EDT LEARNING INC
Form 10-K
June 30, 2003

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

FORM 10-K

For Annual and Transition Reports
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

(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, 2003.

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

FOR THE TRANSITION PERIOD FROM __________ TO __________.

COMMISSION FILE NUMBER __________

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)

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

Securities registered pursuant to Section 12(b) of the Act	Name of Exchange on Which Registere
COMMON, $0.001 PAR VALUE PER SHARE	AMERICAN STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act

NONE

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 of 1934 during the preceding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark 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. [ ]

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

The aggregate market value of the registrant's voting and non-voting Common Stock held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold on the American Stock Exchange as of September 30, 2002, was approximately $5,487,080.

The number of shares of Common Stock of the registrant, par value $0.001 per share, outstanding at June 13, 2003 was 15,773,471, net of shares held in treasury.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to the Annual Meeting of Stockholders of the registrant to be held on August 15, 2003 are incorporated by reference into Part III of this Report.

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Unless the context requires otherwise, references in this document to "EDT Learning," "EDT" the "Company," "we," "us," and "our" refer to EDT Learning, Inc.

Statements contained in this Annual Report on Form 10-K that involve words like "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These are statements that relate to future periods and include, but are not limited to, statements as to our ability to: sell our products and services; improve the quality of our software; derive overall benefits of our products and services; introduce new products and versions of our existing products; sustain and increase revenue from existing products; integrate current and emerging technologies into our product offerings; control our expenses including those related to sales and marketing; research and development and general and administrative expenses; control changes in our customer base; support our customers and provide sufficient technological infrastructure; obtain sales or increase revenues; impact the results of legal proceedings; control and implement changes in our employee headcount; obtain sufficient cash flow; manage liquidity and capital resources; realize positive cash flow from operations; or realize net earnings.

Such forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from anticipated results. These risks and uncertainties include, but are not limited to, our dependence on our products or services, market demand for our products and services, our ability to attract and retain customers and channel partners, our ability to expand our technological infrastructure to meet the demand from our customers, our ability to recruit and retain qualified employees, the ability of channel partners to successfully resell our products, the status of the overall economy, the strength of competitive offerings, the pricing pressures created by market forces, and the risks discussed herein (See "Managements Discussion and Analysis of Financial Condition and Results of Operations"). All forward-looking statements included in this report are based on information available to us as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, to reflect any change in our expectations or in events, conditions or circumstances on which any such statement is based. Readers are urged to carefully review and consider the various disclosures made in this report and in our other reports filed with the SEC that attempt to advise interested parties of certain risks and factors that may affect our business. Our reports are available free of charge as soon as reasonably practicable after we file them with the SEC and may be obtained through our Website located at www.edtlearning.com.

The Company's trademarks and service marks include EDT Learning.com, EDT Learning, e-Learning Simplified, MeetingLinc, LearnLinc, SupportLinc, and ConferenceLinc, graphics associated with that four-product suite of Web collaboration products, ThoughtWare, Quisic, and Learning-Edge. We also refer to trademarks of other corporations and organizations in this report.

PART I

ITEM 1. BUSINESS

OVERVIEW

We develop and sell software that provides real-time collaboration and training using Web based tools that we believe increase worker productivity and save money. Our four-product suite led by LearnLinc (which also includes MeetingLinc, ConferenceLinc, and SupportLinc) is an award winning virtual classroom, Web conferencing, collaboration and technical support suite of software. With our Web collaboration, conferencing and virtual classroom products we provide simple, reliable and cost-effective tools for remote presentations, meetings and online events. Our software is based on a proprietary architecture and code that finds its origins as far back as 1994, in the beginnings of the Web collaboration industry. LearnLinc has been translated into seven languages, and is now available in version 7.0. Our customers can choose from several different pricing options involving either the purchase of the software with hosting by the customer or the rental of the software with hosting by the Company. Our customers may choose between our products on a stand-alone basis or integrated with one of our other award winning products depending upon their own particular needs. Customers wishing to collaborate and present, may choose between MeetingLinc, LearnLinc, ConferenceLinc and SupportLinc to deliver live events over the Internet in a one-to-one, one-to-many, and many-to-many communication formats. Uses for our four-product suite of Web collaboration software include online business meetings, sales presentations, employee training sessions, product demonstrations and technical support assistance. We sell our software solutions to large and medium-sized corporations inside and outside of the Fortune 1000 targeting a wide array of vertical markets. We market our products using a direct sales force and an indirect distribution channel consisting of referral partners, international and national value added resellers ("VAR") network, and OEM partners. Our revenues from our Web collaboration software are a mixture of high margin software sales and monthly recurring revenues from annual maintenance and support agreements and subscription agreements.

As of March 31, 2003, we also offered to our customers a wide array of e-Learning and training products and services. Our sales and marketing efforts have recently been focused toward our virtual classroom Web casting and online collaboration four-product suite lead by LearnLinc. We also continue to offer, for those seeking to manage users and e-Learning content, EDT's Learning Management System, which has been combined with a suite of workforce management solutions (the ThoughtWare Suite) that includes Career Planner, Job Seeker, and Performance Coach. For the development of custom online content, we offer an award winning content development software, i-Canvas, and award winning custom content services that have been providing proven results for over 15 years. Finally, we offer a library of online courses focused on the training of executives on essential business topics. The Executive Leadership Series with the flagship course being a 75 hour online "mini-MBA" program developed in conjunction with the prestigious Tuck School of Business at Dartmouth.

The Company began operations in March of 1998 under the name Pentegra Dental Group, Inc. Its formation included the simultaneous roll-up of 50 businesses and an initial public offering. The Company's initial goals were to provide training and practice enhancement services nationwide to our affiliated dental practices including the use of our proprietary Web-based management and financial reporting system. Beginning in April of 2000, the Company modified its affiliated service agreements and commensurate with that change the Company recorded certain one-time charges against earnings during the fiscal year ending March 31, 2001. The Company evolved from its legacy business into its current e-Learning focus during its fiscal year 2002, and accordingly, changed its name to EDT Learning, Inc. (now trading as AMEX:EDT). As a result of that change in business model and underlying agreements, comparisons to the financial results of periods prior to fiscal year 2002 may not be appropriate or relevant.

PRODUCTS AND SERVICES

The Company's current products and services fall into four major categories:

- The four-product suite lead by LearnLinc - Software that manages and delivers live online collaboration and training.
- i-Canvas and EDT's Learning Manager - Software that lets non-technical users create online courses and manage users.
- Executive Training Library - a library of online courses that includes 130 hours of online business courses with topics that include accounting, finance, marketing and managerial economics.
- Custom Course Development Services - development services that create online courses and learning material for the training of employees and vendors or the education of customers on products features and benefits using the Internet.

While we are a comprehensive provider of e-Learning products and services, over the past 12 months we shifted our focus away from our lower margin custom content service business toward our higher margin software products. As part of that strategy we now place special emphasis on the development and sale of LearnLinc and the related Web collaboration products in that suite.

THE WEB COLLABORATION SUITE:

- LEARNLINC — an Internet based software that is designed for training and education of remote students. With LearnLinc, instructors and students can collaborate and learn remotely providing an enhanced learning environment that replicates and surpasses traditional instructor-led classes. Instructors can create courses and classes, add varied agenda items, enroll students, deliver live instruction, and deliver engaging content that includes audio, video, and interactive multimedia. LearnLinc in combination with TestLinc(TM)permits users to administer comprehensive tests, organize multiple simultaneous breakout sessions and record, edit, play back and archive entire sessions for future use.

