (loss) before extraordinary item	$ 0.12	$ (2.38)
Extraordinary item	0.34	0.01
Net earnings (loss)	$ 0.47	$ (2.37)
Number of shares used in calculation of earnings (loss) per share:		
Basic	11,930	10,496
Diluted	12,466	10,496

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

EDT LEARNING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS)

	COMMON		ADDITIONAL	
	SHARES	AMOUNT	PAID IN CAPITAL	ACCUMUL DEFIC
Balances, April 1, 1999	9,103	$ 9	$ 21,823	$ (1,
Issuance of common stock	1,893	2	3,836	
Shares repurchased	(175)	--	(297)	
Issuance of options for compensation	--	--	54	
Net loss	--	--	--	(5,
Tax benefit related to assets acquired in affiliations	--	--	188	
Balances, March 31, 2000	10,821	11	25,604	(6,
Issuance of common stock	998	1	307	
Shares repurchased	(97)	--	(102)	
Net loss	--	--	--	(24,
Balances, March 31, 2001	11,722	12	25,809	(31,
Issuance of common stock	3,559	3	3,219	
Issuance of warrants	--	--	44	
Issuance of warrants in connection with convertible redeemable subordinated notes	--	--	1,132	
Beneficial conversation feature associated with convertible redeemable subordinated notes	--	--	1,132	
Shares repurchased	--	--	--	
Net income	--	--	--	5,

Balances, March 31, 2002	15,281	$ 15	$ 31,336	$ (25,

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

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

	FOR THE YEAR ENDED MARCH 31, 2002	FOR THE YEAR ENDED MARCH 31, 2001	FOR E MA
Cash flows from operating activities			
Net income (loss)	$ 5,805	$(24,917)	$
Adjustment to net income (loss)			
Provision for (recovery of) bad debts	(603)	1,705	
Impairment of assets	--	23,000	
Depreciation and amortization	2,089	2,368	
Stock options and warrant expense	44	--	
Extraordinary gain on debt forgiveness	(4,265)	(70)	
Gain on practice terminations	(1,295)	--	
Deferred income taxes	--	--	
Changes in operating assets and liabilities			
Accounts receivable	(1,275)	110	
Prepaid expenses and other current assets	222	111	
Other assets	(88)	75	
Accounts payable and accrued liabilities	(576)	(925)	
Deferred revenue	(2,229)	(85)	
Net cash provided by (used in) operating activities	(2,171)	1,372	
Cash flows from investing activities			
Proceeds from practice terminations	2,900	--	
Repayment of notes receivable	743	533	
Capital expenditures	(40)	(138)	
Acquisitions, net of cash acquired	(118)	--	
Issuance of notes receivable	--	(24)	
Net cash provided by (used in) investing activities	3,485	371	
Cash flows from financing activities			
Proceeds from issuance of subordinated notes and warrants ...	5,775	--	
Proceeds from line of credit	--	--	
Repayment of long-term debt	(5,415)	(941)	
Repayment of capital lease liabilities	(395)	(304)	
Financing costs incurred	(832)	--	
Net cash provided by (used in) financing activities	(867)	(1,245)	
Net change in cash and cash equivalents	447	498	
Cash and cash equivalents, beginning of period	1,051	553	

Cash and cash equivalents, end of period	$ 1,498	$ 1,051	$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

Headquartered in Phoenix, Arizona, EDT Learning, Inc., ("the Company") is a leading provider of custom, comprehensive e-Learning business solutions for corporate clients seeking to train non-technical users (individuals with less computer experience). The Company supports organizations requiring internal training, product demonstration and customer education programs with the goal of mapping e-Learning solutions to business results.

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 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.

2. BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a basis which assume 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 first quarter of fiscal 2001. The Company is currently implementing its e-Learning strategy, has a limited operating history with regard to its e-Learning business and is continuing the development and enhancement of its e-Learning product and service offerings and related revenue streams. The Company acquired two e-Learning entities during 2002 and one e-Learning company subsequent to year end and is currently integrating the operations of these entities.

The Company reported a working capital deficit and negative cash flow from operations for fiscal year 2002. Also, the Company's management service agreements with the affiliated dental practices begin to expire on April 1, 2003 and will continue to expire through December 31, 2003, which will reduce revenues and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results. These items 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. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

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, bad debts, intangible assets, income taxes and 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 which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumption or conditions.

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SEGMENT INFORMATION

The Company operates in two industry segments. The Company serves the learning industry with a combination of customizable products and services. The Company also serves the dental industry through its remaining service agreements with Affiliated Practices. The Company presents its financial statements to reflect how the "key operating decision maker" views the business and has made the appropriate enterprise wide disclosures in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

REVENUE RECOGNITION

The Company recognizes revenue and profit as work progresses on learning contracts using the percentage-of-completion method, which relies on estimates of total expected contract revenue and costs. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a contract can be made. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. Customers sometimes request modifications to projects in progress which may result in significant revisions to cost estimates and profit recognition, and the Company may not be successful in negotiating additional payments related to the changes in scope of requested services. Provisions for any estimated losses on uncompleted contracts are made in the period in which such losses become evident. There were no such losses at March 31, 2002.

