WHITNEY INFORMATION NETWORK INC
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Quarter Ended September 30, 2001

Whitney Information Network, Inc.
(Exact name of registrant as specified in its charter)

Colorado	0-27403	84-1475486
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

4818 Coronado Parkway, Cape Coral, Florida 33904
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (941) 542-8999

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

Securities registered under Section 12 (b) of the Exchange Act:
NONE

Securities registered under Section 12 (g) of the Exchange Act:
COMMON STOCK
NO par value per share
(Title of Class)

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

The Issuer had 7,528,022 common shares of common stock outstanding as of September 30, 2001 and December 31, 2000.

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

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

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

Revenues: Total revenue for the nine months ended September 30, 2001 was $32,423,386, an increase of $3,433,404 or 12% compared to the same period in 2000 of $28,989,982. Revenues for the three months ending September 30, 2001 were $9,239,054, a decrease of $2,332,906 over the prior quarter ending September 30, 2000 of $11,571,960. The combination of the increase in advance training courses held and the higher registrations and revenue contributed to the increase above. The decrease in the 3rd quarter was due to the discontinuance of the Internet division's seminar programs.

Advertising and Sales Expense: Advertising and sales expense, of which advertising represents approximately 60% of the expenses for the nine months ended September 30, 2001, was $9,259,367, a decrease of $7,921,267 or 47% compared to the same period in 2000. The decrease in advertising and sales expense for the quarter ending September 30, 2001 was $3,594,133 or 57% resulting in advertising and sales expense for the quarter of $2,773,480. The decrease in advertising and sales expense is due to discontinuing TV advertising for the Internet division, more effective use of media buying and more effective marketing programs hitting the market in the first and second quarters.

General and Administrative expenses decreased to $5,985,706, a decrease of $1,975,868 or 26% over the comparable period in 2000 of $7,871,574. The decrease in general and administrative expenses to $2,000,768 for the quarter ended September 30, 2001 from $4,801,660 for the quarter ending September 30, 2000 was $2,800,892 or 59%. This decrease is due primarily to decreased personnel and expenditures due to discontinuing the Internet seminar programs and the Wealth Centers.

Cost of Sales increased in comparison with the increase in sales for the first nine months of 2001 to $14,176,616 an increase of $4,740,374 or 51% over the prior comparable period in 2000 and to $4,214,547 for the quarter ending September 30, 2001 an increase of 75% over the comparable period in 2000.

Net Income for the nine months ending September 30, 2001 was $3,236,097 as compared with a net loss of ($5,498,468) for the nine months ending September 30, 2000, an increase of $8,734,565 or 159% or $.43 per share as compared to $(.73) per share for the prior period. Net Income for the three months ending September 30, 2001 was $356,533 as compared with a net loss of ($2,009,010) for the three months ending September 30, 2000, an increase of $2,365,543 or 118% or $.05 per share as compared to $(.27) per share for the prior period.

The increase is directly attributable to increased sales in 2001 over the prior period, higher realization of deferred revenues, increased production from marketing programs resulting in a larger gross profit and a disproportionate reduction in advertising expenses. The Company receives tuition today for courses that are taken in the future. The Company defers the revenue to future periods when the courses are taken, but the expenses that give rise to those revenues, primarily advertising, are a current period cost. In 2000 and prior years, the rate of growth in sales was so great that the amount of revenues that were deferred was greater than the revenues that were realized in those periods, yet substantially all of the costs that gave rise to the deferred revenues were period costs (costs that were expensed in the current period). Therefore, the excess of the period costs over the revenue that was not deferred created the losses in prior periods. In the current year, the company was able to recognize both current year sales and prior periods deferred revenues in excess of period costs.

More than 20,000 new students register for one or more of the Company's programs each month. The Company's success can also be attributed to the fact that a large percentage of its gross annual revenue can be attributed to repeat business, a factor that also indicates students find its training effective.

The Internet division, although small as compared to the Company as a whole, continued to be in a loss position. The Company discontinued its TV and marketing programs for this division in October of 2000, and has embarked on a new method of marketing the division. The Company expects the Internet division to become a mainstay division promoting the Company and its products. The Company will be test marketing training and product sales on the Internet in the last half of 2001. Management believes that the division will be profitable by the end of the year.