- MEETINGLINC — an online collaboration software designed to facilitate the sharing of documents, PowerPoint(TM)presentations, graphics and applications between meeting participants without leaving their desks. MeetingLinc allows business professionals, government employees, and educators the ability to communicate more effectively and economically through interactive online meetings using voice-over-IP technology to avoid the expense of travel and long distance charges. MeetingLinc allows remote participants to give presentations, demonstrate their products and services, annotate on virtual whiteboards, edit documents simultaneously, and take meeting participants on a Web tour. Like all of our Web collaboration products in the suite, MeetingLinc includes integrated voice and video conferencing services.

- CONFERENCELINC — a presentation software designed to deliver the message in a one-to-many format providing professional management of Web

conferencing events. ConferenceLinc manages events such as earning announcements, press briefings, new product announcements, corporate internal mass communications and external marketing events. ConferenceLinc is built on the MeetingLinc foundation so that is combines the best interactive features with an easy to use interface providing meaningful and measurable results to presenters and participants alike. Its design includes features that take the hassle out of planning, and supporting a hosted Web seminar while providing an easy to use participant interface. ConferenceLinc includes automatic email invitations, "one click join" capabilities, online confirmations, update notifications, and customized attendee registration. With ConferenceLinc, presenters have the ability to not only present content but also gain audience feedback using real-time polling, live chat, question and answer sets and even post event assessments. The entire presentation is easily recordable for viewing offline or review after "the show" with the recorder capturing not only the content but also the audio, video, and all participants' feedback.

- SUPPORTLINC — an online technical support and customer sales support software designed to give customer service organizations the ability to provide remote hands-on support for products, systems, or software applications. SupportLinc manages the support call volume and enhances the effectiveness of traditional telephone-based customer support systems. SupportLinc's custom interface is designed to be simple to use improving the interaction and level of support for both the customer and the technical support agent.

Our Web collaboration suite of four products is also sold as an enterprise installation permitting the customer to purchase the entire suite for organization-wide use. The enterprise edition provides for unlimited use for an unlimited number of users and integrates all four of our Web collaboration products. Corporations, educational institutions and governments alike may purchase or lease any one product or a combination of the products to suit their individual needs. Because our Web collaboration products are available for sale as an application service provider ("ASP") hosted solution or as a behind-the-firewall customer installation, customers can choose the financial model that works best for their budget and IT capabilities. Customers who purchase our software have the option to also purchase a customer support and maintenance agreement that varies in term from one to five years, and typically costs 15% of the purchase price of the product.

I-CANVAS AND EDT'S LEARNING MANAGEMENT SYSTEM:

Our i-Canvas software permits the development by non-technical users of engaging Web-based content that can be easily published to the Internet. Our learning management system 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. Our learning systems includes a suite of human resource software and tools which include:

- Learning Trakker (helps managers effectively track and administer the

learning and development processes);

- o People Search (provides tools for sourcing, screening and selecting qualified individuals);
- o Performance Coach (equips managers, supervisors and team leaders with the tools to establish goals and, provide consistent, meaningful feedback to employees); and
- o Career Planner (provides employers and employees with tools to match their career objectives with internal opportunities).

THE EXECUTIVE TRAINING LIBRARY:

An off-the-shelf online library of content on business-specific topics such as innovation, leadership, and communication co-developed with respected names in business such as the Tuck School of Business at Dartmouth College. Our courses include interactive activities and simulations that let employees try new skills in a safe environment where practice, failure, feedback, and success are part of learning. Real-world scenarios, coupled with engaging media, makes employees active participants, which transforms learning into practical results. This library has been specifically developed for executives and their learning styles. The content is engaging, allowing for deeper exploration in specific content areas while keeping students on track with challenging exercises and assessments. Adult learning principles are strictly adhered to in content presentations, with the emphasis on a problem-solving instructional approach that we believe transfers to on-the-job situations. Both the student and the organization have complete information on course progress and results. The full online "mini-MBA" program developed in conjunction with the Tuck Business School at Dartmouth provides over 75 hours of in depth training with modules including the Financial Accounting Series, the Finance Series, the Managerial Economics Series and the Marketing Series.

CUSTOM COURSE DEVELOPMENT SERVICES:

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 our own i-Canvas software 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.

SALES AND MARKETING

The Company's marketing strategy is focused on building and expanding relationships in its existing customer base and distribution channels to further penetrate the Fortune 1000 and mid markets. We expect over the coming year to increase our software sales providing higher margin revenues backed by multi-year support and maintenance agreements. Our marketing program includes market analysis, direct email campaigns, outbound call center solicitation, public relations, lead generation systems, and efforts to educate organizations in our target markets. With acquisition of the LearnLinc product, we have implemented both a direct and indirect sales strategy to more fully leverage our market coverage.

Direct Sales: Our direct sales force is relatively small and focuses on mid-sized and enterprise level customers. The sales team is organized by geographic territory and each sales representative is assigned specific vertical

markets that include financial services, transportation, hospitality, healthcare and franchises. Since November 2002, a majority of our LearnLinc revenues were provided by direct sales to customers. The remaining portion of our LearnLinc revenues were indirect sales provided by our referral partners, value added resellers and OEM partners in national and international markets.

Indirect Sales: We have engaged organizations that market and sell our products and services through their sales distribution channels and are generally either referral partners, VAR's or OEM distributors. As of March 31, 2003, we had 60 organizations selling our products with 32 of those partners providing indirect sales in North America including the United States, Canada and Mexico, and have 28 partners providing indirect sales in 13 countries outside North America, including the United Kingdom, Spain, Italy, Germany, Australia, and Japan. Referral partners execute referral agreements providing for the payment of a fee upon the closing of a sale, with a Distribution Agreement typically having a one-year renewable term. Our value added resellers and OEM partners execute agreements to resell our products to their customers through direct sales and in some cases through integration of our products into their products or service offerings. Our distribution agreements typically have terms of one to three years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. In most of these agreements, the distribution partner purchases the product from us and resells the product to its customers. Under those agreements, we record only the amount paid to us by the distributor as revenue and recognize revenue when all revenue recognition criteria have been met.

CUSTOMERS

Our corporate customer list includes those inside and outside of the Fortune 1000, including Hilton Hotels, International Paper, JP Morgan Chase, Aetna, Travelers Insurance, Wells Fargo, Discover Card, and United Airlines. We also serve the higher educational and governmental markets including The State University of New York, The Supreme Court of Arizona, Kent State University, and the United Nations. Our reach includes customers both within the United States, Canada, Mexico, and outside the U.S. in 13 other countries.

AWARDS

We are proud of the recognition received by the Company from industry leading experts, software associations, and e-Learning organizations. Together with the companies we acquired we have been honored with more than 55 awards from notable e-Learning authorities such as The American Society for Training and Development (ASTD), BRANDON HALL MAGAZINE, and NEW MEDIA MAGAZINE. The list of awards include four National Telly Awards; six Software Service Provider of the Year Awards, two Gold Medals from e-Learning authority Brandon Hall, and most notably two first-place awards by a vote of e-Learning professionals:

- I-CANVAS - First prize in the Software Simulation Shootout "Best of the Best" award in the Brandon Hall sponsored competition at Online Learning 2001 Conference and Exposition, beating industry leaders, Macromedia and Click2Learn.

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- LEARNLINC - First prize in the Software Simulation Shootout "Best of the Best" award in the Brandon Hall sponsored competition at Online Learning 2002 Conference and Exposition, beating industry leaders, WebEx and PlaceWare.

TECHNOLOGY & INTELLECTUAL PROPERTY

Most of our existing technology and intellectual property were originally

developed by organizations that we have obtained by acquisition over the past 18 months. Conservatively, tens of millions of dollars have been spent and over a decade of human effort have been invested by those organizations in product development prior to our acquisition. With our continued investment in our proprietary systems and software applications, our organization and our customers are reaping the benefit of that endeavor without direct investment by the Company. For our ASP customers, we host our software and provide Internet connectivity from our dedicated servers in Los Angeles, California, Phoenix, Arizona, and Troy, New York. We run a network infrastructure both on-premises in our Phoenix and Troy offices and through leased data centers. Our ASP network located in California is redundant in design and secure from unauthorized access. Our CD-ROM based Web collaboration software products are client / server applications that operate in a Windows environment. Our ASP Web collaboration software, Executive Training Series courses and LMS offerings operate in a Linux environment using an Oracle database.

