

WHITNEY INFORMATION NETWORK INC

Form 10-Q

March 05, 2009

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
 EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2008

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
 EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 0-27403

WHITNEY INFORMATION NETWORK, INC.

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of incorporation or
organization)

84-1475486

(I.R.S. Employer Identification No.)

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1612 East Cape Coral Parkway, Cape Coral, Florida

(Address of principal executive offices)

33904

(Zip Code)

(239) 542-0643

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

There were 11,738,587 shares of common stock outstanding as of February 27, 2009.

Table of Contents

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets as of September 30, 2008 (Unaudited) and December 31, 2007 2

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited) for the three and nine months ended September 30, 2008 and 2007 3

Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2008 and 2007 4

Notes to Condensed Consolidated Financial Statements (Unaudited) 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 35

Item 4T. Controls and Procedures 35

Part II. Other Information

Item 1. Legal Proceedings 36

Item 1A. Risk Factors 39

Item 6. Exhibits 39

Signatures 40

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands, except share data)**

| | September 30, 2008 (unaudited) | December 31, 2007 |
|----------------------------------------------------|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 32,325 | \$ 33,012 |
| Restricted cash | 10,717 | 8,449 |
| Accounts receivable, net | 543 | 439 |
| Notes receivable, current portion | 209 | 88 |
| Deferred course expenses, current portion | 25,802 | 19,251 |
| Prepaid advertising and other prepaid expenses | 1,432 | 3,896 |
| Inventory | 1,721 | 1,437 |
| Assets held for sale | 3,748 | 2,874 |
| Total current assets | 76,497 | 69,446 |
| Notes receivable, net of current portion | 9,729 | 10,073 |
| Property and equipment, net | 4,498 | 11,165 |
| Investment and development costs in real estate | 653 | 321 |
| Intangible assets, net | 384 | 432 |
| Deferred course expenses, net of current portion | 1 | 4 |
| Other assets | 281 | 243 |
| Total assets | \$ 92,043 | \$ 91,684 |
| Liabilities and Stockholders Deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,818 | \$ 8,305 |
| Income taxes payable | 1,021 | 777 |
| Accrued course expenses | 3,139 | 2,886 |
| Other accrued expenses | 7,218 | 7,190 |
| Accrued salaries, wages and benefits | 2,195 | 2,874 |
| Accrued executive severance | 325 | 1,950 |
| Long-term debt, current portion | 64 | 125 |
| Deferred rental incentives, current portion | 112 | 114 |
| Deferred revenue, current portion | 137,190 | 119,284 |
| Total current liabilities | 157,082 | 143,505 |
| Long-term debt, net of current portion | 2,911 | 2,952 |
| Deferred rental incentives, net of current portion | 362 | 451 |
| Deferred revenue, net of current portion | 6 | 16 |
| Total liabilities | 160,361 | 146,924 |
| Commitments and contingencies | | |

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Stockholders' deficit:

Preferred stock, no par value, 10,000,000 shares authorized, no shares issued and outstanding

Common stock, no par value, 25,000,000 shares authorized, 11,738,587 shares issued and outstanding, as of September 30, 2008 and December 31, 2007

| | | |
|---------------------------------------------|-----------|-----------|
| | 2,591 | 2,591 |
| Paid-in capital | 2,340 | 1,842 |
| Foreign currency translation adjustment | (731) | (1,659) |
| Accumulated deficit | (72,518) | (58,014) |
| Total stockholders' deficit | (68,318) | (55,240) |
| Total liabilities and stockholders' deficit | \$ 92,043 | \$ 91,684 |

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

Table of Contents

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited, in thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------------------|----------------------------------|----------|---------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | \$ 34,713 | 56,582 | \$ 119,922 | \$ 159,780 |
| Operating costs and expenses: | | | | |
| Direct course expenses | 18,896 | 27,085 | 64,522 | 81,024 |
| Advertising and sales expenses | 11,027 | 14,580 | 38,048 | 48,825 |
| General and administrative expenses | 8,755 | 9,805 | 28,124 | 29,097 |
| Impairment of assets | 2,717 | | 2,717 | |
| Special items | 208 | 2,202 | 402 | 8,991 |
| Total operating costs and expenses | 41,603 | 53,672 | 133,813 | 167,937 |
| (Loss) income from operations | (6,890) | 2,910 | (13,891) | (8,157) |
| Other (expense) income: | | | | |
| Other (expense) income, net | (4) | (8) | 279 | 193 |
| Interest income | 259 | 514 | 1,028 | 1,399 |
| Interest expense | (55) | (52) | (163) | (224) |
| Equity loss from related parties | (200) | (92) | (600) | (423) |
| (Loss) gain on sale of assets | | (2) | 1,080 | 35 |
| Total other (expense) income | | 360 | 1,624 | 980 |
| (Loss) income before income taxes | (6,890) | 3,270 | (12,267) | (7,177) |
| Income tax provision | (213) | (48) | (661) | (97) |
| Net (loss) income | \$ (7,103) | \$ 3,222 | \$ (12,928) | \$ (7,274) |
| Net (loss) income per share: | | | | |
| Basic | \$ (0.61) | \$ 0.27 | \$ (1.10) | \$ (0.62) |
| Diluted | \$ (0.61) | \$ 0.27 | \$ (1.10) | \$ (0.62) |
| Weighted average common shares outstanding: | | | | |
| Basic | 11,739 | 11,739 | 11,739 | 11,739 |
| Diluted | 11,739 | 11,871 | 11,739 | 11,739 |
| Comprehensive loss: | | | | |
| Net (loss) income | \$ (7,103) | \$ 3,222 | \$ (12,928) | \$ (7,274) |
| Foreign currency translation adjustments | 925 | (295) | 928 | (608) |
| Comprehensive (loss) income | \$ (6,178) | \$ 2,927 | \$ (12,000) | \$ (7,882) |

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

Table of Contents

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

| | Nine months ended September 30, | |
|-------------------------------------------------------------------------------------------|---------------------------------|------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net loss | \$ (12,928) | \$ (7,274) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,061 | 1,225 |
| Impairment of assets | 2,717 | |
| Stock-based compensation costs | 498 | 717 |
| Deferred rental incentives | (91) | 103 |
| Gain on sale of assets | (1,080) | (35) |
| Equity loss from related parties | 600 | 423 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (2,268) | (6,268) |
| Accounts receivable, net | (439) | 2,828 |
| Prepaid advertising and other prepaid expenses | 2,464 | 1,033 |
| Inventory | (284) | (291) |
| Deferred course expenses | (6,548) | (3,801) |
| Other assets | (38) | (107) |
| Accounts payable | (2,487) | 2,736 |
| Accrued course expenses | 253 | 698 |
| Deferred revenue | 17,896 | 8,175 |
| Accrued salaries, wages and benefits | (679) | 1,655 |
| Accrued executive severance | (1,625) | |
| Other accrued expenses | 29 | 1,402 |
| Income taxes payable | 244 | (41) |
| Net cash (used in) provided by operations | (2,705) | 3,178 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (308) | (1,628) |
| Proceeds received on notes receivable | 58 | 62 |
| Advances on notes receivables | | (274) |
| Proceeds from sale of assets | 3,019 | 5,037 |
| Investments in and advances to related parties, net | | (275) |
| Net cash provided by investing activities | 2,769 | 2,922 |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | 7 | 70 |
| Principal payments on long-term debt | (110) | (3,268) |
| Distributions to joint venture partner | (1,576) | |
| Net cash used in financing activities | (1,679) | (3,198) |
| Effect of foreign currency translation | 928 | (608) |
| Net increase (decrease) in cash and cash equivalents | (687) | 2,294 |
| Cash and cash equivalents, at beginning of period | 33,012 | 33,221 |
| Cash and cash equivalents, at end of period | \$ 32,325 | \$ 35,515 |

Table of Contents

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

| | 2008 | Nine months ended September 30, | 2007 |
|----------------------------------------------------------------------------------------------------------------------------|------|------------------------------------|-------|
| Supplemental Cash Flow Information of non-cash activities: | | | |
| Accounts receivable of \$335 was converted to a note receivable | \$ | 335 | \$ |
| Promissory note received from the sale of our 50% in Tranquility Bay of South West Florida, LLC, net of reserve of \$1,438 | \$ | \$ | 3,030 |

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

Table of Contents

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation

The unaudited Condensed Consolidated Financial Statements include the accounts of Whitney Information Network, Inc. and its wholly-owned subsidiaries (collectively referred to herein as the Company, we, us, or our). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2007 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on January 15, 2009.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations.

In the opinion of management, all adjustments, consisting of normal recurring accruals, which are considered necessary to make a fair presentation of the Company's financial position and operating results have been included. The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

The results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the year ending December 31, 2008.

Note 2 Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Summary of Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 2 to its audited Consolidated Financial Statements for the fiscal year ended December 31, 2007, included in the Form 10-K filed with SEC on January 15, 2009. These accounting policies have not significantly changed.

Reclassifications

Certain reclassifications have been made in the 2007 Condensed Consolidated Financial Statements to conform to the 2008 presentation.

Recently Adopted Accounting Pronouncements

In January 2008, the Company adopted the Statement of Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value as used in other accounting pronouncements that require or permit fair value measurements, establishes a framework for measuring fair value in GAAP and expands disclosures related to the use of fair value measures in financial statements. SFAS No. 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP and emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. On February 6, 2008, the Financial Accounting Standards Board (FASB) deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. The effect of the adoption of SFAS No. 157 did not have a material effect on our fair value measurements.

Table of Contents

Recently Issued Accounting Pronouncements

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and is applied prospectively. FSP No. 142-3 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS No 160). SFAS No. 160 establishes accounting and reporting standards for a parent company's noncontrolling, or minority, interests in its subsidiaries. SFAS No.160 also provides accounting and reporting standards for changes in a parent's ownership interest of a noncontrolling interest as well as deconsolidation procedures. This statement aligns the reporting of noncontrolling interests in subsidiaries with the requirements in International Accounting Standards 27 and is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141, *Business Combinations - Revised* (SFAS No. 141R). SFAS No. 141R changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company will be required to adopt SFAS No. 141R in the first quarter of fiscal year 2009. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

Note 3 Special Items

Special items

Special items incurred during the three and nine months ended September 30, 2008 were approximately \$0.2 million and \$0.4 million, respectively. For the three months and nine months ended September 30, 2007, special items were approximately \$2.2 million and \$9.0 million, respectively. These special items include the professional fees associated with the SEC and DOJ proceedings which began November 14, 2006, and December 11, 2006, respectively.

Table of Contents**Note 4 Notes Receivable**

Notes receivable consists of the following (in thousands):

| | September 30, 2008 | December 31, 2007 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Note receivable from the sale of real estate. Principal and interest monthly at 6.25%, \$6.2 million due at maturity, matures November 2015 and is collateralized by land and a building in Central Florida. | \$ 7,029 | \$ 7,087 |
| Note receivable from the sale of our 50% equity interest in land in the amount of \$4.5 million with no interest. Issued in May 2007, matured December 2007 and is collateralized by 74 acres of land in Southwest Florida (Tranquility Bay). | 2,583 | 3,074 |
| Note receivable for the sale of software. Issued in May 2008, matures September 2011 and is collateralized by receipts from the sale of the Edutrader software. | 326 | |
| Total of notes receivable | 9,938 | 10,161 |
| Less: current portion | (209) | (88) |
| Long-term notes receivable | \$ 9,729 | \$ 10,073 |

See Note 6 *Impairment of Assets* and Note 13 *Commitments and Contingencies Litigation* for further discussion of Tranquility Bay.

Note 5 Assets Held for Sale

Assets held for sale at September 30, 2008 and December 31, 2007 consisted of the following (in thousands):

| | September 30, 2008 | December 31, 2007 |
|-----------------------------------------------------------------|-----------------------|----------------------|
| Investment in Rancho Monterey, S.A. and Monterey del Este, S.A. | \$ 905 | \$ 905 |
| Investment in Monterey del Mar, S.A. | | 1,233 |
| Beautiful Hill, S.A. | | 736 |
| Corporate aircraft | 3,748 | |
| | \$ 3,748 | \$ 2,874 |

The investments in Rancho Monterey, S.A., Monterey del Este, S.A. and Beautiful Hill, S.A. were sold in January 2008 for approximately \$2.5 million resulting in a net gain of approximately \$1.1 million. See Note 14 *Subsequent Events*. Our investment in Monterey del Mar, S.A. has not been sold and has been removed from assets held for sale during the nine months ended September 30, 2008. The marketplace for corporate aircraft, which was classified as held for sale in the second quarter, declined in the third quarter and the Company recognized impairment on the asset of \$2.2 million.

Note 6 Impairment of Assets

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The Company recorded an impairment of assets totaling \$2.7 million in the third quarter of 2008 for the corporate aircraft and the note receivable related to Tranquility Bay.