Liquidity and Capital Resources

The Company's capital requirements consist primarily of working capital, capital expenditures and acquisitions. Historically, the Company has funded its working capital and capital expenditures using cash and cash equivalents on hand. Cash increased by $3,435,836 to $6,752,741, an increase of 104% over the previous comparable period in 2000 and an increase of $794,637 or 14% over the previous quarter. The Company reduced its loan on its headquarters building by $250,000 in the third quarter of 2001.

The Company's cash provided by operating activities was $3.83 million and $2.99 million for the nine months ended September 30, 2001 and 2000, respectively. In the first nine months of 2001, cash flows from advanced training programs were positively impacted by the increased collection efforts by the sales associates accompanying the instructors and trainers at the training locations.

The Company's cash used in investing activities was ($141,568) and $(444,058) for the nine months ended September 30, 2001 and 2000, respectively. The Company's investing activities for the nine months ended September 30, 2001 and 2000 were primarily attributable to the purchase of office property and equipment and related party transactions described in the accompanying financial statements.

Possible Effect of the September 11, 2001 Tragedy on the Financial Statements:

The management of the Company believes that the September 11, 2001 Tragedy will have little or no effect on the financial statements. The effect of the loss of television marketing time due to the extensive news coverage was minimal. The restrictions on air travel have had little effect on our employee's ease of moving around the country and the attendance by our students in our advanced courses is back to normal pre September 11, 2001 levels.

FORWARD-LOOKING STATEMENTS

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There are no senior securities issued by the Company.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matter was submitted during the three months ended September 30, 2001 to a vote of security holders, through the solicitation of proxies or otherwise.

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

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

Exhibit No.	Description
3.1*	Articles of Incorporation.
3.2*	Bylaws.
3.3*	Amended Articles of Incorporation
3.4*	Amended Articles of Incorporation
4.1*	Specimen Stock Certificate.
99.1*	Class A Warrant Agreement
99.2*	Class B Warrant Agreement
99.3*	Non-Qualified Incentive Stock Option Plan
99.4*	Office Lease

* Incorporated by reference to exhibit filed with Form 10SB12G (Sec File No. 000-27403).

SIGNATURES

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

WHITNEY INFORMATION NETWORK, INC.

Dated: November ____, 2001 By:/s/Richard W. Brevoort
Richard W. Brevoort
President

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

Signature	Title	Date
/s/Russell A. Whitney Russell A. Whitney	Chief Executive Officer Chairman	November 14, 2001
/s/Richard W. Brevoort Richard W. Brevoort	President and Director	November 14, 2001
/s/Richard S. Simon Richard S. Simon	Secretary/Treasurer/Chief Financial Officer/ Principal Accounting Officer and Director	November 14, 2001

PART I

Item 1. Financial Statements

Whitney Information Network, Inc. and Subsidiaries
Consolidated Financial Statements
As of September 30, 2001 and December 31, 2000
And for the Nine Months Ended September 30, 2001 and 2000

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2001 (Unaudited)	December 31, 2000
Assets		
Current assets		
Cash and cash equivalents	$ 6,752,741	$ 3,316,905
Accounts receivable (net of allowance of $241,275 and $91,885, respectively)	3,729,504	1,793,454
Due from affiliates	108,247	70,490
Prepaid advertising and other	611,173	625,028
Income taxes receivable and prepayments	1,893,999	1,893,999
Inventory	400,786	268,663
Deferred seminar expenses	3,714,833	2,644,404
Total current assets	17,211,283	10,612,943
Other assets		
Property and equipment (net accumulated depreciation of $325,827 and $193,714, respectively)	2,803,607	2,920,597
Other assets	136,882	121,057
Total other assets	2,940,489	3,041,654
Total assets	$20,151,772	$13,654,597

Liabilities and Stockholders' Deficit

Current liabilities		
Accounts payable	$ 331,142	$ 1,942,804
Accrued seminar expenses	258,055	349,341
Deferred revenues	27,617,054	22,640,442
Other accrued liabilities	696,396	458,982
Total current liabilities	28,902,647	25,391,569
Mortgage note payable	950,000	1,200,000
Total liabilities	29,852,647	26,591,569
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, 7,528,022 shares issued and outstanding.	67,102	67,102
Paid in capital	900	900
Accumulated deficit	(9,768,877)	(13,004,974)
Total stockholders' deficit	(9,700,875)	(12,936,972)
Total liabilities and stockholders' deficit	$20,151,772	$13,654,597

See notes to consolidated financial statements.

