

WHITNEY INFORMATION NETWORK INC

Form 10-Q

August 16, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarter Ended June 30, 2004

Whitney Information Network, Inc.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction
of incorporation)

0-27403

(Commission
File Number)

84-1475486

(IRS Employer
Identification No.)

1612 Cape Coral Parkway, Suite A, Cape Coral, Florida 33904

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(239) 542-0643**

(Former name or former address, if changed since last report)

NONE

Securities registered under Section 12 (b) of the Exchange Act:

NONE

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Securities registered under Section 12 (g) of the Exchange Act:

COMMON STOCK

NO par value per share

(Title of Class)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

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

The Issuer had 8,561,574 and 8,547,749 common shares of common stock outstanding as of June 30, 2004 and December 31, 2003.

FORWARD-LOOKING STATEMENTS

Certain information included in this report contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995 (Reform Act). Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. In connection with the safe harbor provisions of the reform act, the Company has identified important factors that could cause actual results to differ materially from such expectations, including operating uncertainty, acquisition uncertainty, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. Reference is made to all of the Company's SEC filings, including the Company's Report on Form 10Q, incorporated herein by reference, for a description of certain risk factors. The Company assumes no responsibility to update forward-looking information contained herein.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

None of the Company's business is subject to seasonal fluctuations.

Results of Operations*Six Months Ended June 30, 2004 Compared to June 30, 2003*

Total revenue for the six months ended June 30, 2004 was \$77,115,209, an increase of \$46,390,385, or 151% compared to the same period in 2003 of \$30,724,824. Of these amounts, \$44,448,678 and \$13,112,976 respectively were earned from the delivery of Advanced Training courses for the six months ended June 30, 2004 and June 30, 2003. And of these amounts \$21,675,855 and \$11,853,214 respectively were earned from the delivery of 3-Day Basic Training courses for the six months ended June 30, 2004 and June 30, 2003. The balance of the revenue was earned from the sale of products, conferences and other related income. This increase in course revenues was directly attributable to an increase in the number of attendees at our training courses. The following table will illustrate the number of events and the number of attendees for the comparative periods:

| | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|--------------------------------|-----------------------------------|-----------------------------------|
| <u>Number of Events</u> | | |
| Free Preview Training | 2,232 | 1,848 |
| 3 Day Basic Training | 349 | 159 |
| Advanced Training | 454 | 205 |

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Number of Attendees

| | | |
|-----------------------|---------|--------|
| Free Preview Training | 151,819 | 82,440 |
| 3 Day Basic Training | 18,307 | 7,809 |
| Advanced Training | 6,956 | 3,413 |

The increase in revenue over the comparable period in 2003 is a trend that is expected to continue throughout the year. The increase in the number of events and in the number of attendees is expected to continue as the Teach Me to Trade, Star Trader, and Cash Flow Generator brands continue to be incorporated into the normal operations of the company. As the marketing, logistics, and speaker training functions of these brands are more seasoned, they are expected to produce a continued increase in the number of events, both domestically and internationally. In addition, the trend of increased attendance at events for all brands is expected to continue through out the year.

Direct Course Expenses

Direct course expenses relate to our basic and advanced training and consist of instructor fees, facility costs, travel team coordinators and staff, and travel expenses. The only expenses that are deferred until the related revenue is realized are the related commissions paid.

Direct course expenses increased for the six months ended June 30, 2004 to \$24,701,894, an increase of \$14,186,934 or 135% over the prior comparable period in 2003 of \$10,514,960. This increase in expenses is consistent with the increase in the amount of basic and advanced training courses that were held during the periods in question. Approximately 52% of these expenses are attributable to the delivery of 3-Day basic training courses, with the balance (48%) being attributed to the delivery of advanced training courses. Direct course expenses improved as a percentage of revenue to 32% for the six months ended June 30, 2004, as compared to 34.2% for the comparable period in 2003. This improvement in the ratio of expenses to revenue is expected to continue as the number of students attending advanced training courses increases.

Advertising and Sales Expense

Advertising and sales expenses consist of two components. The first component is advertising. Approximately 80% of all advertising is through TV, with the balance consisting of direct mail, newspaper and radio. Advertising expenses consist of approximately 62% of advertising and sales expense. The second component is sales expense and is the cost associated with the initial free preview trainings and the acquisition costs of acquiring new students. These costs consist of presenter's sales commissions, facility costs, assistants and coordinators expenses and travel expenses.

