E-DENTIST COM INC
Form 10-K
July 06, 2001

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

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2001.

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

For the transition period from _________ to _________.

Commission file number 1-13725

e-dentist.com, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0545043 (I.R.S. Employer Identification No.)

2999 N. 44th Street, Suite 650
Phoenix, Arizona 85018
(Address of principal executive offices)

(602) 952-1200
(Registrant's telephone number, including area code)

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

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at June 18, 2001 was 10,572,548.

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. [ ]

The aggregate market value of the shares of the Registrant's Common Stock held by non-affiliates of the Registrant at June 18, 2001 was approximately $3,902,496 based upon the closing price per share of the Registrant's Common Stock as reported on the American Stock Exchange of $0.50. As of June 18, 2001, there were 10,572,548 outstanding shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders of the Registrant to be held on August 2, 2001 are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

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

Such forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from anticipated results. These risks and uncertainties include, but are not limited to, risks associated with affiliations, fluctuation in operating results because of affiliations, changes in government regulations, competition, growth of existing and new affiliated dental practices and the potential need for additional funding. These risks and other factors as may be identified from time to time are described in

further detail in the Company's reports filed with the Securities and Exchange Commission or in the Company's press releases.

PART I

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

HISTORICAL OVERVIEW

e-dentist.com, Inc. (the "Company") began in March of 1998 as a dental practice management company ("DMSO") under the name Pentegra Dental Group, Inc. (Amex:PEN). Its formation included the simultaneous rollup of 50 dental practices and an initial public offering ("IPO"). The capital raised at the IPO was used to fund acquisitions of dental practices and the working capital needs of the Company. Since the IPO, the Company has been headquartered in Phoenix, Arizona. As a part of the IPO, the Company acquired the assets of a consulting firm, Pentegra, Ltd., which was founded in 1988, and a seminar company, Napili International ("Napili"), which was founded in 1963. The clinical, administrative and marketing training developed and provided by these companies to practicing dentists and their teams were the foundation for the Company's historical approach to dental practice management ("the Pentegra Dental Program"). The Pentegra Dental Program was available exclusively to Affiliated Practices. To provide communication to its remote affiliated offices, the Company developed a proprietary user interface and database driven communication system, which employed Internet and browser technology. Growing from the original 50 Affiliated Practices at the IPO, the Company grew to over 100 Affiliated Practices, which included approximately 140 dentists and 107 dental offices located in 31 states. The Company's early mission was to provide management, administrative, development and other services to its Affiliated Practices through long-term Service Agreements ("Service Agreements") in exchange for the payment of management service fees. These service fees were based upon a percentage of dental practice collections. The Company's historical net revenue included both the reimbursement of practice expenses as well as Service Fees. Prior to the transition toward eBusiness, the Company processed all payments to vendors and employed the staff of Affiliated Practices. The modified Service Agreements caused the staff to cease working as employees for the Company and they have become employees of the individual Affiliated Practices. In addition, processing of payments to practice vendors is now performed at the practice level, by practice employees. The Company no longer pays or is reimbursed for expenses paid on the practices' behalf. As a result, the components of net revenues and expenses have changed and decreased significantly with the modified Service Agreements.

In the fourth quarter of fiscal year 2000, the Company announced that it would be implementing a new business strategy to change from its historical practice management business to a focus on an eBusiness and e-Learning strategy. The Company's new strategic direction includes Business-to-Business (B2B) online services and e-Learning services through its Internet or online portal found at www.e-dentist.com. This shift in business model and focus was approved by the shareholders at the annual shareholder meeting held in Phoenix, Arizona on August 25, 2000. The shareholders also approved the Company's name change to e-dentist.com, Inc. The Company is proposing to change its name from e-dentist.com, Inc. to "EDT Learning, Inc." to more accurately reflect its current business model and the expansion of the scope of its business offering which focuses on providing e-Learning tools and systems to corporate clients inside and outside of the dental industry. A name change of the Company to "EDT Learning, Inc." was approved by the Board in June 2001. The name change will be submitted to a shareholder vote at the August 2, 2001 Annual Shareholders Meeting.

As a part of the new business plan approved by shareholders, the Company modified the Affiliated Service Agreements, which were acceptable to both the Company and the Affiliated Practices. The new modified Service Agreements provide in general that:

1. The term of the Service Agreement has been reduced from its original term of 30 to 40 years to a new term of only five (5) years from the original date of execution.
2. All dental practice employees have become employees of the dental practice, and accordingly the associated payroll and practice expenses are being paid by the dentist and not the Company.
3. Service Fees have been reduced to a level approximating 90% of fiscal year 2000 fees and fixed in amount for the balance of the Service Agreement term.
4. All accounts receivable outstanding were either paid or converted to an interest-bearing promissory note (average three-year term with an annual interest rate of 10%).
5. The tangible practice assets originally contributed by the dental practice will be transferred back to the dental practice at the end of the amended Management Services Agreement term for a nominal value.

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6. The Company be released by the dentist and dental practice of all known and unknown claims by the dentist including breach of the Service Agreement, securities claims or other claims related to the affiliation transaction.

As of March 31, 2001, all but one of the active Service Agreements have been modified or terminated. As a result of the modifications and terminations of the Service Agreements, the Company prepared an impairment analysis to determine the recoverability of the Management Services Agreement intangible assets and fixed assets grouped at the practice level. The Company prepared the analysis by calculating the expected discounted future cash flows under modified contracts less the carrying amount of the intangible asset and fixed assets to determine the impairment charge. Based on the modified and terminated Service Agreements, the Company recorded a charge due to impairment of approximately $23 million for the year ended March 31, 2001. The fair value of the remaining intangible assets associated with the Service Agreements will be amortized over the remaining term of the modified Service Agreements.

LIQUIDITY AND MANAGEMENT PLANS

During fiscal 2001, the Company incurred a net loss of $24.9 million and had an accumulated deficit of $31.3 million at March 31, 2001. In addition, the Company had a working capital deficit of $1.4 million at March 31, 2001.

At March 31, 2001, the Company was not in compliance with certain of the financial covenants of the line of credit. At March 31, 2001, $9.3 million was outstanding under the line of credit. In conjunction with the extension discussed below, the bank has waived non-compliance of certain financial ratios at March 31, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company will issue 393,182 warrants to acquire shares of the Company's common stock at $0.42 per share. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid $61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of $25,000 and

modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

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

EXPANSION OF MODEL AND FOCUS

As an extension of its educational and training background, the Company has broadened its reach to focus on the larger growing e-Learning and corporate training market. With the launch of the Company's state of the art learning management system (LMS) and its e-Learning engine, the Company now provides a comprehensive array of e-Learning content, hosting and delivery services to corporations, inside and outside the dental and healthcare industries. The Company's synchronous and asynchronous content delivery solutions provide an array of e-Learning products that are customized to each corporate client. The Company is positioning itself in the corporate training sector of the e-Learning marketplace leveraging its existing infrastructure and using scale provided by an integrated product. The Company's initial business model required that it be able to communicate with 107 remote locations using the Intranet and low

bandwidth dial up modem connections. These systems required that sensitive financial information for 100 businesses be transmitted in a secure environment. To communicate with its Affiliated Practices, the Company built a proprietary Intranet (virtual private network), which processed secure transactions over the Internet. From that experience and using existing technology and systems, the Company created an e-Learning engine and LMS, which provides an integrated solution for corporate clients. The Company's learning management system was created to be a web based, low bandwidth, cross browser compatible content delivery and data management system.

The Company's LMS delivers web enabled content through a series of server side components. Additionally, system navigation uses basic HTML and JavaScript as its foundation. The user interface is providing information on the "look and feel," navigation and learning content from a centrally located database. Information on course navigation and testing is captured by the interface and delivered to the database. Because of this design, the interface can be optimized to use less than 20K of bandwidth and can deliver any web-enabled content (from Word documents and Power Point presentations to Real Video and MPEG video streams). The testing system is database enabled, which provides the flexibility for the administrator to create test questions and determine their testing requirements. The system has the ability to provide multiple test

environments to meet user needs and questions can be changed by the administrator. The administrator can select from open book tests, closed book tests, timed tests, random question tests, or smart tests (test questions by category or lessons that are designed to identify skill weaknesses). There are pre and post tests for each lesson and for the entire course and all testing activity is recorded into the testing database.

In addition to interactive web based asynchronous training, the Company offers a complete synchronous (live instructor led Web based) learning solution utilizing advanced audio-graphics. The student is provided this instructor-led classroom experience through the use of third party software and a Java-enabled application. This live online classroom enables the student to interact with instructors and other students and offers advanced features such as real-time surveys, un-interrupted questioning of the instructor, and chat with other students. Visual content is delivered over the Internet using a computer while voice portions are delivered using an analog phone line to maximize bandwidth connections. The Company maintains a broadcast studio in Phoenix, Arizona, permitting instructors to either be located in the studio or remotely while they deliver content, manage the classroom and interact with students. This live delivery is fault tolerant using redundant systems, redundant data connections, and smart routing to ensure the fastest response times. Content is developed using internal teams, which enhance the learning experience from basic "slide" delivery to engage the student with interactive presentation including 3D graphics, animations, and streaming video.

INDUSTRY OVERVIEW

The Company employs a two-prong approach, which includes a B2B Internet commerce Web site, and a second prong, which includes the provision of e-Learning services to corporate clients. The Company launched its commerce driven Web site in November 2000. Through it the Company also provides access to online services in a Business-to-Business ("B2B") as well as consumer market sectors. The Company also provides a broad range of services to dental practices and dental vendors across the United States.

TRAINING Magazine estimates the corporate online training market to be approximately $63 billion in 1999 and growing at an annual rate of 40%. Most educational or training systems offered today by corporate America still utilize instructor led classrooms and in person meetings. Today's in-house systems typically:

* Do not offer user centric or personalized focused learning. They tend to be singular in design and delivery with no consideration for a particular student's needs.

* Use old technology usually focused on CD-Rom or other computer based training (CBT) style delivery systems. Those systems do not permit data gathering, which can be used to re-shape the delivery systems or measure performance.

* Do not measure or address skills analysis or the gap caused by student disparity in an organized fashion. Skills gap analysis is informally performed by HR teams and mid-level managers without a comprehensive framework across the entire corporate enterprise.

* Do not share information about the content being distributed or the results of student testing among individual departments or segments within departments.

* Do not allow users to receive information outside the course content,

which is supportive and provides post study organization and learning.

* Are diverse in scope and large in number making the investment decision difficult, wasting resources, time and money.

* Are not easily deployed and often cause a "re-tooling" of the learning system as they upgrade and make advancements in core content.

In contrast, today's e-Learning offers Internet solutions as an answer to those shortcomings. Companies are continuing the shift from traditional instructor-led training and CBT toward online learning and individual skills assessment. Outsourcing corporate training needs provides an opportunity to obtain cost competitive solutions. Efficiencies offered by new Internet or web-based systems permit a reduction in corporate training costs while increasing student (worker) productivity. The corporate training and education market is highly fragmented with no clear or dominant player. The Company's primary competition comes from those providing online and CBT solutions as well as from corporations internally developing their own content. The market for outside training can be further segmented into the delivery of live instructor led programs or asynchronous interactive web based programs. Many corporations prefer a blended approach consisting of both instructor led live programs and web based e-Learning solutions. While many companies have entered the e-Learning market they provide a wide variety of services and tend to specialize in one or more of the following areas:

* Learning Tools -- Off The Shelf software used to create learning courses.

* Delivery Services-- Hosting and delivery of training applications in an Application Service Provider (ASP) or behind-the-firewall corporate Intranet.

* Content Development (Custom & Off The Shelf)-- Courses created which are either custom built using a proprietary tool or Off The Shelf tool which may be web based or delivered with more traditional video or CD-Rom technology.