Consolidated Statements of Operations

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)
Sales	$ 9,239,054	$11,571,960	$32,423,386	$28,989,982
Cost of sales	4,214,547	2,411,697	14,176,616	9,436,242
Gross profit	5,024,507	9,160,263	18,246,770	19,553,740
Expenses				
Advertising and sales expense	2,773,480	6,367,613	9,259,367	17,180,634
General and administrative expense	2,000,768	4,801,660	5,895,706	7,871,574
Total expenses	4,774,248	11,169,273	15,155,073	25,052,208
Income (loss) from operations	250,259	(2,009,010)	3,091,697	(5,498,468)
Other income (expense)				
Interest income	130,775	-	222,881	-
Interest expense	(24,481)	-	(78,481)	-

Income (loss) before income taxes	356,553	(2,009,010)	3,236,097	(5,498,468)
Income taxes	-	-	-	-
Net income (loss)	$ 356,553	$(2,009,010)	$3,236,097	$(5,498,468)
Basic and fully diluted income (loss) per share	$ .05	$ (.27)	$ .43	$ (.73)
Weighted average shares outstanding	7,528,022	7,524,500	7,528,022	7,528,047

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30, 2001 (Unaudited)	2000 (Unaudited)
Cash flows from operating activities		
Net income (loss)	$3,236,097	$(5,498,468)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Allowance for doubtful accounts	149,390	
Depreciation and amortization	179,391	154,000
Loss of disposal of fixed assets	41,410	
Changes in assets and liabilities		
Accounts receivable	(2,085,440)	(2,243,940)
Prepaid advertising and other	13,855	(809,638)
Inventory	(132,123)	
Deferred seminar expenses	(1,070,429)	(1,806,262)
Other assets	(15,825)	(792,479)
Accounts payable	(1,611,662)	347,850
Accrued seminar expense	(91,286)	788,571
Deferred revenues	4,976,612	13,348,103
Other accrued liabilities	237,414	(492,641)
	591,307	8,493,564
Net cash provided by operating activities	3,827,404	2,995,096
Cash flows from investing activities		
Purchases of property and equipment	(103,811)	(469,505)
Loans (to) from affiliates, net	(37,757)	25,447
Net cash used by investing activities	(141,568)	(444,058)

Cash flows from financing activities		
Principal payments on long-term debt	(250,000)	-
Adjustments to paid in capital	-	(900)
Net cash used by financing activities	(250,000)	(900)
Net increase in cash and cash equivalents	3,435,836	2,550,138
Cash and cash equivalents, beginning of period	3,316,905	1,274,708
Cash and cash equivalents, end of period	$6,752,741	$3,824,846

Supplemental cash flow information:
Cash paid for income taxes was $0 and $863,500 for the nine months ended September 30, 2001 and 2000, respectively.
Cash paid for interest was $78,481 and $24,481 for the nine months ended September 30, 2001 and 2000, respectively.

See notes to consolidated financial statements.

Notes to Financial Statements

Note 1 - Significant Accounting Policies

The accompanying consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission April 2, 2001, which includes audited financial statements for the year ended December 31, 2000. The results of operations for the three and nine months ended September 30, 2001, may not be indicative of the results of operations for the year ended December 31, 2001.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued FASB Statements No. 141 and 142. These statements, among other items, deal with the accounting for business acquisitions and intangible assets including goodwill. Among other items, these new standards will change the accounting for amortization of goodwill expense and the impairment of goodwill in a manner different than they have been in the past. The results on the financial statements would not be material to the financial statements.

Note 2 - Related Party Transactions

The Company has rented its headquarters location in Cape Coral, Florida, since 1992 from the Chairman of the Board and pays rent on annual leases. Rentals under the related party lease were $55,383 for the nine months ended September 30, 2001 and 2000, respectively. The Company leases approximately 8,700 square feet presently.

