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EDT LEARNING INC
Form 8-K/A
February 10, 2003

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 8-K/A

AMENDMENT NO. 1 TO CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 13, 2002

EDT LEARNING, 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 NORTH 44TH STREET, SUITE 650, PHOENIX, ARIZONA
(Address of Principal Executive Offices)

85018
(Zip Code)

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

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Pro Forma Financial Information (unaudited)

EDT LEARNING, INC. AND LEARNLINC CORPORATION PRO FORMA
UNAUDITED COMBINED FINANCIAL STATEMENTS

| | |
|--|---|
| Introduction..... | 4 |
| Pro Forma Combined Balance Sheet as of September 30, 2002..... | 5 |
| Pro Forma Combined Statement of Operations for the year ended March 31, 2002..... | 6 |
| Pro Forma Combined Statement of Operations for the six months ended September 30, 2002..... | 7 |
| Notes to Pro Forma Combined Financial Statements..... | 8 |

(b) Financial Statements of Business Acquired

LEARNLINC CORPORATION FINANCIAL STATEMENTS

| | |
|--|----|
| Report of Independent Certified Public Accountants..... | 10 |
| Balance Sheets as of September 30, 2002 (Unaudited) and December 31, 2001 and 2000..... | 11 |

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Statements of Operations for the nine months ended
September 30, 2002 and 2001 (Unaudited) and for
the years ended December 31, 2001 and 2000..... 12

Statements of Shareholders' Deficit for the years
ended December 31, 2001 and 2000 and for the nine
months ended September 30, 2002 (Unaudited)..... 13

Statements of Cash Flows for the nine months ended
September 30, 2002 and 2001 (Unaudited) and for the
years ended December 31, 2001 and 2000..... 14

Notes to Financial Statements..... 16

Consent of Hansen, Barnett & Maxwell..... 23

2

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EDT Learning, Inc.

By: /s/ James M. Powers, Jr.

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

Date: February 10, 2003

3

EDT LEARNING, INC. AND LEARNLINC CORPORATION
PRO FORMA UNAUDITED COMBINED FINANCIAL STATEMENTS

INTRODUCTION

The following pro forma combined financial statements reflect the acquisition of certain assets of LearnLinc Corporation (LearnLinc) on December 13, 2002. The pro forma combined financial statements also reflect the acquisition of certain assets of Quisic Corporation (Quisic) on June 17, 2002, the acquisition of all the outstanding capital stock of ThoughtWare Technologies, Inc. (ThoughtWare) on January 15, 2002 and the acquisition of all of the outstanding capital stock of Learning-Edge, Inc. (Learning-Edge) on October 1, 2001.

The pro forma combined balance sheet is derived from the historical consolidated balance sheet of EDT Learning as of September 30, 2002 and the historical balance sheet of LearnLinc as of September 30, 2002 and is presented as if the acquisition had been consummated on September 30, 2002. The pro forma combined statement of operations for the year ended March 31, 2002 is derived from the historical consolidated statement of operations of EDT Learning for the year ended March 31, 2002, the historical statement of operations of LearnLinc for the year ended December 31, 2001, the historical statement of operations of Quisic for the year ended December 31, 2001, the interim statement of operations of ThoughtWare for the nine months ended December 31, 2001 and the interim statement of operations of Learning-Edge for the six months ended September 30, 2001. The pro forma combined statement of operations for the six months ended September 30, 2002 is derived from the interim consolidated statement of operations of EDT Learning for the six months ended September 30, 2002, the interim statement of operations of LearnLinc for the six months ended September

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30, 2002 and the results of operations of Quisic for the period from April 1, 2002 to June 16, 2002. The pro forma adjustments have been prepared as if the acquisitions of LearnLinc, Quisic, Learning-Edge and ThoughtWare had been consummated on April 1, 2001.

The pro forma combined financial statements are not necessarily indicative of the results of the future operations of EDT Learning. The pro forma combined statements of operations do not reflect the anticipated cost savings resulting from integration of the operations of EDT Learning and LearnLinc or costs to be incurred to integrate the two companies. The pro forma adjustments described in the accompanying notes are based on estimates derived from information currently available.

The pro forma combined financial statements should be read in conjunction with the notes thereto and the historical financial statements of LearnLinc included in Item 7(b) of this Form 8-K/A. In addition, reference should be made to the historical financial statements of EDT Learning included in Form 10-K for the year ended March 31, 2002 and included in Form 10-Q for the six months ended September 30, 2002 filed with the Securities and Exchange Commission. Reference should be made to the historical statements of Quisic included in Form 8-K/A, which contained the audited financial statements of Quisic for the years ended December 31, 2001 and 2000 filed with the Securities and Exchange Commission. Reference should be made to the historical financial statements of ThoughtWare included in Form 8-K/A, which contained the audited financial statements of ThoughtWare for the year ended December 31, 2001 and the unaudited financial statements of ThoughtWare for the year ended December 31, 2000 filed with the Securities and Exchange Commission. Reference should also be made to the historical financial statements of Learning-Edge included in Form 8-K/A, which contained the audited financial statements of Learning-Edge, Inc. for the year ended December 31, 2000 and the unaudited financial statements of Learning-Edge, Inc. for the nine months ended September 30, 2001 filed with the Securities and Exchange Commission.