SERVICES AND OPERATIONS

E-LEARNING SERVICES AND NEW SALES MODEL

The Company's sales and marketing strategy includes a plan to grow sales through partnered sales channels, leveraging existing customer relationships, and development of Off The Shelf course content. Additionally, the Company plans to raise capital to consolidate the fragmented e-Learning sector through acquisition of existing e-Learning companies. The core focus of the Company's revenue driver exists in product and procedure training. This model provides the corporate client with training on its existing products providing revenues to the Company without the need for end-user marketing. The Company expects to obtain re-seller and marketing agreements with companies to broaden the reach of its products and services through those company's existing sales forces. Additionally, the Company is developing an internal sales force, which is rooted in targeted market segments. The Company's initial focus was within the dental industry however, the Company is also targeting the pharmaceutical industry through relationships driven from the dental industry. Finally, the Company seeks to expand its sales and marketing efforts by and through the channels and sales force opportunities provided by acquisitions of target companies in strategic industries. Fees or revenues are generated through one of two means: The first are fees from the development and delivery of custom course content for an individual customer on a case-by-case basis depending upon the complexity of the course and the features chosen by the customer. The second revenue source is provided from usage of the Company's learning management systems. Revenues

are earned on a per user per month basis. However, the pricing, expense and revenue model for the Company's e-Learning network has not been broadly tested in the marketplace, and may not yield results sufficient for the Company's business to succeed or be sustainable. If the pricing, expense and revenue model is not acceptable to users, customers, or content providers, the Company's e-Learning initiative may not be commercially successful. This would have an adverse effect on the Company's business.

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CURRENT TECHNOLOGY, E-LEARNING SYSTEMS AND TECHNOLOGY INFRASTRUCTURE

Management believes the current software and hardware utilized by the Company is sufficient to host the current Web site and support the e-Learning operations and services. Further, it has sufficient capacity to perform the anticipated growth in transaction volume. The Company currently hosts its own Web site, and such hosting will not bring any significant incremental costs. The Company has already invested considerable time on system development, including the development associated with the creation of the proprietary e-Learning engine and learning management systems. To date, development has focused on providing e-Learning services through customized user interfaces. The Company has developed an LMS that delivers web-enabled content through a cross browser compatible interface. The user interface is providing information on a "look and feel" navigation and learning content from a centrally located database. Information on course navigation and testing is captured by the interface and delivered to the database. Because of this design, the interface can be optimized to use less than 20K of bandwidth and can deliver any web-enabled content (from Word documents and Power Point presentations to Real Video and MPEG video streams).

The testing system is database enabled, which provides the flexibility for the learning administrator to create test questions and determine their testing requirements. The system has the ability to provide multiple test environments to meet user needs and questions can be changed by the administrator. There are pre and post tests for each lesson and for the entire course and all testing activity is recorded into the testing database.

The user interface and course environment is completely customizable by the administrator. Using the administrative tools provided, courses can be created more quickly and updated with little to no programming required. Administrative functions allow both the student and company to manage their own profiles, view learning reports, administer students, deliver course materials, create discussion groups and send user or class specific messages. The systems are designed to create an online learning environment - not simply deliver content.

In addition to interactive web based asynchronous training, the Company offers a complete synchronous (live instructor led) learning solution utilizing advanced audio graphics. This live online classroom enables the student to interact with instructors and other students and offers advanced features such as real-time surveys, un-interrupted questioning of the instructor, and chat with other students. Visual components are delivered over the Internet while voice portions are delivered using an analog phone line to maximize bandwidth connections. Classes can be delivered using the Company's studio in Phoenix, Arizona, or remotely without the need for instructors to be in any certain location. Course content is enhanced beyond basic "slide" delivery to engage the student with interactive slides, 3D graphics, animations, and streaming video where appropriate.

The e-Learning market is in the early stages of development, and may not grow to a sufficient size or at sufficient rate for the Company's business to succeed. Corporate training and education historically has been conducted primarily through classroom instruction and traditionally has been performed by

internal personnel. Although technology-based training applications have been available for several years, they currently account for only a small portion of the overall training market. Accordingly, the Company's success will depend on the extent to which companies migrate from traditional training methods to technology-based solutions and use the Internet in connection with their training activities. In addition, the Company's success will depend upon the extent to which companies utilize the products or services of third-party providers and whether companies adopt hosted solutions delivered over the Internet, including e-Learning sites hosted by third parties, such as those on the Company's e-Learning network.

The systems that support the Company's e-Learning network may be unable to accommodate an increased volume of traffic or additional content if growth out paces current estimates. As a result, the Company's e-Learning systems may experience slower response times or other problems. In addition, the Company depends on Internet service providers, telecommunications companies and the efficient operation of their computer networks and other computer equipment for the operation of the Company's e-Learning network. Each of these has experienced significant outages in the past and could experience outages, delays and other difficulties due to system failures unrelated to the Company's systems. Any delays in response time or performance problems could cause users to perceive the Company's e-Learning network as not functioning properly and therefore not use it for their training needs.

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COMPETITION

The Company is aware of several publicly traded and many privately held e-Learning companies that have similar products and services which compete directly with the Company's products and services. Certain of these competitors have greater financial and other resources than the Company and have existing clients and operations in areas where the Company may seek to expand in the future. Additional e-Learning companies with similar objectives are expected to enter the Company's markets and compete with the Company. There can be no assurance that the Company will be able to compete effectively with their respective competitors, that additional competitors will not enter their markets or that additional competition will not have a material adverse effect on the Company. Although these competitors have a head start in the development of online e-Learning systems, the Company believes that its products and services are competitive and that its e-Learning systems that are currently in place provide an equivalent or better product than its competitors. Even if businesses implement technology-based training or e-Learning solutions, they may still choose to design, develop, deliver or manage all or a part of their education and training internally. If technology-based learning and the use of the Internet for learning do not become widespread, or if businesses do not use the products and services of third parties to develop, deliver or manage their training needs, then the Company's e-Learning products and services may not achieve commercial success.

EMPLOYEES

As of March 31, 2001, the Company employed 27 persons at its corporate offices and 6 persons at one Affiliated Practice office. None of the Company's employees are represented by collective bargaining agreements. The Company considers its employee relations to be good. Management believes that by the end of July 2001, all dental practice employees located on dental practice premises will be re-employed by the Affiliated Practice and accordingly no longer be an employee of the Company.

SERVICE AGREEMENTS AND DENTIST AGREEMENTs

The Company continues to provide services to its Affiliated Practices in accordance with the modified Service Agreements and derive revenues. The actual terms of the various Service Agreements vary slightly on a case-by-case basis, depending on negotiations with the individual Affiliated Practices. Those Modified Agreements require in general that the Company provide: access to online practice enhancement services; access to online tools and payroll services; access to certain on-site consulting and seminar programs, and the use of the tangible assets owned by the Company located at each affiliated dental practice location. The service fees payable under the modified Service Agreements are guaranteed by the owner-dentists. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations.") The new modified Service Agreements provide in general that:

1. The term of the Service Agreement has been reduced from its original term of 30 to 40 years to a new term of only five (5) years from the original date of execution.
2. All dental practice employees have become employees of the dental practice, and accordingly the associated payroll and practice expenses are being paid by the dentist and not the Company.
3. Service Fees have been reduced to a level approximating 90% of fiscal year 2000 fees and fixed in amount for the balance of the Service Agreement term.
4. All accounts receivable outstanding were either paid or converted to an interest-bearing promissory note (average three-year term with an annual interest rate of 10%).
5. The tangible practice assets originally contributed by the dental practice will be transferred back to the dental practice at the end of the amended Management Services Agreement term for a nominal value.
6. The Company be released by the dentist and dental practice of all known and unknown claims by the dentist including breach of the Service Agreement, securities claims or other claims related to the affiliation transaction.

Substantially all of the dentist-owners of the Affiliated Practices entered into a dentist agreement, which provides the Company such dentist's guarantee (for the initial five years and for so long thereafter as he or she owns any interest in the Affiliated Practice) of the Affiliated Practice's obligations under the applicable Service Agreement. In addition, such agreement provides that the dentist may not sell his or her ownership interest during the dentist's five-year employment term without the Company's prior written consent. In the event of a default under the Service Agreement by the Affiliated Practice, the dentist agreement provides that the Company may, at its option, require the

Affiliated Practice to convey its patient records and the capital stock of the Affiliated Practice to the Company's authorized designee, who, in any such case, the Company anticipates will be a dentist affiliated with an Affiliated Practice.

INSURANCE

The Affiliated Practices provide dental services to the public and are exposed to the risk of professional liability and other claims. Each Affiliated Practice maintains its own malpractice insurance. Although the Company does not control the practice of dentistry by the Affiliated Practices, it could be asserted that the Company should be held liable for malpractice of a dentist employed by an Affiliated Practice. Each Affiliated Practice has undertaken steps to comply with all applicable regulations and legal requirements. There can be no assurance, however, that a future claim or claims will not be successful or, if successful, will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable

costs.

GOVERNMENT REGULATION AND FEE-SPLITTING RESTRICTIONS

The dental services industry is regulated extensively at both the state and federal levels. Regulatory oversight includes, but is not limited to, prohibition of fee-splitting, corporate practice of dentistry, prohibitions on fraud and abuse, restrictions on referrals and self-referrals, advertising restrictions, restrictions on delegation and state insurance regulation. The laws of many states permit a dentist to conduct a dental practice only as an individual, a member of a partnership or an employee of a professional corporation, professional association, limited liability company or limited liability partnership. These laws prohibit business corporations such as the Company from engaging in the practice of dentistry or employing dentists to practice dentistry. The specific restrictions against the corporate practice of dentistry, as well as the interpretation of those restrictions by state regulatory authorities, vary from state to state. The restrictions are generally designed to prohibit a non-dental entity (such as the Company) from controlling the professional assets of a dental practice (such as patient records and payor contracts), employing dentists to practice dentistry (or, in certain states, employing dental hygienists or dental assistants) or controlling the content of a dentist's advertising or professional practice. The laws of many states also prohibit dentists from sharing professional fees with non-dental entities. The Company believes that its operations will not contravene any restriction on the corporate practice of dentistry, but there can be no assurance that interpretation by courts or regulatory authorities will not result in determinations that could prohibit or otherwise adversely affect the operations of the Company under the Service Agreements. There can be no assurance that the legality of the business relationship with the Affiliated Practices will not be successfully challenged or that the enforceability of the provisions of any Service Agreement will not be limited which may result in the reduction or elimination of Service Fee revenues.

ITEM 3. LEGAL PROCEEDINGS

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

The Company is also the defendant in a recently filed lawsuit in which the plaintiff claims breach of the premises lease associated with an Affiliated Practice. The Company as a defendant tenant is seeking indemnity from the Affiliated Practice and believes that it will recover any damages suffered from the responsible Affiliated Practice.

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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 2001.

ITEM S-K 401(b). EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to Instruction 3 to Item 401(6) of Regulation S-K and General Instruction G (3) to Form 10-K, the following information is included in Part I

of this Form 10-K. The following table sets forth certain information concerning the executive officers of the Company (ages are as of March 31, 2001):

James M. Powers, Jr.	45	Chairman, President and Chief Executive Officer
Charles M. Sanders	44	Senior Vice President, Chief Operation Officer, Chief Financial Officer
James L. Dunn, Jr.	39	Senior Vice President, General Counsel and Chief Development Officer
Glenn J. Bonagura	43	Senior Vice President, eBusiness
Omer K. Reed, D.D.S.	69	Clinical Officer

JAMES M. POWERS, JR., DDS, MBA
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 uniquely effective and efficient custom e-Learning solutions supporting companies in multi-industries. Dr. Powers joined the Company through the merger with Liberty Dental Alliance, Inc., a Nashville based company where he was the Founder, Chairman and President. Prior to founding Liberty, he was a Founder and Chairman of Clearidge, Inc., a privately held bottled water company in Nashville, Tennessee, that became one of the largest, independent bottlers in the Southeast and was sold to Suntory, Inc. Powers also is a Founder and Director of Barnhill's Country Buffet, Inc., a chain of 34 restaurants in the Southeast. He received a Doctor of Dental Surgery Degree from The University of Tennessee and received his MBA from Vanderbilt University's Owen Graduate School of Management.

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

JAMES L. DUNN, JR., JD, CPA
GENERAL COUNSEL, SENIOR VICE PRESIDENT, AND CHIEF DEVELOPMENT OFFICER
James L. Dunn, Jr., assisted with the formation of the Company and was an integral part of the road show management team during the Company's initial public offering. While the Company's focus was as a consolidator of dental practices in the dental industry, Mr. Dunn was responsible for all development and consolidation activities including the acquisition of dental practices and dental practice management companies. In the first twelve months of operation, he managed the acquisition of over fifty (50) dental practices thereby doubling the Company's annual revenue run rate to $75 Million. Mr. Dunn assumed the role of General Counsel in March of 2000 and managed the legal transition of the Company from its dental management beginnings to its current e-learning focus. He is an attorney and CPA receiving his law degree from Southern Methodist University School of Law in 1987 and his Bachelor's Degree in Business Administration-Accounting from Texas A & M University in 1984.