The following table includes the assets that the Company determined to be impaired as of September 30, 2008 (in thousands):

| | | |
|---------------------------------|----|-------|
| Corporate aircraft | \$ | 2,217 |
| Note Receivable Tranquility Bay | | 500 |
| Total | \$ | 2,717 |

We recognized an impairment of \$2.2 million for the corporate aircraft to reflect the decline in the fair market value resulting from the general economic downturn. The impairment of the note receivable from Tranquility Bay was a result of

Table of Contents

the downturn in the real estate market in Southwest Florida. See Note 4 Notes Receivable and Note 14 Subsequent Events for further discussion.

Note 7 Long-Term Debt

Long-term debt consists of the following (in thousands):

| | September 30, 2008 | December 31, 2007 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------------|
| Notes payable to individuals for the purchase of an equity interest in the SCB Building, LLC. Principal and interest payments began in April 2006 at an interest rate of 6.25%. The note matures in April 2016. | \$ 2,916 | \$ 2,942 |
| Note payable to an individual for the purchase of an equity interest in Rancho Monterey, S.A. Principal and interest payments began in July 2003 at an interest rate of 5%. The note was paid in full in June 2008. | | 73 |
| Other installment notes payable | 59 | 62 |
| Total long-term debt | 2,975 | 3,077 |
| Less: current portion | (64) | (125) |
| Long-term debt, net of current portion | \$ 2,911 | \$ 2,952 |

Note 8 Certain Relationships and Related Transactions

The Company leases from Cape Promenade Trust (Trust) approximately 2,200 square feet of training facilities at 1611 East Cape Coral Parkway, approximately 9,000 square feet of space at 1625 East Cape Coral Parkway which is used for offices and shipping, and 4,802 square feet at 1630 Southeast 47th Terrace which the Company uses as a training facility, all located in Cape Coral, Florida. The Trust is for the benefit of our former Chairman and Chief Executive Officer, Mr. Whitney and Ingrid Whitney. The leases are for three years and began on March 1, 2003, March 1, 2003, and June 1, 2004, respectively. The monthly rentals are \$1,943, \$13,913 and \$7,238 in 2008, respectively. The Company was on a month-to-month basis with respect to the 1611 East Cape Coral Parkway and 1630 Southeast 47th Terrace properties. On September 17, 2008, the leases for the training facility located at 1611 East Cape Coral Parkway and the training facility at 1630 Southeast 47th Terrace were terminated. The Company previously extended the lease with respect to 1625 East Cape Coral Parkway through June 30, 2009. See Note 14 - *Subsequent Events* for further discussion.

Gulfstream Development Group, LLC

At September 30, 2008 and December 31, 2007, the Company had an agreement with Gulfstream Development Group, LLC (Gulfstream), in which the Company was compensated for appointing Gulfstream as the exclusive offeror of homes for its students at the Company's advanced real estate courses. Students were offered the opportunity to purchase residential lots in Southwest Florida from Gulfstream, other lot owners, or Mr. Whitney. The Company has no ownership interest in Gulfstream and had no involvement in the students' decision to purchase lots or in their

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dealings with the realtor or Gulfstream. Gulfstream constructed homes on lots owned by our students. During 2007 and 2008, the referral fee was \$2,500 with \$500 of that being paid to the Company trainers who assisted in the referral. The referral fees paid to the Company by Gulfstream were \$0.1 million for each of the three and nine months ended September 30, 2008. The referral fees paid to the Company by Gulfstream were zero million and \$0.1 million for the three and nine months ended September 30, 2007.

As of September 30, 2008, Mr. Whitney held an indirect 12.5% interest in Gulfstream and received certain payments and distributions from this entity. Mr. Whitney holds his investment in Gulfstream through Rec One Inc., (Rec One), an entity that he and Ingrid Whitney jointly own. Gulfstream also had an informal agreement with Mr. Whitney, in which Gulfstream paid him a referral fee of \$4,000 \$5,000 for each Gulfstream home built for our students.

Mr. Whitney received the following payments from Gulfstream during the quarter ended September 30, 2008; (i) salary of \$10,000 and (ii) distributions to Rec One of \$39,643.

Table of Contents

For the nine months ended September 30, 2008, Mr. Whitney received the following payments from Gulfstream (i) salary of \$70,000; (ii) transaction-based compensation of \$898,100 and (iii) distributions to Rec One of \$264,643.

A committee of independent members of the Board of Directors is reviewing the Gulfstream transactions in regards to compliance with the applicable governance and related party transaction requirements.

Costa Rica

As of September 30, 2008, the Company had an ownership interest of 62.9% in a hotel property located in Costa Rica.

In January 2008, the Company sold three of our investments in Costa Rican and Panamanian entities. Those entities were: Rancho Monterey, S.A., Monterey del Este, S.A. and Beautiful Hill, S.A. in which the Company owned 30%, 8% and 100%, respectively. Proceeds from these entities net of commissions and other expenses were \$0.9 million, \$0.2 million and \$1.4 million, respectively. Repayment of working capital advances of \$0.8 million related to these entities and their management company, Monterey Management, S.A., were received in May 2008. Commissions related to the sale were paid to Russell Whitney, the former Chief Executive Officer and former Chairman of the Board in the amount of \$0.4 million. Commissions related to this sale were also paid to two of our former employees and a former independent contractor in the amount of \$0.2 million, \$0.1 million, and \$0.1 million.

A committee of independent members of the Board of Directors is reviewing the Costa Rican transactions in regards to compliance with the applicable governance and related party transaction requirements.

Note 9 Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, (SFAS No. 109). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized.

Significant management judgment is required in developing our provision for income taxes, including the determination of foreign tax liabilities, deferred tax assets and liabilities and any valuation allowances that might be required against the deferred tax assets. Management evaluates its ability to realize its deferred tax assets on an annual basis and adjusts its valuation allowance when it believes that it is more likely that the asset will not be realized.

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During the period ended September 30, 2008 the Company recorded \$300,000 of alternative minimum tax (AMT) income tax expense due to tax regulations which limit the offset of taxable income with net operating loss carryforwards to 90%. The remaining 10% is subject to alternative minimum tax. The Company also recorded \$361,000 of state income tax expense related to jurisdictions where we do not have sufficient net operating losses to offset taxable income.

Note 10 - Loss per Share

SFAS No. 128, *Earnings Per Share*, requires dual presentation of earnings per share basic and diluted. Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

There are a total of 1,032,650 stock options and 890,719 warrants outstanding as of September 30, 2008 to purchase common stock as compared with a total of 1,158,400 stock options and 890,719 warrants outstanding as of September 30, 2007. Additionally, the Company has combined 450,000 unit placement warrants issued to our placement agent in connection with our December 2005 offering which would be anti-dilutive and as such were excluded from the computation of diluted loss per share.

Table of Contents

The following table sets forth the computation for basic and diluted earnings per share (in thousands, except for per share data):

| | Three months ended September 30, | |
|---------------------------------------------------------------------------|----------------------------------|----------|
| | 2008 | 2007 |
| Numerator for basic loss per common share | \$ (7,103) | \$ 3,222 |
| Denominator for basic loss per share - weighted average shares | 11,739 | 11,739 |
| Effect of dilutive securities - options and warrants | | 132 |
| Denominator for diluted loss per share - adjusted weighted average shares | 11,739 | 11,871 |
| Loss per common share | \$ (0.61) | \$ 0.27 |

| | Nine months ended September 30, | |
|---------------------------------------------------------------------------|---------------------------------|------------|
| | 2008 | 2007 |
| Numerator for basic loss per common share | \$ (12,928) | \$ (7,274) |
| Denominator for basic loss per share - weighted average shares | 11,739 | 11,739 |
| Effect of dilutive securities - options and warrants | | |
| Denominator for diluted loss per share - adjusted weighted average shares | 11,739 | 11,739 |
| Diluted loss per common share | \$ (1.10) | \$ (0.62) |

Where the inclusion of potential common shares is anti-dilutive, such shares are excluded from the computation.

Note 11 - Segment Information

The Company operates primarily in two business segments: Proprietary Brands and Rich Dad Education. Our revenues are generated through the sale of real estate and financial market education courses, programs and products and categorized into segments, depending upon the channel from which the student was acquired. Operating results for the segments as reported below are evaluated regularly by Executive Management.

Our segment revenues and gross profit are included in the following tables (in thousands):

| Segment revenues | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------|----------------------------------|-----------|---------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Proprietary Brands | | | | |
| Real estate education | \$ 9,910 | \$ 23,992 | \$ 40,707 | \$ 76,637 |
| Financial markets education | 5,895 | 16,831 | 19,449 | 58,634 |
| Rich Dad Education | | | | |
| Real estate education | 17,144 | 15,759 | 57,387 | 24,509 |
| Financial markets education | 1,764 | | 2,379 | |
| Consolidated | \$ 34,713 | \$ 56,582 | \$ 119,922 | \$ 159,780 |

Table of Contents

| Segment gross profit (deficit) | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|----------------------------------|-----------|---------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Proprietary Brands | | | | |
| Real estate education | \$ 3,071 | \$ 9,103 | \$ 17,425 | \$ 19,704 |
| Financial markets education | 3,118 | 6,354 | 5,593 | 19,041 |
| Rich Dad Education | | | | |
| Real estate education | 1,071 | (540) | (776) | (8,814) |
| Financial markets education | (2,470) | | (4,890) | |
| Consolidated | \$ 4,790 | \$ 14,917 | \$ 17,352 | \$ 29,931 |

Note 12 - Stockholders' Deficit

On March 28, 2008, the Company recorded \$1.6 million in distributions to our joint venture partner, Rich Dad Global, LLC. The distribution was made in accordance with the Operating Agreement between Whitney Education Group and Rich Global, LLC.

Note 13 - Commitments and Contingencies*Software commitment*

In December 2005, the Company entered into a purchase commitment for new Customer Relationship Management software (CRM) for approximately \$3.0 million which includes licensing, training and maintenance. During the three and nine months ended September 30, 2007, the Company recorded \$0.1 million and \$1.0 million in expense, respectively. The Company has not incurred any additional expense for the CRM software during the three and nine months ended September 30, 2008. Our annual commitments for the licensing and maintenance of other software are approximately \$0.5 million.

Operating lease

The Company leases office space for administrative and training requirements. These leases expire from December 2008 to January 2013. See Note 8 *Certain Relationships and Related Transactions* for related party leases.

The following table includes the rental expense for the three and nine months ended September 30, 2008 and 2007 (in thousands):

| Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------------|------|---------------------------------|------|
| 2008 | 2007 | 2008 | 2007 |

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| | | | | | | | | |
|-------------------------------------|----|-----|----|-----|----|-----|----|-----|
| Rental expense for operating leases | \$ | 270 | \$ | 342 | \$ | 838 | \$ | 926 |
|-------------------------------------|----|-----|----|-----|----|-----|----|-----|

Future minimum rental payments under non-cancelable leases included above as of September 30, 2008 are as follows (in thousands):

| | | |
|------------|----|-------|
| Year 1 | \$ | 846 |
| Year 2 | | 661 |
| Year 3 | | 531 |
| Year 4 | | 490 |
| Year 5 | | 147 |
| Thereafter | \$ | 2,675 |

Table of Contents

Litigation

On November 14, 2006, the Company was notified by the SEC that the Commission is conducting a formal, nonpublic investigation to determine whether the Company complied with securities laws in connection with (i) the claimed efficacy or trading success of our stock market education programs, and, (ii) our acquisition of certain other companies. The SEC has requested documents and information from us in the course of their investigation.

On December 11, 2006, the Company received a subpoena from the DOJ requesting documents and information in connection with an investigation relating to our marketing activities from January 1, 2002 to the present. The Company was notified that a grand jury investigation related to this matter had commenced. Criminal indictments have been returned and civil charges have been filed against two former contractors. On March 6, 2008, a federal grand jury in the Eastern District of Virginia returned an indictment charging Linda Woolf (Woolf) and David Gengler (Gengler), the two former contractors, with one count of conspiracy to commit mail fraud and wire fraud. Woolf and Gengler are alleged in the indictment to have been independent contractors of the Company s EduTrades, Inc., subsidiary at the time of their alleged criminal activities. The defendants are no longer independent contractors for the Company or any of its subsidiaries. The Company and its subsidiaries were not charged in the indictment, and none of the Company s present or former directors or officers were charged in the indictment. On March 11, 2008, the SEC filed civil fraud charges against Woolf and Gengler alleging that Woolf and Gengler made false and misleading statements to sell Teach Me to Trade packages for the Company s EduTrades, Inc., subsidiary.