4

EDT LEARNING, INC. AND LEARNLINC CORPORATION
UNAUDITED PROFORMA COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2002
(IN THOUSANDS)

| | EDT LEARNING | LEARNLINC | PRO FOR ADJUSTME |
|---|--------------|-----------|---------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 832 | \$ 1 | \$ - |
| Accounts Receivable, net | 1,022 | 106 | |
| Prepaid expenses and other current assets | 118 | 10 | |
| Inventory | | 5 | |
| Notes receivable, net | 310 | -- | |
| | ----- | ----- | ----- |
| Total current assets | 2,282 | 122 | |
| Property and equipment, net | 1,519 | 54 | (|
| Goodwill | 9,600 | -- | 34 |
| Intangible assets, net | 1,504 | -- | 50 |
| Notes receivable, net | 488 | -- | |
| Other assets | 262 | -- | |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|---------|-------|
| Total assets | \$ 15,655 | \$ 176 | \$ 84 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | | |
| Current liabilities: | | | |
| Current portion of long term debt | \$ 725 | \$ 49 | \$ 45 |
| Accounts payable and accrued liabilities | 1,770 | 233 | (4) |
| Current portion of deferred revenue | 340 | 387 | (5) |
| Current portion of capital lease liabilities | 399 | -- | -- |
| | ----- | ----- | ----- |
| Total current liabilities | 3,234 | 669 | 35 |
| Long term debt, less current maturities | 5,746 | -- | -- |
| Capital lease liabilities | 308 | -- | -- |
| Deferred revenue | 84 | -- | -- |
| Commitments and contingencies | | | |
| Shareholders' deficit: | | | |
| Common stock | 18 | 1 | (|
| Additional paid-in capital | 33,659 | 5,757 | (5,75 |
| Accumulated deficit | (26,253) | (6,174) | 6,17 |
| Deferred compensation | -- | (77) | 7 |
| Less: Treasury shares | (1,141) | -- | -- |
| | ----- | ----- | ----- |
| Total shareholders' deficit | 6,283 | (493) | 49 |
| | ----- | ----- | ----- |
| Total liabilities and shareholders' deficit | \$ 15,655 | \$ 176 | \$ 84 |
| | ===== | ===== | ===== |

SEE ACCOMPANYING NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

5

EDT LEARNING, INC., LEARNING-EDGE, INC., THOUGHTWARE TECHNOLOGIES, INC.,
QUISIC CORP. AND LEARNLINC CORP.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | EDT LEARNING FOR THE FISCAL YEAR ENDED MARCH 31, 2002 ---- | LEARNING- EDGE FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001 ---- | THOUGHTWARE TECHNOLOGIES FOR THE NINE MONTHS ENDED DECEMBER 31, 2001 ---- | QUISIC CORPORATION FOR THE YEAR ENDED DECEMBER 31, 2001 ---- | LEA CORP FO Y E DECE 2 |
|--------------------------------|--|---|---|---|--|
| Revenues | | | | | |
| Learning | \$ 2,682 | \$ 530 | \$ 1,493 | \$ 6,184 | \$ |
| Dental contracts | 6,582 | -- | -- | -- | |
| | ----- | ----- | ----- | ----- | ----- |
| Total revenues | 9,264 | 530 | 1,493 | 6,184 | |
| Operating expenses: | | | | | |
| Costs of revenue | -- | 608 | 887 | 3,747 | |
| Research and development | 2,323 | -- | 908 | 5,030 | |
| Sales and marketing | 1,123 | 402 | 1,611 | 4,201 | |

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| | | | | | |
|--|----------|------------|------------|-------------|-------|
| General and administrative | 2,692 | 638 | 3,234 | 9,642 | 1 |
| Depreciation and amortization ... | 2,089 | 88 | 131 | 5,049 | |
| Impairment of long-lived assets | -- | -- | -- | 6,217 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating expenses | 8,227 | 1,736 | 6,771 | 33,886 | 2 |
| Earnings (loss) from operations ... | 1,037 | (1,206) | (5,278) | (27,702) | |
| Interest expense | (1,040) | (54) | (65) | (45,540) | |
| Interest income | 238 | -- | 37 | -- | |
| Other income (expense) | 1,305 | -- | -- | (763) | |
| | ----- | ----- | ----- | ----- | ----- |
| | 503 | (54) | (28) | (46,303) | |
| Income (loss) before taxes | 1,540 | (1,260) | (5,306) | (74,005) | |
| Income tax expense | -- | -- | -- | 1 | |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before extraordinary item | \$ 1,540 | \$ (1,260) | \$ (5,306) | \$ (74,006) | \$ |
| | ===== | ===== | ===== | ===== | ===== |
| Earnings (loss) per common share: | | | | | |
| Basic | \$ 0.13 | | | | |
| | ===== | | | | |
| Diluted | \$ 0.12 | | | | |
| | ===== | | | | |
| Number of shares used in calculation of earnings (loss) per share: | | | | | |
| Basic | 11,930 | | | | |
| | ===== | | | | |
| Diluted | 12,466 | | | | |
| | ===== | | | | |

SEE ACCOMPANYING NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

6

EDT LEARNING, INC. AND LEARNLINC CORPORATION
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002
(IN THOUSANDS, EXCEPT SHARE DATA)

| | EDT LEARNING FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002 ---- | QUISIC CORPORATION FOR THE PERIOD FROM APRIL 1 TO JUNE 16, 2002 ---- | LEARNLINC CORPORATION FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2002 ---- |
|------------------------|---|--|--|
| Revenues | | | |
| Learning | \$ 2,272 | \$ 335 | \$ 774 |
| Dental contracts | 1,993 | -- | -- |