Advertising and sales expense for the six months ended June 30, 2004, was \$42,242,427, an increase of \$23,949,277, or 131%, compared to the same period in 2003 of \$18,293,150. This increase is disproportionate with the increase in the number of new events during held this period. The increase is related to the number of new students attending free preview trainings which increased by 84% for the six months ended June 30, 2004 compared to the same period in 2003. Although many improvements have been made to improve the quality of media buys and better media scheduling, these efficiencies have been more than offset by higher acquisition costs per student for the brands recently acquired by the Company. Advertising and sales expenses have also increased as the Company has integrated these newer brands into its marketing model. As the Company integrates these newer brands into its marketing model, the acquisition cost per student for these brands is expected to improve. However, the continued increase in the number of new students purchasing training courses is expected to continue throughout the year as additional marketing resources are added and as the efficiency of the marketing programs is improved.

General and Administrative Expenses

General and administrative expenses consist primarily of payroll, benefits, and related expenses, insurance, office and facility expenses, and depreciation and amortization expense.

General and administrative expenses increased to \$15,095,472, an increase of \$6,089,868, or 67.6% over the comparable period in 2003 of \$9,005,604. Payroll and payroll benefits account for approximately 69% of total general and administrative expenses. During the first half of 2004, the company hired an additional 100 employees, net of terminations. The departments, which showed increases in employment, were the field representatives and student services. In addition, managers and directors were hired in various departments to better facilitate speaker training, course delivery, human resources, and business development. Much of the hiring done in the past year has been in anticipation of significant increases in the demand for all administrative services. Accordingly, general and administrative expenses have been consistently rising. However, some economies of scale and general efficiencies have been realized, as demonstrated by the ratios of general and administrative expenses to revenues. The first six months of 2003, they were 29.3% of revenues. In 2004 they improved to 19.5% of revenue. As revenues continue to increase, these expenses will also increase, although at a lesser rate of growth.

Net Loss

Net loss for the six months ended June 30, 2004 was \$4,160,433, as compared to a net loss of \$4,960,643 for the six months ending June 30, 2003, a decrease of \$800,210. Net loss per share was (\$.49) as compared to a net loss per share in 2003 for the same period of (\$.61). This decrease is directly attributable to an increase in the delivery of 3-Day basic training courses and advanced courses, realization of more efficient advertising, and improvements in reducing the growth of general and administrative costs. Deferred revenue, which is the net backlog of training courses purchased and not yet delivered, increased by \$11,264,084 during the first six months of 2004, compared to an increase of \$12,688,777 for the same comparable period in 2003. This occurred while sales for the six months ended June 30, 2004 increased by \$46,390,385 over the same period in 2003. This reflects the increase in the percentage of courses delivered as a percentage of sales, and the amount of sales increase. The number of courses delivered for the six-month period ended June 30, 2004 was twice the amount delivered for the comparable period in 2003. This reduction in net loss is a trend that is expected to continue. The backlog of course trainings purchased and undelivered is expected to grow, the amount of courses deliveries will continue to grow, and no significant change in the ratio of expense is anticipated.

Liquidity and Capital Resources

The Company's capital requirements consist primarily of working capital, capital expenditures and acquisitions. Historically, we have funded our working capital and capital expenditures using cash and cash equivalents on hand. Cash decreased by \$105,274 to \$14,916,211, compared to an increase of \$1,733,766 in the previous comparable period in 2003. This decrease is directly attributable to the increase in fixed asset purchases and the reduction of long-term debt.

The Company's cash provided by operating activities was \$7.55 million and \$6.12 million for the six months ended June 30, 2004 and 2003, respectively. If the Company continues to deliver its training courses, cash flows should continue to increase.