On January 11, 2007, Whitney Canada, Inc., a wholly-owned subsidiary, and Whitney Information Network, Inc. received notice of an Amended Motion for Authorization to Institute a Class Action in the Province of Québec, Canada. A class action was requested for all persons who have made various real estate investments, at the alleged inducement, or through, Marc Jémus, François Roy, Robert Primeau and/or their companies, and/or B2B Trust, and/or Whitney Canada, Inc., and/or Whitney Information Network, Inc. and/or Jean Lafrenière. The complaint seeks repayment of \$39,235 to the Petitioner, unspecified payment to each member of the class of an amount corresponding to their lost investments, payment of \$10,000 to each member of the class as general damages, recovery of costs and other litigation expenses, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On January 30, 2007, the Company was served a complaint by Rodney Durham on behalf of himself and all others similarly situated v. Whitney Information Network, Inc., Russell A. Whitney and Nicholas S. Maturo, filed on December 28, 2006 in the United States District Court in the Middle District of Florida accusing the Company of securities violations. The complaint seeks damages for violations of federal securities laws on behalf of all investors who acquired the Company s Common Stock from November 18, 2003, through and including December 15, 2006. The plaintiff seeks unspecified compensatory damages, unspecified equitable relief, and attorney s fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made. This case has not been certified as a class action. See Note 14 *Subsequent Events* for further discussion.

On March 8, 2007, the Company was served a complaint styled Robert Ghosio, Jr. on behalf of nominal defendant Whitney Information Network, Inc. v. Russell A. Whitney, Nicholas S. Maturo, Frederick A. Cardin, Chester P. Schwartz, Ronald S. Simon and Whitney Information Network, Inc., filed in the United States District Court in the Middle District of Florida. This action is a shareholder derivative complaint alleging that the named defendants breached certain fiduciary duties and violated certain securities laws. The plaintiff seeks unspecified monetary damages, unspecified equitable relief, unspecified restitution and disgorgement of profits from individual defendants, and fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made. See Note 14 *Subsequent Events* for further discussion.

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On March 22, 2007, a complaint was received by our wholly-owned subsidiary, Whitney Education Group, Inc. The case is Glenn Acciard, et. al. vs. Russell Whitney, individually, John Kane, individually and Whitney Education Group, Inc. et. al., Case No. 07-CA-002190 in the Circuit Court of the Twentieth Judicial Court in and for Lee County, Florida alleging that the Company, including two of our executive officers, and 18 other defendants not associated with the Company, breached certain of their fiduciary duties to the named plaintiffs, all of whom were our alleged students. The allegations in the complaint include claims of constructive and common law fraud and other violations. The plaintiffs seek unspecified monetary damages, unspecified punitive damages, interest, a refund of the purchase price of the lots sold to the plaintiffs, costs, attorney's fees and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

Table of Contents

On August 23, 2007, a complaint was received by our subsidiary, Whitney Education Group, Inc. Plaintiffs Sirli Jehe and Kalev Kruuk brought suit against Russell Whitney, John Kane, Whitney Education Group, Inc. et. al., in the Twelfth Judicial Circuit Court in and for Sarasota County, Florida alleging breach of fiduciary duty, fraudulent misrepresentation, a violation of mortgage broker and lending laws, Florida Land Sales Practices Act and Florida Unfair and Deceptive Trade Practices Act based on an alleged scheme to induce real estate investors to purchase real property at inflated prices. Numerous motions to dismiss are currently pending. The plaintiffs seek a refund of the price of the lots sold to them, monetary damages in excess of \$100,000, unspecified punitive damages, costs, attorney's fees, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On September 21, 2007, a complaint was received by our wholly-owned subsidiary, Whitney Education Group, Inc. The lawsuit is Jeffrey Watson v. Whitney Education Group, Inc. and Russell Whitney in the Twentieth Judicial Circuit Court in and for Lee County, Florida and alleges that Whitney Education Group, Inc. and Russell Whitney breached a student contract, violated the Florida Unfair and Deceptive Trade Practices Act, breached the implied covenant of good faith and fair dealing, and conspired to commit fraud by failing to recommend fair and objective vendors in connection with the development and purchase of real estate in an investment program purchased by Plaintiff. Motions to Dismiss Plaintiff's complaint are currently pending. The plaintiff seeks unspecified compensatory damages, unspecified punitive damages, a declaratory judgment determining the rights of the parties, attorney's fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On November 7, 2007, two complaints were received by our wholly-owned subsidiary, Whitney Education Group, Inc. The case is Huron River Area Credit Union v. James M. Easterly. In both lawsuits, James M. Easterly filed third party complaints against Russell Whitney, Whitney Information Network, Inc., John Kane, and other third party co-defendants alleging breach of fiduciary duty, constructive fraud, violation of Florida Land Sales Practices Act, violation of Florida's Deceptive and Unfair Trade Practices Act, civil conspiracy to defraud, and Florida RICO conspiracy through an alleged scheme to entice persons to invest in real estate at inflated prices through real estate education courses offered by the Company. In each third party complaint, Easterly alleges losses in excess of \$100,000 as a result of the purchase of two separate properties from Gulfstream Development Group, LLC. Multiple motions to dismiss are pending and await a decision by the court. Easterly seeks unspecified damages, including a refund of the purchase price of lots sold to him, unspecified interest, taxes paid on the lots, costs, attorney's fees, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On January 9, 2008, the Company entered into an Assurance of Voluntary Compliance (AVC) with the Office of the Attorney General of the State of Florida to close a previously disclosed investigation. The AVC was entered into without an admission or judicial determination that the Company violated any laws, rules or regulations. The Company agreed in the AVC to make refunds in the additional amount of approximately \$450,000 to certain consumers, and also set aside, in an escrow account, \$125,000 for refunds for potential claims arising from sales prior to the execution of the AVC. The Company also agreed to make a payment to the Attorney General in the amount of \$150,000 in satisfaction of the Attorney General's investigative and attorney's fees. The Company also made a contribution in the amount of \$150,000 to the Seniors vs. Crime, Inc. project for educational, investigative and crime prevention programs for the benefit of senior citizens and the community as a whole, in connection with the delivery of the AVC.

On January 23, 2008, the Company filed a foreclosure lawsuit against Tranquility Bay of Southwest Florida LLC, Gulf Gateway Enterprises, LLC, Anthony Scott Dunlap, and Dunlap Enterprises, LLC parties to the mortgage and/or security agreement. Tranquility Bay of Southwest Florida, LLC (Tranquility Bay), defaulted on its mortgage payment of \$4.5 million to Whitney Information Network, Inc., that was due on or before December 31, 2007. The lawsuit seeks a judgment of foreclosure on the mortgage instrument. In the alternative, the lawsuit seeks a judgment of foreclosure on a security agreement which would permit the Company to take control of Tranquility Bay and the resulting real property. Further in the alternative, we seek damages from Anthony Scott Dunlap due to a personal guarantee that Mr. Dunlap signed in relation to the mortgage. The lawsuit is currently pending in the Circuit Court in Lee County, Florida, and is in the discovery phase.

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The Company and one of its directors, Russell A. Whitney (Whitney) and WIN CR II Trust (Trust), a Company affiliate, are engaged in a series of legal actions with M. Barry Strudwick (Strudwick) and Susan Weiss (Weiss), and others relating to Monterey del Mar, S. A. (MDMSA), a Panamanian Company.

- In December 2006, the Company filed suit in the United States District Court for the Eastern District of New York against Weiss for defamation. Weiss has filed a counterclaim seeking \$2.5 million in compensatory damages and

Table of Contents

punitive damages in an amount exceeding \$7.5 million. We believe that Weiss' claims lack merit and will vigorously defend this lawsuit.

- On January 26, 2007, the Company and WIN CR II Trust (the "Trust"), an affiliate of the Company, filed an action against Strudwick, Weiss, and others which is now pending in the United States District Court for the Middle District of Florida. The Company seeks declaratory and monetary relief for conspiracy, conversion, tortious interference, malpractice, and other causes of action.
- On January 31, 2008, Strudwick and Weiss filed suit against Whitney, and the Company, among others, in Maryland state court for defamation, injurious falsehood, abuse of process, tortious interference with prospective business advantage, and invasion of privacy. The case has been removed to the United States District Court for the District of Maryland. The claims relate to acts and statements allegedly made by agents of the Company surrounding the alleged attempt by Strudwick to develop and sell real property in Costa Rica and Weiss' attempt to seize control of MDMSA. Plaintiffs seek compensatory damages of \$18 million and punitive damages of \$50 million. The Company and Whitney have answered the complaint. We believe that the plaintiffs' claims lack merit and will vigorously defend this lawsuit.

On July 8, 2008, the Company received a letter from the South Dakota Department of Revenue and Regulation requesting certain information and documents with respect to the issue of whether or not the Company was selling business opportunities as defined by South Dakota statute. The Company has provided information and documentation in response to this request.

On July 9, 2008, the Company entered into an Assurance of Voluntary Compliance (the "North Dakota AVC") with the Office of the Attorney General of the State of North Dakota. The North Dakota AVC was entered into without an admission or judicial determination that the Company violated any laws, rules or regulations. Pursuant to the North Dakota AVC, the Company agreed to comply with North Dakota's Transient Merchant statute, including the posting of a \$50,000 bond, when required to do so by North Dakota law. The Company also agreed to offer refunds to North Dakota consumers who entered into contracts while the Company did not have a North Dakota Transient Merchant's license. Finally, the Company agreed to make a payment of \$10,000 to the Office of the Attorney General of North Dakota. No civil penalties were imposed on the Company under the AVC.

The Company is involved from time to time in routine legal matters incidental to our business. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on our consolidated financial position or results of operations.

Note 14 - Subsequent Events

On October 17, 2008, John F. Kane resigned as the Company's President and Chief Operating Officer. He also resigned from his position as a member of the Board of Directors.

Table of Contents

During October 2008, Mr. Whitney, our former Chairman and Chief Executive Officer, asserted a claim against the Company for \$1.1 million in funds allegedly owed to him principally for a 2007 annual bonus, speaking fees, and other reimbursements. The Company believes this claim is without merit.

On October 21, 2008, Mr. Simon, our former Co-President and Chief Operating Officer, filed a lawsuit against the Company in the Circuit Court for the 20th Judicial District for Lee County, Florida for \$1.4 million for funds allegedly owed to him due to the improper termination of his employment agreement. The Company believes this lawsuit is without merit.

On November 3, 2008, the Office of Attorney General of the State of Florida issued an investigative subpoena pursuant to the Florida Deceptive and Unfair Trade Practices Act. The subpoena seeks information about consumer-investors that attended Whitney Information Network, Inc.'s Millionaire University (MU) and invested in Florida homes built by Gulfstream Development Group LLC, Gulfstream Realty and Gulfstream Realty and Development, LLC since August 1, 2004. Further the subpoena seeks documents and records comprising advertising, marketing, investments and sales materials presented to those MU students along with documents and records describing the Company's earnings derived from Gulfstream Development Group, LLC and Gulfstream Realty and Development, LLC. On January 15, 2009 the company produced documents responsive to the subpoena.

On November 17, 2008, the Middle District Court issued an order granting the Company's motion to dismiss the Durham Class Action Lawsuit without prejudice. On December 8, 2008, the Company was served a consolidated amended class action complaint filed by Arnold Friedman individually and on behalf of all others similarly situated in the Middle District Court alleging violations of the federal securities laws. Friedman seeks damages, injunctive relief, attorney costs and fees and any other relief deemed appropriate by the Middle District Court. By an order dated November 17, 2008, the Court granted the defendants' motion to dismiss without prejudice the initial complaint styled Durham v. Whitney Information Network, Inc. et al. filed by the plaintiffs on December 28, 2006. See Note 13 *Commitments and Contingencies*.

On November 19, 2008, the Middle District Court issued an order granting the Company's motion to dismiss the Ghosio Derivative Complaint without prejudice. On December 4, 2008, Robert Ghosio Jr. on behalf of nominal defendant Whitney Information Network, Inc. filed an amended derivative lawsuit in the Middle District Court alleging the breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. Ghosio seeks damages, injunctive relief, attorney costs and fees and any other relief deemed appropriated by the Middle District Court. See Note 13 *Commitments and Contingencies*.

On November 21, 2008, we notified Cape Promenade Trust that we will be terminating the lease at 1625 East Cape Coral Parkway effective December 31, 2008.

On January 20, 2009, the Company sold the corporate aircraft, a Cessna Citation VII to an unrelated third party for \$3.8 million in cash less commissions of \$0.1 million.

Table of Contents

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

Forward Looking Statements

This Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2008 (*Quarterly Report*) includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including those risks described in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (*SEC*) on January 15, 2009 and the risks discussed in other SEC filings. These risks and uncertainties, as well as other risks and uncertainties, could cause our actual results to differ significantly from management's expectations. The forward-looking statements included in this report reflect the beliefs of our management on the date of this Quarterly Report. We undertake no obligation to update publicly any forward-looking statements for any reason.