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| | | | |
|--|----------------|--------------|--------------|
| Total revenues | ----- 4,265 | ----- 335 | ----- 774 |
| Operating expenses | | | |
| Cost of revenue | -- | 472 | 216 |
| Research and development | 1,810 | 408 | 177 |
| Sales and marketing | 851 | 383 | 129 |
| General and administrative | 1,463 | 708 | 119 |
| Depreciation and amortization | 991 | 466 | 138 |
| | ----- | ----- | ----- |
| Total operating expenses | 5,115 | 2,437 | 779 |
| Earnings (loss) from operations | (850) | (2,102) | (5) |
| Interest expense | (766) | (348) | (1) |
| Interest income | 92 | -- | -- |
| Other income | 815 | -- | 2 |
| | ----- | ----- | ----- |
| Income (loss) before income taxes | (709) | (2,450) | (4) |
| Income taxes | -- | -- | -- |
| | ----- | ----- | ----- |
| Net income (loss) | \$ (709) | \$ (2,450) | (4) |
| | ===== | ===== | ===== |
| Earnings (loss) per common share, basic and diluted | \$ (0.05) | | |
| | ===== | | |
| Number of shares used in calculation of earnings (loss) per share, basic and diluted .. | 15,572 | | |
| | ===== | | |

SEE ACCOMPANYING NOTES TO THE UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

7

NOTES TO PRO FORMA UNAUDITED COMBINED FINANCIAL STATEMENTS

On December 13, 2002, the Company acquired certain assets of LearnLinc Corporation (LearnLinc), a wholly-owned subsidiary of Mentergy, Inc., in exchange for \$500,000 and the assumption of \$462,000 of liabilities. In addition, the Company will pay a royalty of 20% for all revenues collected from the sale or license of LearnLinc software over a three-year period. The maximum amount due under the Royalty Agreement is \$5,000,000. The purchase price has initially been calculated as follows:

| | LEARNLINC ----- (IN THOUSANDS) |
|---|--------------------------------------|
| Issuance of debt | \$ 500 |
| Acquisition costs | 60 |
| | ----- |
| Net purchase price, including acquisition costs | \$ 560 |
| Assumed liabilities | 462 |
| | ----- |
| Total purchase price | \$1,022 |
| | ===== |

The following is a summary of the significant assumptions and adjustments used in preparing the pro forma unaudited combined balance sheet as of September 30, 2002 and the pro forma unaudited combined statements of operations for the

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year ended March 31, 2002 and for the six months ended September 30, 2002.

- (A) The total purchase price has initially been allocated to assets acquired and liabilities assumed based upon their estimated fair values in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations". The excess purchase price over the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed has been assigned to goodwill.

The purchase price of LearnLinc has initially been allocated as follows:

| | HISTORICAL AMOUNT | PURCHASE PRICE ALLOCATION | PRO FORMA ADJUSTMENT |
|--|----------------------|---------------------------------|-------------------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Current assets | \$ 121 | \$ 124 | \$ 3 |
| Property and equipment | 54 | 50 | (4) |
| Goodwill | -- | 348 | 348 |
| Identifiable intangible assets | -- | 500 | 500 |
| Current liabilities, including deferred revenue | (668) | (1,022) | (354) |
| Common stock | (1) | -- | 1 |
| Capital in excess of par value | (5,757) | -- | 5,757 |
| Accumulated deficit | 6,174 | -- | (6,174) |
| Deferred compensation | 77 | -- | (77) |
| | ----- | ----- | ----- |
| | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== |

- (B) Reflects the elimination of sales between EDT Learning and Learning-Edge prior to the acquisition.
- (C) Reflects the increase in amortization related to the Learning-Edge acquisition.
- (D) Reflects interest expense related to the \$500,000 and \$1.1 million of debt issued by EDT Learning in connection with the LearnLinc and Learning-Edge acquisitions.

8

- (E) The historical results of EDT Learning for the year ended March 31, 2002 included a \$4,265,000 extraordinary gain related to forgiveness of debt. This item has not been included in the related unaudited pro forma consolidated statements of operations.
- (F) Reflects amortization of the identifiable intangible assets recorded as part of the LearnLinc and Quisic asset acquisitions.
- (G) Reflects the condensed historical results of LearnLinc's operations not otherwise included in the related pro forma information:

| | | |
|----------------------|--------------------------------------|---------------------|
| | SIX MONTHS ENDED SEPTEMBER 30, | |
| NINE MONTHS ENDED | LESS THREE MONTHS ENDED | 2002 INCLUDED IN |

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| LearnLinc Corporation | SEPTEMBER 30, 2002 | MARCH 31, 2002 | PRO FORMA STATEMENTS |
|----------------------------|-----------------------|-------------------|-------------------------|
| Revenues | \$ 1,083 | \$ 309 | \$ 774 |
| Loss from operations | \$ (145) | \$ (140) | \$ (5) |
| Net loss | \$ (147) | \$ (143) | \$ (4) |