Under the terms of the original services agreement with an Affiliated Practice, the Company served as the exclusive manager and administrator of all non-dental services relating to the operation of an Affiliated Practice. The obligations of the Company included assuming responsibility for the operating expenses incurred in connection with managing the dental centers. These expenses included salaries, wages and related costs of non-dental personnel, dental supplies and laboratory fees, rental and lease expenses, promotion and marketing costs, management information systems and other operating expenses incurred at the Affiliated Practices. In addition, the Company incurred general and administrative expenses related to the financial and administrative management of dental operations, insurance, training and development and other typical corporate expenditures. As compensation for its services under the original services agreement and subject to applicable law, the Company was paid a management fee comprised of two components: (1) the costs incurred by it on behalf of the Affiliated Practice, and (2) a management fee either fixed in amount, an amount usually approximating 35% of the Affiliated Practice's operating profit, before dentist compensation or 15% of the Affiliated Practice's collected gross revenue ("service fee"). Therefore, net dental revenues represented amounts earned by the Company under the terms of its service agreements with the Affiliated Practices, which generally equated to the sum of the service fees and the operating expenses that the Affiliated Practices paid to the Company under the service agreements.

The Company has embarked upon a new strategy focusing on eCommerce and e-Learning. Prior to the transition, the Company processed all payments to vendors and employed the team members of Affiliated Practices. The modified management services agreements caused the team members to cease working as employees for the Company and they became employees of the individual Affiliated Practices. In addition, processing of payments to practice vendors is being performed at the practice level, by practice employees. The Company is no longer being reimbursed for expenses paid on the practices' behalf. As a result, the components of net revenues have changed with the new management services agreements resulting in a reduction in reported service agreement revenues and related dental operating expenses.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt investments with original maturities of three months or less at the date of acquisition to be cash equivalents.

The Company maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The Company's accounts at these institutions may, at times, exceed the federally insured limits.

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PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of depreciable assets, ranging from three to seven years. Maintenance and repairs are charged to expense whereas renewals and major replacements are capitalized. Gains and losses from dispositions are included in operations.

INTANGIBLE ASSETS

The Company's acquisitions involve the purchase of tangible and intangible assets and the assumption of certain liabilities of the acquired companies. As part of the purchase allocation for acquired dental practices, the Company allocated the purchase price to the tangible assets acquired and liabilities assumed, based on estimated fair market values. In connection with each acquisition, the Company entered into a long-term management services agreement with each affiliated dental practice, which cannot be terminated individually by either party without cause. The cost of the management services agreement was originally being amortized on a straight-line basis over the lessor of its term or 25 years. The management services agreements were modified during fiscal 2001 and are now being amortized over the remaining term of the modified Service Agreements (not more than five years and generally through 2003).

The Company has made acquisitions of companies having operations or technology in areas within its strategic focus and has recorded goodwill and other intangible assets associated with the acquisitions. Future adverse changes in market conditions or poor operating results of the underlying acquired operations could result in losses or an inability to recover the carrying value of the goodwill and other intangible assets thereby possibly requiring an impairment charge in the future. As of March 31, 2002, no such impairment has been identified by the Company.

Debt issuance costs are amortized using the effective interest rate method. At March 31, 2002 and 2001, debt issuance costs, net of accumulated amortization were $883 and $83, respectively.

LONG-LIVED ASSETS

The Company reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is considered impaired when anticipated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. The Company believes that no material impairment exists at March 31, 2002.

CONCENTRATION OF CREDIT RISK

Accounts receivable and notes receivables from Affiliated Practices represent services rendered by the Company for e-learning customers and the Affiliated Practices. The Company does not perform periodic credit reports or receive collateral related to the receivables.

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

As of March 31, 2002 and 2001, the Company had an allowance for doubtful accounts of $1.8 million and $3.2 million respectively, for its accounts receivable and notes receivables from Affiliated Practices. In the years ended March 31, 2002 and 2001, the Company recorded charges of $560,000 and $1.7 million respectively, to bad debt expense resulting from its inability to collect receivables from Affiliated Practices after exhausting various payment plans with the Affiliated Practices and settlement of litigation with certain practices. Although management believes the remaining receivables are collectable at March 31, 2002, it is reasonably possible that what the Company will collect may materially differ. During the year ended March 31, 2002, the Company recovered $1.2 million of accounts and notes receivables that had been previously charged to bad debt expense.

During the years ended March 31, 2002 and 2001, the Company converted $204,000 and $1.9 million in receivables from Affiliated Practices into interest bearing note receivables.

INCOME TAXES

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred taxes are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted marginal tax rates currently in effect when the differences reverse.

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

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 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.

EARNINGS PER SHARE

Earnings per share are computed based upon the weighted average number of shares of Common Stock and Common Stock equivalents outstanding during each period. Outstanding options and warrants to purchase 1,945,602, 2,533,516 and 2,012,670 shares of Common Stock at exercise prices above the market value of Common Stock were excluded from the calculation of earnings per share for the years ended March 31, 2002, 2001 and 2000, respectively, because their effect would have been antidilutive.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivables and accounts payable approximate fair values due to the short-term maturities of these instruments. The carrying amounts of the Company's long-term borrowings and notes receivables from Affiliated Practices as of March 31, 2002 and 2001, approximate their fair value based on the Company's current incremental borrowing rates for similar type of borrowing arrangements.