Executive Overview

Our business

In the United States, the United Kingdom and Canada, we offer post-secondary non-accredited introductory workshops, primary and advanced courses and training in two primary fields of study:

- Real estate education
- Financial markets education

Through our branded and private label curricula, our content is expansive and our significant investment in these brands provides for the opportunity to build long-term value. Our brand portfolio includes:

- For real estate investment workshops and introductory courses:

- *Russ Whitney®'s Building Wealth*

- *Teach Me Foreclosure and Real Estate Investing*

- *Rich Dad® Education (RDE)*

- Private label brands:

- *M2 Advantage®*

- *Real Estate Success System*

- For financial markets investment workshops and introductory courses:

- *Teach Me to Trade®*

- Private label brand:

- *Stock Success System®*

- Our umbrella brand for advanced courses:

- *Wealth Intelligence Academy®*

Table of Contents

The advanced courses of study under the *Wealth Intelligence Academy*® brand include:

- *Millionaire U* real estate advanced training
- *Rich U*
- Wholesale buying
- Foreclosure training
- Lease option
- Property management and cash flow
- Keys to creative real estate financing
- Asset protection and tax relief
- Mentor field training
- Discount notes and mortgages
- Manufactured mobile homes and recreational vehicle parks
- Rehabbing for profit
- Tax liens and deeds
- Commercial real estate investing
- Domestic and international land investment and development
- *Master Trader* practical trading techniques
- *The Trading P.I.T.* hedging techniques
- *The Advanced P.I.T.* spread strategies
- *H.I.T.S.* single stock futures and ETFs
- *The Trading Room* practical trading structures and routines
- *Advanced Covered Calls* strategies to use options to improve cash flow and hedge risk
- *Advanced Technical Analysis* strategies to manage trades in different market conditions

All of the trademarks mentioned herein belong to us, except *Rich Dad*® *Education* and *CashFlow*® which we license from Rich Global, LLC.

We offer our students several ways to access our educational content:

- Live instruction in classroom settings
- Onsite mentoring
- Telephonic coaching
- Electronic access

- Online Live
- On Demand Recorded
- Conferences
- Teleconferences

Table of Contents**Results of Operations**

Our operating results are expressed as a percentage of revenue in the table below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating costs and expenses: | | | | |
| Direct course expenses | 54.4 | 47.9 | 53.8 | 50.7 |
| Advertising and sales expenses | 31.8 | 25.8 | 31.7 | 30.6 |
| General and administrative expenses | 25.2 | 17.3 | 23.5 | 18.2 |
| Impairment of assets | 7.8 | | 2.3 | |
| Special items (a) | 0.6 | 3.9 | 0.3 | 5.6 |
| Total operating costs and expenses | 119.8 | 94.9 | 111.6 | 105.1 |
| (Loss) income from operations | (19.8) | 5.1 | (11.6) | (5.1) |
| Gross profit | 13.8 | 26.3 | 14.5 | 18.7 |
| Other income (expense): | | | | |
| Other (expense) income, net | | | 0.2 | 0.1 |
| Interest income | 0.8 | 0.9 | 0.9 | 0.9 |
| Interest expense | (0.2) | (0.1) | (0.1) | (0.1) |
| Equity loss from related parties | (0.6) | (0.1) | (0.5) | (0.3) |
| Gain on disposition of assets | | | 0.9 | |
| Total other income (expense) | | 0.7 | 1.4 | 0.6 |
| (Loss) income before income taxes | (19.8) | 5.8 | (10.2) | (4.5) |
| Income tax provision | (0.6) | (0.1) | (0.6) | (0.1) |
| Net loss | (20.4)% | 5.7% | (10.8)% | (4.6)% |

(a) Special items expense includes direct costs associated with the SEC and the DOJ investigations.

Non-GAAP Financial Measures**Adjusted EBITDA**

As used in our operating data, EBITDA is defined as net (loss) income excluding the impact of special items (including the costs associated with the SEC and the DOJ investigations, class action and derivative lawsuits); interest income; interest expense; other income (expense), net; income tax (provision) benefit; stock option compensation expense; depreciation and amortization expense; and equity income (loss) from related

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parties. We define Adjusted EBITDA as EBITDA adjusted for the net change in deferred revenue less the net change in deferred course expenses. Adjusted EBITDA is not a financial performance measurement according to accounting principles generally accepted in the United States (GAAP).

We use Adjusted EBITDA as a key measure in evaluating our operations and decision-making. We feel it is a useful measure in determining our performance since it takes into account the change in deferred revenue and deferred course expenses in combination with our operating expenses. We reference Adjusted EBITDA frequently, since it provides supplemental information that facilitates internal comparisons to historical operating performance of prior periods and external comparisons to competitors' historical operating performance in our industry. We plan and forecast our business using Adjusted EBITDA, with comparisons of actual to planned and forecasted Adjusted EBITDA and we provide incentives to management based on Adjusted EBITDA goals. In addition, we provide Adjusted EBITDA because we believe investors and security analysts find it to be a useful measure for evaluating our performance.

Table of Contents

The vast majority of our costs to acquire students have been expended before a student attends any basic or advanced training. Those costs include media, travel, facilities and instructor fees for the introductory workshops and are expensed when incurred. However, revenue recognition of the tuition paid by students to enroll in any basic or advanced training courses at registration is deferred until (i) the course is attended by the student, (ii) the student has received the course content in an electronic format, (iii) the contract expires, or (iv) revenue is recognized through course breakage. It is only after one of those four occurrences that revenue is considered earned. Thus, reporting in accordance with GAAP creates significant timing differences with respect to revenue and expenses, both in our condensed consolidated statements of cash flows and condensed consolidated statements of operations. As a result of these factors, our operating cash flows can vary significantly from our results of operations for the same period. For this reason, we believe Adjusted EBITDA is an important non-GAAP financial measure.

Adjusted EBITDA has material limitations and should not be considered as an alternative to net (loss) income, cash flows provided by operations, investing or financing activities or other financial statement data presented in the condensed consolidated financial statements as indicators of financial performance or liquidity. Items excluded from Adjusted EBITDA are significant components in understanding our financial performance. Because Adjusted EBITDA is not a financial measurement calculated in accordance with GAAP and is subject to varying calculations, Adjusted EBITDA as presented may not be comparable to other similar titled measures of performance used by other companies.

The table below is a reconciliation of the Company's net loss to EBITDA and Adjusted EBITDA for the periods set forth below (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------------------------------------------------|----------------------------------|-----------|---------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net (loss) income | \$ (7,103) | \$ 3,222 | \$ (12,928) | \$ (7,274) |
| Impairment of assets | 2,717 | | 2,717 | |
| Special items | 208 | 2,202 | 402 | 8,991 |
| Interest income | (259) | (514) | (1,028) | (1,399) |
| Interest expense | 55 | 52 | 163 | 224 |
| Other expense (income), net | 4 | 8 | (279) | (193) |
| Income tax provision | 213 | 48 | 661 | 97 |
| Stock option expense | 166 | 182 | 498 | 717 |
| Depreciation and amortization expense | 250 | 428 | 1,061 | 1,225 |
| Equity loss from related parties | 200 | 92 | 600 | 423 |
| Loss (gain) on sale of assets | | 2 | (1,080) | (35) |
| EBITDA | (3,549) | 5,722 | (9,213) | 2,776 |
| Net change in deferred revenue | 2,646 | 7,812 | 17,896 | 8,175 |
| Net change in deferred course costs | (1,246) | (2,425) | (6,548) | (3,801) |
| Adjusted EBITDA | \$ (2,149) | \$ 11,109 | \$ 2,135 | \$ 7,150 |
| Adjusted EBITDA as a percentage of cash received from course and product sales | (5.8)% | 17.3% | 1.5% | 4.3% |

Table of Contents

Cash Sales

The following table provides a reconciliation of the Company's reported revenue to cash sales by segment. Cash sales are a metric used by management in assessing the Company's segments performance. We define cash sales as revenue plus the change in deferred revenue. Cash sales are not a financial performance measurement in accordance with GAAP; therefore we are presenting a table to reconcile the cash sales to revenue reported in accordance with GAAP (table presented in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------------------------------------------|----------------------------------|-----------|---------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash received from course and product sales: | | | | |
| Proprietary Brands | | | | |
| Real estate education | \$ 6,642 | \$ 19,547 | \$ 22,942 | \$ 64,779 |
| Financial markets education | 1,280 | 8,677 | 9,144 | 35,353 |
| Rich Dad Education | | | | |
| Real estate education | 24,847 | 36,170 | 97,569 | 67,823 |
| Financial markets education | 4,590 | | 8,163 | |
| Total consolidated cash received from course and product sales | 37,359 | 64,394 | 137,818 | 167,955 |
| Change in deferred revenue: | | | | |
| (increase)/decrease | | | | |
| Proprietary Brands | | | | |
| Real estate education | 3,268 | 4,445 | 17,765 | 11,858 |
| Financial markets education | 4,615 | 8,154 | 10,305 | 23,281 |
| Rich Dad Education | | | | |
| Real estate education | (7,703) | (20,411) | (40,182) | (43,314) |
| Financial markets education | (2,826) | | (5,784) | |
| Total consolidated change in deferred revenue | (2,646) | (7,812) | (17,896) | (8,175) |
| Revenue: | | | | |
| Proprietary Brands | | | | |
| Real estate education | 9,910 | 23,992 | 40,707 | 76,637 |
| Financial markets education | 5,895 | 16,831 | 19,449 | 58,634 |
| Rich Dad Education | | | | |
| Real estate education | 17,144 | 15,759 | 57,387 | 24,509 |
| Financial markets education | 1,764 | | 2,379 | |
| Total consolidated revenue for financial reporting purposes | \$ 34,713 | \$ 56,582 | \$ 119,922 | \$ 159,780 |

Business segments

We operate in two business segments: Proprietary Brands and RDE. The proportion of revenue from each segment is as follows:

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| As a percentage of total revenue | Three months ended September 30, | | Nine months ended September 30, | |
|----------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Proprietary Brands | | | | |
| Real estate education | 28.5% | 42.4% | 33.9% | 48.0% |
| Financial markets education | 17.0 | 29.7 | 16.2 | 36.7 |
| Rich Dad Education | | | | |
| Real estate education | 49.4 | 27.9 | 47.9 | 15.3 |
| Financial markets education | 5.1 | | 2.0 | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Table of Contents

Proprietary Brands

Real estate education

We began providing basic and advanced real estate investment training in 1992 with our historical flagship brand *Russ Whitney® s Building Wealth*. We have added to our brand portfolio by offering our students additional real estate education offerings.

Cash sales for the three months ended September 30, 2008 (third quarter of 2008) and 2007 (third quarter of 2007) were \$6.6 million and \$19.5 million and revenues for these quarters were \$9.9 million and \$24.0 million, respectively. The decrease of \$12.9 million in cash sales and \$14.1 million in revenue for the third quarter of 2008 as compared to the third quarter of 2007 was primarily attributable to the decline in sales of our *Russ Whitney® s Building Wealth* and the suspension of *Cash Flow Generator®*, partially offset by the launch of *Teach Me Foreclosure & Real Estate Investing*. In addition, there was decreased interest among prospective students in our real state course offerings which may be due to the downturn in the housing market. These factors resulted in a higher cost to acquire students, a lower percentage of students who purchased at least one paid course, and a lower average amount of sales of advanced courses per student. We suspended the sales of our *Cash Flow Generator ®* product until we can determine and test a repositioned student offering.

Cash sales for the nine months ended September 30, 2008 and 2007 were \$22.9 million and \$64.8, million and revenues for these periods were \$40.7 million and \$76.6 million, respectively. The decrease of \$41.9 million in cash sales for the nine months ended September 30, 2008 as compared to the same period of 2007 was primarily attributable to the factors described above for the three months ended September 30, 2008. The decrease of \$35.9 million in revenue was primarily attributable to the decrease in demand for our Proprietary Brand real estate courses and, to a lesser extent, the decrease in course breakage related to the real estate education brand. The Company has shifted its marketing focus and product mix from the Proprietary Brands to the RDE Brands.

Financial markets education

EduTrades, the Proprietary Brands financial markets education division, began operations in July 2002, with the acquisition of *Teach Me to Trade®*, and began sales in the fourth quarter of 2002. We provide education to avocational investors in financial instruments, such as stocks and stock options. Our training teaches trading fundamentals as well as advanced technical analysis to potential investors.

Cash sales for the three months ended September 30, 2008 were \$1.3 million as compared to \$8.7 million for the three months ended September 30, 2007 and revenues for these quarters were \$5.9 million and \$16.8 million, respectively. The decrease of \$7.4 million in cash sales and the decrease of \$10.9 million in revenue in 2008 as compared to 2007 are due to the suspension of the *Teach Me to Trade®* course offering during the third quarter of 2008. In addition, revenue was negatively affected by the decrease in revenue recognized from course breakage of \$3.7 million quarter-over-quarter.