(H) Weighted average shares of common stock outstanding is summarized below:

| | SIX MONTHS ENDED SEPTEMBER 30, 2002 | YEAR ENDED MARCH 31, 2002 |
|---|--|------------------------------------|
| EDT Learning historical weighted average common stock equivalents: | | |
| Basic | 15,572 | 11,930 |
| Diluted | 15,572 | 12,466 |
| EDT Learning shares issued for the acquisition of Learning-Edge | -- | 975 |
| EDT Learning shares issued for the acquisition of ThoughtWare | -- | 1,163 |
| EDT Learning issued for the acquisition of certain assets of Quisic | 1,050 | 2,500 |
| Total number of shares used in net income per share calculation: | | |
| Basic | 16,622 | 16,568 |
| Diluted | 16,622 | 17,104 |

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
LearnLinc Corporation

We have audited the accompanying balance sheets of LearnLinc Corporation (the Company) as of December 31, 2001 and 2000 and the related statements of operations, shareholder's deficit and cash flows for the years ended December 31, 2001 and 2000. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LearnLinc Corporation at December 31, 2001 and 2000 and the results of its operations and its cash flows

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for the years ended December 31, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

/s/ HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
January 15, 2003

10

LEARNLINC CORPORATION BALANCE SHEETS

| | SEPTEMBER 30, 2002 ----- (UNAUDITED) | DECEMBER 31, ----- 2001 2000 ----- ----- | |
|--|---|---|---------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 750 | \$ 750 | \$ 43,116 |
| Accounts receivable, net of allowance for uncollectible accounts of \$142,427 (unaudited), \$51,240, and \$95,792, respectively | 105,327 | 360,436 | 378,691 |
| Inventory | 4,667 | 7,882 | 3,598 |
| Other current assets | 10,000 | 1,040 | 53,815 |
| | ----- | ----- | ----- |
| TOTAL CURRENT ASSETS | 120,744 | 370,108 | 479,220 |
| PROPERTY AND EQUIPMENT, NET | 53,912 | 152,531 | 242,244 |
| | ----- | ----- | ----- |
| TOTAL ASSETS | \$ 174,656 | \$ 522,639 | \$ 721,464 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDER'S DEFICIT | | | |
| CURRENT LIABILITIES | | | |
| Current portion of notes payable | \$ 48,744 | \$ 55,536 | \$ 37,182 |
| Accounts payable | 200,752 | 64,213 | 52,681 |
| Accrued expenses | 32,084 | 51,112 | 169,349 |
| Deferred revenue | 387,038 | 494,988 | 379,501 |
| | ----- | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 668,618 | 665,849 | 638,713 |
| LONG-TERM NOTES PAYABLE | -- | -- | 2,111,160 |
| | ----- | ----- | ----- |
| TOTAL LIABILITIES | 668,618 | 665,849 | 2,749,873 |
| | ----- | ----- | ----- |
| SHAREHOLDER'S DEFICIT | | | |
| Common Stock, \$0.0001 par value; 8,000,000 shares authorized; 5,446,431 shares issued and outstanding, respectively | 545 | 545 | 545 |

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| | | | |
|---|-------------|-------------|-------------|
| Additional paid-in capital | 5,756,892 | 5,883,812 | 3,489,799 |
| Deferred compensation | (77,223) | -- | -- |
| Accumulated deficit | (6,174,176) | (6,027,567) | (5,518,753) |
| | ----- | ----- | ----- |
| TOTAL SHAREHOLDER'S DEFICIT | (493,962) | (143,210) | (2,028,409) |
| | ----- | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT | \$ 174,656 | \$ 522,639 | \$ 721,464 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

11

LEARNLINC CORPORATION
STATEMENTS OF OPERATIONS

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | | FOR THE YEAR DECEMBER 31, |
|---|--|--------------|------------------------------|
| | 2002 | 2001 | 2001 |
| | (UNAUDITED) | (UNAUDITED) | |
| SALES | \$ 1,083,239 | \$ 2,167,620 | \$ 2,529,415 |
| COST OF SALES | 318,119 | 502,097 | 570,364 |
| | ----- | ----- | ----- |
| GROSS MARGIN | 765,120 | 1,665,523 | 1,959,051 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES | | | |
| Selling, general, and administrative expenses | 599,971 | 1,475,690 | 1,701,461 |
| Product development expenses | 310,216 | 571,789 | 672,716 |
| | ----- | ----- | ----- |
| TOTAL OPERATING EXPENSES | 910,187 | 2,047,479 | 2,374,177 |
| | ----- | ----- | ----- |
| LOSS FROM OPERATIONS | (145,067) | (381,956) | (415,126) |
| | ----- | ----- | ----- |
| OTHER INCOME (EXPENSE) | | | |
| Interest expense | (4,155) | (71,380) | (93,697) |
| Other income | 2,613 | 9 | 9 |
| | ----- | ----- | ----- |
| | (1,542) | (71,371) | (93,688) |
| | ----- | ----- | ----- |
| NET LOSS | \$ (146,609) | \$ (453,327) | \$ (508,814) |
| | ===== | ===== | ===== |
| BASIC AND DILUTED LOSS PER COMMON SHARE | \$ (0.03) | \$ (0.08) | \$ (0.09) |
| | ===== | ===== | ===== |
| BASIC AND DILUTED WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING | 5,446,431 | 5,446,431 | 5,446,431 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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12