RESEARCH & DEVELOPMENT

The Company invested a substantial portion of its working capital and resources to the continued development of its e-Learning software and technologies. As of March 31, 2003 we employed 18 full-time engineers, programmers and developers who were focused on developing new features and enhancements to our existing software offering and expanding that offering with new products and services. The primary focus of our research and development efforts are on improving the functionality and performance of LearnLinc, MeetingLinc, ConferenceLinc and SupportLinc as well as developing new features that meet changing market demands. We invested over $3.2 million in direct and indirect research and development activities in the fiscal year ending March 31, 2003. We expect to continue to make significant investments in research and development for the next several years.

CUSTOMER SERVICE

We offer technical and customer support through a customer support team that has been together for over ten years. We offer differing levels of support depending upon the maintenance and support agreement executed by the customer that includes telephone support through a toll-free number from 8:30 a.m. until 8:30 p.m. Eastern Time and an email request system. We also offer access to self-help information that includes a database of frequently asked questions, quick reference and advanced end-user guides, online tutorials, and access to a real-time searchable knowledge database. Most of our requests for technical support are questions concerning general product functionality with some assistance with technical computer and firewall issues. Our response times vary depending upon the issue, but the vast majority of our customer support questions are addressed during the initial technical support call. Customer issues and support tickets are tracked within our CRM database for use by our technical support teams and customers searching the knowledge database.

COMPETITION

Because we are a comprehensive provider of e-Learning products and services, we face varying levels of competition from many providers, but no one provider is a direct competitor to all of our products and services. With our emphasis being our Web collaboration four-product suite, we face competition from various Web conferencing and collaboration software companies including WebEx, PlaceWare, Centra, as well as providers of similar software such as IBM, Oracle, and Microsoft. The Web collaboration, virtual classroom and Web conferencing industry continue to change and evolve rapidly, and we expect continued consolidation within the industry. Most notably, Microsoft recently acquired PlaceWare for over $200 million announcing their intention to expand in the online collaboration software business. Many of our current and potential competitors have longer operating histories, significantly greater financial,

technical and other resources and greater name recognition than we have. Our competitors may establish in the future indirect relationships with third parties or with each other to increase the competition we currently face or may introduce products or services that have better capabilities or performance, lower prices, or broader distribution. We have identified what we believe to be

the principal competitive factors in our markets, including ease of use; breadth of features; quality and reliability of our products; pricing pressures; access to indirect channel sales and the effectiveness of our direct sales force; ability to develop and support software enhancements; the scalability of our ASP services; and limitations presented by the use of the public Internet. Although we believe our products compete favorably, we may not be able to maintain a competitive position against current and potential competitors, especially those with greater financial resources.

ACQUISITIONS

As a part of our consolidation strategy, we acquired four e-Learning companies in the past 18 months providing the Company with expertise, tangible and intangible assets, technology, customer base, recurring revenues, and a global VAR network.

October 2001 - Learning-Edge, Inc. ("Learning-Edge"), a Phoenix based provider of custom content development services. We acquired from Learning-Edge substantially all of its assets, which include an existing customer base, and an award winning Content Development Tool (i-Canvas).

January 2002 - ThoughtWare Technologies, Inc. ("ThoughtWare"), a Memphis based provider of workforce management software. We acquired from ThoughtWare a small recurring revenue base, and HR workforce performance software that supports human capital development (Learning Tracker; People Search; Performance Coach and Career Planner).

June 2002 - Quisic Corporation ("Quisic"), a Los Angeles based provider of custom content development services and e-Learning software. We acquired from Quisic certain assets primarily consisting of approximately 130 hours off-the-shelf library of online courses (including the 75 hour Tuck Business School at Dartmouth with content focused on accounting, finance, management, and marketing).

November 2002 - Mentergy, Inc. ("Mentergy"), a provider of virtual classroom software. We acquired from Mentergy all assets associated with LearnLinc and TestLinc software, an existing customer base, a VAR network and a recurring revenue stream.

EMPLOYEES

As of March 31, 2003, the Company employed 46 full time people with the majority of those located at our corporate offices in Phoenix, Arizona. Our employee base consists of 7 performing general and administrative functions, 21 performing customer support, sales and marketing functions and 18 performing programming, research and development functions. None of the Company's employees are represented by collective bargaining agreements.

LEGACY AFFILIATED DENTAL SERVICE REVENUE

As a part of our legacy dental management business we provided services to certain affiliated practices in accordance with modified management service agreements. Those services generally were access to online enhancement, access to online payroll processing, access to online consulting and seminars. For the

fiscal years ending March 31, 2003 and 2002, we earned dental revenues of $3.1 million and $6.6 million, respectively. As anticipated and previously announced, nearly all of those legacy management service agreements terminated during fiscal 2003 and only $200,000 is anticipated to be earned as dental revenues for fiscal 2004.

ITEM 2. PROPERTIES

We maintain corporate headquarters in Phoenix, Arizona and have occupied that 14,000 square foot Class A facility since the Company's inception in 1998. The Phoenix lease began in 1998 and has a term of ten years. The Phoenix offices can accommodate up to 85 employees and is fully equipped with up to date computer equipment and server facilities. The Phoenix lease requires a monthly rent and operating expenses of $29,000 and $1,000 respectively. We also maintain a 2,500 square foot Class B facility in Troy, New York costing $4,800 per month with an emphasis in that location on research and development, and technical support. As a part of the ThoughtWare acquisition we leased facilities in Memphis, Tennessee consisting of 2,700 square feet with a three-year term costing $4,400 per month. Those Memphis operations were consolidated into

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Phoenix operations and we are currently seeking to vacate those premises with the assumption of the lease by a sub-tenant. Our subsidiary, TW Acquisition Subsidiary, Inc., is obligated under an operating lease in Carlsbad, California consisting of 3,300 square feet with a three-year remaining term costing approximately $8,000 per month and the space has been sub-leased for the remaining term for approximately $7,200 per month.

ITEM 3. LEGAL PROCEEDINGS

As of March 31, 2003, the Company has pending as plaintiff seven collection lawsuits against affiliated practices for the collection of contractual service fees and the principal of promissory notes.

The Company is a defendant and counterclaimant in a lawsuit with Computer Associates a former vendor asserting damages of approximately $389,000, with allegations of breach of contract revolving around the purchase of software and certain services provided by Computer Associates. The Company is vigorously defending the lawsuit and believes that it will prevail on the merits and its counterclaims, but cannot predict with certainty the ultimate outcome. The Company has not accrued for any obligations that might result for an unfavorable resolution of this matter.

The Company is a third party defendant in a lawsuit between former employees of Quisic Corporation and certain shareholders of Quisic Corporation. Although the Company engaged in an asset purchase transaction with Quisic Corporation, those former employees allege successor liability on the part of the Company, and are seeking from the primary Quisic shareholder defendants, damages of $4.6 million. The plaintiffs primarily are seeking from the Company access to the consideration paid and certain Quisic assets. The Company is vigorously defending the lawsuit and believes that it will prevail on the merits, but cannot predict with certainty the ultimate outcome. The Company has not accrued for any obligations that might result for an unfavorable resolution of this matter.