GLENN J. BONAGURA

SENIOR VICE PRESIDENT, EBUSINESS
Glenn joined e-dentist as Senior Vice President, eBusiness, in July 2000. Mr. Bonagura has over 20 years of expanding responsibilities in several fields including; Internet start up (Dexpo.com), consumer products (Gillette and Unilever) and the dental industry (Oral B Laboratories). He most recently was executive Vice President of Dexpo.com, the first Internet site where dental professionals could purchase dental supplies. Prior to that, he has international executive experience as a General Manager for the Gillette Company where he was responsible for operations in 13 countries. Mr. Bonagura is also a veteran of the dental industry where he held positions as Region sales manager, National sales manager and VP of Sales for Oral B Laboratories. Mr. Bonagura's employment agreement expires in July of 2001 and is not expected to be renewed.

OMER K. REED, D.D.S.
CLINICAL OFFICER
Dr. Reed has served as Clinical Officer since May 1997 and as a Director from May 1997 until December 2000. He founded Pentegra, Ltd. in 1988 and Napili International in 1963, and is a practicing dentist with one of the Company's Affiliated Practices. Dr. Reed resigned from his position as a Director to pursue personal interests and focus on his dental practice. His employment with the Company ceased upon the expiration of his employment agreement in March of 2001.

PART II

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

MARKET INFORMATION, HOLDERS AND DIVIDEND

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

2001	HIGH	LOW
First Quarter	$1.63	$0.50
Second Quarter	$0.63	$0.38
Third Quarter	$0.44	$0.19
Fourth Quarter	$0.73	$0.22

2000	HIGH	LOW
First Quarter	$2.81	$1.38
Second Quarter	$2.13	$1.56
Third Quarter	$1.88	$1.00
Fourth Quarter	$1.88	$0.88

As of June 18, 2001, there were approximately 242 holders of record of Common Stock, as shown on the records of the transfer agent and registrar of Common Stock. The number of record holders does not bear any relationship to the number of beneficial owners of the Common Stock. The last reported sale price of the Common Stock on the American Stock Exchange as of March 31, 2001 was $0.45 per share.

The Company has not paid any cash dividends on its Common Stock in the past and does not plan to pay any cash dividend on its Common Stock in the foreseeable future. In addition, the terms of the Company's revolving credit facility prohibit it from paying dividends or making other payments with respect to its Common Stock without the lenders' consent. 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.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Report.

STATEMENT OF OPERATIONS DATA

	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000	YEAR ENDED MARCH 31, 1999	T MA
Net revenue	$ 12,458	$ 56,988	$ 38,824	
Operating expenses	36,846	59,476	36,940	
Earnings (loss) from operations	(24,388)	(2,488)	1,884	
Income (loss) before income taxes and extraordinary item	(24,987)	(3,497)	1,717	
Income tax expense (benefit)	--	2,213	(525)	
Net income (loss) before extraordinary item	(24,987)	(5,710)	2,242	
Extraordinary item, net	70	350	--	
Net income (loss)	(24,917)	(5,360)	2,242	
Preferred stock dividend	--	--	--	
Income (loss) attributable to common stock	(24,917)	(5,360)	2,242	
Basic and diluted earnings per share:				
Earnings (loss) before extraordinary item	$ (2.38)	$ (0.55)	$ 0.29	
Extraordinary item	.01	0.03	--	
Net earnings (loss)	$ (2.37)	$ (0.52)	$ 0.29	
BALANCE SHEET DATA				
Cash and cash equivalents	$ 1,051	$ 553	$ 1,047	
Working capital (deficit)	(1,440)	1,330	4,224	
Total assets	9,191	37,906	37,127	
Long-term debt, less current maturities	11,461	14,829	13,134	
Total shareholder's equity (deficit)	(6,654)	19,007	20,760	

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

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

HISTORICAL OVERVIEW

e-dentist.com, Inc. (the "Company") began in March of 1998 as a dental practice management company ("DMSO") under the name Pentegra Dental Group, Inc. (Amex:PEN). Its formation included the simultaneous rollup of 50 dental practices and an initial public offering ("IPO"). The capital raised at the IPO was used to fund acquisitions of dental practices and the working capital needs of the Company. Since the IPO, the Company has been headquartered in Phoenix, Arizona. As a part of the IPO, the Company acquired the assets of a consulting firm, Pentegra, Ltd., which was founded in 1988, and a seminar company, Napili International ("Napili"), which was founded in 1963. The clinical, administrative and marketing training developed and provided by these companies to practicing dentists and their teams were the foundation for the Company's historical approach to dental practice management ("the Pentegra Dental Program"). The Pentegra Dental Program was available exclusively to Affiliated Practices. To provide communication to its remote affiliated offices, the Company developed a proprietary user interface and database driven communication system, which employed Internet and browser technology. Growing from the original 50 Affiliated Practices at the IPO, the Company grew to over 100 Affiliated Practices, which included approximately 140 dentists and 107 dental offices located in 31 states. The Company's early mission was to provide management, administrative, development and other services to its Affiliated Practices through long-term Service Agreements ("Service Agreements") in exchange for the payment of management service fees. These service fees were based upon a percentage of dental practice collections. The Company's historical net revenue included both the reimbursement of practice expenses as well as Service Fees. Prior to the transition toward eBusiness, the Company processed all payments to vendors and employed the staff of Affiliated Practices. The modified Service Agreements caused the staff to cease working as employees for the Company and they have become employees of the individual Affiliated Practices. In addition, processing of payments to practice vendors is now performed at the practice level, by practice employees. The Company no longer pays or is reimbursed for expenses paid on the practices' behalf. As a result, the components of net revenues and expenses have changed and decreased significantly with the modified Service Agreements.

In the fourth quarter of fiscal year 2000, the Company announced that it would be implementing a new business strategy to change from its historical practice management business to a focus on an eBusiness and e-Learning strategy. The Company's new strategic direction includes Business-to-Business (B2B) online services and e-Learning services through its Internet or online portal found at www.e-dentist.com. This shift in business model and focus was approved by the shareholders at the annual shareholder meeting held in Phoenix, Arizona on August 25, 2000. The shareholders also approved the Company's name change to e-dentist.com, Inc. A name change of the Company to "EDT Learning, Inc." was approved by the Board in June 2001. The name change will be submitted to a shareholder vote at the August 2, 2001 Annual Shareholders Meeting.

As a part of the new business plan approved by shareholders, the Company modified the Affiliated Service Agreements, which were acceptable to both the

Company and the Affiliated Practices. The new modified Service Agreements provide in general that:

1. The term of the Service Agreement has been reduced from its original term of 30 to 40 years to a new term of only five (5) years from the original date of execution.
2. All dental practice employees have become employees of the dental practice, and accordingly the associated payroll and practice expenses are being paid by the dentist and not the Company.
3. Service Fees have been reduced to a level approximating 90% of fiscal year 2000 fees and fixed in amount for the balance of the Service Agreement term.
4. All accounts receivable outstanding were either paid or converted to an interest-bearing promissory note (average three-year term with an annual interest rate of 10%).rage three-year term with an annual interest rate of 10%).y note (average three-year term with an annual interest rate of 10%).
5. The tangible practice assets originally contributed by the dental practice will be transferred back to the dental practice at the end of the amended Management Services Agreement term for a nominal value.
6. The Company be released by the dentist and dental practice of all known and unknown claims by the dentist including breach of the Service Agreement, securities claims or other claims related to the affiliation transaction.

As of March 31, 2001, all but one of the active Service Agreements have been modified or terminated. As a result of the modifications and terminations of the Service Agreements, the Company prepared an impairment analysis to determine the recoverability of the Management Services Agreement intangible assets and fixed assets grouped at the practice level. The Company prepared the analysis by calculating the expected discounted future cash flows under modified contracts less the carrying amount of the intangible asset and fixed assets to determine the impairment charge. Based on the modified and terminated Service Agreements, the Company recorded a charge due to impairment of approximately $23 million for the year ended March 31, 2001. The fair value of the remaining intangible assets associated with the Service Agreements will be amortized over the remaining term of the modified Service Agreements.

EXPANSION OF MODEL AND FOCUS

As an extension of its educational and training background, the Company has broadened its reach to focus on the larger growing e-Learning and corporate training market. With the launch of the Company's state of the art learning management system (LMS) and its e-Learning engine, the Company now provides a comprehensive array of e-Learning content, hosting and delivery services to corporations, inside and outside the dental and healthcare industries. The Company's synchronous and asynchronous content delivery solutions provide an array of e-Learning products that are customized to each corporate client. The Company is positioning itself in the corporate training sector of the e-Learning marketplace leveraging its existing infrastructure and using scale provided by an integrated product. The Company's initial business model required that it be able to communicate with 107 remote locations using the Intranet and low bandwidth dial up modem connections. These systems required that sensitive financial information for 100 businesses be transmitted in a secure environment. To communicate with its Affiliated Practices, the Company built a proprietary Intranet (virtual private network), which processed secure transactions over the Internet. From that experience and using existing technology and systems, the Company created an e-Learning engine and LMS, which provides an integrated solution for corporate clients. The Company's learning management system was created to be a web based, low bandwidth, cross browser compatible content

delivery and data management system.

The Company's LMS delivers web enabled content through a series of server side components. Additionally, system navigation uses basic HTML and JavaScript as its foundation. The user interface is providing information on the "look and feel," navigation and learning content from a centrally located database. Information on course navigation and testing is captured by the interface and delivered to the database. Because of this design, the interface can be optimized to use less than 20K of bandwidth and can deliver any web-enabled content (from Word documents and Power Point presentations to Real Video and MPEG video streams). The testing system is database enabled, which provides the flexibility for the administrator to create test questions and determine their testing requirements. The system has the ability to provide multiple test environments to meet user needs and questions can be changed by the administrator. The administrator can select from open book tests, closed book tests, timed tests, random question tests, or smart tests (test questions by category or lessons that are designed to identify skill weaknesses). There are pre and post tests for each lesson and for the entire course and all testing activity is recorded into the testing database.

In addition to interactive web based asynchronous training, the Company offers a complete synchronous (live instructor led Web based) learning solution utilizing advanced audio-graphics. The student is provided this instructor-led

classroom experience through the use of third party software and a Java-enabled application. This live online classroom enables the student to interact with instructors and other students and offers advanced features such as real-time surveys, un-interrupted questioning of the instructor, and chat with other students. Visual content is delivered over the Internet using a computer while voice portions are delivered using an analog phone line to maximize bandwidth connections. The Company maintains a broadcast studio in Phoenix, Arizona, permitting instructors to either be located in the studio or remotely while they deliver content, manage the classroom and interact with students. This live delivery is fault tolerant using redundant systems, redundant data connections, and smart routing to ensure the fastest response times. Content is developed using internal teams, which enhance the learning experience from basic "slide" delivery to engage the student with interactive presentation including 3D graphics, animations, and streaming video.

During fiscal 2001, the Company incurred a net loss of $24.9 million and had an accumulated deficit of $31.3 million at March 31, 2001. In addition, the Company had a working capital deficit of $1.4 million at March 31, 2001.

At March 31, 2001, the Company was not in compliance with certain of the financial covenants of the line of credit. At March 31, 2001, $9.3 million was outstanding under the line of credit. In conjunction with the extension discussed below, the bank has waived non-compliance of certain financial ratios at March 31, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company will issue 393,182 warrants to acquire shares of the Company's common stock at $0.42 per share. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid $61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of $25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in

compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

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

RESULTS OF OPERATIONS

Following completion of the IPO, the Company began operations effective April 1, 1998. Prior to April 1, 1998, the Company was not an operating entity and therefore had no net revenue and incurred only minor pre-operating expenses. In May 1998, the Company changed its fiscal year end from December 31 to March 31, effective for the year beginning April 1, 1998. Management service fee recognition and related expenses began April 1, 1998, and the Company began managing 50 dental practices in 18 states. At March 31, 2000, Pentegra managed 96 practices in 106 offices in 29 states. At March 31, 2001, the Company managed 85 practices in 95 offices in 28 states.