Cash sales for the nine months ended September 30, 2008 and 2007 were \$9.1 million and \$35.3 million, respectively, and revenues for these periods were \$19.5 million and \$58.6 million, respectively. The decrease of \$26.2 million in cash sales and \$39.1 million in revenue in 2008 as compared to 2007 was primarily attributable to the factors described above for the three months ended September 30, 2008. In addition, revenue was negatively affected by the decrease in revenue recognized from course breakage of \$9.5 million for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. During the nine months ended September 30, 2008, the Company shifted its marketing focus and sales mix from the Proprietary Brands to the RDE Brands.

Table of Contents

Rich Dad Education

In 2006, we launched RDE, in alliance with Rich Global, LLC, which is based on the investing principles and philosophy of Robert Kiyosaki, as detailed in his best-selling book, *Rich Dad Poor Dad*. Our RDE Brand provides investor education in the United States, United Kingdom and Canada.

During the three and nine months ended September 30, 2008, RDE segment revenue was approximately 54.5% and 49.8% of total revenue, respectively, as compared to 27.9% and 15.3% for the three and nine months ended September 30, 2007, respectively.

Real estate education

Cash sales for the three months ended September 30, 2008 were \$24.8 million as compared to \$36.2 million for the three months ended September 30, 2007, a decrease \$11.4 million or 31.5%. Revenues for the third quarter of 2008 were \$17.1 million as compared to \$15.8 million in third quarter of 2007, an increase of \$1.3 million or 8.2%. The decrease is attributable to lower registration rates for our introductory events and advanced courses due to the economic downturn in the third quarter of 2008.

Cash sales for the nine months ended September 30, 2008 and 2007 were \$97.6 million and \$67.8 million, respectively, and revenues for the nine month periods were \$57.4 million and \$24.5 million, respectively. The increase in cash sales and revenues were due to strong sales in the first six months of 2008.

Financial markets education

Cash sales and revenues for the third quarter of 2008 were \$4.6 million and \$1.8 million, respectively, and cash sales and revenues for the nine months ended September 30, 2008 were \$8.2 million and \$2.4 million, respectively. There was no comparable activity in 2007 as the RDE Brand financial markets education courses began in the second quarter of 2008.

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

Revenue

Revenue for the third quarter of 2008 was \$34.7 million, a decrease of \$21.9 million or 38.7%, from \$56.6 million for the three months ended September 30, 2007 (in thousands):

| | Three months ended September 30, | | % Change |
|---------------------------------------------------|-------------------------------------|-----------|-------------|
| | 2008 | 2007 | |
| Basic training sessions | \$ 3,938 | \$ 7,479 | (47.3)% |
| Advanced courses | 29,301 | 47,720 | (38.6) |
| Product sales | 3,128 | 6,315 | (50.5) |
| Other | 992 | 2,880 | (65.6) |
| Total cash received from course and product sales | \$ 37,359 | \$ 64,394 | (42.0) |
| Net change in deferred revenue | (2,646) | (7,812) | (66.1) |
| Revenue for financial reporting purposes | \$ 34,713 | \$ 56,582 | (38.7)% |

The decrease in revenue in the third quarter of 2008 resulted from the decline in sales of our basic training sessions and advanced courses which were attributable to the decline in the Proprietary Brand real estate and financial markets segments and, to a lesser extent, the decrease in the recognition of course breakage in the third quarter of 2008. Revenue recognized from course breakage in the third quarter of 2008 was \$4.6 million, as compared to \$10.9 million in the third quarter of 2007, a decrease of \$6.3 million or 57.8%.

Table of Contents

The following table sets forth the number of educational events for the comparative periods:

| | Three months ended September 30, | | |
|-----------------------------------------|----------------------------------|--------|---------|
| | 2008 | 2007 | Change |
| <i>Number of courses</i> | | | |
| Free introductory workshops | 1,228 | 965 | 27.3% |
| Basic training sessions | 230 | 265 | (13.2) |
| Advanced live courses | 179 | 192 | (6.8) |
| Advanced electronic courses | 35 | 33 | 6.1 |
| | 1,672 | 1,455 | 14.9% |
| <i>Number of attending students</i> | | | |
| Basic training sessions | 6,715 | 12,626 | (46.8)% |
| Advanced live courses | 2,828 | 3,506 | (19.3) |
| Advanced electronic courses | 924 | 699 | 32.2 |
| | 10,467 | 16,831 | (37.8)% |
| <i>Average students per paid course</i> | | | |
| Basic training sessions | 29.2 | 47.6 | (38.7)% |
| Advanced live courses | 15.8 | 18.3 | (13.7)% |
| Average | 23.3 | 35.6 | (34.6)% |

Approximately 21.2% of the students attending the free introductory workshops purchased one or more of our basic training sessions during the third quarter of 2008, a decline of 2.1 percentage points from 23.3% in the third quarter of 2007. For basic training sessions and advanced courses, the student pays the tuition at the time of registering for the course or program. See *Business segments* above for further discussion of cash sales and reported revenue.

The following table sets forth the media source by which prospective students accessed our free introductory workshops:

| | Three months ended September 30, | |
|--------------------|----------------------------------|--------|
| | 2008 | 2007 |
| Television | 16.4% | 33.3% |
| Direct mail | 8.6 | 13.9 |
| Website | 27.1 | 18.9 |
| Newspaper | 4.0 | 6.2 |
| Online advertising | 33.7 | 14.6 |
| Radio and other | 10.2 | 13.1 |
| Total | 100.0% | 100.0% |

Prospective students registering for our free introductory workshops via our branded websites increased by 8.2 percentage points for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007. This category was a source of 27.1% of the prospective students in the third quarter of 2008 as compared to 18.9% for the three months ended September 30, 2007.

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In prior years, our primary method for attracting prospective students to our Proprietary Brand offerings was through the use of television advertising. As we have continued to shift our focus to the RDE Brands during 2008, we redirected our advertising efforts to online direct response-based campaigns which were a source of 33.7% of our prospective students during the three months ended September 30, 2008 as compared with 14.6% for the three months ended September 30, 2007.

Table of Contents**Operating Expenses***Direct course expenses*

Direct course expenses relate to our free introductory workshops, basic training sessions and advanced courses, and consist of instructor fees, facility costs, salaries associated with our field representatives and related travel expenses.

For the third quarter ended September 30, 2008, direct course expenses were \$18.9 million, a decrease of \$8.2 million or 30.3% as compared to \$27.1 million for the third quarter ended September 30, 2007. As a percentage of revenue, direct course expenses increased by 6.5 percentage points from 47.9% for the third quarter ended September 30, 2007, to 54.4% for the third quarter ended September 30, 2008. The decrease in direct course expense is primarily due to decreases in event costs of \$4.2 million; commissions, fees and payroll of \$2.3 million, product costs of \$0.9 million and administrative fees of \$0.8 million.

The following table sets forth the changes in the significant components of direct course expenses (table in millions):

| | Three months ended September 30, | | Change | | % of Revenues Three months ended September 30, | |
|------------------------------|-------------------------------------|---------|---------------|--|------------------------------------------------------|-------|
| | 2008 | 2007 | 2008 vs. 2007 | | 2008 | 2007 |
| Product costs | \$ 6.7 | \$ 7.6 | (11.8)% | | 19.3% | 13.4% |
| Course events | 7.2 | 11.4 | (36.8) | | 20.7 | 20.2 |
| Commission, fees and payroll | 4.2 | 6.5 | (35.4) | | 12.1 | 11.5 |
| Administrative fees | 0.8 | 1.6 | (50.0) | | 2.3 | 2.8 |
| Total | \$ 18.9 | \$ 27.1 | (30.3)% | | 54.4% | 47.9% |

Advertising and sales expense

Advertising and sales expense as an expense category consists of two components:

- Purchased media to generate registrations to our free introductory workshops, and
- Costs associated with supporting student recruitment.

Our cost structure is particularly sensitive to increases in advertising costs and its subsequent efficiency, production costs and travel related expenses. However, a significant portion of our cost structure includes variable costs, such as instructor, field representative and outreach related costs which are primarily a function of sales.

We obtain the majority of our students through free introductory workshops. These introductory workshops are offered in various metropolitan areas in the United States, the United Kingdom and Canada. Prior to the actual workshop, we spend a significant amount of money in the form of advertising through various media channels.

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Table of Contents

The following table represents the expense categories that comprise advertising and sales expense for the third quarter ended September 30, 2008 and 2007, and the expense categories as a percentage of total advertising and sales expense (in thousands):

| Expense category | Three months ended September 30, | | | |
|------------------------------------------|----------------------------------|--------|--------|------------------|
| | 2008 | | 2007 | |
| Television | \$ | 2,034 | 18.4% | \$ 6,246 42.8% |
| Direct mail | | 1,103 | 10.0 | 1,235 8.5 |
| Newspaper | | 836 | 7.6 | 927 6.4 |
| Internet | | 2,482 | 22.5 | 1,162 8.0 |
| Radio and other | | 1,782 | 16.2 | 691 4.7 |
| Media spending | | 8,237 | 74.7 | 10,261 70.4 |
| Telemarketing/outreach sales commissions | | 655 | 5.9 | 2,231 15.3 |
| RDE licensing fees | | 2,135 | 19.4 | 2,088 14.3 |
| Total advertising and sales expenses | \$ | 11,027 | 100.0% | \$ 14,580 100.0% |

Our media spending decreased by 19.7% for the three months ended September 30, 2008, compared to the same period in 2007. We redirected some of our media spending to internet and radio advertising during the third quarter of 2008 in order to promote our Rich Dad Brand.

Media spending by category as a percentage of total media spending is presented in the following table:

| | For the three months ended September 30, | |
|-------------------|------------------------------------------|--------|
| | 2008 | 2007 |
| Television | 24.7% | 60.9% |
| Direct mail | 13.4 | 12.0 |
| Newspaper | 10.2 | 9.0 |
| Radio | 21.6 | 6.7 |
| Website and other | 30.1 | 11.4 |
| Media spending | 100.0% | 100.0% |

Advertising and sales expense for the third quarter of 2008 was \$11.0 million, a decrease of 24.7% or \$3.6 million as compared to \$14.6 million for the third quarter of 2007. Our advertising and sales expense is approximately 31.7% of total revenues for the three months ended September 30, 2008, as compared to 25.8% of total revenues for the three months ended September 30, 2007. This increase as a percentage of revenue is due to the popularity of our RDE Brand, whose sales are deferred for revenue recognition purposes until the course is attended although the expenses for advertising and sales are expensed as incurred. We do not have sufficient historical data to support revenue recognition through course breakage for our RDE Brands.

Gross profit

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Gross profit decreased to \$4.8 million for the three months ended September 30, 2008, as compared to \$14.9 million for the three months ended September 30, 2007, a decrease of \$10.1 million, or 67.8%. This decrease is primarily attributable to the reduction of revenue of \$21.9 million partially offset by the decrease in direct course expenses of \$8.2 million and advertising and sales expenses of \$3.6 million, for the third quarter of 2008 as compared to the third quarter of 2007.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, professional fees, facilities expense and travel for the corporate staff as well as professional fees, audit and tax preparation expense and legal costs.

Table of Contents

The following table sets forth the changes in the significant components of general and administrative expenses (table in millions):

| | | Three months ended September 30, | | % Change 2008 vs. 2007 | % of Revenues Three months ended September 30, | |
|----------------------------------|----|-------------------------------------|--------|---------------------------|------------------------------------------------------|-------|
| | | 2008 | 2007 | | 2008 | 2007 |
| Office and facility costs | \$ | 1.5 | \$ 1.2 | 25.0% | 4.3% | 2.1% |
| Salaries, wages and benefits | | 5.2 | 6.5 | (20.0) | 15.0 | 11.5 |
| Professional fees | | 1.3 | 1.1 | 18.2 | 3.7 | 1.9 |
| Other | | 0.8 | 0.9 | (11.1) | 2.3 | 1.6 |
| Customer relationship management | | | 0.1 | (100.0)% | | 0.2 |
| Total | \$ | 8.8 | \$ 9.8 | (10.2)% | 25.3% | 17.3% |

General and administrative expenses were \$8.8 million for the quarter ended September 30, 2008, a decrease of \$1.0 million, or 10.2%, as compared to \$9.8 million for the quarter ended September 30, 2007. General and administrative expenses increased from 17.3% of revenue in the third quarter of 2007 to 25.3% of revenue in the third quarter of 2008. The decrease in general and administrative expenses was primarily due to the decrease in salaries, wages and benefits of \$1.3 million due to the reduction in headcount and reduced bonus expense and \$0.1 million decrease in CRM expenses partially offset by an increase in accounting fees of \$0.2 million as a result of the restatement of our 2006 Form 10-K and an increase in insurance costs of \$0.2 million.

Impairment of assets

During the third quarter of 2008, we evaluated our long-lived assets for impairment. We determined that the value of the property related to our Tranquility Bay note receivable was impaired due to the decline in the real estate market in Southwest Florida. Accordingly, we recognized an impairment of \$0.5 million on this asset. In addition, we evaluated the fair market value of our corporate aircraft based on the deteriorating economic environment and reduced demand for private aircraft.

