E-DENTIST COM INC
Form 10-Q
February 13, 2001

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

COMMISSION FILE NUMBER: 001-13725

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

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

2999 NORTH 44TH STREET, SUITE 650 PHOENIX, ARIZONA	85018
(Address of principal executive offices)	(Zip Code)

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

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

The number of shares of Common Stock of the Registrant, par value $.001 per share, outstanding at February 2, 2001 was 10,617,475.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	DECEMBER 31, 2000
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,054
Receivables from affiliated practices, net of allowance for doubtful accounts of $1,686 and $3,269, respectively	294
Prepaid and other current assets	166
Notes receivable from affiliated practices - current, net	291

Total current assets	1,805
Property and equipment, net	3,575
Intangible assets, net	3,325
Notes receivable from affiliated practices, net	1,102
Other assets	211
Total assets	$ 10,018

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:	
Credit facility	$ 9,581
Current portion of long term debt	98
Accounts payable and accrued liabilities	1,141
Current portion of deferred revenue	1,026
Accrued employment agreement	278
Current portion of capital leases	333
Total current liabilities	12,457
Credit facility	--
Long term debt, less current maturities	3,119
Capital lease obligations	743
Deferred revenue	600
Commitment and contingencies	
Shareholders' equity (deficit):	
Common stock, $.001 par value 40,000,000 shares authorized, 11,570,783 and 10,820,783 issued, respectively	11
Additional paid-in capital	25,895
Accumulated deficit	(31,647)
Less: Treasury shares at cost, 1,085,453 and 154,748, respectively	(1,160)
Total shareholders' equity (deficit)	(6,901)
Total liabilities and shareholders' equity (deficit)	$ 10,018

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
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31,		NIN D
	2000	1999	200
Net revenue	$ 1,966	$ 14,967	$ 10,
Operating expenses:			
Clinical salaries, wages and benefits	--	5,720	3,
Dental supplies and lab fees	--	2,886	

Rent	--	1,032	
Advertising	--	470	
General and administrative	966	1,673	6,
Other operating expenses	--	2,306	
Impairment of assets	--	--	23,
Depreciation and amortization	513	674	1,
Total operating expenses	1,479	14,761	34,
Earnings (loss) from operations	487	206	(24,
Interest expense	(328)	(391)	(1,
Interest income	107	62	
Other income	--	131	
Income (loss) before income taxes and extraordinary item	266	8	(25,
Income taxes	--	49	
Income (loss) before extraordinary item	266	(41)	(25,
Extraordinary item-gain on debt forgiveness (net of tax effect of $133)	--	217	
Net income (loss)	$ 266	$ 176	$(25,
Basic and diluted earnings (loss) per share			
Earnings (loss) before extraordinary item	$ 0.03	$ --	$ (2
Extraordinary item	--	0.02	
Net earnings (loss)	$ 0.03	$ 0.02	$ (2
Weighted average number of shares - outstanding-basic and diluted	10,463	10,802	10,2

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

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

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT	TREASUR STOCK
	SHARES	AMOUNT			
Balances, April 1, 2000	10,821	$ 11	$ 25,604	$ (6,432)	$ (176
Shares repurchased	--	--	--	--	(984
Issuance of common stock	750	--	291	--	--
Net loss	--	--	--	(25,215)	--
Balances, December 31, 2000	11,571	$ 11	$ 25,895	$ (31,647)	$ (1,160

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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 CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	2
Net cash provided by (used in) operating activities	$
Cash flows from investing activities:	
Capital expenditures	
Acquisitions, net of cash acquired	
Issuance of notes receivable	
Repayment of notes receivable	
Disposition of property and equipment	
Net cash provided by (used in) investing activities	
Cash flows from financing activities:	
Repayment of long-term debt	
Proceeds from line of credit	
Net cash provided by (used in) financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents, beginning of period	
Cash and cash equivalents, end of period	$
Supplemental disclosures of cash flow information:	
Convertible subordinated notes offset against receivables from affiliated practices........	$
Conversion of receivables from affiliated practices to notes receivables	$
Treasury stock acquired for payment of receivable from affiliated practices and purchase of property and equipment........	$
Notes payable offset against future membership fees	$
Equipment purchased with capital leases	
Issuance of common stock for acquisition	$

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

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E-DENTIST.COM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

e-dentist.com, Inc. (the "Company") delivers a dual eBusiness strategy that provides online services to the dental industry as well as access to business services and products by dentists and their staff. Services provided include access to e-dentist.com's e-Learning, Dental Careers, Practice Tools and Shopping Engine, all designed to work in conjunction with its traditional practice enhancement services. Since its formation in March of 1998, the Company has utilized its virtual private network over the Internet to process transactions of its affiliated practices.