RECENT ACCOUNTING PROUNCEMENTS

In June 2001, the Financial Accounting Standard Board issued SFAS 142, "Goodwill and Other Intangible Assets" which established standards for reporting acquired goodwill and other intangible assets. This statement accounts for goodwill based on the reporting units of the combined entity into which an acquired entity is integrated. In accordance with the statement, goodwill and indefinite life intangible assets will not be amortized but will be tested for impairment at least annually at the reporting unit level and the amortization period of intangible assets with finite lives will not be limited to forty years. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001 with early application permitted for entities with fiscal years beginning after March 15, 2001. The statement is also effective for business combinations subsequent to June 30, 2001, whether or not the statement has been adopted in full. The Company has $7.6 million of goodwill included in its balance sheet at March 31, 2002. Of this balance, $7.3 million relates to acquisitions closed subsequent to June 30, 2001, and is not being amortized. Goodwill amortization for the year ended March 31, 2002 was $91,000 before the provisions of SFAS 142 were applied. Implementation of SFAS 142 by the Company would result in elimination of amortization of goodwill from acquisition under the purchase method of accounting. The statement does not result in the elimination of amortization of the Company's service agreements because under the scope of the statement only goodwill resulting from acquisitions under the purchase method of accounting, and not other identifiable intangible assets, is subject to being no longer amortized.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this stop must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The Company expects to complete that first step of the goodwill impairment test during the first quarter of fiscal 2003. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. Intangible assets deemed to have an indefinite life will be tested for impairment using a one-step process, which compares the fair value to the carrying amount of the asset as of the beginning of the fiscal year and pursuant to the requirements of SFAS 142 will be completed during the first quarter of fiscal 2003. Any impairment loss resulting from the transitional impairment test will be reflected as the cumulative effect of a change in accounting principle in the first quarter of fiscal 2003. The Company has not yet determined what effect these impairment tests will have on the Company's earnings and financial position.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associates with the retirement of tangible long-lived assets and the associates asset retirement costs. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 is not expected to have a material impact on the financial position and results of operations of the Company.

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

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 includes among other things, the rescission of SFAS No. 4, which required that gains and losses from early extinguishments of debt be classified as an extraordinary item, net of related income tax effects. Under the new guidance of SFAS No. 145, losses from early extinguishments of debt will be classified as extraordinary items when the losses are considered unusual in nature and infrequent in occurrence. SFAS No. 145 will be effective for the Company on April 1, 2004.

RECLASSIFICATIONS

Certain prior year balances in the consolidated financial statements have been reclassified to conform with the fiscal 2002 presentation.

4. SEGMENT INFORMATION

During the year ended March 31, 2002, the Company had two reportable segments, learning and dental practice management. The learning segment included revenues and operating expenses related to the development and sale of the Company's learning products. The dental practice segment included revenues from service contracts, operating expenses related to the delivery of the dental services and other non-operating expenses.

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

	YEARS ENDED MARCH 31,		
	2002	2001	2000
Revenues			
Learning	$ 2,682	$ --	$ --
Dental practice management	6,582	8,320	10,602
Total revenues	9,264	8,320	10,602
Operating expenses			
Learning	3,446	--	--
Dental practice management	4,781	32,708(1)	13,090
Total operating expenses	8,227	32,708	13,090
Earnings (loss) from operations			
Learning	(764)	--	--
Dental practice management	1,801	(24,388)	(2,488)
Total earnings (loss) from operations	$ 1,037	$(24,388)	$ (2,488)

(1) Includes the $23 million intangible asset impairment charge upon termination and restructuring of certain service agreements.

5. NOTES RECEIVABLE FROM AFFILIATED PRACTICES

Notes receivable consisted of the following:

	MARCH 31,	
	2002	2001
	(IN THOUSANDS)	
Notes receivable	$ 2,121	$ 3,409
Less: allowance for doubtful accounts	(1,092)	(2,089)
	1,029	1,320
Notes receivable, current	536	261
	$ 493	$ 1,059

Notes receivables are with Affiliated Practices and are uncollateralized, ranging in length from one to nine years. The notes bear interest at March 31, 2002 at fixed rates ranging from 6% to 10% with interest and principal payments due monthly.

The collection schedule of notes receivable for each of the next five years subsequent to March 31, 2002 were as follows (in thousands):

2003	$ 938
2004	539
2005	197
2006	186
2007	108
Thereafter	153
	$2,121

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6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	MARCH 31, 2002	MARCH 31, 2001
	(IN THOUSANDS)	
Furniture & fixtures	$1,029	$1,447
Equipment	1,612	2,454
Computer equipment	1,604	1,704
Leasehold improvements	106	185
Total property and equipment	4,351	5,790
Less: accumulated depreciation	2,214	2,511
Property and equipment, net	$2,137	$3,279

Depreciation expense for the years ended March 31, 2002, 2001 and 2000 was $869,000, $1.1 million and $1.3 million, respectively.

7. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	MARCH 31, 2002	MARCH 31, 2001
	(IN THOUSANDS)	
Goodwill	$ 7,608	$ --
Management services agreements	3,002	5,528
Deferred financing costs	994	163
Other	108	123
	11,712	5,814
Less: accumulated amortization	2,249	2,707
Intangible assets, net	$ 9,463	$ 3,107

Amortization expense for the years ended March 31, 2002, 2001 and 2000 was $1.2 million, $1.3 million and $1.2 million, respectively.

As discussed in Note 1, the Company modified the terms of its existing Management Services Agreements. The Company recognized an impairment charge of $23 million in fiscal 2001 related to the modifications.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	MARCH 31, 2002	MARCH 31, 2001
	(IN THOUSANDS)	
Accounts payable trade	$ 970	$ 508
Amount payable to former Chief Dental Officer	40	248
Accrued state sales tax	384	--
Accrued interest	121	344
Other	688	107
Total accounts payable and accrued liabilities	$2,203	$1,207

9. TERMINATION OF SERVICE AGREEMENTS WITH AFFILIATED PRACTICES

During the year ended March 31, 2002, the Company received $2.9 million in cash from terminating the service agreements with Affiliated Practices and recognized gains of $1.3 million from such terminations. These gains were recorded as other income in the accompanying consolidated statement of operations for the year ended March 31, 2002.

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10. EXTRAORDINARY ITEM

In March 2002, the Company retired its outstanding line of credit of $8.6 million for $4.4 million resulting in a $4.2 million gain (See Note 12).

In December 2001, a former member of the Board of Directors forgave $101,000 previously due from the Company (See Note 17).

In January 2001, former Liberty Dental Alliance, Inc. stockholders forgave $70,000 previously due from the Liberty Merger Agreement.

In December 1999, a former member of the Board of Directors forgave $350,000 previously due from the Company (See Note 17).

11. BUSINESS COMBINATIONS

LEARNING-EDGE, INC.

On October 1, 2001, the Company acquired all of the outstanding capital stock of Learning-Edge, Inc.; an Arizona based private e-learning company. The Company issued 1,950,000 common shares and $1.1 million of debt under the terms of the acquisition agreement. The debt bears interest at rates ranging from 7.5% to 9.0% and is due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital in excess of $3 million, the payment schedule accelerates (See Note 12). 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's as of October 1, 2001.

The purchase price has been calculated as follows:

	(IN THOUSANDS)
Issuance of EDT Learning common stock valued at $0.51 per share	$ 995
Issuance of EDT Learning debt	1,102
Acquisition costs	200
Net purchase price, including acquisition costs	$2,297
Assumed liabilities	2,946
Total purchase price	$5,243

The total purchase price has been allocated to assets acquired and liabilities assumed based upon their estimated fair values in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". The excess purchase price over the estimated fair value of the tangible assets acquired and liabilities assumed has been assigned to goodwill. Upon completion of an assessment of Learning-Edge's operations, no separately identifiable intangible assets were found to exist.

The purchase price has been allocated as follows:

	PURCHASE PRICE ALLOCATION (IN THOUSANDS)
Current assets	$ 826
Property and equipment	274
Other long-term assets, including goodwill of $4,133	4,143
Current liabilities	(2,867)
Long-term obligations, excluding current maturities	(1,381)
Common stock, net of treasury shares	(2)
Capital in excess of par value	(993)
	$ --

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

	UNAUDITED YEAR ENDED MARCH 31,	
	2002	2001
	PROFORMA	PROFORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues	$ 9,794	$ 9,485

Loss from operations	(169)	(25,351)
Net income (loss) before extraordinary items	280	(25,964)
Net income (loss)	4,545	(25,894)
Earnings (loss) per common share		
Basic	$ 0.35	$ (2.08)
Diluted	$ 0.34	$ (2.08)
Weighted average shares outstanding:		
Basic	12,905	12,446
Diluted	13,441	12,446

The pro forma financial information presented does not purport to indicate what the combined results of operations would have been had the merger occurred at the beginning of the periods presented or the results of operations that may be obtained in the future.

THOUGHTWARE TECHNOLOGIES, INC.

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. The operating results of ThoughtWare are included with the Company's as of January 1, 2002.

The purchase price has been calculated as follows:

	(IN THOUSANDS)
Issuance of EDT Learning common stock valued at $1.39 per share	$2,155
Acquisition costs	200
Net purchase price, including acquisition costs	$2,355
Assumed liabilities	1,464
Total purchase price	$3,819

The total purchase price has been allocated to assets acquired and liabilities assumed based upon their estimated fair values in accordance with SFAS No. 141. The excess purchase price over the estimated fair value of the tangible assets acquired and liabilities assumed has been assigned to goodwill. Upon completion of an assessment of ThoughtWare's operations, no separately identifiable intangible assets were found to exist.

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The purchase price has been allocated as follows:

	PURCHASE PRICE ALLOCATION (IN THOUSANDS)
Current assets	$ 448
Property and equipment	163
Goodwill	3,208
Current liabilities	(1,543)
Long-term obligations, excluding current maturities	(121)
Common stock, net of treasury shares	(2)

Capital in excess of par value	(2,153)
	$ --

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

	UNAUDITED YEAR ENDED MARCH 31,	
	2002	2001
	PROFORMA	PROFORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues	$ 11,287	$ 12,061
Loss from operations	(5,447)	(28,747)
Net loss before extraordinary items	(5,026)	(29,179)
Net loss	(761)	(29,109)
Loss per common share		
Basic	$ (0.05)	$ (2.08)
Diluted	$ (0.05)	$ (2.08)
Weighted average shares outstanding:		
Basic	14,068	13,996
Diluted	14,068	13,996

The pro forma financial information presented does not purport to indicate what the combined results of operations would have been had the mergers occurred at the beginning of the periods presented or the results of operations that may be obtained in the future.

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12. LONG-TERM DEBT

Long-term debt consisted of the following:

	MARCH 31,	
	2002	2001
	(IN THOUSANDS)	
Convertible redeemable subordinated notes, net of $1,132 unamortized discount and beneficial conversion feature of $1,132	$ 3,511	$ --
Credit facility	--	9,302
Convertible subordinated notes, Series A	1,156	1,812
Subordinated promissory notes	1,047	--
Shareholders' notes payable	398	442
Notes payable	592	376

	6,704	11,932
Less: Current portion of long-term debt	1,337	471
Long-term debt	$ 5,367	$11,461

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 principle 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 twenty 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 twenty 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 3 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 in accordance with APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", which will be amortized to interest expense over the next three years. 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 will 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.

The proceeds from the Offering were used to retire the Bank One credit facility and to provide working capital for the Company. The Company paid $4.4 million to Bank One to retire the $8.6 million credit facility resulting in a $4.2 million extraordinary gain. The credit facility was collateralized by liens on certain of the Company's assets, including its rights under the management services agreements, accounts receivable and notes receivable. The liens were released in connection with the retirement of the facility.

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"). During fiscal 2002, $55,000 of these notes were returned by the holders to offset amounts owed to the Company. The Learning-Edge Notes bear interest rates ranging from at 7.5% to 9.0% and are due in two equal installments on October 1, 2003 and on October 1, 2004, respectively. If the Company raises additional capital equal to or in excess of $3 million, the payment schedule accelerates as follows:

CAPITAL RAISED	PRINCIPAL TO BE REPAID
$3.0 million	25%
$3.0 to $3.5 million	40%

$3.5 million to $4.0 million	55%
$4.0 to $4.5 million	70%
$4.5 million to $5.0 million	85%
Greater than $5.0 million	100%

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 6% 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 November 1, 2003. The principal amount of the Series A Securities, if not converted, is payable one-half on November 1, 2002 and one-half on November 1, 2003.

During fiscal 2002, $656,000 of previously issued Series A Securities respectively, were returned by the holders to offset amounts owed to the Company. During fiscal 2001, $1,734,000 of previously issued Series A Securities and $242,000 of the remaining Series B Securities, respectively, were returned by the holders to offset amounts owed to the Company and prepay future service fees.

In connection with the merger with Omega Orthodontics, Inc. in fiscal 2000, the Company assumed certain notes payable to Affiliated Practices. The notes were originally issued in connection with the affiliation agreements at the time the assets of the practices were acquired. At March 31, 2002 and 2001, the remaining principal on these notes was $121,000 and $331,000, respectively. During fiscal 2001, $355,000 of these notes were returned by the holders to offset amounts owed to the Company and prepay future service fees. The notes are due in monthly installments ranging from $1,213 to $4,860 through December 2003, and bear interest at 8.5%.

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 are 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 fiscal 2002 and 2001, $43,750 and $17,500 respectively, of these notes payable were returned by the holders to offset amounts owed to the Company.

The Company entered into an agreement with an officer to purchase substantially all the assets and the operations of Pentegra, Ltd. and Napili, International for total consideration of $200,000, consisting of an aggregate of $100,000 in cash and a $100,000 principal amount 9.0% promissory note. During fiscal 2001, the $100,000 promissory note was transferred to deferred revenue for payment of future management service fees.

The aggregate maturities of long-term debt excluding capital leases for each of the next five years subsequent to March 31, 2002 were as follows (in thousands):

2003	$1,337
2004	1,300
2005	556
2006	--
2007	--
Thereafter	5,775
	$8,968

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13. CAPITALIZATION

PREFERRED STOCK

The Company has the authority to issue ten million shares of preferred stock, par value $.001 per share. At March 31, 2002 and 2001, no shares of preferred stock were issued or outstanding.

COMMON STOCK

As of March 31, 2002, the Company is authorized to issue forty million shares of common stock.

The Company has acquired treasury stock from certain Affiliated Practices for the payment of receivables and purchase of property and equipment.

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

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

In connection with the restricted stock grant, the Company loaned the Chief Executive Officer $179,000 to fund the immediate tax consequences of the grant. Although the loan is expected to be repaid at the time the stock grants are exercised, due to the treatment of the restricted stock as a variable grant the Company recognized a $179,000 charge to income at the date of grant.

WARRANTS

The Company has issued 887,752 warrants to Bank One and the Company's legal counsel to acquire the same number of shares of the Company's common stock exercisable at prices ranging from $0.42 to $1.50 per share.

Omega Orthodontics, Inc. had warrants outstanding to purchase 2,430,000 shares of Omega common stock. As a result of the merger with the Company on July 1, 2000, these warrants now constitute warrants to acquire, on the same terms and conditions as were applicable under the original Omega warrants, 865,343 shares of the Company's common stock exercisable at prices ranging from $18.53 to $27.80 per share.

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14. INCOME TAXES

Significant components of the Company's deferred tax assets (liabilities) were as follows (in thousands):

	MARCH 31 2002	MARCH 31 2001
Deferred tax assets:		
Reserves for uncollectible accounts	$ 696	$ 1,215
Net operating loss carryforward	5,623	8,665
Organizational costs	100	241
Property and equipment	--	56
Other	7	7
Total deferred tax assets	6,426	10,184
Deferred tax liabilities:		
Excess book basis over tax basis of accrued revenues and expenses	--	(591)
Property and equipment	(256)	--
Management services agreement	(335)	--
Total deferred tax liabilities	(591)	(591)
Net deferred tax asset	5,835	9,593
Less valuation allowance	(5,835)	(9,593)
Net deferred tax asset	$ --	$ --
Less current portion	--	--
Noncurrent assets	$ --	$ --

Significant components of the provision for income taxes were as follows:

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000
Current tax expense (benefit):			
Federal	$ 2,023	$ --	$ (52)
State	384	--	--
Total current	2,407	--	52
Deferred tax expense (benefit):			
Federal	(2,023)	--	1,984
State	(384)	--	177
Total deferred	(2,407)	--	2,161
Expense (benefit) for income taxes	$ --	$ --	$ 2,213

The differences between the statutory federal tax rate and the Company's effective tax rate on continuing operations were as follows (in thousands):

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000
		(IN THOUSANDS)	
Tax (benefit) at U.S. Statutory rate (34%)	$ 1,974	$(8,472)	$(1,070)
State income taxes (benefit), net of federal tax	254	(1,012)	(106)
Nondeductible expenses and other	1,530	3,130	150
Change in valuation allowance	(3,758)	6,354	3,239
Total tax expense (benefit)	$ --	$ --	$ 2,213

At March 31, 2002, the Company had net operating loss carry-forwards available to reduce future taxable income of approximately $14.8 million, which begin to expire in 2018. The Company recorded a valuation allowance for its

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entire deferred tax asset because it concluded it is not likely it would be able to realize the tax assets due to the lack of operating history of its implementation of the eBusiness plan. In addition, approximately $0.2 million of the valuation allowance will be allocated to shareholder equity when that portion of the deferred tax asset is recognized in the future. The Company also has $4.5 million of available deductions related to the increase in tax basis of the assets acquired in the Affiliations. The tax benefits will be recognized over a period of six to fourteen years.

15. STOCK OPTION PLANS

The Company grants stock options under the 1997 Stock Compensation Plan, stock-based incentive compensation (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 1,722,938 and 1,643,173 options granted under the Plan, at March 31, 2002 and 2001, respectively. 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 March 31, 2002 and for the three years then ended:

	NUMBER OF SHARES OF UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICES
Outstanding at April 1, 1999	596,666	$6.40
Exercisable at April 1, 1999	136,333	6.69
Granted	608,994	3.17
Exercised	--	--

Forfeited	(58,333)	7.06
Expired	--	--
Outstanding at March 31, 2000	1,147,327	4.74
Exercisable at March 31, 2000	267,263	6.41
Granted	804,901	0.68
Exercised	--	
Forfeited	(309,055)	5.76
Expired	--	
Outstanding at March 31, 2001	1,643,173	2.50
Exercisable at March 31, 2001	488,749	4.08
Granted	515,765	0.65
Exercised	(6,250)	0.50
Forfeited	(429,750)	2.68
Expired	--	
Outstanding at March 31, 2002	1,722,938	1.90
Exercisable at March 31, 2002	766,010	
Weighted average fair value of options granted during the period:		
Fiscal 2000		$1.00
Fiscal 2001		$0.26
Fiscal 2002		$0.44

The fair value of each stock option granted by the Company is estimated on the date of grant using the Black-Scholes option pricing model for the three years ended March 31, 2002 with the following weighted-average assumptions:

dividend yield of 0% for each year; expected volatility of 67% for the year ended March 31, 2000, 65% for the year ended March 31, 2000 and 75% for the year ended March 31, 2002, risk-free interest rates are 6.2% for the year ended March 31, 2000, 4.93%-6.29% for the year ended March 31, 2001 and 3.87% for the year ended March 31, 2002, the expected average lives of the options range from six to ten years.

The following table summarizes information about stock options outstanding at March 31, 2002:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
			(SHARE DATA IN THOUSANDS)		
$0.01-$0.99	887,076	$0.51	8.58	280,945	$0.51
$1.00-$1.99	184,125	$1.40	8.64	88,563	$1.67
$2.00-$2.99	430,000	$2.22	7.28	244,000	$2.31
$3.00-$8.50	221,737	$7.31	6.10	152,503	$7.55
	1,722,938			766,011	

Had the compensation cost for the company's stock based compensation plans been determined using the fair value rather than the intrinsic value of the options, the Company's net income (loss) and diluted net income (loss) per share for 2002, 2001 and 2000 would have been approximately $5.8 million or $0.46,

$(24.9) million or $(2.37) and $(5.4) million or $(0.52), respectively.

16. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company leases a portion of its property and equipment under the terms of capital and operating leases. The capital leases bear interest at varying rates ranging from 8.9% to 12.6% and require monthly payments.

Assets recorded under capital leases, at March 31, 2002, consisted of the following (in thousands):

Cost	$1,492
Less accumulated amortization	590
Total	$ 902

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms of one or more years consisted of the following at March 31, 2002 (in thousands):

	CAPITAL	OPERATING
2003	$ 530	$ 583
2004	435	562
2005	145	525
2006	17	499
2007	--	390
Thereafter	--	284
Total minimum obligations	$1,127	$2,843
Less amount representing interest	161	
Present value of minimum obligations	966	
Less current portion	430	
Long-term obligation at March 31, 2002	$ 536	

The Company incurred rent expense of $335,000, $253,000 and $264,000 in fiscal 2002, 2001 and 2000, respectively.

LITIGATION

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

17. RELATED PARTY TRANSACTIONS

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

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

Due to the above features, the Company has treated the restricted stock as a variable grant. For the fiscal year ended March 31,2002, the Company did not record compensation expense associated with the restricted stock due to the uncertainty that the performance criteria will be reached.

In connection with the restricted stock grant, the Company loaned the Chief Executive Officer $179,000 to fund the immediate tax consequences of the grant. Although the loan is expected to be repaid at the time the stock grants are exercised, due to the treatment of the restricted stock as a variable grant the Company recognized a $179,000 charge to income at the date of grant.

An employment bonus of $1,250,000 to a member of the Board of Directors and Chief Dental Officer of the Company was recorded prior to fiscal 1999. During fiscal 2001, 2000 and 1999, $152,000, $190,000 and $310,000 was paid respectively to this board member. In December 1999, the officer forgave $350,000 due him by the Company. The net extraordinary gain to the Company after a tax effect was $350,000. In December 2001, a settlement agreement was reached regarding the amount to be paid under the terms of the amended employment agreement. The remaining balance due was $248,000. Under the terms of the settlement, the Company agreed to pay this individual $75,000 and issue 53,571 shares valued at $72,000. The remaining balance of $101,000 was forgiven and has been reflected as extraordinary income.

During the year ended March 31, 2001, the Company made a severance payment of $64,000 to the former Chief Financial Officer. During the year ended March 31, 2000, the Company made a severance payment of $30,000 to the former Chief Operating Officer. The Company also agreed to pay the former Chief Operating Officer $72,000 under the terms of the separation.

During fiscal 2001, the Company recognized $10,000 of legal expense to a law firm of which a member of the Company's Board of Directors is a partner.

At March 31, 2000, the Company had notes and accounts receivable from Affiliated Practices who also served as members of the Board of Directors. At March 31, 2000, the total notes receivable from board members were $361,000 and net of an allowance for doubtful accounts of $136,000. The accounts receivable from board members at March 31, 2000 were approximately $430,000 net of allowance for doubtful accounts of $198,000.

18. SUPPLEMENTAL CASH FLOW INFORMATION (in thousands)

	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001
Cash paid during the period for:		
Interest	$1,137	$1,088
Income taxes	--	--
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in connection with acquisitions	3,150	308
Issuance of convertible subordinated notes in connection with acquisitions	1,102	--
Convertible subordinated notes offset against receivables from Affiliated Practices	656	808
Conversion of receivables from Affiliated Practices to notes receivables	204	1,911
Capital leases incurred for equipment	373	22
Treasury stock acquired for payment of receivable from Affiliated Practices and purchase of property and equipment	15	1,052
Notes payable offset against future management service fees	122	1,500

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19. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth summary quarterly results of operations for the Company for the years ended March 31, 2002 and 2001 (in thousands):

2002	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
Net revenue	$ 1,927	$ 1,836	$ 3,025
Operating expenses	1,625	1,273	2,812
Earnings from operations	302	563	213
Earnings before income taxes	183	442	537
Income taxes	--	--	--
Extraordinary items, net	--	--	101
Net earnings	$ 183	$ 442	$ 638
Net earnings per share - basic: (1)			
Earnings before extraordinary item	$ 0.02	$ 0.04	$ 0.04
Extraordinary item	--	--	0.01
Net earnings	$ 0.02	$ 0.04	$ 0.05
Net earnings per share - diluted:			
Earnings before extraordinary item	$ 0.02	$ 0.04	$ 0.04
Extraordinary item	--	--	0.01
Net earnings	$ 0.02	$ 0.04	$ 0.05
Weighted average common shares outstanding:			
Basic	10,573	10,542	12,502
Diluted	10,573	10,542	13,111

2001	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER

Net revenue	$ 2,218	$ 2,210	$ 1,966
Operating expenses	7,400	21,972	1,479
Earnings (loss) from operations	(5,182)	(19,762)	487
Earnings (loss) before income taxes	(5,508)	(19,973)	266
Income taxes	--	--	--
Extraordinary items, net	--	--	--
Net (loss) earnings	$ (5,508)	$(19,973)	$ 266
Net earnings (loss) per share: (1)			
Basic and diluted earnings per share			
Earnings (loss) before extraordinary item	$ (0.54)	$ (2.00)	$ 0.03
Extraordinary item	--	--	--
Net earnings (loss)	$ (0.54)	(2.00)	$ 0.03
Weighted average common share outstanding:			
Basic and diluted	10,175	9,969	10,463

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(1) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share dues not equal the total computed for the year due to stock transactions that occurred.

20. SUBSEQUENT EVENT

In June 2002, the Company acquired certain assets of Quisic Corporation, a California based private company. The consideration for the acquisition was approximately $2,300,000 of the Company's common stock. The transaction will be recorded as of June 17, 2002.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is set forth under the captions "Election of Directors" and "Section 16 Reports" will be set forth in the Company's definitive Proxy Statement (the "2002 Proxy Statement") for its 2002 annual meeting of stockholders, which sections are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the section entitled "Executive Compensation" in the 2002 Proxy Statement, which section is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 2002 Proxy Statement, which section is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The information required by this item will be set forth in the section entitled "Certain Transactions" in the 2002 Proxy Statement, which section is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) FINANCIAL STATEMENTS

Report of Independent Accountants

Consolidated Balance Sheets as of March 31, 2002 and 2001.

Consolidated Statements of Operations for the Years Ended March 31, 2002, 2001 and 2000.

Consolidated Statements of Shareholders' Equity (Deficit) for the Years Ended March 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the Years Ended March 31, 2002, 2001 and 2000.

Notes to the Consolidated Financial Statements.

(a)(2) FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants

The following financial statement schedule is filed as a part of this Report under Schedule II on page 47. Schedule II -- Valuation and Qualifying Accounts for the three fiscal years ended March 31, 2002. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

(a)(3) 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	Restated Certificate of Incorporation of e-dentist.com, Inc.
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	Form of Convertible Redeemable Subordinated Note

4.8	Form of Redeemable Warrant
+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
12	Ratio of Earnings to Fixed Changes
21.1	Subsidiaries of the Registrant
23.1	Consent of PricewaterhouseCoopers LLP

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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.
\+ 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.

(B) REPORTS ON FORM 8-K.

1) Current Report on Form 8-K dated January 15, 2002 was filed January 30, 2002 (Item 2. Acquisition or Disposition of Assets).

2) Current Report on Form 8-K/A dated January 15, 2002 was filed April 1, 2002 (Item 7. Financial statements and exhibits) which contained the audited financial statements of ThoughtWare Technologies, Inc. for the

year ended December 31, 2001 and the unaudited financial statements of ThoughtWare Technologies, Inc. for the year ended December 31, 2000.

3) Current Report on Form 8-K dated July 1, 2002 (Item 2. Acquisition or Disposition of Assets).

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REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders of
EDT Learning, Inc. and Subsidiaries:

Our audits of the consolidated financial statements referred to in our report dated July 11, 2002 appearing in the 2002 Annual Report to Shareholders of EDT Learning, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Phoenix, Arizona
July 11, 2002

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EDT LEARNING, INC.
VALUATION AND QUALIFYING ACCOUNTS
SCHEDULE II

			ADDITIONS		
FISCAL YEAR	DESCRIPTION	BALANCE AT THE BEGINNING OF PERIOD	CHARGED TO BAD DEBT EXPENSE	CHARGED TO OTHER ACCOUNTS	RECOV
2002	Receivables from Affiliated Practices-allowance for doubtful accounts............................	$ 1,147	$ 548	$ --	$ 4
2001	Receivables from Affiliated Practices-allowance for doubtful accounts....................	$ 3,269	$ 1,172	$ --	$
2000	Receivables from Affiliated Practices-allowance for doubtful accounts....................	$ 125	$ 3,244	$ --	$
2002	Notes receivable-allowance for doubtful accounts....................	$ 2,089	$ 12	$ --	$ 7
2001	Notes receivable-allowance for doubtful accounts....................	$ 1,714	$ 533	$ --	$

2000	Notes receivable-allowance for doubtful accounts....................	$ --	$ 1,261	$ 453	$

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Phoenix, State of Arizona, on July 15, 2002.

EDT LEARNING, INC.

By: /s/ JAMES M. POWERS, JR.

James M. Powers, Jr.,
Chairman of the Board, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

NAME	CAPACITY	DATE
/s/ JAMES M. POWERS, JR. James M. Powers, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	July 15, 2002
/s/ JAMES H. COLLINS James H. Collins	Director	July 15, 2002
/s/ DAVID A. LITTLE, D.D.S. David A. Little, D.D.S.	Director	July 15, 2002
/s/ DANIEL T. ROBINSON, JR. Daniel T. Robinson, Jr.	Director	July 15, 2002
/s/ GEORGE M. SIEGEL George M. Siegel	Director	July 15, 2002
/s/ PRESTON A. ZUCKERMAN Preston A. Zuckerman	Director	July 15, 2002