COMPONENTS OF REVENUES AND EXPENSES

The Company has embarked upon a strategy focusing on eBusiness primarily in the dental industry. Prior to the transition toward eBusiness, the Company processed all payments to vendors and employed the staff of Affiliated Practices. The modified Service Agreements caused the staff to cease working as employees for the Company and they have become employees of the individual

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Affiliated Practices. In addition, processing of payments to practice vendors is now performed at the practice level, by practice employees. The Company no longer pays or is reimbursed for expenses paid on the practices' behalf. As a result, the components of net revenues and expenses have changed and decreased significantly with the modified Service Agreements.

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

Services Agreement and subject to applicable law, the Company was paid a management fee comprised of two components: (1) the costs incurred by it on behalf of the Affiliated Practice, and (2) a management fee either fixed in amount, an amount usually approximating 35% of the Affiliated Practice's operating profit, before dentist compensation or 15% of the affiliated practice's collected gross revenue ("Service Fee"). Therefore, net revenues represented amounts earned by the Company under the terms of its Service Agreements with the Affiliated Practices, which generally equated to the sum of the Service Fees and the operating expenses that the Affiliated Practices paid to the Company under the Service Agreements.

NET REVENUE

Fiscal 2001 net revenue was $12.5 million, a $44.5 million decrease from fiscal 2000 net revenue of $57 million. The decrease is due to the modification of the Service Agreements and the resulting elimination of pass through revenue and expense reporting and the termination of 11 Affiliated Practices during fiscal 2001. Net revenue generated by paying the operating expenses of the Affiliated Practices was $4.2 million in fiscal 2001 and $46.4 million in fiscal 2000, a decrease of $42.2 million. Net revenue generated from service fees was $8.3 million in fiscal 2001 compared with $10.6 million in fiscal 2000, a decrease of $2.3 million.

Fiscal 2000 net revenue was $57 million, an $18.2 million increase over fiscal 1999 net revenue of $38.8 million. The increase resulted from practice affiliations with 12 additional dental practices in conjunction with the acquisition of Omega Orthodontics, Inc. In addition, fiscal 2000 contains a full twelve-months of revenue generated from the acquisitions of practices during fiscal 1999.

OPERATING EXPENSES

Operating expenses consist primarily of salaries, wages and benefits, dental supplies and laboratory fees, rent, advertising and marketing, and general and administrative expenses. Fiscal 2001 operating expenses were $36.8 million, a $22.7 million decrease from fiscal 2000 operating expenses of $59.5 million. The elimination of pass through revenue and expense reporting caused by the modification and terminations of the Service Agreements decreased operating expenses by $42.2 million in fiscal 2001. General and administrative expenses decreased by $3.3 million and depreciation and amortization expenses decreased by $136,000 during fiscal 2001. These decreases were offset by the impairment charge of $23 million recorded in fiscal 2001.

Fiscal 2000 operating expenses were $59.5 million, an increase of $22.6 million over fiscal 1999 operating expenses of $36.9 million. The increase is due to the affiliation with the 12 additional practices in conjunction with the acquisition of Omega Orthodontics Inc. and the full years expenses of the fiscal 1999 Practice Affiliations.

General and administrative expenses consist of the corporate expenses of the Company. These corporate expenses include salaries, wages and benefits, bad debt expenses, rent, consulting fees, travel (primarily related to practice development and practice enhancement), office costs and other general corporate expenses. General and administrative expenses represented 58.9%, 18.6% and 11.6% of net revenue for fiscals 2001, 2000 and 1999 respectively. Fiscal 2001 general and administrative expenses were $7.3 million, a $3.3 million decrease from fiscal 2000 operating expenses of $10.6 million. The decrease is primarily due to decreases in bad debt expense of $2.8 million, professional fees of $209,000, seminars and education of $156,000, and salaries and wages of $97,000.

Fiscal 2000 general and administrative expenses were $10.6 million, an increase of $6.1 million over fiscal 1999 general and administrative of $4.5 million. The increase in general and administrative costs was primarily due to the provision for uncollectible accounts and notes receivable of $4.5 million. In addition, the Company incurred higher general and administrative expenses because it provided services to the increased number of practices in fiscal 2000 over fiscal 1999.

In fiscal 2001, accounts receivable are amounts due from Affiliated Practices related to management services fees not yet paid. Notes receivable represent conversion of accounts receivable from Affiliated Practices, past advances made to practices for a practice acquisition by the Affiliated Practice, or past advances made for working capital. At March 31, 2001, the Company provided $1.7 million for accounts receivable and notes receivable deemed uncollectible.

In fiscal 2000 and 1999, accounts receivable are amounts due from Affiliated Practices related to expenses paid on their behalf by the Company, or management fees not yet paid. Notes receivable represent advances made to practices for a practice acquisition by the Affiliated Practice, or advances made for working capital. At March 31, 2000 and 1999, the Company provided $4.5 million and approximately $125,000 respectively for accounts receivable and notes receivable deemed uncollectible. The increase in the provision for uncollectible receivables during 2000 resulted from experiencing adequate operating history to determine required reserves for accounts and notes deemed uncollectible. The provision for uncollectible accounts includes the amounts deemed uncollectible as a result of the settlements with these practices.

Depreciation and amortization expenses represented 19.0%, 4.4% and 3.1% of net revenue for fiscal 2001, 2000 and 1999, respectively. Fiscal 2001 depreciation and amortization expenses were $2,368,000, a $136,000 decrease from fiscal 2000 depreciation and amortization expenses of $2,504,000. The decrease is primarily due to the modification and terminations of the Service Agreements.

Fiscal 2000 depreciation and amortization expenses were $2.5 million, an increase of $1.3 million over fiscal 1999 depreciation and amortization expenses of $1.2 million. The increase is due primarily to the acquisition of fixed assets and Management Services Agreements in conjunction with Practice Affiliations.

INCOME TAX EXPENSE

The Company recorded no tax benefit during fiscal 2001 because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its eBusiness plan. At March 31, 2001, the Company has a net deferred tax asset of $9.6 million with a corresponding valuation allowance. Additionally, the Company also has $6.1 million of available deductions related to the increase in tax basis of the assets acquired in the Affiliations. Any tax benefits will be recognized over a period of seven to fifteen years.

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

Income tax benefit for fiscal 1999 was $525,000.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company had a working capital deficit of $1.4 million. Current assets included $1.1 million in cash and $500,000 in accounts and notes receivable from the Affiliated Practices. Current liabilities consisted of $1.1 million of deferred revenue, $816,000 of current maturities of long-term debt and capital leases and $959,000 in accounts payable and accrued liabilities.

On June 1, 1998, the Company closed a revolving bank credit facility with Bank One, Texas, and N.A., which provide the Company with a revolving line of credit of up to $15.0 million, to be used for general corporate purposes including financing of acquisitions, capital expenditures and working capital. The credit facility is collateralized by liens on certain of the Company's assets, including its rights under the Management Services Agreements and accounts and notes receivable. The credit facility contains restrictions on the incurrence of additional indebtedness and payment of dividends on the Company's common stock. Additionally, compliance with certain financial covenants is

required and the lender has approval rights with respect to acquisitions exceeding certain limits. At March 31, 2001, $9.3 million was outstanding under the revolving line of credit.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company will issue 393,182 warrants to acquire shares of the Company's common stock at $0.42 per share. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid $61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of $25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

Cash generated from investing activities resulted from the collection of notes receivable of $533,000 and $116,000 in fiscal 2001 and 2000, respectively. Cash used in investing activities was $138,000, $347,000 and $1.4 million for the purchases of capital equipment, mostly for assets acquired in new practice affiliations in fiscal 2001, 2000 and 1999, respectively. The Company invested $0, $472,000 and $10.3 million in fiscal 2001, 2000 and 1999, respectively for the purchase of intangibles associated with acquisitions. Uses of cash also include the issuance of notes receivable to Affiliated Practices of $24,000, $279,000 and $1.3 million in fiscal 2001, 2000 and 1999, respectively.

During fiscal 2001 and 2000, $1.2 million and $984,000 was used to repay long-term debt. No repayment of long-term debt occurred in fiscal 1999. There

were no draws on the line of credit in fiscal 2001. Cash generated from financing activities in fiscal 2000 and 1999 included draws on the revolving line of credit of $2.1 million and $8 million respectively. The Company received $2.9 million from the issuance of common and redeemable preferred stock in fiscal 1999.

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

E-LEARNING SERVICES AND NEW SALES MODEL

The Company's sales and marketing strategy includes a plan to grow sales through partnered sales channels, leveraging existing customer relationships, and development of Off The Shelf course content. Additionally, the Company plans to raise capital to consolidate the fragmented e-Learning sector through acquisition of existing e-Learning companies. The core focus of the Company's revenue driver exists in product and procedure training. This model provides the corporate client with training on its existing products providing revenues to the Company without the need for end-user marketing. The Company expects to obtain re-seller and marketing agreements with companies to broaden the reach of its products and services through those company's existing sales forces. Additionally, the Company is developing an internal sales force, which is rooted in targeted market segments. The Company's initial focus was within the dental industry however; the Company is also targeting the pharmaceutical industry through relationships driven from the dental industry. Finally, the Company seeks to expand its sales and marketing efforts by and through the channels and sales force opportunities provided by acquisitions of target companies in strategic industries. Fees or revenues are generated through one of two means: The first are fees from the development and delivery of custom course content for an individual customer on a case-by-case basis depending upon the complexity of the course and the features chosen by the customer. The second revenue source is provided from usage of the Company's learning management systems. Revenues are earned on a per user per month basis. However, the pricing, expense and revenue model for the Company's e-Learning network has not been broadly tested in the marketplace, and may not yield results sufficient for the Company's business to succeed or be sustainable. If the pricing, expense and revenue model

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is not acceptable to users, customers, or content providers, the Company's e-Learning initiative may not be commercially successful. This would have an adverse effect on the Company's business.

ACQUISITION OF LIBERTY DENTAL ALLIANCE

On November 13, 1998 the Company and Liberty Dental Alliance, Inc. ("Liberty") entered into an Agreement and Plan of Merger (the "Liberty Merger Agreement"), pursuant to which Liberty became a wholly owned subsidiary of the Company, and James M. Powers, Jr., D.D.S. was named President of the Company. The Liberty Merger Agreement provided the Company pay Liberty common stockholders, consideration for completed Liberty affiliations.

In connection with the Liberty Merger Agreement, the Company has agreed to pay investment-banking fees of up to $100,000 to SunTrust Equitable Securities Corporation. This amount was paid in fiscal 2002. The Company issued an aggregate of 145,000 options to acquire the Company's common stock to certain consultants of the Company with an exercise price of $6.125 per share, in the same proportions and upon completion of Liberty Affiliations as the Additional Common Merger Consideration.

As of March 31, 2000, the Company had completed all Liberty Affiliations with 17 dental practices of which all were completed during fiscal 1999. These

dental practices generated aggregate annual patient revenue of approximately $13 million during their most recently completed fiscal year, and include dentists treating patients in 17 dental offices. The aggregate consideration paid by the Company for these practices consisted of approximately $5.6 million in cash, 1,295,268 shares of the Company's common stock and approximately $3.6 million aggregate principal amount of 6% Series A convertible subordinated notes, one-half payable November 2002 and one-half payable November 2003, and $160,000 aggregate principal amount of 6% of Series B convertible subordinated notes, one-half payable April 2003 and one-half payable April 2004.

The consideration paid pursuant to the Liberty merger on the Liberty affiliations consisted of approximately $444,000 in cash, 423,356 shares of the Company's common stock, the assumption of approximately $350,000 in liabilities of Liberty and 92,550 options to purchase the Company's common stock.

ACQUISITION OF OMEGA ORTHODONTICS

On July 1, 1999, the Company executed a merger agreement with Omega Orthodontics, Inc. ("Omega"). In exchange for the approximately 5.0 million shares outstanding of Omega, the Company issued approximately 1.8 million shares of the Company's stock, and assumed approximately $1.1 million in debt. The merger was accounted for under the purchase method of accounting. The twelve Omega practices represent approximately $11.0 million in annualized practice revenues in fiscal 2000.

ASSET PURCHASE

On October 13, 2000, the Company entered into an Asset Purchase Agreement with Dexpo.com, Inc. The consideration for the purchase of assets is 750,000 shares of the Company's common stock with an additional 500,000 shares to be hold in escrow and paid contingent upon certain performance criteria of the Company's common stock.