The Company is involved as a defendant in a lawsuit recently filed by plaintiffs who are creditors of Quisic Corporation who are seeking from certain Quisic shareholders damages of $1.2 million. Those plaintiff creditors are not seeking monetary damages from the Company, but are seeking to establish that they are entitled to certain consideration paid by the Company. Although the Company engaged in an asset purchase transaction with Quisic Corporation, those

creditors believe that certain of the Quisic assets of the Company are subject to their claims as creditors against Quisic Corporation. The Company is vigorously defending the lawsuit and believes that it will prevail, but cannot predict with certainty the ultimate outcome. The Company has not accrued for any obligations that might result for an unfavorable resolution of this matter.

The Company's wholly owned subsidiary, TW Acquisition Subsidiary, Inc. is the respondent in a claim asserted by the Tennessee Department of Revenue alleging sales tax liability of approximately $380,000 from sales made by its predecessor ThoughtWare Technologies, Inc. TW Acquisition Subsidiary, Inc. is vigorously defending the assessment and cannot predict with certainty the ultimate outcome. The Company has accrued $380,000 with respect to this matter.

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 2003.

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, 2003):

James M. Powers, Jr.	47	Chairman, President and Chief Executive Officer
James L. Dunn, Jr.	41	Senior Vice President, General Counsel, and Chief Development Officer
Brian L. Berry	42	Vice President of Finance
Preston A. Zuckerman	57	Senior Vice President and Chief e-Learning Architect
Lucille Holliday	55	Senior Vice President of Sales

JAMES M. POWERS, JR.
Chairman, President and Chief Executive Officer
Dr. James Powers, Jr. has served as Chairman, President and CEO of the Company since December 1998. Dr. Powers guided the Company through its initial growth and acquisition phase and subsequent transformation from a dental practice management company to a provider of Web-based training and Web conferencing solutions. 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 from 1997 to 1998. Dr. Powers was a founder and Chairman of Clearidge, Inc., a privately held bottled water company in Nashville, Tennessee from 1993 to 1999. Dr. Powers led Clearidge through 13 acquisitions over three years to become one of the largest, independent bottlers in the Southeast. Dr. Powers also is a founder and Director of Barnhill's Country Buffet, Inc., a privately held chain of 48 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.

JAMES L. DUNN, JR.
General Counsel, Senior Vice President, and Chief Development Officer
James L. Dunn, Jr., is a co-founder of the Company and has been an integral part of the senior management team since the Company's initial public offering in 1998. Mr. Dunn as Chief Development Officer was responsible for all merger and acquisition activities successfully managing the acquisition of over 100 dental practices and 3 dental practice management companies. The Company's acquisitions that he led doubled the Company's annual revenues within the first twelve months of operations. Mr. Dunn's leadership was instrumental in the reorganization of the Company around its current e-Learning focus and is responsible for the acquisition of four e-Learning companies in the past 18 months. He assumed the role of General Counsel in March of 2000 and is also responsible for all legal affairs of the Company. 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.

BRIAN L. BERRY
Vice President of Finance
Brian L. Berry was appointed Vice President of Finance in August 2002. Mr. Berry joined the Company as Corporate Controller in October 1998. From 1996 to 1997, Mr. Berry was Corporate Controller for Falcon Power Inc., a multi-state group of construction equipment dealerships. In 1995 Mr. Berry worked as a consultant providing accounting and financial advice to various companies. From 1983 to 1995, Mr. Berry worked for Coopers & Lybrand LLP, a predecessor to PriceWaterhouseCoopers LLP. Mr. Berry is a certified public accountant and received a B.S.B.A. from The Ohio State University in 1983.

PRESTON A. ZUCKERMAN
Senior Vice President and Chief e-Learning Architect
Preston Zuckerman assumed the role of Senior Vice President and Chief e-Learning Architect for the Company in September 2001 when EDT acquired Learning-Edge. Mr. Zuckerman founded Learning-Edge in 1988 as one of the first custom e-Learning development companies in the U.S. He served as its CEO and Chief e-Learning Architect from that time. He has been a leader in the training and communication fields for many years, and Learning-Edge received numerous awards for its work. Prior to founding Learning-Edge, he spent 16 years directing the training and publications departments for Four-Phase Systems (currently Motorola Computer Group) and ITT Corporation. During that period, he successfully introduced criterion-referenced, self-paced, and media-based instruction within both organizations. Mr. Zuckerman started his career as a Computer Specialist and Instructor in the U.S. Navy where he served for seven years.

LUCILLE HOLLIDAY
Senior Vice President of Sales
Lucille Holliday assumed the role of Senior Vice President of Sales for the Company in February 2002. Prior to joining EDT Learning, Ms. Holliday served as vice president of sales for the LearnLinc division of Mentergy, Inc., an international leader in the field of e-learning solutions utilizing virtual classroom software and custom courseware development. During her tenure with Mentergy, Ms. Holliday was responsible for recruitment, development and management of field and corporate-based sales executives, development and implementation of strategic plans in support of company goals, and preparation and analysis of business plans and performance forecasts. Her 20 years of sales experience includes national and regional management positions at such industry leaders as Element K, a leading provider of e-Learning solutions; Prometric, Thomson Learning, the global leader in computer-based certification test delivery; and the education division for IKON office solutions, a premier provider of technical education services.

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PART II

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

MARKET INFORMATION, HOLDERS AND DIVIDENDS

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 years ended March 31, 2003 and 2002:

2003	HIGH	LOW

	HIGH	LOW
-----	-----	-----
First Quarter	$1.40	$0.76
Second Quarter	$0.90	$0.33
Third Quarter	$0.57	$0.25
Fourth Quarter	$0.57	$0.25

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

As of June 20, 2003, there were approximately 283 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 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.

EQUITY COMPENSATION PLANS

The table below provides information relating to our equity compensation plans as of March 31, 2003:

Plan Category	Number of Securities to be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Numbe Remaini Future Comp (Exclu Reflecte
Equity compensation plans approved by security holders	1,835,865	1.82	
Equity compensation plans approved by security holders	450,000	8.50	
Total	2,285,865		

In December 2001, the Company, under the initiative of the Compensation Committee with the approval of the Board of Directors, issued its chief executive officer an incentive stock grant under the 1997 Stock Compensation Plan of 450,000 restricted shares of the Company's common stock as a means to retain and incentivize the chief executive officer. The shares 100% vest after 10 years from the date of grant. The shares were valued at $405,000 based on the closing price of the stock on the date of grant, which is recorded as compensation expense ratably over the vesting period. 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

SALES OF UNREGISTERED SECURITIES

In addition to the 450,000 stock grant listed above, set forth below are the securities we issued in fiscal 2002 which have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). Further included is the consideration, if any, we received for such securities and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration was claimed.

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 and warrants to purchase 5,775,000 shares of the Company's common stock. The notes bear interest at 12% per annum and require quarterly interest payments with the principal due at maturity on March 29, 2012. The note holders may convert the notes into shares of the Company's common stock at a price equal to $1.00 per share. The Company may force redemption of the notes into shares of the Company's common stock at the conversion price, if at any time the closing price of the Company's common stock equals or exceeds $3.00 per share for 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.

Murphy & Durieu acted as the placement agent on the Offering and received a sales commission equal to 10% of the gross proceeds of the Offering or $577,500 and a nonaccountable expense reimbursement of expenses equal to 3% of the gross proceeds or $173,250.

The issuance of these securities was made in reliance upon the exemptions from registration set forth in Section 4(2) of the Securities Act and Regulation D under the Securities Act.

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 Company began operations in March of 1998 under the name Pentegra Dental Group, Inc. Its formation included the simultaneous roll-up of 50 businesses and an initial public offering. Beginning in April of 2000, the Company modified its affiliated service agreements and commensurate with that change the Company recorded certain charges against earnings during the fiscal year ending March 31, 2001. The Company evolved from its legacy business into its current e-Learning focus during its fiscal year 2002, and accordingly, changed its name to EDT Learning, Inc. (now trading as AMEX:EDT). As a result of that change in business model and underlying agreements, comparisons to the financial results of periods prior to fiscal year 2002 may not be appropriate or relevant. The selected financial data should also 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.