The Company's cash used in investing activities was \$2,989,579 and \$3,558,824 for the six months ended June 30, 2004 and 2003, respectively. Cash used to purchase property and equipment was \$3,816,267 for the six months ended June 30, 2004 as compared to \$159,452 for the same period in 2003. In addition, in 2004, cash was provided from the sale of land (\$826,888) and in 2003 cash was loaned to affiliates (\$338,993). The Company will continue to invest in property and equipment in future periods for facility expansion, computer and software upgrades, and geographic expansion. The Company intends to build up its cash reserves to fund its operations and, to the extent it has excess cash available, the Company may also invest in other real estate projects. And, the Company will continue to pursue other acquisition opportunities. For these reasons, cash used in investing activities is anticipated to increase as a percentage of cash flows in future periods.

The Company's cash used in financing activities was \$4,775,607 and \$827,793 for the six months ended June 30, 2004 and 2003, respectively. These activities consist primarily of reduction of long-term debt and related party note payable. Debt was reduced \$4,801,391 for the six months ended June 30, 2004 and \$526,208 for the same period in 2003. As the Company continues to generate cash flow from operations, it may consider some additional reduction of long-term debt as a financing option. However, cash used in investing activities is anticipated to decrease as a percentage of cash flows in future periods.

At June 30, 2004 we had unused letters of credit to secure merchant accounts and certain state bonding requirements aggregating \$1,500,000, which are supported by certificates of deposit. These letters of credit expire in January 2005 and October 2005 and the certificates of deposit carry an interest rate of 2.9% and 3.68%, respectively.

Historically, the Company has been able to fund all of its operations from existing working capital. The Company intends to continue to use working capital for operating purposes. From time to time, we evaluate potential acquisitions of business products or technologies that complement our business. To the extent that resources are insufficient to fund future activities, we may need to raise additional funds. However, there can be no assurance that additional funding, if needed, will be available. If adequate funds are not available on acceptable terms, we may be unable to expand our business, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, operating results and financial condition.

We believe our cash resources are more than sufficient to fund our operations and growth plans for the next 12 months.

The following reflects our commitments for capital expenditures, debt and other commitments.

| | Capital Expenditures | | Debt | | Operating Lease Commitments | | Total | |
|------------|----------------------|--|------|-----------|-----------------------------|---------|-------|-----------|
| 2004 | \$ | | \$ | 80,006 | \$ | 119,813 | \$ | 199,819 |
| 2005 | | | | 211,842 | | 102,896 | | 314,738 |
| 2006 | | | | 259,217 | | 73,359 | | 332,576 |
| 2007 | | | | 275,821 | | | | 275,821 |
| 2008 | | | | 6,809,880 | | | | 6,809,880 |
| Thereafter | | | | 864,571 | | | | 864,571 |
| Total | \$ | | \$ | 8,501,337 | \$ | 296,068 | \$ | 8,797,405 |

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such is defined in Rules 13a-13(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the period covered by this report. Based on such evaluation, such officers have concluded that, as of June 30, 2004, our disclosures and procedures are effective in alerting them on a timely basis to material information relating to our Company (including our controlled subsidiaries) required to be included in our reports filed or submitted under the Exchange Act.

During the period covered by this report, there have not been any significant changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

In connection with the audit of the year ended December 31, 2003, there were no Reportable Events within the meaning of Item 304(a)(1)(v) of Regulation S-K. However, the Company's auditors communicated to the Registrant matters it considered to be a weakness in the Registrant's internal controls relating to the adequacy of staffing of its accounting and finance department. The Registrant believes it has addressed this concern and has further enhanced its staffing and procedures.

PART II

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party defendant in any material pending or threatened litigation and to its knowledge, no action, suit or proceedings has been threatened against its officers and its directors.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The rights of the holders of the Company's securities have not been modified nor have the rights evidenced by the securities been limited or qualified by the issuance or modification of any other class of securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There are no senior securities issued by the Company.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matter was submitted during the three months ended June 30, 2004 to a vote of security holders, through the solicitation of proxies or otherwise.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

| (a) Exhibit No. | Description |
|-----------------|--|
| 31.1 | Certification of Periodic Report Chief Executive Officer |
| 31.2 | Certification of Periodic Report Chief Financial Officer |
| 32.1 | Certification of Periodic Report Chief Executive Officer |
| 32.2 | Certification of Periodic Report Chief Financial Officer |

(b) Reports on Form 8-K

On June 11, 2004, the Company filed a Form 8-K to indicated the early re-payment of a related party loan.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WHITNEY INFORMATION NETWORK, INC.