RECENT PRONOUNCEMENTS

In June 2000, FASB has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (as amended by SFAS No. 137) and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements require recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss). Appropriate accounting for changes in fair value of derivatives held is dependent on whether the derivative transaction qualifies as an accounting hedge and on the classification of the hedge transaction. Management believes that the adoption of SFAS No. 133 and 138 will not have a material effect on the Company's financial statements.

In March 2000, the Emerging Issue Task Force (EITF) reached a consensus on Issue 00-2, "Accounting for the Costs of Developing a Web Site." EITF 00-2 states that for specific web site development costs, the accounting for such

costs should be based generally on a model consistent with the American Institute of Certified Public Accountants Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The adoption of the pronouncement did not have an impact on the Company's position or the results of the operations.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements"(as amended by SAB 101A and 101B)

that provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies and was adopted by the Company. The adoption of the pronouncement did not have an impact on the Company's position or the result of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. At March 31, 2001, the Company has $9.3 million in variable rate debt outstanding and, as such, the risk is immaterial based upon a 10% increase or decrease in interest rates from their March 31, 2001 levels.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable

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REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of
e-dentist.com, Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of e-dentist.com, Inc. and its Subsidiaries (the "Company") at March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting

principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 and Note 10, the terms of the Company's credit agreement call for a principal maturity date of July 2, 2002. Management's current projections indicate that the Company will have sufficient funds to meet its operating capital requirements through fiscal year ending March 31, 2002; however, there would not be sufficient cash flow to fund the credit agreement obligations due at July 2, 2002. Management is currently seeking other financing arrangements that would enable the Company to repay amounts outstanding under the credit agreement before July 2, 2002. Absent the Company's ability to obtain additional sources of funding or refinance its line of credit, it is unlikely the Company would be able to pay the principal payment due on the credit agreement on July 2, 2002, which could have a material and adverse effect on the Company.

/s/ PricewaterhouseCoopers LLP

Phoenix, Arizona

June 22, 2001,
except for Notes 1 and 10, as to which the date is June 29, 2001

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E-DENTIST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	MARCH 31, 2001
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,051
Receivables from Affiliated Practices, net of allowance for doubtful accounts of $1,147 and $3,269, respectively	195
Prepaid expenses and other current assets	128
Notes receivable from Affiliated Practices-current, net of allowance for doubtful accounts of $323 and $427, respectively	261
Total current assets	1,635
Property and equipment, net	3,279
Intangible assets, net	3,107
Notes receivable from Affiliated Practices, net of allowance for doubtful accounts of $1,766 and $1,287, respectively	1,059
Other assets	111

Total assets	$ 9,191

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:	
Current portion of long term debt	$ 471
Accounts payable and accrued liabilities	959
Current portion of deferred revenue	1,052
Accrued employment agreement	248
Current portion of capital lease liabilities	345
Total current liabilities	3,075
Long term debt, less current maturities	11,461
Capital lease liabilities	643
Deferred revenue	666
Commitments and contingencies	
Shareholders' equity (deficit):	
Common stock, $.001 par value 40,000,000 shares authorized, 11,721,664 and 10,820,783 issued, respectively	12
Additional paid-in capital	25,809
Accumulated deficit	(31,349)
Less: Treasury shares at cost: 1,149,116, and 154,748, respectively	(1,126)
Total shareholders' equity (deficit)	(6,654)
Total liabilities and shareholders' equity (deficit)	$ 9,191

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

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E-DENTIST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED MARCH 31, 2001
Net revenue	$ 12,458
Operating expenses:	
Clinical salaries, wages and benefits	3,452
Dental supplies and lab fees	285
Rent	176
Advertising and marketing	33
General and administrative	7,340
Other operating expenses	192
Impairment of assets	23,0000
Depreciation and amortization	2,368
Total operating expenses	36,846

Earnings (loss) from operations	(24,388)
Interest expense	1,358
Interest income	(352)
Other income	(407)
	599
Income (loss) before income taxes and extraordinary item	(24,987)
Income tax expense (benefit)	--
Income (loss) before extraordinary item	(24,987)
Extraordinary item--gain on debt forgiveness (net of tax effect of $0)	70
Net income (loss)	$(24,917)
Basic and diluted earnings per share:	
Earnings (loss) before extraordinary item	$ (2.38)
Extraordinary item	.01
Net earnings (loss)	$ (2.37)
Weighted average number of shares outstanding--basic and diluted	10,496

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

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E-DENTIST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS)

	COMMON		ADDITIONAL		
	SHARES	AMOUNT	PAID IN CAPITAL	ACCUMULATED DEFICIT	T
Balances, April 1, 1998	6,442	$ 6	$ 10,304	$ (3,314)	$
Issuance of common stock	375	1	2,870	--	
Issuance of common stock to Affiliated Practices	2,286	2	8,494	--	
Tax benefit related to assets acquired in affiliations	--	--	155	--	
Net income	--	--	--	2,242	
Balances, March 31, 1999	9,103	9	21,823	(1,072)	
Issuance of common stock	1,893	2	3,836	--	
Shares repurchased	(175)	--	(297)	--	

Issuance of options for compensation	--	--	54	--	
Net loss	--	--	--	(5,360)	
Tax benefit related to assets acquired in affiliations................................	--	--	188	--	
Balances, March 31, 2000	10,821	11	25,604	(6,432)	
Issuance of common stock	998	1	307	--	
Shares repurchased	(97)	--	(102)	--	
Net loss	--	--	--	(24,917)	
Balances, March 31, 2001	11,722	$ 12	$ 25,809	$(31,349)	$

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

E-DENTIST.COM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FOR THE YEAR ENDED MARCH 31, 2001	FOR THE ENDED MARCH 2000
Cash flows from operating activities:		
Net income (loss)	$(24,917)	$ (5,36
Adjustment to net income (loss):		
Provision for bad debts	1,705	4,50
Impairment of assets	23,000	-
Depreciation and amortization	2,368	2,50
Stock options compensation	--	5
Gain on debt forgiveness	(70)	(35
Deferred income taxes (benefit)	--	2,16
Changes in operating assets and liabilities:		
Receivables from Affiliated Practices	110	(2,38
Prepaid expenses and other current assets	111	(16
Other assets	75	-
Accounts payable and accrued liabilities	(773)	(1,40
Deferred revenue	(85)	-
Accrued employment agreement	(152)	(19
Net cash provided by (used in) operating activities	1,372	(62
Cash flows from investing activities:		
Repayment of notes receivable	533	11
Capital expenditures	(138)	(34
Acquisitions, net of cash acquired	--	(47
Issuance of notes receivable	(24)	(27
Net cash provided by (used in) investing activities	371	(98
Cash flows from financing activities:		
Proceeds from issuance of common and redeemable preferred stock.....	--	-
Proceeds from line of credit	--	2,10
Repayment of long-term debt	(1,245)	(98

Offering and financing costs	--	-
Net cash provided by (used in) financing activities	(1,245)	1,11
Net change in cash and cash equivalents	498	(49
Cash and cash equivalents, beginning of period	553	1,04
Cash and cash equivalents, end of period	$ 1,051	$ 55

The accompanying notes are an integral part of the financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

RECENT EVENTS

In the fourth quarter of fiscal year 2000, the Company announced that it would be implementing a new business strategy to change from its historical practice management business to a focus on an eBusiness and e-Learning strategy. The Company's new strategic direction includes Business-to-Business (B2B) online services and e-Learning services through its Internet or online portal found at www.e-dentist.com. This shift in business model and focus was approved by the shareholders at the annual shareholder meeting held in Phoenix, Arizona on August 25, 2000. The shareholders also approved the Company's name change to e-dentist.com, Inc. The Company is proposing to change its name from e-dentist.com, Inc. to "EDT Learning, Inc." to more accurately reflect its current business model and the expansion of the scope of its business offering which focuses on providing e-Learning tools and systems to corporate clients inside and outside of the dental industry. A name change of the Company to "EDT Learning, Inc." was approved by the Board in June 2001. The name change will be submitted to a shareholder vote at the August 2, 2001 Annual Shareholders Meeting.

As a part of the new business plan approved by shareholders, the Company modified the Affiliated Service Agreements, which were acceptable to both the Company and the Affiliated Practices. The new modified Service Agreements provide in general that:

1. The term of the Service Agreement has been reduced from its original term of 30 to 40 years to a new term of only five (5) years from the original date of execution.
2. All dental practice employees have become employees of the dental practice, and accordingly the associated payroll and practice expenses are being paid by the dentist and not the Company.
3. Service Fees have been reduced to a level approximating 90% of fiscal year 2000 fees and fixed in amount for the balance of the Service Agreement term.
4. All accounts receivable outstanding were either paid or converted to an interest-bearing promissory note (average three-year term with an annual interest rate of 10%).
5. The tangible practice assets originally contributed by the dental practice will be transferred back to the dental practice at the end of the amended Management Services Agreement term for a nominal value.
6. The Company be released by the dentist and dental practice of all known and unknown claims by the dentist including breach of the

Service Agreement, securities claims or other claims related to the affiliation transaction.

As of March 31, 2001, all but one of the active Service Agreements have been modified or terminated. As a result of the modifications and terminations of the Service Agreements, the Company prepared an impairment analysis to determine the recoverability of the Management Services Agreement intangible assets and fixed assets grouped at the practice level. The Company prepared the analysis by calculating the expected discounted future cash flows under modified contracts less the carrying amount of the intangible asset and fixed assets to determine the impairment charge. Based on the modified and terminated Service Agreements, the Company recorded a charge due to impairment of approximately $23 million for the year ended March 31, 2001. The fair value of the remaining intangible assets associated with the Service Agreements is being amortized over the remaining term of the modified Service Agreements.

EXPANSION OF MODEL AND FOCUS

As an extension of its educational and training background, the Company has broadened its reach to focus on the larger growing e-Learning and corporate training market. With the launch of the Company's state of the art learning management system (LMS) and its e-Learning engine, the Company now provides a comprehensive array of e-Learning content, hosting and delivery services to corporations across industry boundaries. The Company's synchronous and asynchronous content delivery solutions provide an array of e-Learning products that are customized to each corporate client. The Company's initial business model required that it be able to communicate with 107 remote locations using the Intranet through low bandwidth dial up modems in a secure environment. To communicate with its Affiliated Practices the Company built a proprietary Intranet (virtual private network), which processed secure financial transactions. From that experience and using existing technology and systems,

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the Company created the e-Learning engine and LMS, which provides an integrated solution for corporate clients. The Company's learning management system was created to be a web based, low bandwidth, cross browser compatible content delivery and data management system.

The Company's LMS delivers web enabled content through a series of server side components. Because of its design, the interface can be optimized to use less than 20K of bandwidth and can deliver any web-enabled content (from documents and presentations to video.) The testing system is database enabled, which provides the flexibility to create test questions according to testing requirements. The system has the ability to provide multiple test environments to meet user needs and questions that can be changed by the administrator. Testing options include open book tests, closed book tests, timed tests, random question tests, or smart tests (test questions by category or lessons that are designed to identify skill weaknesses). Lessons and courses are designed with pre and post tests and all testing activity is recorded into a database.

LIQUIDITY AND MANAGEMENT PLANS

During fiscal 2001, the Company incurred a net loss of $24.9 million and had an accumulated deficit of $31.3 million at March 31, 2001. In addition, the Company had a working capital deficit of $1.4 million at March 31, 2001.