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STATEMENT OF OPERATIONS DATA:

	YEAR ENDED MARCH 31, 2003	YEAR ENDED MARCH 31, 2002	YEAR ENDED MARCH 31, 2001	YEAR END MARCH 3 2000
Revenues:				
Licenses	$ 447	$ 92	$ --	$ -
Service and maintenance	3,629	2,590	--	-
Total e-Learning revenue	4,076	2,682	--	-
Dental contracts	3,129	6,582	8,320	56,98
Net revenue	7,205	9,264	8,320	56,98
Operating expenses	10,682	8,128	32,708	59,47
Earnings (loss) from operations	(3,477)	1,136	(24,388)	(2,48
Income (loss) before income taxes and extraordinary item	(3,756)	1,540	(24,987)	(3,49
Income tax expense (benefit)	--	--	--	2,21
Net income (loss) before extraordinary item	(3,756)	1,540	(24,987)	(5,71
Extraordinary item, net	--	4,265	70	35
Net income (loss)	$ (3,756)	$ 5,805	$(24,917)	$ (5,36
Earnings (loss) per common share - basic:				
Earnings (loss) before extraordinary item	$ (0.24)	$ 0.13	$ (2.38)	$ (0.5
Extraordinary item	--	0.36	0.01	0.0
Net earnings (loss)	$ (0.24)	$ 0.49	$ (2.37)	$ (0.5
Earnings (loss) per common share - diluted:				
Earnings (loss) before extraordinary item	$ (0.24)	$ 0.12	$ (2.38)	$ (0.5
Extraordinary item	--	0.34	0.01	0.0
Net earnings (loss)	$ (0.24)	$ 0.47	$ (2.37)	$ (0.5

BALANCE SHEET DATA:

	2003	2002	2001	2000
Cash and cash equivalents	$ 409	$ 1,498	$ 1,051	$ 55
Working capital (deficit)	(2,660)	(1,538)	(1,440)	1,33
Total assets	12,423	15,587	9,191	37,90
Long-term debt, less current maturities	7,901	7,631	11,461	14,82
Long-term debt discount	(2,038)	(2,264)	--	-
Total shareholders' equity (deficit)	2,320	4,666	(6,654)	19,00

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

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

OVERVIEW

As of March 31, 2003 we offered to our customers a wide array of e-Learning and training products and services. Our four-product suite (LearnLinc, MeetingLinc, ConferenceLinc, and SupportLinc) also lets customers collaborate and present over the Internet in one-to-one, one-to-many, and many-to-many communication formats. Our Web collaboration suite of products is sold in both an application service provider ("ASP") or hosted basis (a periodic license) and on a purchase client hosted basis (client server software sold as a non-periodic, perpetual license). While we are a comprehensive provider of e-Learning products, over the past 12 months we shifted our focus away from our lower margin custom content service business and toward our higher margin software products with particular emphasis since December of 2002 on our Web collaboration and virtual classroom suite led by LearnLinc.

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

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

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

course.

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

to EDT Learning, Inc. (now trading as AMEX:EDT). As a result of that change in business model and underlying agreements, comparisons to the financial results of periods prior to fiscal year 2002 may not be appropriate or relevant.

During the year ended March 31, 2003, the Company had two reportable segments, e-Learning and dental practice management. The e-Learning segment included revenues and operating expenses related to the development and sale of the Company's e-Learning products. The dental practice segment included revenues from service contracts, operating expenses related to the delivery of the dental services and other non-operating expenses. There are no intersegment revenues.

	YEARS ENDED MARCH 31,		
	2003	2002	2001
	(IN THOUSANDS)		
Revenues:			
Licenses	$ 447	$ 92	$ --
Service and maintenance	3,629	2,590	--
Total e-Learning revenues	4,076	2,682	--
Dental practice management	3,129	6,582	8,320
Total revenues	$ 7,205	$ 9,264	$ 8,320
Operating expenses:			
e-Learning	$ 6,748	$ 3,446	$ --
Dental practice management (1)	3,934	4,682	32,708
Total operating expenses	$ 10,682	$ 8,128	$ 32,708
Earnings (loss) from operations:			
e-Learning	$ (2,672)	$ (764)	$ --
Dental practice management	(805)	1,900	(24,388)
Total earnings (loss) from operations	$ (3,477)	$ 1,136	$(24,388)
Capital expenditures:			
e-Learning	$ 64	$ 40	$ --
Dental practice management	--	--	138
Total capital expenditures	$ 64	$ 40	$ 138

	MARCH 31	
	2003	2002
Total assets:		
e-Learning	$11,081	$ 8,237
Dental practice management	1,342	7,350
Total assets	$12,423	$15,587

RESULTS OF OPERATIONS

As of March 31, 2003, we offered to our customers a wide array of e-Learning and training products and services. Since December of 2002 we have placed special emphasis on sales and marketing efforts that have been directed at our virtual classroom Web casting and online collaboration four-product suite led by LearnLinc. We continue to offer for those seeking to manage users and e-Learning content EDT's Learning Management System, which has been combined with a suite of workforce management solutions - which includes Career Planner, Job Seeker, and Performance Coach. For the development of custom online content we offer an award winning content development software, i-Canvas and award winning custom content services, which have been providing proven results for over 15 years. Finally, we offer a library of online courses focused upon the training of executives on essential business topics.

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

On October 1, 2001, the Company acquired all of the outstanding capital stock of Learning-Edge, Inc.; an Arizona based private e-learning company. The Company issued 1,950,000 common shares and $1.1 million of debt under the terms 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. The Company also assumed approximately $2.9 million of Learning-Edge debt as part of this acquisition. The operating results of Learning-Edge are included with the Company as of October 1, 2001.

On January 15, 2002, the Company acquired all of the outstanding capital stock of ThoughtWare Technologies, Inc.; a Tennessee based private company. The Company issued 1,550,000 common shares under the terms of the acquisition agreement. The Company also assumed approximately $1.5 million of ThoughtWare debt as part of this acquisition. Since January 2002, operating results of ThoughtWare are included with the Company's results from operations. On March 29, 2003, the Company settled various disputes it had with the former shareholders of ThoughtWare Technologies, Inc. The settlement resulted in 365,000 of the shares issued in connection with the acquisition being returned to the Company. The Company valued the shares using the share price at the date of acquisition and recorded the returned shares as a $507,000 decrease to shareholders' equity and goodwill.

On June 14, 2002, the Company acquired certain assets of Quisic Corporation; a California based private e-Learning company for in an asset purchase and common stock purchase transaction that involved the issuance of 2,000,000 common shares to certain shareholders of Quisic. An additional 500,000 shares of common stock of the Company are contingently issuable upon the achievement of certain cash basis sales targets, as defined, for the 12-month period following the close of the acquisition. Such shares have been issued, are currently held in escrow, have been excluded in the purchase accounting

presented below and are excluded from the share information presented in the consolidated balance sheets and statements of shareholders' equity and presented in the calculation of loss earnings per share. If the contingency is satisfied, the issuable shares will be valued based on the market value of the Company's common stock on such date, and will be reflected in the Company's consolidated balance sheet as an increase to goodwill and shareholders' equity. The operating results of Quisic have been included in the consolidated operations of the Company commencing June 17, 2002.