LEARNLINC CORPORATION
 STATEMENTS OF SHAREHOLDER'S DEFICIT
 FOR THE YEARS ENDED DECEMBER 30, 2000 AND 2001 AND FOR THE NINE MONTHS
 ENDED SEPTEMBER 30, 2002 (UNAUDITED)

| | PREFERRED STOCK | | SHARES |
|---|----------------------------|-----------------------|---------------------|
| | SHARES | AMOUNT | |
| BALANCE AT JANUARY 1, 2000 | 2,818,318 | \$ 3,844,398 | 2,818,318 |
| Common stock issued for exercise of options | -- | -- | -- |
| Preferred stock dividends | -- | -- | -- |
| Accretion of preferred stock to redemption value | -- | 55,614 | -- |
| Cancellation of dividends payable | -- | -- | -- |
| Common stock issued for conversion of note payable | -- | -- | 3,900,012 |
| Common stock issued for conversion of preferred stock | (2,818,318) | (3,900,012) | 2,818,318 |
| Net distribution to shareholder | -- | -- | -- |
| Net loss | -- | -- | -- |
| BALANCE AT DECEMBER 31, 2000 | -- | -- | 5,444,640 |
| Forgiveness of shareholder note payable | -- | -- | -- |
| Net contribution from shareholder | -- | -- | -- |
| Net loss | -- | -- | -- |
| BALANCE AT DECEMBER 31, 2001 | -- | -- | 5,444,640 |
| Options of the parent corporation issued to employees of Company with no exercise price | -- | -- | -- |
| Amortization of compensation cost | -- | -- | -- |
| Net distribution to shareholder | -- | -- | -- |
| Net loss | -- | -- | -- |
| BALANCE AT SEPTEMBER 30, 2002 (UNAUDITED) | -- | \$ -- | 5,444,640 |
| | ADDITIONAL PAID-IN CAPITAL | DEFERRED COMPENSATION | ACCUMULATED DEFICIT |
| BALANCE AT JANUARY 1, 2000 | \$ -- | \$ -- | \$ (5,160,000) |
| Common stock issued for exercise of options | 5,970 | -- | -- |
| Preferred stock dividends | -- | -- | (9,000) |
| Accretion of preferred stock to redemption value | -- | -- | (5,000) |
| Cancellation of dividends payable | -- | -- | 1,780,000 |
| Common stock issued for conversion of note payable | 49,997 | -- | -- |
| Common stock issued for conversion of preferred stock | 3,899,730 | -- | -- |
| Net distribution to shareholder | (465,898) | -- | -- |
| Net loss | -- | -- | (1,990,000) |
| BALANCE AT DECEMBER 31, 2000 | 3,489,799 | -- | (5,160,000) |
| Forgiveness of shareholder note payable | 2,182,647 | -- | -- |
| Net contribution from shareholder | 211,366 | -- | -- |
| Net loss | -- | -- | (50,000) |

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| | | | |
|---|--------------|-------------|-----------|
| BALANCE AT DECEMBER 31, 2001 | 5,883,812 | -- | (6,02) |
| Options of the parent corporation issued to employees of Company with no exercise price | 166,272 | (166,272) | |
| Amortization of compensation cost | -- | 89,049 | |
| Net distribution to shareholder | (293,192) | -- | |
| Net loss | -- | -- | (14) |
| | ----- | ----- | ----- |
| BALANCE AT SEPTEMBER 30, 2002 (UNAUDITED) | \$ 5,756,892 | \$ (77,223) | \$ (6,17) |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

13

LEARNLINC CORPORATION
STATEMENTS OF CASH FLOWS

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | | FOR THE DEC |
|--|--|--------------|----------------|
| | 2002 | 2001 | 2001 |
| | (UNAUDITED) | (UNAUDITED) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$ (146,609) | \$ (453,327) | \$ (508,81) |
| Adjustments to reconcile net loss to net cash from operating activities: | | | |
| Depreciation | 74,939 | 72,000 | 108,65 |
| Amortization of deferred compensation | 89,049 | -- | -- |
| (Gain) loss on sale of property and equipment | (2,612) | -- | -- |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 255,109 | 9,484 | 16,30 |
| Other assets | (5,745) | 33,904 | 50,44 |
| Accounts payable | 136,539 | (2,132) | 11,53 |
| Accrued expenses | (19,028) | 32,284 | (59) |
| Deferred revenue | (107,950) | 12,379 | 115,48 |
| | ----- | ----- | ----- |
| NET CASH FROM OPERATING ACTIVITIES | 273,692 | (295,408) | (206,98) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | -- | -- | -- |
| Proceeds from sale of property and equipment | 12,126 | -- | -- |
| | ----- | ----- | ----- |
| NET CASH FROM INVESTING ACTIVITIES | 12,126 | -- | -- |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Principal payments of notes payable | (6,792) | (25,655) | (27,80) |
| Proceeds from issuance of note payable | -- | -- | -- |
| Proceeds from shareholder note payable | -- | -- | -- |
| Proceeds from exercise of stock options | -- | -- | -- |
| Net contributions (distributions) from (to) shareholder | (279,026) | 278,697 | 192,42 |

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| | | | |
|--|-----------|----------|--------|
| NET CASH FROM FINANCING ACTIVITIES | (285,818) | 253,042 | 164,61 |
| DECREASE IN CASH AND CASH EQUIVALENTS | -- | (42,366) | (42,36 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 750 | 43,116 | 43,11 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 750 | \$ 750 | \$ 75 |

The accompanying notes are an integral part of these financial statements.