As discussed in Note 10, at March 31, 2001, the Company was not in compliance with certain of the financial covenants of the line of credit. At March 31, 2001, $9.3 million was outstanding under the line of credit. In conjunction with the extension discussed below, the bank has waived

non-compliance of certain financial ratios at March 31, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company will issue 393,182 warrants to acquire shares of the Company's common stock at $0.42 per share. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the issuance of additional warrants. The Company also paid $61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of $25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

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

ORGANIZATION AND BASIS OF PRESENTATION

Pentegra Dental Group, Inc. (the "Company") together with its wholly owned subsidiary, Pentegra Investments, Inc. ("PII"), provides practice management services to dental practices throughout the United States. In July 1997, Pentegra Dental Group, Inc., changed its name to Pentegra Investments, Inc. and formed a new wholly owned subsidiary named Pentegra Dental Group, Inc. ("Pentegra Dental" or "the Company"). On March 30, 1998, simultaneously with the Company's initial public offering, PII repurchased (the "Share Repurchase") from the stockholders of PII, on a pro rata basis, at a purchase price of $0.015 per share, that number of shares as was necessary so that the aggregate number of shares of Pentegra Dental common stock, par value $.001 per share (the "Common

Stock"), issued in connection with the Affiliations (as defined below) and the Share Exchange (as defined below) would not exceed 3,941,898 shares. Pursuant to that agreement, PII repurchased 909,237 shares for $14,000 and exchanged on a share-for-share basis, shares of PII common stock, par value $0.015 per share, for 1,756,667 shares of Common Stock (the "Share Exchange"). On March 30, 1998, Pentegra Dental acquired (the "Affiliations") simultaneously with the closing of its initial public offering (the "Offering" or "IPO"), substantially all of the tangible and intangible assets, and assumed the liabilities, of 50 dental practices (collectively, the "Founding Affiliated Practices") in exchange for 3.1 million shares of Common Stock, $6.5 million in cash and net assets assumed of approximately $300,000. The net proceeds of the 2.5 million shares of Common Stock issued in the IPO (after deducting the underwriting discounts and

commissions) were $19.8 million. Total related offering costs were $3.4 million.

The acquisitions of the Founding Affiliated Practices have been accounted for in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 48, "Transfers of Non-monetary Assets by Promoters or Shareholders". In accordance with SAB No. 48, the acquisition of the assets and assumption of certain liabilities for all of the Founding Affiliated Practices pursuant to the Affiliations has been accounted for by the Company at the transferors' historical cost basis, with the shares of Common Stock issued in those transactions being valued at the historical cost of the non-monetary assets acquired net of liabilities assumed. The cash consideration of approximately $6.5 million, paid at closing on March 30, 1998, less net assets acquired of approximately $300,000, is reflected as a dividend by the Company to the owners of the Founding Affiliated Practices in the quarter ended March 31, 1998. SAB No. 48 is not applicable to any acquisitions made by the Company subsequent to the IPO. Acquisitions of certain of the assets and liabilities of practices that affiliate with the Company after the IPO have been accounted for as purchases, and resulted in substantial annual non-cash amortization charges for intangible assets in the Company's statements of operations.

In April 1998, the over allotment option to sell 375,000 shares of Common Stock was exercised at a price of $8.50 per share, yielding additional net proceeds to the Company of approximately $2.9 million.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions are eliminated upon consolidation.

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSETS

The Company's acquisitions involve the purchase of tangible and intangible assets and the assumption of certain liabilities of the affiliated dental practices. As part of the purchase allocation, the Company allocated the purchase price to the tangible assets acquired and liabilities assumed, based on estimated fair market values. In connection with each acquisition, the Company entered into a long-term Management Services Agreement with each affiliated dental practice, which cannot be terminated individually by either party without cause. The cost of the Management Services Agreement was originally being amortized on a straight-line basis over the lessor of its term or 25 years. As discussed in Note 1, the Management Services Agreements were modified during fiscal 2001 and are now being amortized over the remaining term of the modified Service Agreements (not more than five years).

In connection with the allocation of the purchase price to identifiable

intangible assets, the Company analyzes the nature of the group with which a Management Services Agreement is entered into, including the number of dentists in each group, number of dental centers and ability to recruit additional

dentists, the affiliated dental practice's relative market position, the length of time each affiliated dental practice has been in existence, and the term and enforceability of the Management Services Agreement. Because the Company does not practice dentistry, maintain patient relationships, hire dentists, enter into employment and non-compete agreements with the dentist, or directly contract with payors, the intangible asset created in the purchase allocation process is associated primarily with the Management Services Agreement with the affiliated dental practice.

The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If this review indicates that the carrying amount of the asset may not be recoverable, as determined based on the undiscounted cash flows of the related operations over the remaining amortization period, the carrying value of the asset is reduced to estimated fair value. Among the factors that the Company will continually evaluate are unfavorable changes in each affiliated dental practice's relative market share and local market competitive environment, current period and forecasted operating results and cash flows of the affiliated dental practice and its impact on the management fee earned by the Company, and legal factors governing the practice of dentistry.

REVENUE RECOGNITION

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

The Company has embarked upon a new strategy focusing on eCommerce and e-Learning. Prior to the transition, the Company processed all payments to vendors and employed the team members of Affiliated Practices. The modified Management Services Agreements caused the team members to cease working as employees for the Company and they became employees of the individual Affiliated Practices. In addition, processing of payments to practice vendors is being performed at the practice level, by practice employees. The Company is no longer being reimbursed for expenses paid on the practices' behalf. As a result, the components of net revenues have changed and decreased significantly with the new Management Services Agreements.

INCOME TAXES

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

EARNINGS PER SHARE

Basic earnings per share are computed based upon the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Diluted earnings per share are not separately presented because such amounts would be the same as amounts computed for basic earnings per share.

As of March 31, 2001 and 2000, options to purchase 1,643,173 and 1,147,327 shares of Common Stock at exercise prices above the market value of Common Stock were excluded from the calculation of earnings per share because their effect would have been antidilutive. As of March 31, 2001 and 2000, shares of 266,180 and 559,656 convertible from the Company's convertible subordinated notes were excluded from the calculation because their effects would have been antidilutive.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management in determining the reported amounts of liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

NEW PRONOUNCEMENTS

In June 2000, FASB has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," (as amended by SFAS No. 137) and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements require recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss). Appropriate accounting for changes in fair value of derivatives held is dependent on whether the derivative transaction qualifies as an accounting hedge and on the classification of the hedge transaction. Management believes that the adoption of SFAS No. 133 and 138 will not have a material effect on the Company's financial statements.

In March 2000, the Emerging Issue Task Force (EITF) reached a consensus on Issue 00-2, "Accounting for the Costs of Developing a Web Site." EITF 00-2 states that for specific web site development costs, the accounting for such costs should be based generally on a model consistent with the American Institute of Certified Public Accountants Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The adoption of the pronouncement did not have an impact on the Company's position or the results of the operations.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements"(as amended by SAB 101A and 101B) that provides guidance on the recognition, presentation and disclosure of

revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies and was adopted by the Company. The adoption of the pronouncement did not have an impact on the Company's position or the result of operations.

RECLASSIFICATIONS

Certain prior year balances in the consolidated financial statements have been reclassified to confirm with the fiscal 2001 presentation.

3. NOTES RECEIVABLE

Notes receivable consisted of the following:

	MARCH 31, 2001	MARCH 31, 2000
	(IN THOUSANDS)	
Notes receivable	$ 3,409	$ 2,844
Less: allowance for doubtful accounts	(2,089)	(1,714)
	1,320	1,130
Notes receivable, current	261	421
	$ 1,059	$ 709

Notes receivables are with Affiliated Practices and are uncollateralized, ranging in length from one to thirteen years. The notes bear interest at March 31, 2001 at fixed rates ranging from 5% to 10% with interest and principal payments due monthly.

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The collection schedule of notes receivable for each of the next five years subsequent to March 31, 2001 were as follows (in thousands):

2002	$ 798
2003	1,057
2004	477
2005	226
2006	234
Thereafter	617
	$3,409

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	MARCH 31, 2001	MARCH 31, 2000
	(IN THOUSANDS)	
Furniture & Fixtures	$1,447	$2,732
Equipment	2,454	3,662
Computer Equipment	1,704	2,103
Leasehold Improvements	185	371

Total property and equipment	5,790	8,868
Less: accumulated depreciation	2,511	1,982
Property and equipment, net	$3,279	$6,886

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

5. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Management Services Agreements	$ 5,528	$26,905
Other	286	504
	5,814	27,409
Less: accumulated amortization	2,707	1,623
Intangible assets, net	$ 3,107	$25,786

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

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

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Accounts payable trade	$ 508	$1,111
Amounts payable to Affiliated Practices	--	332
Accrued interest	344	73
Other	107	186
Total accounts payable and accrued liabilities	$ 959	$1,702

7. DEFERRED REVENUE

Deferred revenue consisted of the following:

MARCH 31,

	2001	2000
	(IN THOUSANDS)	
Deferred revenue, current	$1,052	$ 206
Deferred revenue, noncurrent	666	--
	$1,718	$ 206

Deferred revenue results primarily from Affiliated Practices prepaying their future service fees with either cash payments or forgiveness of debt owed to them by the Company.

During fiscal 2001 and 2000, the Company recorded deferred revenue from cash payments of $563,000 and $100,000 and from canceling debt of $1,500,000 and $59,000, respectively.

8. EXTRAORDINARY ITEM

In January 2001, former Liberty stockholders forgave $70,000 previously due from the Liberty Merger Agreement (See Note 9).

In December 1999, a former member of the Board of Directors forgave $350,000 previously due from the Company (See Note 15).

9. AFFILIATIONS

On July 1, 1999, the Company executed a merger agreement with Omega Orthodontics, Inc. ("Omega"). In exchange for the approximately 5.0 million shares outstanding of Omega, the Company issued approximately 1.8 million shares of the Company's stock, and assumed approximately $1.1 million in debt. The merger was accounted for under the purchase method of accounting.

The following unaudited pro forma summary of financial information presents the Company's combined results of operations as if the acquisition of Omega Orthodontics, Inc. had occurred at the beginning of the periods presented, after

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including the impact of certain adjustments including: (i) the elimination of nonrecurring merger related costs, and (ii) reduced amortization expense reflecting in value assigned to intangible assets, (in thousands, except per share data).

	FISCAL YEARS ENDED MARCH 31,	
	2000	1999
	PRO FORMA UNAUDITED	PRO FORMA UNAUDITED
Revenues	$ 59,063	$ 46,645
Expenses	61,752	44,216
Net income (loss)	$ (2,689)	$ 2,429
Net income (loss) per basic and diluted share before extraordinary item	$ (.26)	$ 0.25
Weighted average number of basic and diluted share outstanding	10,356	9,546

	========	========

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

ACQUISITION OF LIBERTY DENTAL ALLIANCE

On November 13, 1998 the Company and Liberty Dental Alliance, Inc. ("Liberty") entered into an Agreement and Plan of Merger (the "Liberty Merger Agreement"), pursuant to which Liberty became a wholly owned subsidiary of the Company, and James M. Powers, Jr., D.D.S. was named President of the Company. The Liberty Merger Agreement provided the Company pay Liberty common stockholders consideration for completed Liberty affiliations.

In connection with the Liberty Merger Agreement, the Company has agreed to pay investment-banking fees of up to $100,000 to SunTrust Equitable Securities Corporation. This amount was paid in fiscal 2002. The Company issued an aggregate of 145,000 options to acquire the Company's common stock to certain consultants of the Company with an exercise price of $6.125 per share, in the same proportions and upon completion of Liberty Affiliations as the Additional Common Merger Consideration.

As of March 31, 2000, the Company had completed all Liberty Affiliations with 17 dental practices of which all were completed during fiscal 1999. These dental practices generated aggregate annual patient revenue of approximately $13 million during their most recently completed fiscal year, and include dentists treating patients in 17 dental offices. The aggregate consideration paid by the Company for these practices consisted of approximately $5.6 million in cash, 1,295,268 shares of the Company's common stock and approximately $3.6 million aggregate principal amount of 6% Series A convertible subordinated notes, one-half payable November 2002 and one-half payable November 2003, and $160,000 aggregate principal amount of 6% of Series B convertible subordinated notes, one-half payable April 2003 and one-half payable April 2004.

The consideration paid pursuant to the Liberty merger on the Liberty affiliations consisted of approximately $444,000 in cash, 423,356 shares of the Company's common stock, the assumption of approximately $350,000 in liabilities of Liberty and 92,550 options to purchase the Company's common stock.

For the year ended March 31, 1999, the Company completed new dentist affiliations with 34 practices. Total consideration paid by the Company for the new affiliations consisted of 2,286,000 shares of Common Stock, $4.6 million aggregate principal amount of Convertible Subordinated Debt Securities, $537,000 in notes and $10.3 million of cash.

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The assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The aggregate purchase price and related expenses that exceeded the fair market value of net assets, have been assigned to Management Services Agreements. Management fees and related costs are included in the financial statements from their acquisition dates. The allocations were as follows (in thousands):

	2000	1999
Property and equipment, net	$ 500	$ 1,955
Management services agreements	4,938	21,970

Deferred tax asset	1,212	--
Net liabilities acquired	(2,340)	--
	4,310	23,925
Less: Common stock issued	3,838	8,496
Less: Notes payable and convertible subordinated notes issued	--	5,103
Cash purchase price	$ 472	$10,326

ASSET PURCHASE

On October 13, 2000, the Company entered into an Asset Purchase Agreement with Dexpo.com, Inc. The consideration for the purchase of assets is 750,000 shares of the Company's common stock with an additional 500,000 shares to be held in escrow and paid contingent upon certain performance criteria of the Company's common stock.