Special items

Special items incurred for the three months ended September 30, 2008 were approximately \$0.2 million which included expenses for professional fees and other costs associated with the SEC and the DOJ investigations. For the three months ended September 30, 2007, \$2.2 million in professional fees and other costs were incurred in relation to the SEC and DOJ investigations which began on November 14, 2006, and December 11, 2006, respectively.

Stock-based compensation

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During the third quarter of each 2008 and 2007, we recorded approximately \$0.2 million of stock-based compensation. We consider all of our stock-based compensation as a component of general and administrative expenses.

Interest income and expense

Interest income for the three months ended September 30, 2008 was \$0.3 million as compared to \$0.5 million for the third quarter of 2007. Interest expense for each of the three months ended September 30, 2008 and 2007, was \$0.1 million.

Equity loss from related parties

Equity loss from related parties was \$0.2 million for the three months ended September 30, 2008 and \$0.1 million for the third quarter of 2007. The equity loss relates to our investment in a hotel property located in Costa Rica.

Income tax provision

In the third quarter of 2008, we recorded approximately \$213,000 in income tax provision as compared with \$48,000 for the third quarter of 2007. The increase is due to alternative minimum tax expense incurred as a result of limitations on the amount of net operating loss carryforward that can be used to offset taxable income. In addition, we will pay state income tax in jurisdictions where we do not have sufficient operating loss carryforwards to offset taxable income.

Table of Contents*Net (loss) income*

Net loss for the quarter ended September 30, 2008 was \$7.1 million as compared to net income of \$3.2 million for the quarter ended September 30, 2007. The change in our net (loss) income is included in the discussion above of our operations.

Nine Months Ended 2008 compared to Nine Months Ended 2007**Revenue**

Revenue for the nine months ended September 30, 2008, was \$119.9 million, a decrease of \$39.9 million or 25.0%, from \$159.8 million for the nine months ended September 30, 2007 (in thousands):

| | Nine months ended September 30, | | % |
|-----------------------------------------------------|----------------------------------------|-------------|---------------|
| | 2008 | 2007 | Change |
| <i>Cash received from course and product sales:</i> | | | |
| Basic training sessions | \$ 15,798 | \$ 22,685 | (30.4)% |
| Advanced courses | 106,010 | 125,423 | (15.5) |
| Product sales | 11,397 | 13,755 | (17.1) |
| Other | 4,613 | 6,092 | (24.3) |
| Total cash received from course and product sales | 137,818 | 167,955 | (17.9) |
| Net change in deferred revenue | (17,896) | (8,175) | 118.9 |
| Revenue for financial reporting purposes | \$ 119,922 | \$ 159,780 | (25.0)% |

The decrease in revenue for the nine months ended September 30, 2008, resulted from the decline in sales of our basic training sessions and advanced courses which were attributable to the decline in the Proprietary Brand real estate and financial markets segments and to lesser extent, some decline in the RDE Brands. In addition, revenue recognition resulting from course breakage was \$17.8 million for the nine months ended September 30, 2008, as compared to \$31.1 million for the same period in 2007, a decrease of \$13.3 million or 42.8%.

The following table sets forth the number of educational events for the comparative periods:

| | Nine months ended September 30, | | Change |
|-----------------------------|----------------------------------------|-------------|---------------|
| | 2008 | 2007 | |
| <i>Number of courses</i> | | | |
| Free introductory workshops | 4,113 | 4,000 | 2.8% |
| Basic training sessions | 791 | 753 | 5.0 |
| Advanced live courses | 549 | 515 | 6.6 |
| Advanced electronic courses | 108 | 97 | 11.3 |
| | 5,561 | 5,365 | 3.7% |

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| | | | |
|-----------------------------------------|--------|--------|---------|
| <i>Number of attending students</i> | | | |
| Basic training sessions | 25,187 | 37,226 | (32.3)% |
| Advanced live courses | 9,596 | 8,646 | 11.0 |
| Advanced electronic courses | 2,881 | 1,910 | 50.8 |
| | 37,664 | 47,782 | (21.2)% |
| <i>Average students per paid course</i> | | | |
| Basic training sessions | 31.8 | 49.4 | (35.6)% |
| Advanced live courses | 17.5 | 16.8 | 4.2 |
| Average | 26.0 | 36.2 | (28.2)% |

Approximately 21.2% of the students attending the free introductory workshops purchased one or more of our basic training sessions during the nine months ended September 30 2008, a decline from 24.3% in the nine months ended September 30, 2007. For basic training sessions and advanced courses, the student pays the tuition at the time of registering for the course or program. See *Business segments* above for further discussion of cash sales and reported revenue.

Table of Contents

The following table sets forth the media source by which prospective students accessed our free introductory workshops:

| | Nine months ended September 30, | |
|--------------------|------------------------------------|--------|
| | 2008 | 2007 |
| Television | 22.8% | 43.3% |
| Direct mail | 10.5 | 14.4 |
| Website | 26.7 | 18.2 |
| Newspaper | 4.0 | 5.8 |
| Online advertising | 27.0 | 11.4 |
| Radio and other | 9.0 | 6.9 |
| Total | 100.0% | 100.0% |

Prospective students registering for our free introductory workshops via our branded websites increased by 8.5 percentage points for the nine months ended September 30, 2008 when compared with the nine months ended September 30, 2007. This category was a source of 26.7% of the prospective students in the nine months ended September 30, 2008 as compared to 18.2% for the nine months ended September 30, 2007.

We have been diversifying the media channels with which we attract prospective students as evidenced by the decline of 20.5 percentage points for television for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. We have increased our use of radio advertising from 6.9% for the nine months ended September 30, 2007 to 9.0% for same period of 2008.

In prior years, our primary method for attracting prospective students to our Proprietary Brand offerings was through the use of television advertising. As we have shifted our focus to the RDE Brand, in 2008 we redirected our advertising efforts to online direct response-based campaigns, which increased 15.6 percentage points year-over-year for the period ended September 30, 2008.

Operating Expenses

Direct course expenses

Direct course expenses relate to our free introductory workshops, basic training sessions and advanced courses, and consist of instructor fees, facility costs, salaries associated with our field representatives and related travel expenses.

For the nine months ended September 30, 2008, direct course expenses were \$64.5 million, a decrease of \$16.5 million or 20.4% as compared to \$81.0 million for the nine months ended September 30, 2007. As a percentage of revenue, direct course expenses increased by 3.1 percentage points from 50.7% for the nine months ended September 30, 2007, to 53.8% for the nine months ended September 30, 2008. The decrease in direct course expense is primarily attributable to a decrease in course events of \$6.5 million, product costs of \$5.4 million, commissions, fees and payroll of \$5.0 million, which resulted from the decrease in sales of our Proprietary Brands for the period, partially offset by an increase of

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\$0.4 million in certain fees.

The following table sets forth the changes in the significant components of direct course expenses (table in millions):

| | Nine months ended September 30, | | Change | % of Revenues Nine months ended September 30, | |
|-------------------------------|------------------------------------|---------|---------------|-----------------------------------------------------|-------|
| | 2008 | 2007 | 2008 vs. 2007 | 2008 | 2007 |
| Product costs | \$ 18.9 | \$ 24.3 | (22.2)% | 15.8% | 15.2% |
| Course events | 25.3 | 31.8 | (20.4) | 21.1 | 19.9 |
| Commission, fees and payroll | 16.0 | 21.0 | (23.8) | 13.3 | 13.2 |
| Administrative and other fees | 4.3 | 3.9 | 10.3) | 3.6 | 2.4 |
| Total | \$ 64.5 | \$ 81.0 | (20.4)% | 53.8% | 50.7% |

Table of Contents*Advertising and sales expenses*

Advertising and sales expense as an expense category consists of two components:

- Purchased media to generate registrations to our free introductory workshops, and
- Costs associated with supporting student recruitment.

Our cost structure is particularly sensitive to increases in advertising costs and its subsequent efficiency, production costs and travel related expenses. However, a significant portion of our cost structure includes variable costs, such as instructor, field representative and outreach related costs which are primarily a function of sales.

We obtain the majority of our students through free introductory workshops. These introductory workshops are offered in various metropolitan areas in the United States, the United Kingdom and Canada. Prior to the actual workshop, we spend a significant amount of money in the form of advertising through various media channels.

The following table sets forth the expense categories that are included in advertising and sales expense for the nine months ended September 30, 2008 and 2007, and the expense categories as a percentage of total advertising and sales expense (in thousands):

| Expense category | For the nine months ended September 30, | | | |
|------------------------------------------|-----------------------------------------|--------|--------|------------------|
| | 2008 | | 2007 | |
| Television | \$ | 10,282 | 27.0% | \$ 25,011 51.2% |
| Direct mail | | 3,512 | 9.2 | 5,115 10.5 |
| Newspaper | | 2,125 | 5.6 | 2,624 5.4 |
| Internet | | 6,095 | 16.0 | 4,988 10.2 |
| Radio and other | | 6,185 | 16.3 | 1,184 2.4 |
| Media spending | | 28,199 | 74.1 | 38,922 79.7 |
| Telemarketing/outreach sales commissions | | 2,811 | 7.4 | 6,434 13.2 |
| RDE licensing fees | | 7,038 | 18.5 | 3,469 7.1 |
| Advertising and sales expense | \$ | 38,048 | 100.0% | \$ 48,825 100.0% |

Our media spending decreased by 27.6% for the nine months ended September 30, 2008, over the same period in 2007. We redirected some of our media spending to radio advertising during the nine months ended September 30, 2008 to promote our RDE Brand more effectively.

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Media spending by category as a percentage of total media spending is presented in the following table:

| | Nine months ended September 30, 2008 | 2007 |
|-------------------|-----------------------------------------|--------|
| Television | 36.5% | 64.3% |
| Direct mail | 12.5 | 13.1 |
| Newspaper | 7.5 | 6.8 |
| Radio | 21.6 | 3.0 |
| Website and other | 21.9 | 12.8 |
| Media spending | 100.0% | 100.0% |

Advertising and sales expenses for the nine months ended September 30, 2008, were \$38.0 million, a decrease of 22.1% or \$10.8 million as compared to \$48.8 million for the comparable period of 2007. Advertising and sales expenses for the nine months ended September 30, 2008 was 31.7% of revenue compared to 30.6% of revenue for the same period in 2007. This increase as a percentage of revenue is due to the popularity of our RDE Brand, whose sales are deferred for revenue recognition purposes until the course is attended although the corresponding advertising and sales costs are expensed as incurred. We do not have sufficient historical data to calculate course breakage for revenue recognition purposes for the RDE Brands.

Table of Contents*Gross profit*

Gross profit decreased to \$17.4 million for the nine months ended September 30, 2008, as compared to \$29.9 million for the nine months ended September 30, 2007, a decrease of \$12.5 million, or 41.8%. This decrease is primarily attributable to the decrease in revenue of \$39.9 million offset by the decrease in direct course expenses of \$16.5 million, advertising and sales expenses of \$10.8 million for the nine months ended September 30, 2008, as compared to the nine months ended September 30, 2007.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, professional fees, facilities expense and travel for the corporate staff.

General and administrative expenses were \$28.1 million for the nine months ended September 30, 2008 a decrease of \$1.0 million, or 3.4%, compared to \$29.1 million for the nine months ended September 30, 2007. General and administrative expenses increased from 18.2% of revenue in the nine months ended 2007 to 23.5% of revenue in the nine months ended 2008. The decrease in general and administrative expenses was due primarily to a reduction of \$1.2 million in costs related to the customer relationship management installation which was completed in August of 2007, \$0.9 million in salaries, relocation expense and benefits due to the reduction in headcount during 2008, partially offset by the increase of \$0.9 million in professional fees incurred as a result of the restatement of our 2006 Form 10-K and an increase of \$0.3 million in office and facility costs and a net decrease of \$0.1 million in certain other costs.

The following table set forth the changes in significant components of general and administrative expenses (table in millions):

| | Nine months ended September 30, | | % Change 2008 vs. 2007 | % of Revenues For the nine months ended September 30, | |
|-------------------------------------------|------------------------------------|---------|---------------------------|-------------------------------------------------------------|-------|
| | 2008 | 2007 | | 2008 | 2007 |
| Office and facility costs | \$ 4.2 | \$ 3.9 | 7.7% | 3.5 | 2.4 |
| Salaries, wages and benefits | 17.7 | 18.6 | (4.8) | 14.8 | 11.6 |
| Professional fees | 3.6 | 2.7 | 33.3 | 3.0 | 1.7 |
| Other | 2.6 | 2.7 | (3.7) | 2.1 | 1.7 |
| Customer relationship management software | | 1.2 | (100) | | 0.8 |
| Total | \$ 28.1 | \$ 29.1 | (3.4)% | 23.4% | 18.2% |

Special items

Special items incurred in the nine months ended September 30, 2008 were approximately \$0.4 million which included professional fees and other costs associated with the SEC and the DOJ investigations. For the nine months ended September 30, 2007, \$9.0 million in professional fees and other costs were incurred in relation to the SEC and DOJ investigations which began on November 14, 2006, and December 11, 2006, respectively.