The purchase agreement also provides for the Company to remit to the seller, during the 5 year period following the close of the acquisition, 100% of the first $1,250,000 of proceeds and 50% of the remaining proceeds from the sales of software licenses for certain specified products, as defined, and collection of notes. The Company intends to account for any such amounts collected as additional purchase consideration in accordance with EITF No. 95-8 at the time such amounts are remitted to the seller. Since the closing date of the acquisition and through March 31, 2003, the Company has collected funds subject to this provision of the agreement totaling $150,000, all of which has been withheld and not remitted to the seller as of March 31, 2003 in accordance with the Company's understanding of the escrow and indemnity provisions of the Asset Purchase Agreement.

Effective November 4, 2002, the Company acquired certain assets of Mentergy, Inc. ("Mentergy"), a wholly owned subsidiary of Mentergy, Ltd, in exchange for $500,000 and the assumption of $462,000 of liabilities. In addition, the Company has agreed to pay a royalty of 20% for all revenues collected from the sale or license of LearnLinc software over a three-year period. The first $600,000 of sales is not subject to the royalty. The maximum amount due under the Royalty Agreement is $5,000,000. The operating results are included with the Company's as of November 4, 2002.

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

The operations of the Company involve many risks, which, even through a combination of experience, knowledge and careful evaluation, may not be overcome. These risks include the fact that the market for e-learning products and services is in the early stages of development and may not grow to a sufficient size or at a sufficient rate to sustain the Company's business. The Company also faces intense competition from other e-learning providers and may be unable to compete successfully. Many of the Company's existing and potential

competitors have longer operating histories and significantly greater financial, technical and other resources and therefore may be able to more quickly respond to changing opportunities or customer requirements. New competitors are also likely to enter this market in the future due to the lack of significant barrier to entry in the market share.

REVENUES

Total revenues generated for the year ended March 31, 2003 ("fiscal 2003") and March 31, 2002 ("fiscal 2002") were $7.2 million and $9.3 million

respectively, a decrease of $2.1 million. e-Learning revenues for fiscal 2003 and fiscal 2002 were $4.1 million and $2.7 million respectively, an increase of $0.4 million in licenses and $1.0 million in e-Learning service and maintenance revenues. The increase is a result of the Company's continuing expansion into the e-Learning marketplace and has been fueled by the acquisitions in fiscal 2003 of certain assets of LearnLinc and Quisic and the acquisitions in fiscal 2002 of ThoughtWare and Learning-Edge. Revenue from dental contracts decreased by $3.5 million from $6.6 million in fiscal 2002 to $3.1 million in fiscal 2003 due to the previously announced and planned modification and termination of certain dental management service contracts. As anticipated and previously announced, nearly all of those legacy management service agreements terminated during fiscal 2003 and only $200,000 is anticipated to be earned as dental revenue for fiscal 2004.

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 e-Learning revenues in fiscal 2002 ($0.1 million of license revenue and $2.6 million of service and maintenance revenue). There were no e-Learning revenues in fiscal 2001. Revenue from dental contacts decreased by $1.7 million in fiscal 2002 as compared to fiscal 2001 due to the announced and planned modification and terminations of certain dental management contracts.

OPERATING EXPENSES

Operating expenses consist of research and development, sales and marketing, general and administrative, depreciation and amortization expenses. The Company incurred operating expenses of $10.7 million in fiscal 2003, an increase of $2.6 million from $8.1 million in fiscal 2002 primarily due to an increase in salaries and wages of $1.6 million relating to the acquisition of Quisic and LearnLinc and a $0.8 million and $0.1 million increase in bad debt expense due to reserves against amounts due from Affiliated Practices and e-Learning related receivables, respectively. The Company has reduced head count from a high of 83 in June of 2002 to 46 at March 31, 2003. In addition, the Company has streamlined its operations by closing non-essential facilities and consolidating those functions in its Phoenix and Troy locations.

Fiscal 2002 operating expenses were $8.1 million, a $24.6 million decrease from fiscal 2001 operating expenses of $32.7 million. The decrease is primarily due to the Company's strategic change in business and the absence of the $23 million impairment charge recorded fiscal 2001.

Research and development expenses represent expenses incurred in connection with the provision of e-learning services, development of new products and new product versions and consist primarily of salaries and benefits, communication equipment and supplies. Research and development expenses for fiscal 2003 and fiscal 2002 were $3.2 million and $2.3 million respectively, an increase of $0.9 million. The increase is a result of the Company's acquisition of two e-Learning company's assets and staff. There were no research and development expenses during fiscal 2001.

Sales and marketing expenses consist primarily of sales and marketing salaries and benefits, travel, advertising, and other marketing literature. Sales and marketing expenses were $1.7 million and $1.1 million for fiscal 2003 and fiscal 2002 respectively, an increase of $0.6 million. The increase is a result of the Company's acquisition of two e-Learning company's assets and staff. There were no sales and marketing expenses during fiscal 2001.

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

expenses. During fiscal 2003 and 2002, general and administrative expenses were

$3.3 million and $2.7 million respectively, an increase of $0.6 million. General and administrative expenses increased primarily due to the Company's change in strategy and the acquisitions of Quisic and LearnLinc and was composed of increases in bad debt expense of $0.9 million; general insurance of $0.2 million; rent of $0.2 million; investor relations of $0.1 million; and decreases in professional services of $0.2 million; compensation and related benefit expense of $0.4 million and office expenses of $0.1 million. The Company has undertaken efforts to reduce overhead, with those efforts including the elimination of facilities, equipment, and personnel.

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 2003 and 2002 depreciation and amortization expense was $2.0 million for each year. In fiscal 2002, amortization expense includes $0.1 million of goodwill amortization. Beginning in fiscal 2003 the Company ceased amortizing goodwill in accordance with SFAS No. 142. Fiscal 2002 depreciation and amortization expenses were $2.0 million, a $0.4 million decrease from fiscal 2001 depreciation and amortization expenses of $2.4 million. 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 an increase in depreciation of the property and equipment from the addition of plant, property, and equipment from acquisitions associated with the Learning-Edge and ThoughtWare acquisitions.

INTEREST EXPENSE

Interest expense of $1.4 million in fiscal 2003 increased $0.3 million from $1.1 million in fiscal 2002. The increase was primarily a result of interest accretion of the discount and beneficial conversion feature on the convertible redeemable subordinated notes that were issued at the end of fiscal 2002 totaling $0.2 million. Interest expense of $1.1 million in fiscal 2002 decreased $0.3 million from $1.4 million in fiscal 2001. The decrease was primarily a result of decreases in debt balances and related interest rates.

GAIN ON TERMINATION AND RESTRUCTURING OF SERVICE CONTRACTS WITH AFFILIATED PRACTICES

The gains of $0.9 million in fiscal 2003 and $1.3 million in fiscal 2002 relate to a variety of transactions with Affiliated Practices, including the results of negotiated settlements, the results of litigation to enforce contracts and modified service agreements.

INCOME TAX EXPENSE

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

The Company recorded no tax expense during fiscal 2002 due to the utilization of its net operating loss carry-forward. At March 31, 2002, the Company has a net deferred tax asset of $5.8 million with a corresponding valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

The Company's service agreements with affiliated dental practices nearly all terminated during fiscal 2003 which will reduce revenues and cash flow from this source and accordingly could negatively affect the Company's liquidity and operating results. During fiscal 2003 and fiscal 2002, the Company received $1.9 million and $2.9 million respectively, in cash from terminating the service agreements with affiliated practices. These cash collections accelerate the date at which the Company will be required to sustain its operations solely on cash collections derived from e-Learning revenues. However, there can be no assurance that the Company's e-Learning strategies will be achieved. The Company currently does not have existing working capital and does not generate positive cash flows from operations. As a result, we may not have sufficient financial resources to satisfy our obligations as they come due in the near term.

At March 31, 2003, the Company had a working capital deficit of $2.7 million. Current assets included $0.4 million in cash and $0.7 million in accounts receivable and $0.3 million in notes receivable. Current liabilities consisted of $0.8 million of deferred revenue, $1.2 million of current maturities of long-term debt and capital leases and $2.0 million in accounts payable and accrued liabilities.