10. LONG-TERM DEBT

Long-term debt consisted of the following:

	MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Credit facility	$ 9,302	$10,100
Convertible subordinated notes, Series A	1,812	3,546
Convertible subordinated notes, Series B	--	288
Shareholders' notes payable	442	559
Notes payable	376	828
	11,932	15,321
Less: Current portion of long-term debt	471	492
Long-term debt	$11,461	$14,829

The credit facility provided the Company with a revolving line of credit of up to $15.0 million, to be used for general corporate purposes including financing of acquisitions, capital expenditures and working capital. The credit facility bears interest at an adjustable rate based on LIBOR. At March 31, 2001 and 2000 the interest rate on outstanding amounts was 10.94% and 10.68%, respectively. The credit facility is collateralized by liens on certain of the Company's assets, including its rights under the Management Services Agreements and accounts and notes receivable. The credit facility contains restrictions on the incurrence of additional indebtedness and payment of dividends on the Common Stock.

At March 31, 2001, the Company was not in compliance with certain of the financial covenants of the line of credit. At March 31, 2001, $9.3 million was outstanding under the line of credit. In connection with the extension discussed below, the bank waived non-compliance of certain financial ratios at March 31, 2001.

On June 29, 2001, Bank One, Texas, NA extended the terms of the credit facility through July 2, 2002. In connection with the extension, the Company will issue 393,182 warrants to acquire shares of the Company's common stock at $0.42 per share. Until the credit facility is paid in full, the bank will have the right to maintain a 3% fully diluted interest in the Company through the

issuance of additional warrants. The Company also paid $61,000 in fees to the bank as part of the extension.

Terms of the extension include monthly principal payments of $25,000 and modification of the financial covenants. The Company has prepared financial projections through the term of the extension and believes it will be in compliance with the financial covenants.

As discussed above, the bank credit facility due date has been extended to July 2, 2002. Based upon its current strategy, the Company projects to have sufficient funds to meet its operating capital requirements through fiscal 2002, however, there would not be sufficient cash flow to fund the credit facility obligation due July 2, 2002. Management believes it will be able to replace the credit facility with other bank financing alternatives or refinancing of its current line of credit. There is no assurance that other financing will be available to refinance the current line of credit in sufficient amounts, if at all, and there can be no assurance that the related terms and conditions will be acceptable to the Company. Failure of the Company to obtain such alternative financing or refinancing of its current line of credit would have a material and adverse effect on the Company's financial position.

The Convertible Subordinated Notes Series A Securities (Series A Securities) were issued in connection with the acquisition of certain Affiliated Practices. The Series A Securities bear interest at 6% and can be converted to Common Stock of the Company at conversion prices ranging from $6.75 to $7.00 per share. The conversion period began on November 1, 1999 and ends on November 1, 2003. The principal amount of the Series A Securities, if not converted, is payable one-half on November 1, 2002 and one-half on November 1, 2003.

The Convertible Subordinated Notes Series B Securities (Series B Securities) were issued in connection with the acquisition of certain Affiliated Practices. The Series B Securities bear interest at 6% and can be converted to Common Stock of the Company at a conversion price of $6.75 per share. The conversion period began on April 1, 2000 and ends on April 1, 2004.

During fiscal 2001, $1,734,000 of previously issued Series A Securities and $242,000 of the remaining Series B Securities, respectively, were returned by the holders to offset amounts owed to the Company and prepay future service fees. During fiscal 2000, $665,000 and $67,000 of previously issued Series A Securities and Series B Securities, respectively, were returned by the holders to offset amounts owed to the Company.

In connection with the merger with Omega Orthodontics, Inc., (see Note 9), the Company assumed certain notes payable to Affiliated Practices. The notes were originally issued in connection with the affiliation agreements at the time the assets of the practices were acquired. At March 31, 2001 and 2000, the remaining principal on these notes was $331,000 and $828,000, respectively. During fiscal 2001, $355,000 of these notes were returned by the holders to offset amounts owed to the Company and prepay future service fees. The notes are due in monthly installments ranging from $1,213 to $4,860 through December 2003, and bear interest at 8.5%.

In connection with the IPO; the Company issued $468,000 of notes payable to certain shareholders formerly owning preferred stock. The notes bear 6% interest and are payable on the earlier of March 30, 2003 or the date upon which the Company offers and sells an amount of equity securities equal or greater to the gross proceeds of the IPO. During fiscal 2001, $17,500 of these notes payable were returned by the holders to offset amounts owned to the Company. During fiscal 2000, the Company made a payment of $9,000 to the shareholders.

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

In March 1999, the Company issued $537,000 of notes payable to owners of affiliated dental practices. These notes were paid in April 1999.

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The aggregate maturities of long-term debt excluding capital leases for each of the next five years subsequent to March 31, 2001 were as follows (in thousands):

2002	$ 471
2003	10,057
2004	1,358
2005	23
2006	23
	$11,932

11. CAPITALIZATION

PREFERRED STOCK

The Company has the authority to issue ten million shares of preferred stock, par value $.001 per share. At March 31, 2001 and 2000 no shares of preferred stock were issued or outstanding.

COMMON STOCK

As of March 31, 2001, the Company is authorized to issue forty million shares of common stock.

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

12. INCOME TAXES

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

	MARCH 31	
	2001	2000
Deferred tax assets:		
Reserves for uncollectible accounts	$ 1,215	$ 1,931
Net operating loss carryforward	8,665	2,472
Organizational costs	241	352
Property and equipment	56	--
Other	7	26
Total deferred tax assets	10,184	4,781
Deferred tax liabilities:		
Excess book basis over tax basis of accrued		

revenues and expenses	(591)	(1,183)
Property and equipment	--	(204)
Management services agreement	--	(155)
Total deferred tax liabilities	(591)	(1,542)
Net deferred tax asset	9,593	3,239
Less valuation allowance	(9,593)	(3,239)
Net deferred tax asset	$ --	$ --
Less current portion	--	--
Noncurrent assets	$ --	$ --

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

	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000	YEAR ENDED MARCH 31, 1999
Current tax expense (benefit):			
Federal	$ --	$ 52	$ --
State	--	--	--
Total current	--	52	--
Deferred tax expense (benefit):			
Federal	--	1,984	(462)
State	--	177	(63)
Total deferred	--	2,161	(525)
Expense (benefit) for income taxes	$ --	$2,213	$ (525)

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

	YEAR ENDED MARCH 31, 2001	YEAR ENDED MARCH 31, 2000	YEAR ENDED MARCH 31, 1999
		(IN THOUSANDS)	
Tax (benefit) at U.S. Statutory rate (34%)............................	$(8,472)	$(1,070)	$ 584
State income taxes (benefit), net of federal tax	(1,012)	(106)	82
Nondeductible expenses and other	3,130	150	118
Change in valuation allowance	6,354	3,239	(1,309)
Total tax expense (benefit)	$ --	$ 2,213	$ (525)

At March 31, 2001, the Company had net operating loss carry-forwards available to reduce future taxable income of approximately $22.8 million, expiring beginning in 2018. The Company recorded a valuation allowance for its entire deferred tax asset because it concluded it is not likely it would be able to recognize the tax assets due to the lack of operating history of its implementation of the eBusiness plan. In addition, approximately $0.2 million of

the valuation allowance will be allocated to shareholder equity when that portion of the deferred tax asset is recognized in the future. The Company also has $6.1 million of available deductions related to the increase in tax basis of the assets acquired in the Affiliations. The tax benefits will be recognized over a period of seven to fifteen years.

13. STOCK OPTION PLANS

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

Under the Plan, the Company is authorized to issue 2,000,000 shares of Common Stock pursuant to "Awards" granted to officers and key employees in the form of stock options.

There were 1,643,173 and 1,147,327 options granted under the Plan, at March 31, 2001 and 2000, respectively. The Compensation Committee administers the Plan. These stock options have contractual terms of 10 years and have an exercise price no less than the fair market value of the stock at grant date. The options vest at varying rates over a one to five year period.

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Following is a summary of the status of the Company's stock options as of March 31, 2001 and for the three years then ended:

	NUMBER OF SHARES OF UNDERLYING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICES
Outstanding at April 1, 1998	671,666	$8.50
Exercisable at April 1, 1998	--	--
Granted	358,000	4.94
Exercised	--	--
Forfeited	(433,000)	8.46
Expired	--	--
Outstanding at March 31, 1999	596,666	6.40
Exercisable at March 31, 1999	136,333	6.69
Granted	608,994	3.17
Exercised	--	--
Forfeited	(58,333)	7.06
Expired	--	--
Outstanding at March 31, 2000	1,147,327	4.74
Exercisable at March 31, 2000	267,263	6.41
Granted	804,901	0.68
Exercised	--	
Forfeited	(309,055)	5.76

Expired	--	
Outstanding at March 31, 2001	1,643,173	2.50
Exercisable at March 31, 2001	488,749	4.08
Weighted average fair value of options granted during the period:		
Fiscal 1999		$2.77
Fiscal 2000		$1.00
Fiscal 2001		$0.26

The fair value of each stock option granted by the Company is estimated on the date of grant using the Black-Scholes option pricing model for the three years ended March 31, 2001 with the following weighted-average assumptions: dividend yield of 0% for each year; expected volatility of 61.4% for the year ended March 31, 1999, 67% for the year ended March 31, 2000 and 65% for the year ended March 31, 2001; risk-free interest rates are 5.7% for the year ended March 31, 1999, 6.2% for the year ended March 31, 2000 and 4.93%-6.29% for the year ended March 31, 2001; the expected average lives of the options range from seven to ten years.

The following table summarizes information about stock options outstanding at March 31, 2001:

		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
				(SHARE DATA IN THOUSANDS)		
$0.01	$0.99	616,436	0.50	9.45	61,124	0.50
$1.00	$1.99	210,000	1.27	9.15	50,000	1.56
$2.00	$2.99	445,000	2.21	8.29	165,000	2.34
$3.00	$8.50	371,737	6.83	7.31	212,625	7.00
		1,643,173			488,749	

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Had the compensation cost for the company's stock based compensation plans been determined using the fair value rather than the intrinsic value of the options, the Company's net income (loss) and diluted net income (loss) per share for 2001, 2000 and 1999 would approximate $(24.9) million or $(2.37), $(5.4) million or $(0.52) and $1.9 million, or $0.25 per share, respectively. The effects of applying fair value accounting in this pro forma disclosure are not indicative of future amounts.

WARRANTS

Omega Orthodontics, Inc. (See Note 9) had warrants outstanding to purchase 2,430,000 shares of Omega common stock. As a result of the merger with the Company on July 1, 2000, these warrants now constitute warrants to acquire, on the same terms and conditions as were applicable under the original Omega warrants, 865,343 shares of the Company's common stock exercisable at prices ranging from $18.53 to $27.80 per share.

14. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

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

Assets recorded under capital leases, at March 31, 2001, consisted of the following (in thousands):

Cost	$1,190
Less accumulated amortization	330
Total	$ 860

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms of one or more years consisted of the following at March 31, 2001 (in thousands):

	CAPITAL	OPERATING
2002	$ 437	$ 378
2003	336	282
2004	277	167
2005	115	3
2006	--	--
Thereafter	--	--
Total minimum obligations	$1,165	$ 830
Less amount representing interest	177	
Present value of minimum obligations	988	
Less current portion	345	
Long-term obligation at March 31, 2001	$ 643	

The Company incurred rent expense of $253,000, $264,000 and $214,000 in fiscal 2001, 2000 and 1999, respectively.

LITIGATION

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

The Company is also the defendant in a recently filed lawsuit in which the plaintiff claims breach of the premises lease associated with an Affiliated Practice. The Company as a defendant tenant is seeking indemnity from the

Affiliated Practice and believes that it will recover any damages suffered from the responsible Affiliated Practice.