Dated: August 16, 2004

By: /s/Russell A. Whitney
Russell A. Whitney
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|-----------------|
| /s/Russell A. Whitney Russell A. Whitney | President/Director/Chairman/ Chief Executive Officer | August 16, 2004 |
| /s/Ronald S. Simon Ronald S. Simon | Secretary/Treasurer/Director | August 16, 2004 |
| /s/Charles S. Miller Charles S. Miller | Chief Financial Officer | August 16, 2004 |
| /s/Gonzalo DeRamon Gonzalo DeRamon | Director | August 16, 2004 |
| /s/Frederick A. Cardin Frederick A. Cardin | Director | August 16, 2004 |
| /s/Chester P. Schwartz Chester P. Schwartz | Director | August 16, 2004 |

PART I

Item 1. Financial Statements

Whitney Information Network, Inc.

Consolidated Financial Statements

As of June 30, 2004 and December 31, 2003

And for the Three and Six Months Ended June 30, 2004 and 2003

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

| | June 30, 2004 (Unaudited) | December 31, 2003 |
|---|---------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 14,916,211 | \$ 15,021,485 |
| Accounts receivable trade, net | 701,804 | 1,314,562 |
| Accounts receivable, other | 2,358,041 | 2,482,436 |
| Prepaid advertising and other | 2,147,032 | 2,329,726 |
| Inventory | 1,584,820 | 712,703 |
| Deferred seminar expenses | 8,403,190 | 6,833,784 |
| Total current assets | 30,111,098 | 28,694,696 |
| Other assets | | |
| Property and equipment, net of accumulated depreciation of \$1,930,792 (2004) and \$1,575,287 (2003) | 21,873,532 | 16,585,497 |
| Intangible assets, net of accumulated amortization of \$458,741 (2004) and \$261,894 (2003) | 6,801,686 | 6,998,841 |
| Goodwill | 1,000,000 | 1,000,000 |
| Investment in foreign corporation | 878,699 | 734,757 |
| Other assets | | 19,965 |
| Total other assets | 30,553,917 | 25,339,060 |
| Total assets | \$ 60,665,015 | \$ 54,033,756 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities | | |
| Accounts payable | \$ 2,917,421 | \$ 3,218,370 |
| Accrued seminar expenses | 2,780,233 | 1,645,601 |
| Deferred revenue | 49,857,214 | 38,593,130 |
| Accrued expenses | 2,795,789 | 1,781,044 |
| Current portion of long-term debt | 80,006 | 168,897 |
| Current portion of note payable-officer/stockholder | | 1,362,500 |
| Total current liabilities | 58,430,663 | 46,769,542 |
| Long-term debt, less current portion | 8,421,331 | 6,071,331 |
| Note payable officer/stockholder, less current portion | | 3,350,000 |
| Total liabilities | 66,851,994 | 56,190,873 |
| Minority Interest | 2,000,000 | 2,000,000 |
| Stockholders' deficit | | |
| Common stock, no par value, 25,000,000 shares authorized, 8,561,574 and 8,547,749 shares issued and outstanding | 3,016,997 | 2,990,755 |
| Paid-in capital | 448,600 | 448,600 |
| Foreign currency translation adjustment | (243,497) | (347,826) |
| Accumulated deficit | (11,409,079) | (7,248,646) |
| Total stockholders' deficit | (8,186,979) | (4,157,117) |
| Total liabilities and stockholders' deficit | \$ 60,665,015 | \$ 54,033,756 |

See notes to financial statements.

