

Edgar Filing: WHITNEY INFORMATION NETWORK INC - Form 10-Q

WHITNEY INFORMATION NETWORK INC

Form 10-Q

May 15, 2001

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 March 31, 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  
March 31, 2001 and December 31, 2000.

**PART I**

**Item 1. Financial Statements**

**Whitney Information Network, Inc.**

**Consolidated Financial Statements**

**As of March 31, 2001 and December 31, 2000**

**And for the Three Months Ended March 31, 2001 and 2000**

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## WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

### Consolidated Balance Sheets

	March 31, 2001 ----- (Unaudited)	December 31, 2000 -----
<b>Assets</b>		
Current assets		
Cash and cash equivalents .....	\$ 4,859,794	\$ 3,316,905
Accounts receivable (net allowance of \$76,758 and \$91,885, respectively) .....	2,136,455	1,793,454
Due from affiliates .....	--	70,490
Prepaid advertising and other .....	1,090,237	625,028
Income taxes receivable and prepayments .....	1,893,999	1,893,999
Inventory .....	264,256	268,663
Deferred seminar expenses .....	2,676,136	2,644,404
	-----	-----
Total current assets .....	12,920,877	10,612,943
	-----	-----
Other assets		
Property and equipment, net .....	2,886,653	2,920,597
Other assets .....	106,043	121,057
	-----	-----
Total other assets .....	2,992,696	3,041,654
	-----	-----
Total assets .....	\$ 15,913,573 =====	\$ 13,654,597 =====
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities		
Accounts payable .....	\$ 1,147,812	\$ 1,942,804
Accrued seminar expenses .....	145,908	349,341
Due to affiliates .....	50,510	--
Deferred revenues .....	23,961,961	22,640,442
Other accrued liabilities .....	385,737	458,982
	-----	-----
Total current liabilities .....	25,691,928	25,391,569
Mortgage note payable .....	1,200,000	1,200,000
	-----	-----
Total liabilities .....	26,891,928	26,591,569

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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, 7,528,022 shares issued and outstanding .....	67,102	67,102
Paid in capital .....	900	900
Accumulated deficit .....	(11,046,357)	(13,004,974)
Total stockholders' deficit .....	(10,978,355)	(12,936,972)
Total liabilities and stockholders' deficit .....	\$ 15,913,573	\$ 13,654,597

See notes to consolidated financial statements

**WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

	For the Three Months Ended March 31,	
	2001	2000
	(Unaudited)	(Unaudited)
Sales .....	\$11,233,678	\$ 8,640,017
Cost of sales .....	4,444,735	3,485,659
Gross profit .....	6,788,943	5,154,358
Expenses		
Advertising and sales expense .....	2,847,130	4,506,010
General and administrative expense .....	1,935,496	1,353,165
Total expenses .....	4,782,626	5,859,175
Income (loss) from operations .....	2,006,317	(704,817)
Other income		
Interest .....	47,700	--
Income (loss) before income taxes .....	1,958,617	(704,817)
Income taxes .....	--	--
Net income (loss) .....	\$ 1,958,617	\$ (704,817)
Basic and fully diluted income (loss) per share	\$ .26	\$ (.09)

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Weighted average shares outstanding	7,528,022	7,528,022
	=====	=====

See notes to consolidated financial statements

## WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

### Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2001	2000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net income (loss) .....	\$ 1,958,617	\$ (704,817)
Adjustments to reconcile net income (loss) to net cash provided by operating activities .....	--	--
Allowance for doubtful accounts .....	(15,127)	--
Depreciation and amortization .....	59,984	35,000
Changes in assets and liabilities		
Accounts receivable .....	(327,874)	(369,174)
Prepaid advertising and other .....	(465,209)	(720,840)
Inventory .....	4,407	--
Deferred seminar expenses .....	(31,732)	(529,517)
Other assets .....	15,014	--
Accounts payable .....	(794,992)	(61,276)
Accrued seminar expense .....	(203,433)	--
Deferred revenues .....	1,321,519	3,468,980
Other liabilities .....	(73,245)	391,191
	(510,688)	2,214,364
Net cash provided by operating activities .....	1,447,929	1,509,547
Cash flows from investing activities		
Purchases of property and equipment .....	(26,040)	(132,642)
Loans (to) from affiliates, net .....	121,000	(87,329)
Net cash provided (used) by investing activities	94,960	(219,971)
Net increase in cash and cash equivalents .....	1,542,889	1,289,576
Cash and cash equivalents, beginning of period .....	3,316,905	1,274,708
Cash and cash equivalents, end of period .....	\$ 4,859,794	\$ 2,564,284

#### Supplemental cash flow information:

Cash paid for income taxes was \$0 for the three months ended March 31, 2001 and 2000, respectively.

Cash paid for interest was \$47,700 and \$0 for the three months ended March 31, 2001 and 2000, respectively.

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See notes to consolidated financial statements

## WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Note 1 - Significant Accounting Policies

The accompanying consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission April 2, 2001, which includes audited financial statements for the years ended December 31, 2000 and 1999. The results of operations for the three months ended March 31, 2001, may not be indicative of the results of operations for the year ended December 31, 2001.