The unaudited consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes the presentation and disclosures herein are adequate to make the information not misleading, but do not purport to be a complete presentation inasmuch as all note disclosures required by generally accepted accounting principles are not included. In the opinion of management, the consolidated financial statements reflect all elimination entries and normal adjustments that are necessary for a fair presentation of the results for the interim periods ended December 31, 2000 and 1999.

Fiscal operating results for interim periods are not necessarily indicative of the results for full years. It is suggested that these consolidated financial statements be read in conjunction with the financial statements of the Company and related notes thereto, and management's discussion and analysis related thereto, all of which are included in the Company's annual report on Form 10-K for the year ended March 31, 2000, as filed with the SEC.

RECENT EVENTS, LIQUIDITY AND MANAGEMENT PLANS

Management is continuing the development of a Business-to-Business Web site focusing on the following on-line services:

1. E-LEARNING--Live and on-line interactive learning

2. DENTAL CAREERS--Employment opportunities for both employers and employees

3. PRACTICE SERVICES--Payroll, human resources, practice enhancement, patient financing, etc.

4. COMMUNITY--Dental and professional idea communication in chat rooms and message boards

5. PURCHASING--Dental supplies and equipment purchasing from major suppliers to all dentists

The Company has developed a Web site and executed various channel partnership agreements with other entities to help provide the on-line services. In early May 2000, the Company launched the first generation Web site and launched its second generation Web site in November 2000.

During the three months ended December 31, 2000, the Company modified 3 and terminated 2 of its Management Service Agreements. As of December 31, 2000, the Company has modified 79 and terminated 16 of its Management Service Agreements to a shorter term (from 25-40 year terms) of five years, and decreased and fixed the future monthly management fees. The new service agreements modify the type of services the Company provides each affiliated practice. The modification of

the terms include the following:

1. The payroll and payables process will cease for the affiliated practices. All practice expenses will be paid by the dentist and not reimbursed. All practice employees will become employees of the dentists and payroll will be processed at the practice level.

2. Management fees will be 90% of fiscal year 2000 fees and fixed for three years, drawn weekly at the agreed upon fixed amount.

3. Assets and other equipment will be transferred back to the doctors at the end of the amended management service agreement term, at a nominal value.

The Company prepared an impairment analysis to determine the recoverability of the management service 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 Management Service Agreements as of December 31, 2000, the Company has recorded a charge due to impairment of approximately $23 million for the nine months ended December 31, 2000.

During fiscal 2000, the Company incurred a net loss of $5.4 million and had an accumulated deficit of $6.4 million at March 31, 2000. In addition, the Company used cash flow from operations of $628,000 during the period ending March 31, 2000. During the three and nine months ended December 31, 2000, the Company had net income of $266,000 and incurred a net loss of $25.2 million respectively and has an accumulated deficit of $31.6 million at December 31, 2000. In addition, the Company generated cash flow from operations of $1.1 million during the nine months ended December 31, 2000.

At July 14, 2000, Bank One, Texas, NA extended the terms of the credit facility through July 31, 2001, and the Company paid $250,000 in principal to the bank. The Company is required to make additional principal payment to the bank for amounts it collects from its notes receivable during each quarter. The Company paid $226,000 to the bank relating to the collection of notes receivable as of December 31, 2000. At the end of each quarter, the bank may receive an additional principal payment up to $50,000 if the Company's cash balance exceeds $750,000 and if the bank has not received at least $350,000 in principal payments from note receivable collections. In January 2001, the Company paid an additional $50,000 to the bank. No additional borrowings are permitted under the amendment.

As of December 31, 2000, the Company was in technical violation of certain financial ratio covenants due to the restructure. This technical violation occurred in spite of the preliminary attempt by management and the bank to project the effect of the restructure on the ratios and to set the ratios at a level to avoid the technical violation. The bank is currently working on a waiver of the violation, which is expected.

As discussed above, the bank credit facility due date has been extended to July 31, 2001. Based upon its current strategy to enhance cash collections and reduce costs, the Company projects to have sufficient funds to meet its operating capital requirements through the fiscal year ending March 31, 2001; however, there would not be sufficient cash flow to fund the balance of the credit agreement obligation due July 31, 2001. Management believes it will be able to replace the credit facility with other financing alternatives or refinance its current line of credit. There is no assurance that other financing or refinancing of its current line of credit will be available 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 and viability.