15. RELATED PARTY TRANSACTIONS

An employment bonus of $1,250,000 to a member of the Board of Directors and Chief Dental Officer of the Company was recorded prior to fiscal 1999. During fiscal 2001, 2000 and 1999, $152,000, $190,000 and $310,000 was paid respectively to this board member. In December 1999, the officer forgave $350,000 due him by the Company. The net extraordinary gain to the Company after a tax effect was $350,000. Pursuant to the terms of the Company's employment agreement with the Chief Dental Officer as amended, the remaining employment bonus must be paid in full by July 31, 2001. At March 31, 2001, $248,000 remained outstanding.

During the year ended March 31, 2001, the Company made a severance payment of $64,000 to the former Chief Financial Officer. During the year ended March 31, 2000, the Company made a severance payment of $30,000 to the former Chief Operating Officer. The Company also agreed to pay the former Chief Operating Officer $72,000 under the terms of the separation. During the year ended March 31, 1999, the Company made a severance payment of $350,000 to the former Chief Executive Officer.

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

At March 31, 2000 and 1999, the Company had notes and accounts receivable from Affiliated Practices who also serve as members of the Board of Directors. At March 31, 2000 and 1999, the total notes receivable from board members were approximately $361,000 and $109,000 respectively, net of an allowance for doubtful accounts of $136,000 and $0, respectively. The accounts receivable from board members at March 31, 2000 and 1999 were approximately $430,000 and $386,000 respectively, net of allowance for doubtful accounts of $198,000 and $0, respectively.

16. CREDIT RISK

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, receivables from Affiliated Practices, and accounts payable approximate fair values due to the short-term maturities of these instruments. The carrying amounts of the Company's long-term borrowings, and revolving line of credit and notes receivables from Affiliated Practices as of March 31, 2001 and 2000, approximate their fair value based on the Company's current incremental borrowing rates for similar type of borrowing arrangements.

RECEIVABLES AND NOTES RECEIVABLES FROM AFFILIATED PRACTICES

Receivables from Affiliated Practices represents payment for services rendered by the Company for the Affiliated Practices. The Company does not perform periodic credit reports or provide collateral related to the receivables from Affiliated Practices.

As of March 31, 2001 and 2000, the Company had on allowance for doubtful accounts of $3.3 million and $5.0 million respectively, for its accounts and

notes receivables from Affiliated Practices. In the years ended March 31, 2001 and 2000, the Company recorded a $1.7 million and $4.5 million charge in bad debt expense resulting from its inability to collect receivables from Affiliated Practices after exhausting various payment plans with the Affiliated Practices and settlement of litigation with certain practices. Although management believes the remaining receivables are collectable at March 31, 2001, it is reasonably possible that what the Company will collect may materially differ.

During the years ended March 31, 2001 and 2000, the Company converted approximately $1.9 million and $971,000 in receivables from Affiliated Practices into interest bearing notes receivables.

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17. SUPPLEMENTAL CASH FLOW INFORMATION

	YEAR ENDED MARCH 31, 2001	YEAR ENDE MARCH 31 2000
	(IN THOUSAN	
Cash paid during the period for:		
Interest	$1,088	$1,571
Income taxes	--	--
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in connection with acquisitions	308	3,838
Issuance of convertible subordinated notes in connection with practice affiliations	--	--
Issuance of notes payable in connection with practice affiliations	--	--
Convertible subordinated notes offset against receivables from Affiliated Practices	808	732
Conversion of receivables from Affiliated Practices to notes receivables	1,911	971
Capital leases incurred for equipment	22	1,448
Treasury stock acquired for payment of receivable from Affiliated Practices and purchase of property and equipment	1,052	473
Notes payable offset against future management service fees	1,500	--

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18. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth summary quarterly results of operations for the Company for the years ended March 31, 2001 and 2000:

2001	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
Net revenue	$ 6,357	$ 2,210	$ 1,966
Operating expenses	11,539	21,972	1,479
Earnings (loss) from operations	(5,182)	(19,762)	487
Earnings (loss) before income taxes	(5,508)	(19,973)	266
Income taxes	--	--	--

Extraordinary items, net	--	--	--
Net (loss) earnings	$ (5,508)	$(19,973)	$ 266
Net earnings (loss) per share:(1)			
Earnings (loss) before extraordinary item	$ (.54)	$ (2.00)	$ .03
Extraordinary item	--	--	--
Net earnings (loss)	$ (.54)	$ (2.00)	$ .03
Weighted average common shares outstanding:			
Basic and diluted	10,175	9,969	10,463

2000	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER
Net revenue	$ 12,449	$ 15,609	$ 14,967
Operating expenses	11,544	14,920	14,761
Earnings (loss) from operations	905	689	206
Earnings (loss) before income taxes	698	525	8
Income taxes	279	250	49
Extraordinary items, net			217
Net (loss) earnings	$ 419	$ 275	$ 176
Net earnings (loss) per share:(1)			
Basic and diluted earnings per share			
Earnings (loss) before extraordinary item	$ .05	$ .03	$ --
Extraordinary item	--	--	.02
Net earnings (loss)	$ .05	$ .03	$ .02
Weighted average common share outstanding:			
Basic and diluted	9,103	10,844	10,802

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is set forth under the captions "Election of Directors" and "Section 16 Reports" will be set forth in the Company's definitive Proxy Statement (the "2001 Proxy Statement") for its 2001 annual meeting of stockholders, which sections are incorporated herein by reference.

Pursuant to Item 401 (b) of Regulation S-K, the information required by this item with respect to executive officers of the Company is set forth in Part I of this Report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the section entitled "Executive Compensation" in the 2001 Proxy Statement, which section is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the 2001 Proxy Statement, which section is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED THIRD PARTY TRANSACTIONS

The information required by this item will be set forth in the section entitled "Certain Transactions" in the 2001 Proxy Statement, which section is incorporated herein by reference.

PART IV

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

(a)(1) FINANCIAL STATEMENTS

Report of Independent Accountants

Consolidated Balance Sheets as of March 31, 2001 and 2000

Consolidated Statements of Operations for the Years Ended March 31, 2001, 2000 and 1999.

Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the Years Ended March 31, 2001, 2000 and 1999.

Consolidated Statements of Cash Flows for the Years Ended March 31, 2001, 2000 and 1999.

Notes to the Consolidated Financial Statements

(a)(2) FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants

The following financial statement schedule is filed as a part of this Report under Schedule II on page 48. Schedule II -- Valuation and Qualifying Accounts for the three fiscal years ended March 31, 2001. All other schedules called for by Form 10-K are omitted because they are inapplicable or the required information is shown in the financial statements, or notes thereto, included herein.

(a)(3) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1(1)	Restated Certificate of Incorporation of Pentegra Dental Group, Inc.
3.2(1)	Bylaws of Pentegra Dental Group, Inc.
3.3	Restated Certificate of Incorporation of Pentegra Dental Group, Inc.
3.4	Amendment of Bylaws of Pentegra Dental Group, Inc.
4.1(1)	Form of certificate evidencing ownership of Common Stock of Pentegra Dental Group, Inc.
4.2(1)	Form of Registration Rights Agreement for Owners of Founding Affiliated Practices
4.3(1)	Registration Rights Agreement dated September 30, 1997 between Pentegra Dental Group, Inc. and the stockholders named therein
4.4(2)	Form of Stockholders' Agreement for Owners of Affiliated Practices

4.5(3)	Form of Indenture from Pentegra Dental Group, Inc. to U.S. Trust Company of Texas, N.A., as Trustee relating to the Convertible Debt Securities
4.6	Form of certificate evidencing ownership of Common Stock of e-dentist.com, Inc.
+10.1(1)	Pentegra Dental Group, Inc. 1997 Stock Compensation Plan
+10.2(1)	Form of Service Agreement
10.3(4)	Credit Agreement dated June 1, 1998 between Bank One, Texas, N.A. and Pentegra Dental Group, Inc.
10.4(5)	Modification to Credit Agreement between Pentegra Dental Group, Inc. and Bank One, Texas, N.A. dated September 9, 1998
10.5(5)	Agreement and Plan of Merger among Pentegra Dental Group, Inc., Liberty Dental Alliance, Inc., Liberty Acquisition Corporation, James M. Powers, Jr., Sylvia H. McAlister and William Kelly dated as of November 13, 1998
10.6(2)	First Amendment to Credit Agreement by and among Pentegra Dental Group, Inc. and Bank One, Texas, N.A. dated as of February 9, 1999
10.7(2)	First Amendment to the Agreement and Plan of Merger by and among Pentegra Dental Group, Inc., Liberty Dental Alliance, Inc., Liberty Acquisition Corporation, James M. Powers, Jr., Sylvia H. McAlister and William Kelly dated as of January 29, 1999
10.8(6)	Third Amendment to Credit Agreement
+10.9	Employment Agreement dated November 12, 2000 between e-dentist.com and James M. Powers, Jr.
+10.10	Employment Agreement dated February 15, 2001 between e-dentist.com and Charles Sanders
+10.11	Employment Agreement dated February 15, 2001 between e-dentist.com and James Dunn, Jr.
+10.12	Employment Agreement dated July 16, 2000 between e-dentist.com and Glenn J. Bonagura
10.13	Asset Purchase Agreement by and among e-dentist.com, Inc. and Dexpo.com, Inc.
10.14	Fourth Amendment of Credit Agreement
12	Ratio of Earnings to Fixed Changes
21.1	Subsidiaries of the Registrant
23.1	Consent of PricewaterhouseCoopers LLP

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(1) Previously filed as an exhibit to e-dentist.com's Registration Statement on Form S-1 (No. 333-37633), and incorporated herein by reference.
(2) Previously filed as an exhibit to e-dentist.com's Registration Statement on Form S-4 (No. 333-78535), and incorporated herein by reference.
(3) Previously filed as an exhibit to e-dentist.com's Registration Statement on Form S-4 (No. 333-64665), and incorporated herein by reference.
(4) Previously filed as an exhibit to e-dentist.com's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998.
(5) Previously filed as an exhibit to e-dentist.com's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998.
(6) Previously filed as an exhibit to e-dentist.com's Annual Report on Form 10-K for the year ended March 31, 2000.

\+ Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.

(b) NO CURRENT REPORTS ON FORM 8-K WERE FILED DURING THE FOURTH QUARTER 2001.

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REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders of
e-dentist.com Inc. and Subsidiaries:

Our audits of the consolidated financial statements referred to in our report dated June 22, 2001 except for Note 1 and Note 10 as to which the date is June 29, 2001 appearing in the 2001Annual Report to Shareholders of e-dentist.com, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Phoenix, Arizona
June 22, 2001

E-DENTIST.COM, INC.
VALUATION AND QUALIFYING ACCOUNTS
SCHEDULE II

FISCAL YEAR	DESCRIPTION	BALANCE AT THE BEGINNING OF PERIOD	ADDITIONS		WRITE-OFF CHARGED T ALLOWANCE
			CHARGED TO BAD DEBT EXPENSE	CHARGED TO OTHER ACCOUNTS	
2001	Receivables from Affiliated Practices-allowance for doubtful accounts........................	$ 3,269	$ 1,172	$ --	$ 3,294
2000	Receivables from Affiliated Practices-allowance for doubtful accounts........................	$ 125	$ 3,244	$ --	$ 100
1999	Receivables from Affiliated Practices-allowance for doubtful accounts........................	$ --	$ 125	$ --	$ --
2001	Notes receivable-allowance for doubtful accounts................	$ 1,714	$ 533	$ --	$ 158
2000	Notes receivable-allowance for doubtful accounts................	$ --	$ 1,261	$ 453(a)	$ --
1999	Notes receivable-allowance for doubtful accounts...............	$ --	$ --	$ --	$ --

(a) Relates to the allowance for doubtful accounts that was recorded as for the Omega acquisition.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Phoenix, State of Arizona, on July 5, 2001.

e-dentist.com, Inc.

By: /s/ James M. Powers, Jr., D.D.S.
James M. Powers, Jr., D.D.S.
Chairman of the Board, President and Chief Executive Officer

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

NAME	CAPACITY	DATE
/s/ James M. Powers, Jr., D.D.S. James M. Powers, Jr., D.D.S.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	July 5, 2001
/s/ James H. Collins James H. Collins	Director	July 5, 2001
/s/ David A. Little, D.D.S. David A. Little, D.D.S.	Director	July 5, 2001
/s/ Daniel T. Robinson, Jr. Daniel T. Robinson, Jr.	Director	July 5, 2001
/s/ George M. Siegel George M. Siegel	Director	July 5, 2001