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|--|---------------------|--------------------------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) | 2004 (Unaudited) | 2003 (Unaudited) |
| Sales | \$ 38,606,534 | \$ 17,420,985 | \$ 77,115,209 | \$ 30,724,824 |
| Expenses | | | | |
| Direct course expenses | 13,946,507 | 6,092,990 | 24,701,894 | 10,514,960 |
| Advertising and sales expenses | 22,301,358 | 10,600,133 | 42,242,427 | 18,293,150 |
| General and administrative expenses | 7,330,197 | 5,168,665 | 15,095,472 | 9,005,604 |
| Total expenses | 43,578,062 | 21,861,788 | 82,039,793 | 37,813,714 |
| Loss from operations | (4,971,528) | (4,440,803) | (4,924,584) | (7,088,890) |
| Other income (expense) | | | | |
| Equity earnings from foreign investment | 143,942 | | 143,942 | |
| Gain on sale of asset | | | 305,169 | |
| Interest and other income | 566,133 | (128,182) | 681,240 | 18,736 |
| Interest expense | (106,592) | (19,279) | (366,200) | (41,489) |
| Loss before income taxes | (4,368,045) | (4,588,264) | (4,160,433) | (7,111,643) |
| Income tax benefit | | 1,039,000 | | 2,151,000 |
| Net loss | \$ (4,368,045) | \$ (3,549,264) | \$ (4,160,433) | \$ (4,960,643) |
| Basic and diluted loss per share | \$ (.51) | \$ (.44) | \$ (.49) | \$ (.61) |
| Basic and diluted weighted average shares outstanding | 8,567,871 | 8,102,874 | 8,563,885 | 8,101,023 |

See notes to financial statements.

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | For the Six Months Ended June 30, | |
|--|--------------------------------------|---------------------|
| | 2004 (Unaudited) | 2003 (Unaudited) |
| Cash flows from operating activities | | |
| Net loss | \$ (4,160,433) | \$ (4,960,643) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Equity earnings in foreign corporation | (143,942) | |
| Depreciation and amortization | 552,352 | 508,478 |
| Gain on sale of asset | (303,653) | |
| Deferred tax asset | | (2,151,000) |
| Changes in assets and liabilities | | |
| Accounts receivable trade | 612,758 | (379,465) |
| Accounts receivable, other | 124,395 | |
| Prepaid advertising and other | 183,152 | 167,771 |
| Inventory | (872,117) | (33,865) |
| Deferred seminar expenses | (1,569,406) | (1,782,166) |
| Other assets | 19,965 | 27,128 |
| Accounts payable | (300,949) | 823,832 |
| Accrued seminar expense | 1,134,632 | 981,316 |
| Deferred revenue | 11,264,084 | 12,688,777 |
| Accrued expenses | 1,014,745 | 230,220 |
| | 11,716,016 | 11,081,026 |
| Net cash provided by operating activities | 7,555,583 | 6,120,383 |
| Cash flows from investing activities | | |
| Proceeds from sale of asset | 826,688 | |
| Purchases of property and equipment | (3,816,267) | (159,452) |
| Purchase of equity interest in building | | (2,000,000) |
| Purchase of intangible assets | | (450,000) |
| Notes receivable | | (460,379) |
| Purchase of equity interest in foreign company | | (150,000) |
| Loans to affiliates, net | | (338,993) |
| Net cash used in investing activities | (2,989,579) | (3,558,824) |
| Cash flows from financing activities | | |
| Principal payments on note payable officer/stockholder | (4,712,500) | (26,557) |
| Payments of principal on long-term debt | (88,891) | (499,651) |
| Deferred offering costs paid | | (325,245) |
| Proceeds from exercise of stock options | 25,784 | 23,660 |
| Net cash used in financing activities | (4,775,607) | (827,793) |
| Net increase in cash and cash equivalents | (209,603) | 1,733,766 |
| Foreign currency translation | 104,329 | |
| Cash and cash equivalents, beginning of period | 15,021,485 | 12,080,553 |
| Cash and cash equivalents, end of period | \$ 14,916,211 | \$ 13,814,319 |

See notes to financial statements.

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Supplemental cash flow information:

Cash paid for interest was \$366,200 and \$41,500 for the six months ended June 30, 2004 and 2003, respectively.

Supplemental disclosure of non-cash activity:

During 2004, the SCB Building, LLC, in which the Company has a 50% equity interest in, made improvements to the building of \$2,350,000 through the use of proceeds of long-term debt.

During 2003, the Company issued 2,500 shares of common stock, valued at \$10,000 in exchange for assets the Company recorded as intangible assets.

See notes to financial statements.

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Notes to Consolidated Financial Statements

Note 1 - Significant Accounting Policies

The accompanying consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission March 30, 2004, which includes audited financial statements for the years ended December 31, 2003 and 2002. The results of operations for the six months ended June 30, 2004, may not be indicative of the results of operations for the year ended December 31, 2004.