14

LEARNLINC CORPORATION
STATEMENTS OF CASH FLOWS
(CONTINUED)

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | | FOR T |
|---|--|-------------|--------|
| | 2002 | 2001 | 2001 |
| | (UNAUDITED) | (UNAUDITED) | |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |
| Cash paid for interest | \$ 1,682 | \$ 8,713 | \$ 9, |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | | |
| Value of options of shareholder corporation issued to employees of Company with no exercise price | \$ 166,272 | \$ -- | \$ |
| Property and equipment transferred to shareholder corporation | 14,166 | -- | |
| Property and equipment transferred from shareholder corporation | -- | 18,945 | 18, |
| Forgiveness of shareholder note payable and accrued interest | -- | -- | 2,182, |
| Conversion of preferred stock to common stock and the accretion of the remaining discount | -- | -- | |
| Accrual of dividends | -- | -- | |
| Settlement of notes payable with common stock | -- | -- | |
| Cancellation of dividends payable | -- | -- | |

The accompanying notes are an integral part of these financial statements.

15

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

NOTE 1--DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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ORGANIZATION AND PRINCIPAL BUSINESS ACTIVITIES - Interactive Learning International, Inc was organized in March 1994 and changed its name to LearnLinc Corporation (the Company) in July 1999. The Company was privately held by its employees and a small number of outside investors until February 29, 2000, when it was acquired by Gilat Communications, Ltd., an Israeli corporation, traded publicly on the NASDAQ exchange. The merger was accounted for as a pooling of interests. In May 2001, Gilat Communications Ltd. changed its name to Mentergy Ltd. In December 2001, Mentergy Ltd. transferred its ownership of LearnLinc Corporation to Mentergy, Inc., a wholly owned subsidiary of Mentergy Ltd. Mentergy Ltd. and Mentergy, Inc. are collectively referred to as the sole shareholder or the parent company of LearnLinc Corporation.

The accompanying financial statements present the operations of the LearnLinc Corporation (the Company) on a stand-alone basis for the nine months ended September 30, 2002 and for the years ended December 31, 2001 and 2000. During 2001, the Company closed all of its checking accounts and the parent corporation managed all operations of the Company. Any amounts owed to the parent corporation for net cash payments are classified as a contribution of capital from the parent corporation. Any amounts receivable from the parent for net cash proceeds are classified as a distribution to the parent corporation.

The Company develops, markets and licenses interactive multimedia software. The software is designed to create a student-centered, instructor-led distance learning environment for business, educational and governmental use in a "virtual classroom" via a personal computer.

BASIS OF PRESENTATION AND BUSINESS CONDITION- The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. As shown in the financial statements, during the years ended December 31, 2001 and 2000, the Company incurred losses of \$508,814 and \$1,993,037, respectively. During the years ended December 31, 2001 and 2000, the Company's operations used \$206,981 and \$1,447,948 of cash, respectively. On September 25, 2002, Mentergy Ltd. announced that it had filed a request with an Israeli court seeking protection from creditors. Although this filing related only to creditors of Mentergy Ltd., it further impaired the Company's ability to market its products or obtain additional financing. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations. Management has addressed this concern by selling substantially all the assets of the Company to EDT learning on December 13, 2002 for \$500,000. The sale also included the assumption of certain liabilities.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

INVENTORY - Inventory is stated at the lower of cost or market as determined on the first-in, first-out method. Inventory consists mainly of program CD's and manuals.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets (three to seven years). Upon retirement,

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sale, or other disposition of assets, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized.

16

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows from the related asset or group of assets over the remaining life in measuring whether the assets are recoverable. As of December 31, 2001, the Company did not consider any of its long-lived assets to be impaired.

REVENUE RECOGNITION - The Company recognizes revenues in accordance with the provisions of Statement of Position No. 97-2, "Software Revenue Recognition" and related interpretations. The Company generates revenues from the sale of its software products to end-users. It also generates revenues from the sale of maintenance and support services on its software products.

PRODUCT REVENUE - Revenue from software license and technology development fees is recognized upon the later of shipment of product or completion of significant obligations to customers, provided collectibility of the resulting receivable is probable.

MAINTENANCE AND SUPPORT SERVICES - Maintenance revenue is deferred and recognized ratably over the term of the agreement. Revenue from support services is recognized as the related services are performed.

PRODUCT DEVELOPMENT EXPENSE - All costs incurred to establish the technological feasibility of the Company's products have been charged to product development and research expense in the periods such costs were incurred. The Company sells its products immediately following the achievement of technological feasibility.

INCOME TAXES - Financial Accounting Standard No. 109, "Accounting for Income Taxes" (FAS 109), requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between financial statement and tax bases of existing assets and liabilities. Under FAS No. 109, the effect of tax rate changes on deferred taxes is recognized in the income tax provision in the period that includes the enactment date.

NET LOSS PER COMMON SHARE - Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares and the dilutive potential common share equivalents outstanding. Potential common share equivalents consist of shares issuable upon the exercise of stock options, warrants and shares issuable upon the conversion of convertible preferred stock. At December 31, 2001, the Company had no potential common share equivalents issued or outstanding.

INTERIM FINANCIAL STATEMENTS - The accompanying financial statements include the accounts of the Company for the nine months ended September 30, 2002. In the

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opinion of management, all adjustments necessary for a fair presentation of the financial statements as of September 30, 2002 and for the nine months ended September 30, 2002 have been included in the accompanying financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying financial statements for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2002.