Other income, net

Other income for the nine months ended 2008 was \$0.3 million compared to \$0.2 million for the nine months ended 2007. The increase in other income was primarily attributable to receipt of the Value Added Tax refund in Germany.

Interest income and expense

Interest income for the nine months ended September 30, 2008 was \$1.0 million as compared to \$1.4 million for the same period in 2007. The \$0.4 million decrease in interest income was a result of lower invested balances in our investment account and the decrease in interest rates during 2008. Interest expense for each of the nine months ended September 30, 2008 and 2007 was \$ \$0.2 million.

Table of Contents

Equity loss from related parties

Equity loss from related parties for the nine months ended September 30, 2008 was \$0.6 million compared to a loss from related parties of \$0.4 million for the nine months ended September 30, 2007. The equity income and loss relates to our investments in Costa Rican and Panamanian entities as of September 30, 2007, and in a hotel property located in Costa Rica as of September 30, 2008.

Gain on the disposition of assets

Gain on the disposition of assets was \$1.1 million for the nine months ended September 30, 2008. The gain was the result of the sale of the Costa Rica assets held for sale at December 31, 2007.

Income tax provision

In the nine months ended September 30, 2008, we recorded approximately \$0.7 million in income tax provision compared to \$0.1 million for the same period of 2007. The increase is due to alternative minimum tax expense incurred as a result of limitations on the amount of net operating loss carryforward that can be used to offset taxable income. In addition, we will pay state income tax in jurisdictions where we do not have sufficient operating loss carryforwards to offset taxable income.

Net loss

Net loss for the nine months ended September 30, 2008 was \$12.9 million compared to \$7.3 million for the nine months ended September 30, 2007. The increase in our net loss is included in the discussion above of our operations.

Known Trends

We experienced an accelerating decline in the Company's Proprietary Brands during 2008, as discussed in our review of segment performance. In the third quarter of 2008, we discontinued our Russ Whitney®'s Building Wealth and our Teach Me to Trade® brands in the United States and reduced the number of events held for other Proprietary Brands in response to current economic trends.

Our RDE segment which had experienced a rapid acceleration in sales in 2007 and the first quarter of 2008, leveled off in the second quarter of 2008 and declined in the last six months of the year. As we shifted our business away from our Proprietary Brands, our concentration of sales in the RDE brand grew to 76.9% as of September 30, 2008.

Based on expected lower cash sales in 2008 and 2009, the Company has taken action to decrease costs, including reductions in staff to appropriately size the Company for the economic environment.

Liquidity and Capital Resources

Our capital requirements consist primarily of working capital and capital expenditures. Historically, we have funded our working capital and capital expenditures using cash and cash equivalents on hand. As of September 30, 2008, cash, cash equivalents and restricted cash increased by \$1.5 million to \$43.0 million from \$41.5 million as of December 31, 2007.

Our joint venture agreement with Rich Global, LLC, requires us to segregate our cash balances between: (i) funds received from RDE students, and (ii) funds received from the sale of our Proprietary Brands. The Company is restricted from using cash generated from the RDE Brand to pay for expenses incurred by our Proprietary Brands. However, the RDE Brand cash balances may be used for expenses associated with the RDE Brand offerings and the payment of license and management fees owed to us in accordance with our agreement with Rich Global, LLC, as reimbursement for the fulfillment of advanced courses purchased by RDE students and partner distributions paid when cash balances exceed the cost to fulfill outstanding student contracts. Our RDE Brand accounted for approximately 76.9% of our total cash sales for the nine months ended September 30, 2008.

Our \$43.0 million of cash, cash equivalents and restricted cash balances includes \$30.9 million attributable to RDE and \$12.1 million related to our Proprietary Brands business. As of December 31, 2007, the cash, cash equivalents and restricted cash balances of \$41.5 million included \$26.8 million attributable to RDE and \$14.7 million related to our Proprietary Brands. The increase in the RDE cash balances in 2008 as compared with 2007 reflects the continued growth in sales of the RDE Brands.

Table of Contents

Net cash provided by operations in the first nine months of 2007 was \$3.2 million, as compared with cash used in operations of \$2.7 million for the nine months ended September 30, 2008, a use of \$5.9 million. The change in cash (used in) provided by operations was primarily attributable to the changes in the operating assets and liabilities as a result of the new business generated from our RDE Brands and, to a lesser extent, \$1.1 million gain from the disposition of assets held for sale. The primary source of cash from operating activities was the cash received from courses and products sold to our students.

Net cash provided by investing activities was \$2.8 million for the nine months ended September 30, 2008 compared with \$2.9 million provided by investing activities for the nine months ended September 30, 2007, a change of \$0.1 million. The change in cash provided by investing activities was attributable to the proceeds of \$2.5 million received from the disposition of assets and the repayment of working capital advances of \$0.6 million previously made to Monterey del Este, S.A., and Monterey Management, S.A. during the nine months ended September 30, 2008 compared to \$5.0 million received for the same period in 2007, a decrease of \$2.0 million and the decrease in the purchases of property and equipment of \$1.3 million.

Net cash used in financing activities was \$1.7 million for the nine months ended September 30, 2008 compared with \$3.2 million used in financing activities for the nine months ended September 30, 2007, a change of \$1.5 million. The change in cash used in financing activities was attributable to principal payments on long-term debt of \$0.1 million for the nine months ended September 30, 2008 compared to \$3.3 million for the same period in 2007, a decrease in the use of cash of \$3.2 million, which was partially offset by \$1.6 million in cash distributions paid to Rich Global, LLC.

We will use excess capital, if any, to invest in property and equipment, computer and software upgrades and geographic expansion. We will continue to pursue business opportunities, strategic acquisitions and/or alliances.

The majority of our cash equivalents are invested in short term, liquid, investment grade commercial paper with yields ranging from 1.9% to 3.1%. Restricted cash balances, consisting primarily of funds on deposit with credit card processors and cash collateral with our credit card vendors, totaled \$10.7 million at September 30, 2008 and \$8.4 million at December 31, 2007. As of December 31, 2007, we held a letter of credit to secure merchant accounts and certain state bonding requirements for \$1.1 million. The letter of credit at December 31, 2007 was supported by a certificate of deposit earning interest at a rate of 5.2%. We did not hold any letters of credit as of September 30, 2008.

In connection with the investigations by the SEC, DOJ and related shareholder and derivative actions, we are expending a significant amount of financial resources. We estimate from inception of the investigations through September 30, 2008, we have incurred in total over \$11.5 million in professional and external direct costs associated with these matters (\$0.4 million in the nine months ended September 30, 2008). The costs of the investigations and legal proceedings may have a material adverse effect on us. We do not know what the full costs of the investigation or any fines or penalties, if any, will be, nor do we know to what extent our insurance carriers will reimburse us for these expenses.

Historically, we have been able to fund our operations primarily through existing working capital. However, the current investigations by both the SEC and DOJ and the related shareholder and derivative actions may severely limit our ability to obtain external sources of capital, if necessary.

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As a result of the significant deferred revenue balance, our working capital deficit will continue for the foreseeable future. We intend to continue to use working capital for operating purposes. As of September 30, 2008, our current deferred revenue balance was \$137.2 million of which \$104.2 million related to our worldwide RDE business.

From time to time, we evaluate potential acquisitions of business products or technologies that complement our business. To the extent that financial 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.

Table of Contents*Non-core investments*

Our remaining ownership interests in Costa Rican and Panamanian entities are presented in the following table:

| Entity | Description | Accounting Method Used | As of September 30, 2008 | |
|-------------|-----------------------|------------------------|--------------------------|-------------------------------------|
| | | | Company Ownership | Company Investment/Loans (\$ 000 s) |
| MDM/MTO (a) | Hotel/land concession | Equity | 62.9% | \$ 652.8 |

N/A Not applicable

(a) The full entity names are Monterey del Mar, S.A. (MDM) and Mar y Tierra del Oeste, S.A. (MTO).

In addition, we own a 50% interest in Monterey del Llano, S.A. which owns a one-third interest in Monterey Group, S.A., whose only asset is two and one-half acres of beachfront land adjacent to Monterey del Mar, S.A./Mar y Tierra del Oeste, S.A., our hotel property. Monterey del Llano, S.A. and Monterey Group, S.A. are not operating entities and have no operating results. Therefore, we do not record an equity interest related to these entities.

In January 2008, we sold three of our investments in Costa Rica and Panamanian entities, Rancho Monterey, Monterey del Este and Beautiful Hill. The net proceeds on the sale of these entities was \$2.5 million, we realized a gain on sale of \$1.1 million. Commissions related to the sale were paid to Russell Whitney, the former Chief Executive Officer and former Chairman of the Board in the amount of \$0.4 million. Commissions related to this sale were also paid to two of our former employees and a former independent contractor in the amount of \$0.2 million, \$0.1 million and \$0.1 million, respectively. In May 2008, we were repaid by Monterey Management, S.A. for a working capital advance of approximately \$0.3 million.

Southwest Florida Investment

In 2004, we entered into a joint venture in which we hold a 50% interest in Tranquility Bay of Southwest Florida, LLC (Tranquility Bay) which owns 74 acres of land zoned for residential development in Southwest Florida. The investment entity had no ongoing activity other than minimal costs of carrying the land. We recorded our share of these costs under the equity method of accounting.

In May 2007, we entered into a purchase and sale agreement to sell our 50% ownership to our partner in the joint venture, Gulf Gateway Enterprises, LLC, a Florida limited liability company, for the price of \$4.2 million. As a part of this agreement, we loaned the buyer an additional \$0.3 million to finance the planning and permitting of the property as a residential subdivision. We secured the total receivable of \$4.5 million with the buyer's ownership interest in Tranquility Bay as collateral and by receiving a mortgage interest in the land.

Our net book value for this investment is approximately \$2.8 million. We do not have any debt associated with this asset and we will not receive proceeds unless the buyer is able to secure the requisite financing. Accordingly, we will not record any gain on the sale of this asset until cash proceeds are received. The note receivable on this property was due and payable on December 31, 2007. On January 23, 2008, we filed a foreclosure lawsuit against Tranquility Bay, Gulf Gateway Enterprises, LLC, Anthony Scott Dunlap and Dunlap Enterprises, LLC, parties to the mortgage and/or security agreement. Accordingly, we have reclassified the note receivable from a current asset to a non-current asset on our condensed consolidated balance sheet. Additionally, in the third quarter of 2008, we recorded an impairment of \$0.5 million for this note receivable based upon the fair value of the land underlying the outstanding note receivable.

Off-Balance Sheet Arrangements

At September 30, 2008, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a) (4) (ii) of Regulation S-K.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States.

Table of Contents

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates under different assumptions or conditions. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the notes to consolidated financial statements for the year ended December 31, 2007, included on the Form 10-K filed with the SEC on January 15, 2009.

Recent Accounting Pronouncements

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP No. 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and is applied prospectively. FSP No. 142-3 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS No 160). SFAS No. 160 establishes accounting and reporting standards for a parent company's noncontrolling, or minority, interests in its subsidiaries. SFAS No.160 also provides accounting and reporting standards for changes in a parent's ownership interest of a noncontrolling interest as well as deconsolidation procedures. This statement aligns the reporting of noncontrolling interests in subsidiaries with the requirements in International Accounting Standards 27 and is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141, *Business Combinations - Revised* (SFAS No. 141R). SFAS No. 141R changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company will be required to adopt SFAS No. 141R in the first quarter of fiscal year 2009. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Please refer to the Company's 2007 Annual Report on Form 10-K filed with the SEC on January 15, 2009.

ITEM 4T. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports under the United States Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, with the participation and oversight of our Chief Executive Officer and our Chief Financial Officer, has reviewed and evaluated the design and effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation our Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2008, our disclosure controls and procedures were not

Table of Contents

effective, as a result of the continued existence of material weaknesses in internal controls as identified in our 2007 Annual Report on Form 10-K filed with the SEC on January 15, 2009.

Because of these material weaknesses, we performed additional controls, procedures and analyses designed to ensure that our unaudited condensed consolidated financial statements are presented fairly in all material respects in accordance with accounting principles generally accepted in the United States. We relied on increased monitoring and review to compensate for the material weakness in our internal controls. Accordingly, management believes that the unaudited condensed consolidated financial statements included in this report fairly presents, in all material respects, our financial position, results of operations and cash flows for the periods presented.

b) **Changes in Internal Control over Financial Reporting**

We are in the process of instituting additional controls to remediate the material weaknesses as described in our 2007 Annual Report on Form 10-K. During the nine months ended September 30, 2008, we hired additional accounting personnel and added a review and approval process to our account reconciliations prepared as part of the monthly closing process. However, we were not able to test this procedure and we were unable to remediate the material weaknesses by the end of the third quarter of 2008.