In order to increase its liquidity, the Company has developed the following strategies; (i) suspension of its new practice affiliation program, (ii) implement its revised eBusiness based strategic alternative described above, (iii) implementation of more rigid credit policies with its affiliated practices, (iv) consider terminating the services agreements of selected under performing affiliated practices, (v) reducing costs in the Company's corporate office, and (vi) raising additional capital. However, there can be no assurance that the Company's strategy will be achieved.

2. SIGNIFICANT ACCOUNTING POLICIES

EARNINGS PER SHARE

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

Outstanding options to purchase approximately 1,616,167 and 1,196,073 shares of Common Stock at exercise prices above the market value of Common Stock were excluded from the calculation of earnings per share for the three and six months ended December 31, 2000 and 1999, respectively, because their effect 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.

3. LEGAL PROCEEDINGS

The Company has litigation pending on one practice and believes it will prevail.

4. 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 e-dentist.com 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.

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

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

OVERVIEW

e-dentist.com, Inc. (the "Company") provides eBusiness, eLearning and practice enhancement products and services to the dental industry including its affiliated practices.

The Company provided practice management services to fee-for-service dental practices in the United States. On March 30, 1998, the Company acquired simultaneously with the closing of its initial public offering ("IPO"), substantially all of the tangible and intangible assets, and assumed the liabilities, of the 51 founding affiliated practices. The Company also began to provide practice management services to professional corporations or associations owned by the dentist-owners of those affiliated practices (one of which split into two separate dental practices immediately after the IPO) pursuant to long-term Management Service Agreements entered into at the time of the Affiliations.

The expenses incurred by the Company in fulfilling its obligations under the Management Service Agreements were generally of the same nature as the operating costs and expenses that would have otherwise been incurred by the affiliated practices, including salaries, wages and benefits of practice

personnel (excluding dentists and certain other licensed dental care professionals), dental supplies and office supplies used in administering their practices and the office (general and administrative) expenses of their practices. In addition to the operating costs and expenses discussed above, the Company incurs personnel and administrative expenses in connection with maintaining a corporate office, which provides management, practice enhancements, administrative and business development services.

RECENT EVENTS, LIQUIDITY AND MANAGEMENT PLANS

Management is continuing the development of a Business-to-Business Web site focusing on the following on-line services:

1. E-LEARNING--Live and on-line interactive learning
2. DENTAL CAREERS--Employment opportunities for both employers and employees
3. PRACTICE SERVICES--Payroll, human resources, practice enhancement, patient financing, etc.
4. COMMUNITY--Dental and professional idea communication in chat rooms and message boards
5. PURCHASING--Dental supplies and equipment purchasing from major suppliers to all dentists

The Company has developed a Web site and executed various channel partnership agreements with other entities to help provide the on-line services. In early May 2000, the Company launched the first generation Web site and launched its second generation Web site in November 2000. The current focus of

functionality is concentrated toward revenue generation for the Company.

During the three months ended December 31, 2000, the Company modified 3 and terminated 2 of its Management Service Agreements. As of December 31, 2000, the Company has modified 79 and terminated 16 of its Management Service Agreements to a shorter term (from 25-40 year terms) of five years, and decreased and fixed the future monthly management fees. The new service agreements modify the type of services the Company provides each affiliated practice. The modification of the terms include the following:

1. The payroll and payables process will cease for the affiliated practices. All practice expenses will be paid by the dentist and not reimbursed. All practice employees will become employees of the dentists and payroll will be processed at the practice level.

2. Management fees will be 90% of fiscal year 2000 fees and fixed for three years, drawn weekly at the agreed upon fixed amount.

3. Assets and other equipment will be transferred back to the doctors at the end of the amended management service agreement term, at a nominal value.

The Company prepared an impairment analysis to determine the recoverability of the management service 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 Management Service Agreements as of December 31, 2000, the Company has recorded a charge due to impairment of approximately $23 million for the nine months ended December 31, 2000.

During fiscal 2000, the Company incurred a net loss of $5.4 million and had an accumulated deficit of $6.4 million at March 31, 2000. In addition, the Company used cash flow from operations of $628,000 during the period ending March 31, 2000. During the three and nine months ended December 31, 2000, the Company had net income of $266,000 and incurred a net loss of $25.2 million respectively and has an accumulated deficit of $31.6 million at December 31, 2000. In addition, the Company generated cash flow from operations of $1.1 million during the nine months ended December 31, 2000.