MRS Equity Corp. provides certain products and services for Whitney Information Network, Inc. and Whitney Information Network, Inc. provides MRS Equity Corp. with payroll services including leased employees. Whitney Information Network, Inc. provided payroll services to MRS Equity Corp. in the amounts of $27,864 and $58,510 for the nine months ended September 30, 2001 and 2000, respectively. MRS Equity Corp. provided Whitney Information Network, Inc. with $45,650 and $322,400 for product costs for the nine months ended September 30, 2001 and 2000, respectively. MRS Equity Crop. is a 100 percent subsidiary of Equity Corp. Holdings, Inc. of which the Chairman of the Board of Whitney Information Network, Inc. owns a controlling interest.

Precision Software Services, Inc. (PSS) is a company that develops and licenses software primarily for the real estate and small business industries. The Chairman of the Board of Directors of Whitney Information Network, Inc. owns a majority interest in PSS. During the nine months ended September 30, 2001 and 2000, PSS provided Whitney Information Network, Inc. $30,000 and $199,775 in product cost, respectively. PSS sells products to Whitney Information Network, Inc. at a price less than the prices offered to third parties. Whitney Information Network, Inc. provided payroll services to PSS in the amount of $42,024 and $42,022 for the nine months ended September 30, 2001 and 2000, respectively.

Whitney Information Network, Inc. provided payroll services to Whitney Leadership Group, Inc. in the amount of $48,247 and $58,570 for the nine months ended September 30, 2001 and 2000, respectively. During 2001, Whitney Information Network made payments of $184,105 and $11,861 for registration fees and commissions, respectively. The Chairman of the Board of Whitney Information Network, Inc. is the President and Chief Operating Officer of Whitney Leadership Group, Inc.

United States Fiduciary Corp is a company that provides telemarketing services for Whitney Information Network, Inc. The Chairman of the Board of Directors and the Chief Financial Officer are also members of the board of directors of United States Fiduciary Corp. During 2001, Whitney Information Network, Inc. paid $233,985 in commission payments to United States Fiduciary Corp.

RAW, Inc. is a company owned by the Chairman of the Board of Whitney Information Network, Inc., which buys, sells and invests in real property. Whitney Information Network Inc. provided payroll services to RAW, Inc. in the amount of $964 and $4,024 for the nine months ended September 30, 2001 and 2000, respectively.

Those items above that are reasonably expected to be collected within one year are shown as current and those that are not expected to be collected during the next year are shown as non-current.

Related party receivables and payables were as follows:

	September 30, 2001 (Unaudited)	December 31, 2000
Receivables		
Due from Whitney Leadership Group	$ 224,566	$ 160,587
Due from RAW, Inc.	5,670	15,619
	230,236	176,206
Payables		
Amounts due to RAW, Inc.	21,265	3,876
Amounts due to MRS Equity Corp.	62,681	69,415
Amounts due to PSS	30,667	32,425
Amounts due to Whitney Leadership Group	7,376	-
	121,989	105,716
Net receivable	$ 108,247	$ 70,490

Note 3 - Commitments and Contingencies

Litigation

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

Other

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

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

Note 4 - Income Taxes

As of September 30, 2001 and December 31, 2000, the Company has net operating loss (NOL) carryforwards of approximately $11,480,000 and $12,831,000, respectively, which expire in the years 2001 through 2021.

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

The accompanying balance sheet includes the following:

	September 30, 2001 (Unaudited)	December 31, 2000
Deferred tax asset from NOL carryforward	$ 4,282,000	$ 4,786,000
Deferred tax asset from deferral of loss on conversion to accrual basis taxpayer and other	511,000	
Deferred tax liability from deferred expense recognition	(1,386,000)	(1,005,000)
Net deferred tax asset	3,407,000	3,781,000
Valuation allowance	(3,407,000)	(3,781,000)
	$ -	$ -

Note 5 - Subsequent Events

In October 2001, the Company agreed to acquire 100% of the stock of PSS. The Chairman of the Board of Directors of Whitney Information Network, Inc., owns a majority interest in PSS. The Company intends to acquire PSS by issuing $500,000 in its common stock. In addition, the Company, as part of this transaction, agreed to purchase the software rights utilized by PSS for $500,000. These software rights are owned individually by the stockholders of PSS.