#### Recently Issued Accounting Pronouncements

On February 14, 2001, the FASB issued an exposure draft entitled "Business Combination and Intangible Assets - Accounting for Goodwill." Under this proposed statement, with its effective date, corporations would no longer amortize goodwill. Goodwill would be tested for impairment when events occurred that would reasonably dictate that an impairment of goodwill may have occurred. The results on the financial statements would not be material to the three months ended March 31, 2001.

#### 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 \$18,462 and \$35,622 for the three months ended March 31, 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 \$37,481 and \$34,960 for the three months ended March 31, 2001 and 2000, respectively. MRS Equity Corp. provided Whitney Information Network, Inc. with \$187,500 and \$99,879 for product costs for the three months ended March 31, 2001 and 2000, respectively. MRS Equity Corp. 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.

#### Note 2 - Related Party Transactions

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 three months ended March 31, 2001 and 2000, PSS provided Whitney Information Network, Inc. \$102,500 and \$90,000 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

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Network, Inc. provided payroll services to PSS in the amount of \$36,888 and \$7,366 for the three months ended March 31, 2001 and 2000, respectively.

Whitney Information Network, Inc. provided payroll services to Whitney Leadership Group, Inc. in the amount of \$16,954 and \$23,359 for the three months ended March 31, 2001 and 2000, respectively. During 2001, Whitney Information Network made payments of \$62,134 for registration fees and commissions. 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 and 2000, Whitney Information Network, Inc. paid \$127,991 and \$0, respectively, 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. During 2001, Whitney Information Network Inc. provided \$3,032 in payroll services to RAW, Inc.

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:

	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
Receivables		
Due from Whitney Leadership Group .....	\$ 196,360	\$ 160,587
Due from RAW, Inc. ....	10,775	15,619
	-----	-----
	207,135	176,206
	-----	-----
Payables		
Amounts due to RAW, Inc. ....	--	3,876
Amounts due to MRS Equity Corp .....	194,828	69,415
Amounts due to PSS .....	62,817	32,425
	-----	-----
	257,645	105,716
	-----	-----
Net receivable (payable) .....	\$ (50,510)	\$ 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

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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 March 31, 2001 and December 31, 2000, the Company has net operating loss (NOL) carryforwards of approximately \$14,372,000 and \$13,690,000, 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:

	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
Deferred tax asset from NOL carryforward .....	\$ 4,253,000	\$ 5,252,000
Deferred tax liability from deferred expense recognition	(998,000)	(1,005,000)
	-----	-----
Net deferred tax asset .....	3,255,000	4,247,000
Valuation allowance .....	(3,255,000)	(4,247,000)
	-----	-----
	\$ --	\$ --
	=====	=====

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

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

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

**Revenues:** Total revenue for the three months ended March 31, 2001 was \$11,233,678, an increase of \$2,953,661 or 30% compared to the same period in 2000 of \$8,640,017. The combination of the increase in advance training courses held and the higher registrations and revenue contributed to the increase above.

**Advertising and Sales Expense:** Advertising and sales expense, of which advertising represents approximately 60% of the expenses for the three months ended March 31, 2001, was \$2,847,130, a decrease of \$1,658,880 or 36.8% compared to the same period in 2000. 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 quarter.

General and Administrative expenses increased to \$1,935,496, an increase of \$582,331, or 43% over the comparable period in 2000 of \$1,353,496. This increase is due primarily to increased personnel hired to handle the increase in the

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Company's volume.

Cost of Sales increased proportionately in comparison with the increase in sales for the first quarter of 2001 to \$4,444,735 an increase of \$959,076 or 27.5% over the prior comparable period in 2000.

Net Income for the three months ending March 31, 2001 was \$1,958,617 as compared with a net loss of (\$704,817) for the three months ending March 31, 2000, an increase of \$2,663,434 or 377.9% or \$.26 per share as compared to (\$.09) 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.

Earnings (Loss) Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the three months ended March 31, 2001 and 2000 was \$2,018,601 and (\$739,817), respectively. EBITDA is defined as net income (loss) before income taxes, interest and other income and expense, net, plus depreciation and amortization. Net income per share was \$.26 for the three months ending March 31, 2001 as compared to a net loss (\$.09) per share for the prior year period ending March 31, 2000.

More than 25,000 new students register for one or more of the Company's programs each month. Management believes 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 is 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 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. We will be test marketing training and product sales on the Internet in the last half of 2001. Management believes that the division will to 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 \$1,542,889 to \$4,859,794, an increase of 47% over the previous comparable period in 2000.

The Company's cash provided by operating activities was \$1.45 million and \$1.5 million for the three months ended March 31, 2001 and 2000, respectively. In the first quarter 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 provided by (used in) investing activities was \$94,960 and \$(219,971) for the three months ended March 31, 2001 and 2000, respectively. The Company's investing activities for the three months ended March 31, 2001 and 2000 were primarily attributable to the purchase of office property and equipment and related party transactions described in the accompanying financial statements.

### **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



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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 March 31, 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.

<u>Exhibit No.</u>	<u>Description</u>
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

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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: May 15, 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 ----
<u>/s/Russell A. Whitney</u> Russell A. Whitney	Chief Executive Officer Chairman	May 15, 2001
<u>/s/Richard W. Brevoort</u> Richard W. Brevoort	President and Director	May 15, 2001
<u>/s/Richard S. Simon</u> Richard S. Simon	Secretary/Treasurer/Chief Financial Officer/ Principal Accounting Officer and Director	May 15, 2001

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