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At July 14, 2000, Bank One, Texas, NA extended the terms of the credit facility through July 31, 2001, and the Company paid $250,000 in principal to the bank. The Company is required to make additional principal payment to the bank for any amount it collects from its notes receivable during each quarter. The Company paid $226,000 to the bank relating to the collection of notes receivable as of December 31, 2000. At the end of each quarter, the bank may receive an additional principal payment up to $50,000 if the Company's cash balance exceeds $750,000 and if the bank has not received at least $350,000 in principal payments from note receivable collections. In January 2001, the Company paid an additional $50,000 to the bank. No additional borrowings are permitted under the amendment.

As of December 31, 2000, the Company was in technical violation of certain financial ratio covenants due to the restructure. This technical violation occurred in spite of the preliminary attempt by management and the bank to project the effect of the restructure on the ratios and to set the ratios at a level to avoid the technical violation. The bank is currently working on a waiver of the violation, which is expected.

As discussed above, the bank credit facility due date has been extended to

July 31, 2001. Based upon its current strategy to enhance cash collections and reduce costs, the Company projects to have sufficient funds to meet its operating capital requirements through the fiscal year ending March 31, 2001; however, there would not be sufficient cash flow to fund the credit agreement obligations due July 31, 2001. Management believes it will be able to replace the credit facility with other financing alternatives or refinance its current line of credit. There is no assurance that other financing or refinancing of its current line of credit will be available in sufficient cash, 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 and viability.

In order to increase its liquidity, the Company has developed the following strategies; (i) suspension of its new practice affiliation program, (ii) implement its revised eBusiness based strategic alternative described above, (iii) implement more rigid credit policies with its affiliated practices, (iv) consider terminating the services agreements of selected under performing affiliated practices, (v) reducing costs in the Company's corporate office, and (vi) raising additional capital. However, there can be no assurance that the Company's strategy will be achieved.

RESULTS OF OPERATIONS (UNAUDITED)

Following completion of the IPO on March 30, 1998, the Company began operations effective April 1, 1998. Management service fee recognition and related expenses began April 1, 1998, and the Company began managing 51 dental practices in 18 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 Management Service Agreements caused the staff to cease working as employees for e-dentist.com, Inc., 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 Management Service Agreements.

Under the terms of the original management 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 Management 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

Net revenue was $2.0 and $15.0 million for the three months ended December 31, 2000 and 1999, respectively. Net revenue was $10.5 and $43.0 million for the nine months ended December 31, 2000 and 1999, respectively. Net revenue generated for the three months ended December 31, 2000 and 1999 related to service fees was approximately $1.9 and $2.6 million, respectively. Net revenue generated for the nine months ended December 31, 2000 and 1999 related to service fees was approximately $6.4 and $7.8 million. The decreases in each period are due to the modification of the Management Service Agreements and the resulting elimination of pass thru revenue and expense reporting.

Net revenue generated by paying the operating expenses of the affiliated practices was approximately $0 and $4.1 million for the three and nine months ended December 31, 2000 and approximately $12.4 and $35.3 million for the three and nine months ended December 31, 2000, 1999. The decreases in each period are due to the modification of the Management Service Agreements and the resulting elimination of pass thru revenue and expense reporting.

OPERATING EXPENSES

The Company incurred operating expenses of approximately $1.5 and $14.8 million for the three months ended December 31, 2000 and 1999, respectively. The Company incurred operating expenses of approximately $35.0 and $41.2 million for the nine months ended December 31, 2000 and 1999, respectively. Operating expenses consisted primarily of salaries, wages and benefits, dental supplies and laboratory fees, rent, advertising and marketing, depreciation and amortization, and general and administrative expenses. The changes in each period are due to the impairment charges, offset by the modification of the Management Service Agreements and the resulting elimination of pass thru revenue and expense reporting.

General and administrative expenses consist of the corporate expenses of the Company. These corporate expenses include salaries, wages and benefits, rent, bad debt expenses, consulting fees, travel, office costs and other general corporate expenses. For the three months ended December 31, 2000 and 1999, general and administrative expenses were approximately $1.0 and $1.7 million, a decrease of $700,000. The decrease is primarily due to decrease in salaries of $184,000, bad debt expense of $172,000 and professional fees of $88,000.

For the nine months ended December 31, 2000 and 1999, general and administrative expenses were approximately $6.1 and $4.1 million, an increase of $2.0 million. The increase is primarily due to increases in bad debt expense of $1.6 million and professional fees of $169,000.