Cash used in operating activities was $2.0 million during fiscal 2003 and $2.2 million during fiscal 2002. Cash used in operating activities during fiscal 2003 was primarily attributable to a net loss of $3.8 million, gains recorded on practice terminations of $0.9 million and decreases in deferred revenue and accounts payable and accrued liabilities of $0.5 million and $0.2 million

respectively. These items were partially offset by $2.0 million of depreciation and amortization expense, $0.3 million of bad debt expense, impairment of assets of $0.4 million and discount accretion on debt of $0.2 million. Cash used in operating activities during fiscal 2002 was primarily attributable to an extraordinary gain on debt forgiveness of $4.3 million, a decrease in deferred revenue of $2.2 million, an increase in accounts receivable of $1.3 million, gains recorded on practice terminations of $1.3 million, recovery of bad debts of $0.6 million and an increase in accounts payable and accrued liabilities of $0.6 million. These items were partially offset by net income of $5.8 million and depreciation and amortization expense of $2.1 million. Cash provided by operating activities was $1.4 million during fiscal 2001 primarily due to an asset impairment of $23 million, depreciation and amortization expense of $2.4 million and bad debt expense of $1.7 million. These items were partially offset by a net loss of $24.9 million and a decrease in accounts payable and accrued liabilities of $0.9 million.

Cash provided by investing activities was $1.8 million, $3.5 million and $0.3 million in fiscal years 2003, 2002 and 2001 respectively. Cash provided by investing activities during fiscal 2003 was primarily due to proceeds received from practice terminations of $1.9 million offset by $0.1 million for the issuance of notes receivable. Cash provided by investing activities during fiscal 2002 was primarily due to proceeds received from practice terminations of $2.9 million and the repayment of notes receivable of $0.7 million. These items were offset by acquisitions, net of cash acquired of $0.1 million. Cash provided by investing activities in fiscal 2001 was the result of note receivable collections of $0.5 million partially offset by $0.1 million of capital expenditures.

Cash used in financing activities was $0.8 million during fiscal 2003, $0.9 million during fiscal 2002 and $1.2 million during fiscal 2001. Cash used in financing activities during fiscal 2003 was due to the repayment of debt and capital leases of $0.8 million. Cash used in financing activities during fiscal 2002 was primarily attributable to the repayment of debt and capital leases of $5.8 million and financing costs incurred of $0.8 million. These uses of cash were partially offset by the proceeds of the Private Placement Offering (the "Offering") of $5.8 million. Cash used in financing activities during fiscal 2001 was due to the repayment of debt and capital leases of $1.2 million.

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In March 2002, the Company completed an Offering to raise capital of $5,775,000. Under the terms of the Offering, the Company issued convertible redeemable subordinated notes (the "Convertible Notes") and warrants to purchase 5,775,000 shares of the Company's common stock (the "Warrants"). The Convertible Notes bear interest at 12% per annum and require quarterly interest payments with the principal due at maturity on March 29, 2012. The Convertible Note holders may convert the Convertible 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 Convertible 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 Convertible Notes are subordinated to any present or future senior indebtedness that the Company may acquire or issue in the future.

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 three years, volatility of 75%, dividend yield of 0%, and a risk-free rate of 3.87%. The fair value was then used to calculate a discount of

$1,132,000, which and is being amortized to interest expense over ten years, the term of the Convertible Notes. As the carrying value of the Convertible 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 Convertible Notes and is being amortized to interest expense over the term of the Convertible 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. All security interests and liens held by Bank One were released with payment 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 2003, $35,000 of accrued interest on one of the notes was added to the principal balance. During fiscal 2002, $55,000 of these notes were returned by the holders to offset amounts owed to the Company. The Learning-Edge Notes, which total $1.07 million at March 31, 2003, bear interest at rates ranging from at 7.5% to 9.0%. At March 31, 2003, $47,000 of these notes are currently past due and the remaining $1.02 million is due in two equal installments on April 5, 2005 and on October 1, 2005, respectively. If the Company raises additional capital equal to or in excess of $3 million, 25% of the principal of the Learning-Edge Notes is to be repaid. For each $500,000 raised above $3 million, the repayment percentage increase by 15%. If more than $5 million is raised, 100% of the principal of the Learning-Edge Notes is to be repaid. The holders of the Learning-Edge Notes waived the accelerated payment schedule in relation to the Offering.

In fiscal 2002 and 2001, the Company entered into capital lease agreements for the purchase of equipment of $373,000 and $22,000, respectively, and did not enter into any capital lease agreements for the purchase of equipment in fiscal 2003.

At March 31, 2003, the Company had $0.85 million in outstanding Convertible Subordinated Notes Series A Securities ("Series A Securities") that were issued in connection with the acquisition of certain Affiliated Practices. The Series A Securities bear interest at 12% and can be converted to Common Stock of the Company at conversion prices ranging from $6.75 to $7.00 per share. The conversion period began on November 1, 1999 and ends on July 1, 2004. The principal amount of the Series A Securities, if not converted, is payable on July 1, 2004. During fiscal 2003 and 2002, $307,000 and $656,000 of previously issued Series A Securities respectively, were returned by the holders to offset amounts owed to the Company.

At March 31, 2003, the Company had $0.43 million in outstanding notes payable to certain shareholders formerly owning preferred stock. The notes bear 6% interest and were originally payable on the earlier of March 30, 2003 or the date upon which the Company offers and sells an amount of equity securities equal or greater to the gross proceeds of the IPO. During fiscal 2003, $57,750 of accrued interest on certain of these notes was added to the principal balance and the maturity date was extended to April 1, 2005. The new principal balance

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on the extended notes is $250,250 and the interest rate was increased to 10%. The remaining $179,375 is currently past due. During fiscal 2003 and 2002, $26,250 and $43,750 respectively, of these notes payable were returned by the

holders to offset amounts owed to the Company.

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

CONTRACTUAL OBLIGATIONS

The following schedule details all of the Company's indebtedness and the required payments related to such obligations at March 31, 2003 (in thousands):

	TOTAL	DUE IN LESS THAN ONE YEAR	DUE IN YEAR TWO	DUE IN YEAR THREE	DUE IN YEARS FOUR AND FIVE	D FI
Long term debt	$ 8,629	$ 731	$ 1,364	$ 759	$ --	$
Capital lease obligations	738	525	198	15	--	
Operating lease obligations	2,527	636	556	551	501	
Base salary commitments under employment agreements	840	465	375	--	--	
Total contractual obligations...	$12,734	$ 2,357	$ 2,493	$ 1,325	$ 501	$

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The more significant areas requiring use of estimates relate to revenue recognition, accounts receivable and notes receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets, and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The results of such estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

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

REVENUE RECOGNITION

The Company's service revenue is primarily comprised of custom content service contracts, Web hosting services, and software support and services. For contracts and revenues related exclusively to custom content services, the Company recognizes revenue and profit as work progresses on custom content service 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 custom content service contract can be made. Recognized revenues and profit are subject to revisions as the custom content service 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 custom content service contracts are made in the period in which such losses become evident. There were no such losses at March 31, 2003 for custom content service.

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In connection with the Company's sales of software licenses in fiscal 2003, the Company adopted Statement of Position ("SOP") 97-2 as issued by the American Institute of Certified Public Accountants. In accordance with SOP 97-2, the Company recognizes revenue from the sale of software licenses if all of the following conditions are met:

- There is persuasive evidence of an arrangement with the customer;
- The product has been delivered to the customer;
- Collection of the fees is probable; and
- The amount of the fees to be paid by the customer is fixed or determinable.