Recently Issued Accounting Pronouncements

On March 31, 2004, the FASB issued an Exposure Draft, Share-Based Payment, and Amendment of FASB Statements No. 123 and 95. The Exposure Draft covers the accounting for transactions in which an enterprise pays for employee services with share-based payments including employee stock options.

Under the Exposure Draft, all share-based payments would be treated as other forms of compensation by recognizing the related costs generally measured as the fair value at the date of grant in the income statement.

If adopted as proposed, we would record as an expense the fair value of the options we have issued. Based on the number of options we have issued, this proposed statement would substantially increase our net losses and accumulated deficit by approximately \$881,000 for the six months ended June 30, 2004. If adopted as proposed, this pronouncement would be effective for the fiscal year beginning January 1, 2005.

Reclassifications

Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

Note 2 - Related Party Transactions

The Company has rented a training facility located in Cape Coral, Florida, since 2002 from the Chairman of the Board and pays rent on annual leases. There are currently two facilities under lease in 2004. Rentals under the related party lease were \$47,471 and \$30,296 for the six months ended June 30, 2004 and 2003, respectively. The lease terminated in January 2004. The Company currently pays rent on a month-to-month

basis.

MRS Equity Corp. is a 100 percent subsidiary of Equity Corp. Holdings, Inc. which manages the processing of payments through customer's accounts to the mortgage holder, was acquired by the Company in 2003. Prior to July 2003, the Vice President of Marketing of Whitney Information Network, Inc. owned and controlled MRS Equity Corp.

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Whitney Leadership Group is a company that holds all the copyright and intellectual property rights associated with the educational materials and licenses the rights to the Company for payment, and was acquired by the Company in July 2003. Prior to July 2003 the Chairman of the Board of Whitney Information Network, Inc. was the President and Chief Operating Officer of Whitney Leadership Group, Inc.

Accounts receivable, other are as follows:

| | June 30, 2004 (unaudited) | December 31, 2003 |
|---|---------------------------------|----------------------|
| Accounts receivable, foreign investment | \$ 1,328,424 | \$ 1,227,293 |
| Accounts receivable, SDI | 333,026 | 631,210 |
| Accounts receivable, commission overpayment | 696,591 | 623,933 |
| Total accounts receivable, other | \$ 2,358,041 | \$ 2,482,436 |

The following balances were the amount of payroll services provided to related parties for the periods ended:

| | Six Months Ended June 30, | | | |
|---|---------------------------|--|-------------|--------|
| | 2004 | | 2003 | |
| | (unaudited) | | (unaudited) | |
| MRS Equity Corp. (prior to the acquisition in 2003) | \$ | | \$ | 63,204 |

The following balances were the amount of products purchased and payments made for registration fees and commissions from related parties for the periods ended:

| | Six Months Ended June 30, | | | |
|---|---------------------------|--|-------------|---------|
| | 2004 | | 2003 | |
| | (unaudited) | | (unaudited) | |
| MRS Equity Corp. (prior to the acquisition in 2003) | \$ | | \$ | 47,405 |
| Whitney Leadership Group, Inc. (prior to the acquisition in 2003) | | | | 88,358 |
| | \$ | | \$ | 135,763 |

Note 3 Commitments and Contingencies

Litigation

The Company is not involved in any material asserted or unasserted claims and actions arising out of the normal course of its business that in the opinion of the Company, based upon knowledge of facts and advice of counsel, will result in a material adverse effect on the Company's financial position.

Other

The Company carries liability insurance coverage, which it considers sufficient to meet regulatory and consumer requirements and to protect the Company's employees, assets and operations.

The Company, in the ordinary course of conducting its business, is subject to various state and federal requirements. In the opinion of management, the Company is in compliance with these requirements.

Note 4 Income Taxes

As of June 30, 2004 and December 31, 2003, the Company has net operating loss (NOL) carryforwards for tax purposes of approximately \$15,000,000 and \$10,225,000, respectively, which expire in the years 2004 through 2023.

Deferred tax liabilities and assets are determined based on the difference between the financial statement assets and liabilities and tax basis assets and liabilities using the tax rates in effect for the year in which the differences occur. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that based on available evidence, are not expected to be realized.