Although the above mentioned steps are beginning to correct the noted weaknesses, we cannot be certain that our efforts to improve our internal controls will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. We may not be successful in this regard with our current level of staffing and our current accounting system. Any failure to develop or maintain effective controls, or difficulties encountered in the effective improvement of our internal controls, could harm our operating results, cause us to fail in meeting our reporting obligations, result in misstatements of our condensed consolidated financial statements or cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our common stock.

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On November 14, 2006, the Company was notified by the SEC that the Commission is conducting a formal, nonpublic investigation to determine whether the Company complied with securities laws in connection with (i) the claimed efficacy or trading success of our stock market education programs, and, (ii) our acquisition of certain other companies. The SEC has requested documents and information from us in the course of their investigation.

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On December 11, 2006, the Company received a subpoena from the DOJ requesting documents and information in connection with an investigation relating to our marketing activities from January 1, 2002 to the present. The Company was notified that a grand jury investigation related to this matter had commenced. Criminal indictments have been returned and civil charges have been filed against two former contractors. On March 6, 2008, a federal grand jury in the Eastern District of Virginia returned an indictment charging Linda Woolf (Woolf) and David Gengler (Gengler), the two former contractors, with one count of conspiracy to commit mail fraud and wire fraud. Woolf and Gengler are alleged in the indictment to have been independent contractors of the Company s EduTrades, Inc., subsidiary at the time of their alleged criminal activities. The defendants are no longer independent contractors for the Company or any of its subsidiaries. The Company and its subsidiaries were not charged in the indictment, and none of the Company s present or former directors or officers were charged in the indictment. On March 11, 2008, the SEC filed civil fraud charges against Woolf and Gengler alleging that Woolf and Gengler made false and misleading statements to sell Teach Me to Trade packages for the Company s EduTrades, Inc., subsidiary.

On January 11, 2007, Whitney Canada, Inc., a wholly-owned subsidiary, and Whitney Information Network, Inc. received notice of an Amended Motion for Authorization to Institute a Class Action in the Province of Québec, Canada. A class action was requested for all persons who have made various real estate investments, at the alleged inducement, or through, Marc Jémus, François Roy, Robert Primeau and/or their companies, and/or B2B Trust, and/or Whitney Canada, Inc., and/or Whitney Information Network, Inc. and/or Jean Lafrenière. The complaint seeks repayment of \$39,235 to the Petitioner,

Table of Contents

unspecified payment to each member of the class of an amount corresponding to their lost investments, payment of \$10,000 to each member of the class as general damages, recovery of costs and other litigation expenses, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On January 30, 2007, the Company was served a complaint by Rodney Durham on behalf of himself and all others similarly situated v. Whitney Information Network, Inc., Russell A. Whitney and Nicholas S. Maturo, filed on December 28, 2006 in the United States District Court in the Middle District of Florida accusing the Company of securities violations. The complaint seeks damages for violations of federal securities laws on behalf of all investors who acquired the Company's Common Stock from November 18, 2003, through and including December 15, 2006. The plaintiff seeks unspecified compensatory damages, unspecified equitable relief, and attorney's fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made. This case has not been certified as a class action. See Note 14 *Subsequent Events* for further discussion.

On March 8, 2007, the Company was served a complaint styled Robert Ghosio, Jr. on behalf of nominal defendant Whitney Information Network, Inc. v. Russell A. Whitney, Nicholas S. Maturo, Frederick A. Cardin, Chester P. Schwartz, Ronald S. Simon and Whitney Information Network, Inc., filed in the United States District Court in the Middle District of Florida. This action is a shareholder derivative complaint alleging that the named defendants breached certain fiduciary duties and violated certain securities laws. The plaintiff seeks unspecified monetary damages, unspecified equitable relief, unspecified restitution and disgorgement of profits from individual defendants, and fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made. See Note 14 *Subsequent Events* for further discussion.

On March 22, 2007, a complaint was received by our wholly-owned subsidiary, Whitney Education Group, Inc. The case is Glenn Acciard, et. al. vs. Russell Whitney, individually, John Kane, individually and Whitney Education Group, Inc. et. al., Case No. 07-CA-002190 in the Circuit Court of the Twentieth Judicial Court in and for Lee County, Florida alleging that the Company, including two of our executive officers, and 18 other defendants not associated with the Company, breached certain of their fiduciary duties to the named plaintiffs, all of whom were our alleged students. The allegations in the complaint include claims of constructive and common law fraud and other violations. The plaintiffs seek unspecified monetary damages, unspecified punitive damages, interest, a refund of the purchase price of the lots sold to the plaintiffs, costs, attorney's fees and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On August 23, 2007, a complaint was received by our subsidiary, Whitney Education Group, Inc. Plaintiffs Sirli Jehe and Kalev Kruuk brought suit against Russell Whitney, John Kane, Whitney Education Group, Inc. et. al., in the Twelfth Judicial Circuit Court in and for Sarasota County, Florida alleging breach of fiduciary duty, fraudulent misrepresentation, a violation of mortgage broker and lending laws, Florida Land Sales Practices Act and Florida Unfair and Deceptive Trade Practices Act based on an alleged scheme to induce real estate investors to purchase real property at inflated prices. Numerous motions to dismiss are currently pending. The plaintiffs seek a refund of the price of the lots sold to them, monetary damages in excess of \$100,000, unspecified punitive damages, costs, attorney's fees, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On September 21, 2007, a complaint was received by our wholly-owned subsidiary, Whitney Education Group, Inc. The lawsuit is Jeffrey Watson v. Whitney Education Group, Inc. and Russell Whitney in the Twentieth Judicial Circuit Court in and for Lee County, Florida and alleges that Whitney Education Group, Inc. and Russell Whitney breached a student contract, violated the Florida Unfair and Deceptive Trade Practices Act, breached the implied covenant of good faith and fair dealing, and conspired to commit fraud by failing to recommend fair and objective vendors in connection with the development and purchase of real estate in an investment program purchased by Plaintiff. Motions to Dismiss Plaintiff's complaint are currently pending. The plaintiff seeks unspecified compensatory damages, unspecified punitive damages, a declaratory judgment determining the rights of the parties, attorney's fees and costs. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On November 7, 2007, two complaints were received by our wholly-owned subsidiary, Whitney Education Group, Inc. The case is Huron River Area Credit Union v. James M. Easterly. In both lawsuits, James M. Easterly filed third party complaints against Russell Whitney, Whitney Information Network, Inc., John Kane, and other third party co-defendants alleging breach of fiduciary duty, constructive fraud, violation of Florida Land Sales Practices Act, violation of Florida's Deceptive and Unfair Trade Practices Act, civil conspiracy to defraud, and Florida RICO conspiracy through an alleged scheme to entice persons to invest in real estate at inflated prices through real estate education courses offered by the Company. In each third party complaint, Easterly alleges losses in excess of \$100,000 as a result of the purchase of two

Table of Contents

separate properties from Gulfstream Development Group, LLC. Multiple motions to dismiss are pending and await a decision by the court. Easterly seeks unspecified damages, including a refund of the purchase price of lots sold to him, unspecified interest, taxes paid on the lots, costs, attorney's fees, and unspecified equitable relief. We believe that the lawsuit is without merit and will vigorously defend against the claims made.

On January 9, 2008, the Company entered into an Assurance of Voluntary Compliance (AVC) with the Office of the Attorney General of the State of Florida to close a previously disclosed investigation. The AVC was entered into without an admission or judicial determination that the Company violated any laws, rules or regulations. The Company agreed in the AVC to make refunds in the additional amount of approximately \$450,000 to certain consumers, and also set aside, in an escrow account, \$125,000 for refunds for potential claims arising from sales prior to the execution of the AVC. The Company also agreed to make a payment to the Attorney General in the amount of \$150,000 in satisfaction of the Attorney General's investigative and attorney's fees. The Company also made a contribution in the amount of \$150,000 to the Seniors vs. Crime, Inc. project for educational, investigative and crime prevention programs for the benefit of senior citizens and the community as a whole, in connection with the delivery of the AVC.

On January 23, 2008, the Company filed a foreclosure lawsuit against Tranquility Bay of Southwest Florida LLC, Gulf Gateway Enterprises, LLC, Anthony Scott Dunlap, and Dunlap Enterprises, LLC parties to the mortgage and/or security agreement. Tranquility Bay of Southwest Florida, LLC (Tranquility Bay), defaulted on its mortgage payment of \$4.5 million to Whitney Information Network, Inc., that was due on or before December 31, 2007. The lawsuit seeks a judgment of foreclosure on the mortgage instrument. In the alternative, the lawsuit seeks a judgment of foreclosure on a security agreement which would permit the Company to take control of Tranquility Bay and the resulting real property. Further in the alternative, we seek damages from Anthony Scott Dunlap due to a personal guarantee that Mr. Dunlap signed in relation to the mortgage. The lawsuit is currently pending in the Circuit Court in Lee County, Florida, and is in the discovery phase.

The Company and one of its directors, Russell A. Whitney (Whitney) and WIN CR II Trust (Trust), a Company affiliate, are engaged in a series of legal actions with M. Barry Strudwick (Strudwick) and Susan Weiss (Weiss), and others relating to Monterey del Mar, S. A. (MDMSA), a Panamanian Company.

- In December 2006, the Company filed suit in the United States District Court for the Eastern District of New York against Weiss for defamation. Weiss has filed a counterclaim seeking \$2.5 million in compensatory damages and punitive damages in an amount exceeding \$7.5 million. We believe that Weiss' claims lack merit and will vigorously defend this lawsuit.

- On January 26, 2007, the Company and WIN CR II Trust (the Trust), an affiliate of the Company, filed an action against Strudwick, Weiss, and others which is now pending in the United States District Court for the Middle District of Florida. The Company seeks declaratory and monetary relief for conspiracy, conversion, tortious interference, malpractice, and other causes of action.

- On January 31, 2008, Strudwick and Weiss filed suit against Whitney, and the Company, among others, in Maryland state court for defamation, injurious falsehood, abuse of process, tortious interference with prospective business advantage, and invasion of privacy. The case has been removed to the United States District Court for the

District of Maryland. The claims relate to acts and statements allegedly made by agents of the Company surrounding the alleged attempt by Strudwick to develop and sell real property in Costa Rica and Weiss' attempt to seize control of MDMSA. Plaintiffs seek compensatory damages of \$18 million and punitive damages of \$50 million. The Company and Whitney have answered the complaint. We believe that the plaintiffs' claims lack merit and will vigorously defend this lawsuit.

On July 8, 2008, the Company received a letter from the South Dakota Department of Revenue and Regulation requesting certain information and documents with respect to the issue of whether or not the Company was selling business opportunities as defined by South Dakota statute. The Company has provided information and documentation in response to this request.

On July 9, 2008, the Company entered into an Assurance of Voluntary Compliance (the "North Dakota AVC") with the Office of the Attorney General of the State of North Dakota. The North Dakota AVC was entered into without an admission or judicial determination that the Company violated any laws, rules or regulations. Pursuant to the North Dakota AVC, the Company agreed to comply with North Dakota's Transient Merchant statute, including the posting of a \$50,000 bond, when required to do so by North Dakota law. The Company also agreed to offer refunds to North Dakota consumers who entered

Table of Contents

into contracts while the Company did not have a North Dakota Transient Merchant's license. Finally, the Company agreed to make a payment of \$10,000 to the Office of the Attorney General of North Dakota. No civil penalties were imposed on the Company under the AVC.

The Company is involved from time to time in routine legal matters incidental to our business. Based upon available information, the Company believes that the resolution of such matters will not have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2007 Annual Report on Form 10-K filed with the SEC on January 15, 2009, which could materially affect our business, financial condition or future results. The risks described in our 2007 Annual Report on Form 10-K are not the only risks that we may face. Additional risks and uncertainties not currently known to the Company, or that management deems to be immaterial may materially affect our business, financial condition and/or results of operations adversely.

ITEM 6. EXHIBITS

| Exhibit No. | Description | |
|-------------|---------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| 3.1 | Amended Bylaw provisions: Article IV-Sections 5 and 5.1. | Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed on March 4, 2009 |
| 31.1 | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. | Filed herewith |
| 31.2 | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. | Filed herewith |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. | Filed herewith |
| 32.2 | Certification Chief Financial Officer pursuant to 18 U.S.C. Section 1350. | Filed herewith |

Table of Contents

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, thereunto duly authorized.

WHITNEY INFORMATION NETWORK, INC.

Dated: March 5, 2009

By:

/s/ Charles M. Peck
Charles M. Peck
Chief Executive Officer

Dated: March 5, 2009

By:

/s/ Anne M. Donoho
Anne M. Donoho
Chief Financial Officer

Table of Contents

Exhibit Index

| No. | Description |
|------------|---------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2 | Certification Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |