EDT LEARNING INC
Form 10-Q
August 15, 2002

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED JUNE 30, 2002 OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 1-13725

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

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

2999 NORTH 44TH STREET, SUITE 650, PHOENIX, ARIZONA	85018
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

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

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at August 9, 2002, was 16,638,471.

FORM 10-Q REPORT INDEX

10-Q PART AND ITEM NO.

2

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2002 (UNAUDITED)	MARCH 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,078	$ 1,498
Accounts receivable, net of allowance for doubtful		

accounts of $802 and $754, respectively	1,364	824
Prepaid and other current assets	182	427
Notes receivable from affiliated practices--current, net	360	536
Total current assets	2,984	3,285
Property and equipment, net	1,766	2,137
Goodwill	9,584	7,479
Intangible assets, net	1,843	1,984
Notes receivable from affiliated practices, net	352	493
Other assets	232	209
Total assets	$ 16,761	$ 15,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long term debt	$ 903	$ 1,337
Accounts payable and accrued liabilities	1,865	2,203
Current portion of deferred revenue	565	853
Current portion of capital lease liabilities	396	430
Total current liabilities	3,729	4,823
Long term debt, less current maturities	5,826	5,367
Capital lease liabilities	415	536
Deferred revenue	156	195
Total liabilities	10,126	10,921
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Common stock, $.001 par value 40,000,000 shares authorized, 17,813,726 and 15,281,485 issued, respectively	18	15
Additional paid-in capital	33,657	31,336
Accumulated deficit	(25,899)	(25,544)
Less: 1,179,630 treasury shares at cost	(1,141)	(1,141)
Total shareholders' equity	6,635	4,666
Total liabilities and shareholders' equity	$ 16,761	$ 15,587

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

3

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

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Revenues		
Learning	$ 1,131	$ 159

Dental contracts	1,171	1,768
Total revenues	2,302	1,927
Operating expenses		
Research and development	892	227
Sales and marketing	360	203
General and administrative	728	663
Depreciation and amortization	509	532
Total operating expenses	2,489	1,625
Earnings (loss) from operations	(187)	302
Interest expense	(385)	(288)
Interest income	36	76
Other income	181	93
Income (loss) before income taxes	(355)	183
Income taxes	--	--
Net income (loss)	$ (355)	$ 183
Earnings (loss) per common share, basic and diluted	$ (0.02)	$ 0.02
Number of shares used in calculation of earnings (loss) per share, basic and diluted	14,507	10,573

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

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

	COMMON STOCK		ADDITIONAL			
	SHARES	AMOUNT	PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK	S
Balances, April 1, 2002	15,281	$ 15	$ 31,336	$ (25,544)	$ (1,141)	
Issuance of common stock	2,533	3	2,321	--	--	
Net loss	--	--	--	(355)	--	
Balances, June 30, 2002	17,814	$ 18	$ 33,657	$ (25,899)	$ (1,141)	

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

EDT LEARNING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	THREE MONTHS ENDED JUNE 30, 2002	THREE MONTHS ENDED JUNE 30, 2001
Net cash used in operating activities	$ (832)	$ (15)
Cash flows from investing activities:		
Repayment of notes receivable	337	76
Proceeds from practice terminations	382	31
Capital expenditures	(72)	(8)
Net cash provided by investing activities	647	99
Cash flows from financing activities:		
Repayment of long-term debt	(97)	(97)
Repayment of capital lease liabilities	(155)	(90)
Proceeds from stock option exercise	17	--
Net cash used in financing activities	(235)	(187)
Net change in cash and cash equivalents	(420)	(103)
Cash and cash equivalents, beginning of period	1,498	1,051
Cash and cash equivalents, end of period	$ 1,078	$ 948
Supplemental disclosure of cash flow information:		
Issuance of common stock	$ 2,307	$ --

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

6

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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.

The unaudited consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes the presentation and disclosures herein are adequate to make the information not misleading, but do not purport to be a complete presentation inasmuch as all note disclosures required by generally accepted accounting principles are not included. In the opinion of management, the consolidated financial statements reflect all elimination entries and normal recurring adjustments that are necessary for a fair statement of the results for the interim periods ended June 30, 2002 and 2001.

Fiscal operating results for interim periods are not necessarily indicative of the results for full years. It is suggested that these consolidated financial statements be read in conjunction with the financial statements of the Company and related notes thereto, and management's discussion and analysis related thereto, all of which are included in the Company's annual report on Form 10-K for the year ended March 31, 2002, as filed with the SEC.

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.

RECENT EVENTS, LIQUIDITY AND MANAGEMENT PLANS

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 fiscal 2002 and one e-Learning company during the three months ended June 30, 2002 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 and the three months ended June 30, 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. During the quarter ended June 30, 2002, the Company used cash flows from operations of $832,000 and reported a working capital deficit of $745,000. 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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.