17

LEARNLINC CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 (Information with Respect to the Nine-Month Period
 Ending September 30, 2002 is Unaudited)

NOTE 2 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | SEPTEMBER 30, | DECEMBER 31, | |
|----------------------------|---------------|--------------|------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Furniture and fixtures | \$ 92,707 | \$ 92,707 | \$ 73,762 |
| Computers and equipment | 573,567 | 610,192 | 610,192 |
| Purchased software | 14,738 | 66,412 | 66,412 |
| | ----- | ----- | ----- |
| | 681,012 | 769,311 | 750,366 |
| Accumulated depreciation | (627,100) | (616,780) | (508,122) |
| | ----- | ----- | ----- |
| NET PROPERTY AND EQUIPMENT | \$ 53,912 | \$ 152,531 | \$ 242,244 |
| | ===== | ===== | ===== |

Depreciation and amortization expense for the nine months ended September 30, 2002 and for the years ended December 31, 2001 and 2000 was \$74,939, \$108,659 and \$100,217, respectively.

NOTE 3 -- NOTES PAYABLE

Notes payable consisted of the following:

| | SEPTEMBER 30, | DECEMBER 31, | |
|--|---------------|--------------|-------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Note payable to parent company bearing interest at 4%; originally due April 2002; forgiven as a capital contribution during 2001 | \$ -- | \$ -- | \$2,065,000 |
| Notes payable to a leasing company bearing interest at rates ranging from 13.9% to 16.2%; as of December 31, 2001, the Company was in default on these leases; the leases are classified as due on demand; | | | |

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| | | | |
|--|--------|--------|-------------|
| secured by computer hardware | 48,744 | 55,536 | 83,342 |
| | ----- | ----- | ----- |
| | 48,744 | 55,536 | 2,148,342 |
| Less: current portion of notes payable | 48,744 | 55,536 | 37,182 |
| | ----- | ----- | ----- |
| LONG-TERM PORTION OF NOTES PAYABLE | \$ -- | \$ -- | \$2,111,160 |
| | ===== | ===== | ===== |

18

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

NOTE 4 -- REDEEMABLE PREFERRED STOCK

Upon the merger of the Company with the parent corporation, each Series A Preferred, Series B Preferred and Series C Preferred shareholder was required to redeem their preferred stock at \$1.055, \$1.3525 and \$1.4475 per share of preferred stock, respectively. Upon redemption, the remaining \$55,614 accretion to redemption value was recognized and the preferred shareholders waived all accrued and unpaid dividends. Accordingly, 142,150, 1,293,300 and 1,382,868 shares of Series A, Series B and Series C Preferred Stock, respectively were converted into 2,818,308 shares of the Company's common stock.

NOTE 5 -- STOCK OPTION AND WARRANT ARRANGEMENTS

Stock option and warrant activity is set forth as follows:

| | NUMBER OF SHARES | PRICE PER SHARE | WEIGHTED AVERAGE EXERCISE PRICE |
|-----------------------------|---------------------|------------------|---------------------------------------|
| | ----- | ----- | ----- |
| BALANCE - DECEMBER 31, 1999 | 697,100 | \$0.59 to \$1.45 | \$1.29 |
| Options granted | 17,500 | \$1.45 | \$1.45 |
| Options forfeited | (42,200) | \$1.45 | \$1.45 |
| Options exercised | (7,800) | \$0.59 to \$1.35 | \$0.77 |
| Options exchanged | (664,600) | \$0.59 to \$1.45 | \$1.40 |
| | ----- | | |
| BALANCE - FEBRUARY 2000 | -- | N/A | \$ -- |
| | ===== | | |

In February 2000, as part of the merger with the parent corporation, the Company exchanged its 664,600 options and warrants for 34,260 options and warrants to purchase shares of the parent corporation. Subsequent to the merger and through January 2002, the parent corporation issued various options to purchase the parent corporation shares to employees of the Company. These options vested between two and four years and expire ten years from the date of grant. Below is a summary of the grants, forfeitures and total options and options exercisable of the parent corporation options and warrants held by the Company's employees:

| NUMBER OF SHARES | PRICE PER SHARE | WEIGHTED AVERAGE EXERCISE PRICE |
|---------------------|-----------------|------------------------------------|
|---------------------|-----------------|------------------------------------|

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| | ----- | ----- | ----- |
|--|--------|--------------------|----------|
| NINE MONTHS ENDED - SEPTEMBER 30, 2002 | | | |
| Granted | 59,810 | \$0.00 | \$ -- |
| Forfeited | 5,484 | \$0.00 to \$47.50 | 1.86 |
| Total | 77,444 | \$0.00 to \$47.50 | 7.92 |
| Exercisable | 20,015 | \$8.00 to \$47.50 | 27.16 |
| YEAR ENDED - DECEMBER 31, 2001 | | | |
| Granted | -- | N/A | N/A |
| Forfeited | 1,611 | \$8.00 to \$28.11 | \$ 23.12 |
| Total | 23,118 | \$8.00 to \$47.50 | 26.96 |
| Exercisable | 19,483 | \$8.00 to \$47.50 | 26.65 |
| YEAR ENDED - DECEMBER 31, 2000 | | | |
| Granted | 4,450 | \$8.00 to \$47.50 | \$ 23.09 |
| Forfeited | 13,990 | \$11.44 to \$28.11 | 27.86 |
| Total | 24,729 | \$11.44 to \$28.11 | 26.71 |
| Exercisable | 18,251 | \$11.44 to \$28.11 | 26.30 |

19

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

The Company applies APB Opinion No. 25 and related interpretations in accounting for the stock option issuances; therefore, \$89,049 in compensation expense was recognized for employee option grants during the nine months ended September 30, 2002.