INCOME TAX EXPENSE

The Company recorded no tax expense during the three months ended December 31, 2000, due to the losses incurred earlier in the year. The Company recorded no tax benefit during the nine months ended December 31, 2000, because it concluded it is not likely it would be able to recognize the tax asset created due to the lack of operating history of its e-Business plan. Income tax expense for the three months ended December 31, 1999 totaled $49,000, an amount greater than income before taxes of $8,000. This occurred because certain amortization expenses were deducted to arrive at net income but were not deductible for income tax purposes. Income tax expense for the nine months ended December 31,

1999 totaled $579,000.

For the nine months ended December 31, 2000, the Company recorded a valuation allowance for its entire deferred tax asset of $7.6 million because it concluded it is not likely it would be able to recognize the tax asset due to the lack of operating history of its implementation of the e-Business plan,

modification of its Management Service Agreements and maturity of its line of credit on July 31, 2001. At December 31, 2000, the Company has a net deferred tax asset of $10.8 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.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2000, the Company had a working capital deficit of approximately $11.3 million. Current assets included approximately $1.1 million in cash and $585,000 in net receivables, due from affiliated practices. Current liabilities consisted of approximately $2.8 million in accounts payable and accrued liabilities. Included in the current liabilities are approximately $9.6 million of anticipated payments on the line of credit.

On June 1, 1998, the Company closed a revolving bank credit facility with Bank One, Texas, N.A., which 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 is collateralized by liens on certain of the Company's assets, including its rights under the Management Service Agreements and accounts receivable. The credit facility contains restrictions on the incurrence of additional indebtedness and payment of dividends on the Common Stock. Additionally, compliance with certain financial covenants is required and the lender has approval rights with respect with acquisitions exceeding certain limits. As of December 31, 2000, the Company was in technical violation of certain financial ratio covenants due to the restructure. This technical violation occurred in spite of the preliminary attempt by management and the bank to project the effect of the restructure on the ratios and to set the ratios at a level to avoid the technical violation. The bank is currently working on a waiver of the violation, which is expected. At December 31, 2000, $9.6 million was outstanding under the revolving line of credit.

At July 14, 2000, Bank One, Texas, NA extended the terms of the credit facility through July 31, 2001, and the Company paid $250,000 in principal to the bank. The Company is required to make additional principal payment to the bank for amounts it collects from its notes receivable during each quarter. The Company paid $226,000 to the bank relating to the collection of notes receivable as of December 31, 2000. At the end of each quarter, the bank may receive an additional principal payment up to $50,000 if the Company's cash balance exceeds $750,000 and if the bank has not received at least $350,000 in principal payments from note receivable collections. In January 2001, the Company paid an additional $50,000 to the bank. No additional borrowings are permitted under the amendment.

As discussed above, the bank credit facility due date has been extended to July 31, 2001. Based upon its current strategy to enhance cash collections and reduce costs, the Company projects to have sufficient funds to meet its operating capital requirements through the fiscal year ending March 31, 2001; however, there would not be sufficient cash flow to fund the balance of the credit agreement obligation due July 31, 2001. Management believes it will be able to replace the credit facility with other financing alternatives or refinance its current line of credit. There is no assurance that other financing

or refinancing of its current line of credit will be available 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 and viability.

Cash provided by investing activities for the nine months ended December 31, 2000 and 1999 involved collections on notes receivable of $264,000 and $121,000, respectively. In addition $89,000 was provided by the disposition of property and equipment during the nine months ended December 31, 2000. Cash used in investing activities for the nine months ended December 31, 2000 and 1999 included $108,000 and $245,000, respectively, for purchases of capital equipment and $31,000 and $1.2 million respectively, for the purchase of intangibles associated with acquisitions.

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Cash used in financing activities for the nine-month periods ended December 31, 2000 and 1999 included payments on the Company's long-term debt and capital leases of $830,000 and $231,000, respectively. Cash generated from financing activities for the nine-month period ended December 31, 1999 was draws on the revolving line of credit of $1.5 million.

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 e-dentist.com 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has litigation pending on one practice and believes it will prevail.

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

As of September 30, 2000, the Company was in technical violation of certain financial ratio covenants due to the restructure. This technical violation occurred in spite of the preliminary attempt by management and the bank to project the effect of the restructure on the ratios and to set the ratios at a level to avoid the technical violation. The bank is currently working on a waiver of the violation, which is expected to be delivered to the Company.

ITEM 3. DEFAULTS OF SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

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SIGNATURE

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

E-DENTIST.COM, INC.

Dated: February 13, 2001

By: /s/ Charles Sanders

Charles Sanders
Sr. Vice President-Chief Financial Officer

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