For arrangements requiring customer acceptance, revenue is deferred until the earlier of the end of the acceptance period or until written notice of acceptance is received from the customer. We consider all arrangements with payment terms longer than normal not to be fixed or determinable. For arrangements involving extended payment terms, revenue recognition occurs when payments are due and collection is probable.

The Company has engaged organizations that market and sell its products and services through their sales distribution channels and are generally either referral partners, VAR's or OEM distributors. The Company's distribution agreements typically have terms of one to three years and are automatically renewed for an additional like term unless either party terminates the agreement for breach or other financial reasons. In most of these agreements, the distribution partner purchases the product from the Company and resells the product to their customers. Under those agreements, the Company records only the amount paid by the distributor as revenue and recognizes revenue when all revenue recognition criteria have been met.

The Company executes contracts that govern the terms and conditions of each software license, maintenance and support and other services arrangements. These contracts may be elements in a multiple-element arrangement. Revenue under multiple-element arrangements, which may include several different software products and services sold together, is allocated to each element based on the residual method in accordance with SOP 98-9.

Support and hosting revenue is recognized ratably over the support term, typically 12 months, and revenues related to implementation, consulting, education and other services are generally recognized as the services are performed. Although the Company may provide implementation and consulting services on a time and materials basis, a significant portion of these services have been provided on a fixed-fee basis.

The Company has embarked upon a new strategy focusing on e-Learning. Prior to the transition, the Company operated as a dental practice management company.

Under the terms of the modified service agreements with the Affiliated Practices, the Company recognizes revenue ratably over the terms of the service agreement. 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.

SOFTWARE DEVELOPMENT COSTS

The Company accounts for software development costs in accordance with Statements of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," whereby costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. Technological feasibility is established upon completion of a working model. Costs of maintenance and customer support are charged to expense when related revenue is recognized or when those costs are incurred, whichever occurs first. Software development costs incurred subsequent to the establishment of technological feasibility have not been significant to date, and all software development costs have been charged to research and development expense in the accompanying consolidated statements of operations.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the various classes of depreciable assets. During fiscal 2003, the Company changed the estimated useful life on certain classes of its property and equipment to more accurately reflect the change in the Company's business. The following classes of depreciable assets were changed as follows:

Furniture & Fixtures	from 7 years to 5 years
Equipment	from 7 years to 5 years
Computer Equipment	from 5 years to 3 years
Leasehold Improvements	shorter of 5 years or lease term

INTANGIBLE ASSETS

On April 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and as a result, the Company's goodwill is no longer amortized. SFAS No. 142 requires that goodwill be tested annually (or more frequently if impairment indicators arise) for impairment. Upon initial application of SFAS No. 142, the Company determined there was no impairment of goodwill. The Company has established the date of March 31 on which to value its goodwill.

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 its 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, 2003, the Company has identified no such impairment.

Debt issuance costs are amortized using the effective interest rate method over the ten-year term of the related debt obligations.

Other intangibles primarily consist of the Quisic and LearnLinc purchase

consideration that was allocated to purchased software and customer relationship intangibles. Such other intangible are amortized over their expected benefit period of twenty four to thirty six months.

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.

CONCENTRATION OF CREDIT RISK

Accounts receivable and notes receivables 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 Affiliated 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.

INCOME TAXES

The Company utilizes the liability method of accounting for income taxes in accordance with SFAS No. 109 "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 e-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 pro forma disclosure of the effect on net income or loss as if the fair value based method prescribed in SFAS No. 123 has been applied in measuring compensation expense.

GUARANTEES AND INDEMNIFICATIONS

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of

Others -- an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FIN 34." The following is a summary of the Company's agreements that the Company has determined are within the scope of FIN No. 45:

The Company provides a 90-day warranty for certain of its products. Historically, the Company's performance under the warranty has been minimal, and as such, no warranty accrual has been provided for in the accompanying consolidated financial statements.

Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a directors and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of March 31, 2003.

The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of March 31, 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 143, "ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS", which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred with the associated asset retirement costs being capitalized as a part of the carrying amount of the long-lived asset. SFAS No. 143 also includes disclosure requirements that provide a description of asset retirement obligations and reconciliation of changes in the components of those obligations. The statement is effective for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS No. 143 to have a material effect on the Company's consolidated financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS," which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. This standard was effective for the Company's consolidated financial statements beginning January 1, 2002. The implementation of SFAS No. 144 did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "RESCISSION OF FASB STATEMENTS NO. 4, 44, AND 64, AMENDMENT OF FASB STATEMENT NO. 13, AND TECHNICAL CORRECTIONS." SFAS No. 145 rescinded three previously issued statements and

amended SFAS No. 13, "ACCOUNTING FOR LEASES." The statement provides reporting standards for debt extinguishments and provides accounting standards for certain lease modifications that have economic effects similar to sale-leaseback transactions. The statement is effective for certain lease transactions occurring after May 15, 2002 and all other provisions of the statement shall be effective for fiscal years ending after May 15, 2002. The implementation of SFAS No. 145 will effect the classification of extraordinary items presented in the Company's consolidated statements of operations. Such gains will no longer be considered extraordinary in nature and will be reclassified to operations.

In June 2002, the FASB issued SFAS No. 146, "ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES," which updates accounting and reporting standards for personnel and operational restructurings. The Company will be required to adopt SFAS No. 146 for exit, disposal or other restructuring activities that are initiated after December 31, 2002, with early application encouraged. The Company does not expect the adoption of SFAS No. 146 to have a material effect on the Company's consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE - AN AMENDMENT TO SFAS NO. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method on accounting for stock-based employee compensation. The Company currently does not intend to adopt SFAS No. 123 and accordingly does not expect the implementation of SFAS No. 148 to have a material effect on the Company's consolidated financial position or results of operations.

In January 2003, FIN No. 46, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES" was issued. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. FIN No. 46 will require identification of the Company's participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIE that are deemed significant, even if consolidation is not required. The adoption of FIN No. 46 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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

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

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

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

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

We have a limited operating history in the e-Learning business and particularly as a provider of web conferencing and web collaboration software. While the organizations that we have acquired have been engaged in the

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

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

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

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

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

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

- the size and timing of product orders;
- the mix of revenue from custom services and software products;

- the market acceptance of the Company's products and services;

- the Company's ability to develop and market new products in a timely manner and the market acceptance of these new products;

- the timing of revenues and expenses relating to the Company's product sales; and,

- the timing of revenue recognition.

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

WE HAVE SIGNIFICANT OPERATING LOSSES AND HAVE LIMITED FINANCIAL RESOURCES

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

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

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

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

On March 31, 2003, 17,018,184 shares of our common stock were outstanding, of which 1,244,713 were held in treasury, and 14,845,000 additional shares of our common stock were reserved for issuance. The issuance of these additional shares will reduce your percentage ownership in the Company.

The following shares were reserved for issuance as of March 31, 2003:

- Issued and outstanding stock options to purchase shares totaling approximately 1,836,000;
- Issued and outstanding warrants to purchase shares totaling

approximately 6,663,000;

- A restricted stock grant to receive shares totaling approximately 450,000;
- Shares issuable upon the conversion of convertible redeemable subordinated notes totaling approximately 5,775,000; and
- Shares issuable upon the conversion of convertible Series A subordinated notes totaling approximately 121,000.

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

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

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

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

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

to develop non-infringing technology or enter into royalty or licensing agreements, which agreements, if required, may not be available on reasonable terms, or at all.

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

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

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

EXPERIENCE SERVICE PROBLEMS.

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

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

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

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

As commercial use of the Internet increases, federal, state and foreign agencies could enact laws or adopt regulations covering issues such as user privacy, content and taxation of products and services. If enacted, such laws or regulations could limit the market for our products and services. Although they might not apply to our business directly, we expect that laws or rules regulating personal and consumer inform