The Company has not added to or changed its critical accounting policies significantly since March 31, 2002 other than in relation to the new prouncements discussed below. For a description of these policies, refer to note 3 of the consolidated financial statements in the Company's annual report on Form 10-K for the year ended March 31, 2002.

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 to purchase approximately 1,699,646 and 1,684,563 shares of Common Stock at exercise prices above market value were excluded from the calculation of earnings per share for the three months ended June 30, 2002 and 2001, respectively, because their effect would have been antidilutive.

NEW PRONOUNCEMENTS

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. The standard requires that legal obligations associated with the retirement of long-lived intangible assets be recorded at fair value when incurred and will be effective for the Company on January 1, 2003. The adoption of this statement is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. 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.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities and is effective for the Company on January 1, 2003. The Company is currently reviewing the provisions of SFAS No. 146 to determine the standard's impact upon adoption.

TRANSITIONAL DISCLOSURE UNDER SFAS NO. 142

On April 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets" and as a result, the Company's goodwill is 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 step must be measured as of the beginning of the fiscal

8

year. However, a company has six months from the date of adoption to complete the first step. 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. Any impairment loss resulting from the transitional impairment test will be reflected as the cumulative effect of a change in accounting principle. The Company has not yet determined what effect these impairment tests will have on the Company's earnings and financial position.

Had the Company adopted SFAS No. 142 on April 1, 2001, net income would have increased by $23,000 for the three months ended June 30, 2001 due to the non amortization of goodwill. The adoption of this statement would not have affected basic and diluted earnings per share of $0.02 for the three months ended June 30, 2001.

3. SEGMENT INFORMATION

During the periods ended June 30, 2002 and 2001, the Company had two reportable segments, learning and dental practice management. The learning segment included revenues and operating expenses related to the development and sale of the Company's learning products. The dental practice segment included revenues from service contracts, operating expenses related to the delivery of the dental services and other non-operating expenses.

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

	THREE MONTHS ENDED JUNE 30,	
	2002	2001
Revenues		
Learning	$ 1,131	$ 159
Dental practice management	1,171	1,768
Total revenues	2,302	1,927
Operating expenses		
Learning	1,252	430
Dental practice management	1,237	1,195
Total operating expenses	2,489	1,625
Earnings (loss) from operations		
Learning	(121)	(271)
Dental practice management	(66)	573
Total earnings (loss) for operating	(187)	302
Non operating expenses		

Learning	--	--
Dental practice management	168	119
Total non-operating expenses	168	119
Income (loss) before income taxes		
Learning	(121)	(271)
Dental practice management	(234)	454
Total income (loss) before income taxes	$ (355)	$ 183

4. BUSINESS COMBINATIONS

QUISIC CORPORATION

On June 17, 2002, the Company acquired certain assets of Quisic Corporation; a California based private e-learning company for 2,500,000 common shares. The operating results of Quisic are included with the Company's as of June 17, 2002.

9

The purchase price has been calculated as follows:

	(IN THOUSANDS)
Issuance of EDT Learning common stock valued at $0.92 per share	$2,300
Acquisition costs	100
Net purchase price, including acquisition costs	$2,400
Assumed liabilities	223
Total purchase price	$2,623

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 and identifiable intangible assets acquired and liabilities assumed has been assigned to goodwill.

The purchase price has preliminarily been allocated as follows:

	PURCHASE PRICE ALLOCATION (IN THOUSANDS)
Current assets	$ 186
Property and equipment	75
Goodwill	2,155
Identifiable intangible assets	207
Current liabilities, including deferred revenue	(323)
Common stock, net of treasury shares	(3)
Capital in excess of par value	(2,297)
	$ --

5. COMMITMENTS AND CONTINGENCIES

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 in the defense to the alleged counterclaims.

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

THE FOLLOWING DISCUSSION AND ANALYSIS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE BASED ON CURRENT PLANS AND EXPECTATIONS OF 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.

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 certain assets of Quisic Corporation; a California based private company in June, 2002. The Company issued 2,500,000 common shares under the terms of the agreement. Since the acquisition date, operating results of Quisic 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.

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 three months ended June 30, 2002 and 2001 were $2.3 million and $1.9 million respectively, an increase of $375,000. The Company recognized $1.1 million in learning revenues in the three months ended June 30, 2002 compared with $159,000 of learning revenues in the three months ended June 30, 2001, an increase of $972,000. The increase is a result of the Company's continuing expansion into the e-Learning marketplace and has been fueled by the acquisitions in fiscal 2002 of Learning-Edge, Inc., ThoughtWare Technologies, Inc. and the acquisition this quarter of certain assets of Quisic Corporation. Revenue from dental contacts decreased by $597,000 during the three months ended June 30, 2002 as compared to the three months ended June 30, 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 9 to 18 months, which will reduce revenue and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results.

11

OPERATING EXPENSES

Operating expenses consist of research and development, sales and marketing, general and administrative and depreciation and amortization expenses. The Company incurred operating expenses of $2.5 million and $1.6 million for the three months ended June 30, 2002 and 2001, respectively, an increase of $864,000.

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 $892,000 for the three months ended June 30, 2002 compared with $227,000 for the three months ended June 30, 2001, an increase of $665,000. The increase is a result of the Company's continuing expansion into the e-Learning marketplace.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature.

Sales and marketing expenses were $360,000 for the three months ended June 30, 2002 compared with $203,000 for the three months ended June 30, 2001, an increase of $157,000. The increase is a result of the Company's continuing expansion into the e-Learning marketplace.

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

For the three months ended June 30, 2002 and 2001, general and administrative expenses were $728,000 and $663,000 respectively, an increase of $65,000. General and administrative expenses increased primarily due increases in professional services of $111,000 and occupancy of $49,000. These increases were offset by a decrease in bad debt expense of $95,000.

Depreciation and amortization expenses were $509,000 and $532,000 for the three months ended June 30, 2002 and 2001, respectively, an decrease of $23,000. 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., ThoughtWare Technologies, Inc. and certain assets of Quisic Corporation.

INCOME TAX EXPENSE

The Company recorded no tax benefit during the three months ended June 30, 2002 because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its eBusiness plan. At June 30, 2002, the Company has a net deferred tax asset of $5.9 million with a corresponding valuation allowance. The Company's tax benefits are scheduled to expire over a period of six to fourteen years.

The Company recorded no tax expense during the three months ended June 30, 2001 due to the utilization of its net operating loss carryforward.

NEW PRONOUNCEMENTS

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. The standard requires that legal obligations associated with the retirement of long-lived intangible assets be recorded at fair value when incurred and will be effective for the Company on January 1, 2003. The adoption of this statement is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2002, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued. This statement provides guidance on the classification of gains and losses from the extinguishment of debt and on the accounting for certain specified lease transactions. 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.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued. This statement provides guidance on the recognition and measurement of liabilities associated with disposal activities

and is effective for the Company on January 1, 2003. The Company is currently reviewing the provisions of SFAS No. 146 to determine the standard's impact upon adoption.

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 fiscal 2002 and one e-Learning company during the three months ended June 30, 2002 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. During the quarter ended June 30, 2002, the Company used cash flows from operations of $832,000 and reported a working capital deficit of $745,000. 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 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. During the quarter ended June 30, 2002, the Company received $382,000 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 June 30, 2002, the Company had a working capital deficit of $745,000. Current assets included $1.1 million in cash and $1.7 million in accounts and notes receivable. Current liabilities consisted of $565,000 of deferred revenue, $1.3 million of current maturities of long-term debt and capital leases and $1.9 million in accounts payable and accrued liabilities.

During the three months ended June 30, 2002 and 2001, the Company used $832,000 and $15,000 respectively for operating activities, primarily from the use of working capital.

13

The Company had outstanding total debt (secured and unsecured promissory notes) of $8.9 million at June 30, 2002. Of that amount, the Company has $5.8 million of convertible redeemable subordinated notes, which mature on March 29, 2012. The remaining balance of $3.1 million is owed to various parties with differing maturities as follows: $389,000 are unsecured notes which arose as part of the Company's initial public offering and are due on March 30, 2003; $105,000 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. $1.4 million are unsecured promissory notes of which $1.0 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 contractual payments related to such obligations at June 30, 2002 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN ONE TO THREE YEARS	DUE IN FOUR TO FIVE YEARS
Long term debt	$ 8,871	$ 903	$ 2,193	$ --
Capital lease obligations	947	482	453	12
Operating lease obligations	2,695	580	1,064	782
Total commitments	$12,513	$ 1,965	$ 3,710	$ 794

Cash generated from investing activities was $382,000 and $31,000 in cash received from service agreement terminations and $337,000 and $76,000 from the collection of notes receivable during the three months ended June 30, 2002 and 2001 respectively. Cash used in investing activities was $72,000 and $8,000 for capital expenditures in the three months ended June 30, 2002 and 2001, respectively.

During the three months ended June 30, 2002 and 2001, $252,000 and $187,000 respectively was used to repay long-term debt and capital leases. The Company received $17,000 in cash from the exercise of stock options during the three months ended June 30, 2002.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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

As of June 30, 2002, the carrying value of our outstanding convertible redeemable subordinated notes was approximately $3.6 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.

14

PART II -- OTHER INFORMATION

ITEM 1. 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 in the defense to the alleged counter-claims.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS OF SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit No.	Description

-----------	-----------
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 -- James M. Powers, Jr.
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 -- Charles Sanders

(b) REPORTS ON FORM 8-K

1) 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.

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

SIGNATURE

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

EDT LEARNING, INC.

Dated: August 14, 2002

By: /s/ Charles Sanders

Charles Sanders
Sr. Vice President-Chief Financial Officer