The accompanying balance sheets include the following:

| | June 30, 2004 (Unaudited) | December 31, 2003 |
|--|--|------------------------------|
| Deferred tax asset from NOL carryforward | \$ 5,576,000 | \$ 3,814,000 |
| Deferred tax liability from deferred expense | (3,223,000) | (2,758,000) |

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| | | |
|--|-------------|-------------|
| Total deferred tax asset | 2,353,000 | 1,056,000 |
| Valuation allowance for deferred tax asset | (2,353,000) | (1,056,000) |
| Net deferred tax asset | \$ | \$ |

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Note 5 - Stockholders' Equity and TransactionsStock Based Compensation Plans

The Company's stock option plans provide for the granting of stock options to key employees. Under the terms and conditions of the plans, any time between the grant date and two years of service, the employee may purchase up to 25% of the option shares. After three years of continuous service, the employee may purchase all remaining option shares. All options expire ten years from the date of the grant.

The following table presents the activity for options outstanding:

| | Options Related To A Plan | Weighted Average Exercise Price | |
|---------------------------------|---------------------------------|--|--------|
| Outstanding - December 31, 2001 | 921,800 | \$ | 1.94 |
| Granted | 651,750 | \$ | 1.81 |
| Forfeited/canceled | (141,000) | \$ | (1.98) |
| Exercised | (26,375) | \$ | (2.13) |
| | | | |
| Outstanding - December 31, 2002 | 1,406,175 | \$ | 1.93 |
| Granted | 202,500 | \$ | 3.80 |
| Forfeited/canceled | (180,300) | \$ | (2.19) |
| Exercised | (6,125) | \$ | (2.60) |
| | | | |
| Outstanding - December 31, 2003 | 1,422,250 | \$ | 2.17 |
| Granted | 435,000 | \$ | 4.47 |
| Forfeited/canceled | (14,950) | \$ | (1.98) |
| Exercised | (12,450) | \$ | (1.87) |
| | | | |
| Outstanding - June 30, 2004 | 1,829,850 | \$ | 2.72 |

The following table presents the composition of options outstanding and exercisable:

| Range of Exercise Prices | Number of Options Outstanding | Number of Options Exercisable | Price* | Life* |
|--------------------------------|-------------------------------------|-------------------------------------|---------|-------|
| | | | | |
| \$ 1.75 | 40,000 | 40,000 | \$ 1.75 | 5.84 |
| \$ 1.81 | 309,250 | 77,363 | \$ 1.81 | 7.75 |
| \$ 1.88 | 248,400 | 248,400 | \$ 1.88 | 5.16 |
| \$ 2.00 | 594,700 | 454,075 | \$ 2.00 | 6.06 |
| \$ 3.10 | 15,000 | 3,750 | \$ 3.10 | 8.18 |
| \$ 3.70 | 152,500 | 38,125 | \$ 3.70 | 8.66 |
| \$ 3.90 | 45,000 | 11,250 | \$ 3.90 | 9.53 |
| \$ 4.10 | 10,000 | 2,500 | \$ 4.10 | 8.79 |
| \$ 4.50 | 415,000 | 103,750 | \$ 4.50 | 9.58 |
| | | | | |
| \$1.75 to \$4.50 | 1,829,850 | 979,213 | | 7.35 |

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's option plan been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income (loss) and basic income (loss) per common share would have been changed to the pro forma amounts indicated below:

| | For the Six Months Ended June 30, | |
|---|--------------------------------------|----------------|
| | 2004 | 2003 |
| Net loss - as reported | \$ (4,160,433) | \$ (4,960,643) |
| Net loss - pro forma | \$ (5,042,315) | \$ (5,510,611) |
| Basic loss per common share - as reported | \$ (.49) | \$ (.61) |
| Basic loss per common share - pro forma | \$ (.59) | \$ (.68) |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

| | For the Periods Ended June 30, | |
|---|-----------------------------------|------------|
| | 2004 | 2003 |
| Approximate risk free rate | 4.62% | 6.00% |
| Average expected life | 10 years | 10 years |
| Dividend yield | 0% | 0% |
| Volatility | 34.62% | 42.00% |
| Estimated fair value of total options granted | \$ 881,882 | \$ 549,968 |

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