Employee stock options of the parent corporation were recorded in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." FASB No. 123, "Accounting for Stock Based Compensation" (FASB 123) requires the recording or disclosure of the fair value of options issued to employees. Had compensation cost for the stock option issuances been determined based on the fair value at the grant dates, the Company's net loss and loss per share for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000 would have been increased as follows. Also included are the weighted average assumptions used by the parent corporation to estimate the fair value of each grant using the Black-Scholes option-pricing model:

| | SEPTEMBER 30, | DECEMBER 31, | |
|---------------------------------------|---------------|--------------|----------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| WEIGHTED AVERAGE FAIR VALUE PER SHARE | \$ 2.78 | \$ -- | \$ 13.93 |
| NET LOSS | | | |
| As reported | \$ (146,609) | \$ (508,814) | \$ (1,993,037) |
| Proforma | (161,323) | (542,076) | (2,014,345) |
| BASIC AND DILUTED LOSS PER SHARE | | | |
| As reported | \$ (0.03) | \$ (0.09) | \$ (0.39) |
| Proforma | (0.03) | (0.10) | (0.40) |

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WEIGHTED AVERAGE ASSUMPTIONS

| | | | |
|------------------------------------|-------|----|-------|
| Dividend yield | 0% | -- | 0% |
| Expected volatility | 150% | -- | 87% |
| Risk-free interest rate | 2.28% | -- | 6.50% |
| Expected life of options, in years | 0.75% | -- | 2.75% |

The impact of SFAS No. 123 may not be representative of the effect on future years because options vest over several years and additional option grants may be made each year.

As a result of the asset sale mentioned in Note 10, all employees were terminated on November 22, 2002. All unvested options were immediately forfeited. The unamortized deferred compensation will be eliminated against additional paid-in capital.

NOTE 6 -- INCOME TAXES

The difference between the federal statutory rate and the Company's effective rate is primarily attributable to the maintenance of a full valuation allowance against net deferred tax assets in 2001 and 2000. The temporary

20

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

difference giving rise to a significant portion of the net deferred tax asset at December 31, 2001 and 2000 is the net operating loss carryover.

The Company has recorded a full valuation allowance against its net deferred tax assets totaling approximately \$2,338,460 and \$2,223,742 at December 31, 2001 and 2000. The valuation allowance increased approximately \$164,719 and \$810,743 during the years ended December 31, 2000 and 2001.

At December 31, 2001, the Company had federal net operating loss carryovers for income tax purposes of approximately \$5,461,321. These loss carryovers may be subject to annual limitation on their usage and will begin to expire in 2011.

NOTE 7 -- CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables.

With respect to trade receivables, the Company's customers are primarily concentrated in one line of business and are located throughout the United States. The Company establishes allowances for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under operating leases which expires between May 2004 and May 2006. Total rent expense for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000 was \$91,319, \$114,847 and \$109,815, respectively. Future minimum payments required under the operating leases described above are as follows:

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YEARS ENDING DECEMBER 31,

| | |
|------|-----------|
| 2002 | \$108,356 |
| 2003 | 108,356 |
| 2004 | 46,861 |
| 2005 | 2,936 |
| 2006 | 2,936 |

NOTE 9 -- RELATED PARTY TRANSACTIONS

The Company has had sales to its parent corporation of \$90,188, \$525,782 and \$465,898 for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000, respectively. The parent corporation resold these items during the same period for at least the original purchase price. These inter-company sales were classified as distributions to the parent corporation.

During 2000, the Company borrowed \$2,065,000 from its parent corporation which was to be repaid in April 2002. Interest accrued at four percent (4%). On December 31, 2001, the parent corporation forgave the note and all accrued interest. Since the companies are related, the forgiveness of \$2,182,647 was recorded as a contribution of capital.

NOTE 10 -- SUBSEQUENT EVENTS

ACQUISITION OF COMPANY ASSETS

On December 13, 2002, the parent corporation sold certain assets of the Company to EDT Learning, Inc. The purchase price for the acquisition was \$500,000 and the assumption of certain liabilities, with \$250,000 being paid on December 13, 2002 and \$250,000 due on December 13, 2003. In addition, the Company will receive a royalty of

21

LEARNLINC CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Information with Respect to the Nine-Month Period
Ending September 30, 2002 is Unaudited)

20% for all revenues collected from the sale or license of LearnLinc software over a three year period. The maximum amount due under the Royalty Agreement is \$5,000,000.

STOCK OPTIONS

As a result of the above asset sale, all employees were terminated on November 22, 2002. All unvested options were immediately forfeited. The unamortized deferred compensation will be eliminated against additional paid-in capital.

22

[LETTERHEAD OF HANSEN, BARNETT & MAXWELL]

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 333-71332 on Form S-8 of EDT Learning, Inc. of our report dated January 15, 2003 (relating to the 2001 and 2000 financial statements of LearnLinc Corporation)

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appearing in this Form 8-K.

/s/ HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
February 7, 2003

23