

WHITNEY INFORMATION NETWORK INC
Form S-1/A
August 14, 2006

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As filed with the Securities and Exchange Commission on August 14, 2006.

Registration Number 333-130964

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

WHITNEY INFORMATION NETWORK, INC.

(Exact name of registrant as specified in charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

8200
(Primary Standard Industrial
Classification Code Number)
1612 East Cape Coral Parkway
Cape Coral, Florida 33904
(239) 542-0643

84-1475486
(I.R.S. Employer
Identification Number)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Russell A. Whitney, Chairman of the Board and Chief Executive Officer
Whitney Information Network, Inc.
1612 East Cape Coral Parkway
Cape Coral, Florida 33904
(239) 542-0643

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications to:
Gary A. Agron, Esq.
Law Office of Gary A. Agron
5445 DTC Pkwy., Suite 520
Greenwood Village, Colorado 80111
(303) 770-7254
(303) 770-7257 (fax)

Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. /x/

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. //

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share(1)	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, no par value	3,300,000 shares	\$10.07	\$33,231,000	\$3,556
Common stock underlying common stock purchase warrants	1,650,000 shares	\$10.07	\$16,615,500	\$1,778
Totals	4,950,000 shares	\$10.07	\$49,846,500	\$5,334(2)

(1) Estimated solely for computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act. The closing price of common stock on the NASD's Over-the-Counter Bulletin Board as of August 11, 2006 was \$7.80.

(2) Paid previously.

The Registrant hereby amends the Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Dated August 14, 2006

4,950,000 shares of common stock

Our selling stockholders are offering for sale an aggregate of 4,950,000 shares of our common stock, comprised of 3,300,000 shares of common stock and 1,650,000 shares of common stock underlying common stock purchase warrants. The shares of common stock will be offered from time to time in open market transactions at prevailing market prices. We will not receive any proceeds from the sale of the common stock offered by the selling stockholders.

Our common stock is quoted on the NASD's Over-the-Counter Bulletin Board under the symbol "RUSS." On August 11, 2006, the closing price of the common stock was \$7.80 per share.

Investing in our common stock involves substantial risks. See "Risk Factors" beginning on page 12.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 14, 2006.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor the sale of common stock means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these securities in any circumstances under which the offer or solicitation is unlawful.

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Until September , 2006 (25 days after the date of this prospectus), all dealers that buy, sell or trade these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

The summary highlights key aspects of the information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the section describing the risks factors and Consolidated Financial Statements and the notes to the Consolidated Financial Statements included elsewhere in the prospectus.

Our Business

Since 1992, we have provided postsecondary educational and training courses for students throughout the United States, Canada and Europe, interested in learning about the real estate and financial markets. The postsecondary education and training industry is large and highly fragmented. According to the United States Department of Education estimates, Eduventures, LLC and Robert W. Baird & Co. Incorporated Education Service's *For-Profit Post-Secondary Fact Book*, the postsecondary and training market exceeds \$400 billion. We develop and deliver branded and private label education content spanning over twenty courses of study, including:

real estate investing;

business strategies;

stock market investment techniques;

cash management;

asset protection;

other financially oriented subjects.

In addition, we develop and sell educational resource materials which we prepare to support our course offerings and for sale to the general public. We are also aligning ourselves with other education brands to deliver our educational content.

Our Strategy

In recent years, we have expanded our course offerings and marketing areas, which has resulted in significant revenue growth. Our strategy is to continue our leadership in real estate and financial markets by:

increasing the number and types of our course offerings, both branded and private label, to reflect student interests;

expanding our international markets;

marketing our reference materials and online courses on a stand-alone basis;

identifying and developing strategic alliances with other education brands;

diversifying our media advertising;

developing or acquiring accredited or licensed proprietary schools.

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We deliver our curricula in various formats, including live instruction in classroom settings, onsite mentoring, telephonic coaching, electronic access and through multi-day conferences.

About Us and our Principal Executive Office

We were incorporated in Colorado in 1996 under the name Gimmel Enterprises, Inc. In 1998, we acquired all of the outstanding common stock of Whitney Education Group, Inc., a Florida corporation organized in 1992, and Whitney Education became our wholly owned subsidiary. In August 1998, we

changed our name to WIN Systems International, Inc. and in February 1999 we changed our name to Whitney Information Network, Inc. We conduct our operations through nine wholly owned subsidiaries in the United States and overseas.

Our principal executive office is located at 1612 East Cape Coral Parkway, Cape Coral, Florida, and our telephone number is (239) 542-0643. Our website is located at www.wincorporate.com. Information on our website is not a part of this prospectus.

In July 2005, we contributed our financial markets education course content, intellectual property, brands, other assets and working capital into a new wholly owned subsidiary, EduTrades, Inc. in exchange for 7,600,000 shares (on a post stock split basis) of EduTrades, Inc. common stock. We now operate EduTrades, Inc. as a wholly owned subsidiary. In November 2005, EduTrades, Inc. filed a Registration Statement on Form S-1 to sell 3,000,000 shares (on a post stock split basis) of its common stock to the public at between \$9.00 and \$11.00 per share. The Registration Statement has not as yet been declared effective by the Securities and Exchange Commission.

Our Brands

The brands of *Building Wealth* *Cash Flow Generator*®, *Teach Me To Trade*®, *Star Trader* *Options Success* *Stock Success Systems* , *Wealth Intelligence Academy* *EduTrades* and *Russ Whitney*® are our registered trademarks, pending applications or exist under common law.

The Offering

Common Stock Outstanding	11,025,516 shares of common stock as of August 11, 2006
Common Stock Offered by the Selling Stockholders	3,000,000 shares of common stock and 1,500,000 shares of common stock underlying common stock purchase warrants
Percentage of Outstanding Common Stock Offered by the Selling Stockholders	27.2%. If all 1,950,000 common stock purchase warrants (inclusive of warrants for 300,000 shares and 150,000 shares issued to our placement agent) and all outstanding stock options and warrants are exercised, the total percentage of outstanding common stock offered by the selling stockholders, including shares receivable upon exercise of the warrants would be 35.2%.
NASD Over-the-Counter Bulletin Board Symbol	RUSS
Risk Factors	Investment in our securities involves a high degree of risk and could result in a loss of your entire investment.
Use of Proceeds	We did not receive any proceeds from the sale of the common stock offered by the selling stockholders. Any funds received upon exercise of the warrants will be added to our working capital.

The 3,000,000 shares registered are issued and outstanding and comprise 27.2% of the total amount of our outstanding shares as of August 11, 2006. At August 11, 2006, we also had outstanding stock options to purchase up to 1,480,350 shares of our common stock issued under our 1998 Stock Option Plan. Assuming all stock options and warrants are exercised and converted into shares of common stock, the total amount outstanding would increase to 14,072,533 shares. The 4,950,000 additional shares from this offering (inclusive of warrants for 300,000 shares and 150,000 shares issued to our placement agent) represents 35.2% of the total.

Description of Selling Stockholders

Through this prospectus, we are registering the resale of 3,300,000 shares of common stock and 1,650,000 shares of common stock underlying common stock purchase warrants. The common stock and warrants were issued in a December 2005, \$13.5 million private placement in which 3,000,000 units of our securities were sold, each unit consisting of one share of common stock at \$4.50 per share and one-half common stock purchase warrant, exercisable at \$6.00 per share, to a group of 17 nonaffiliated accredited investors. We also issued a unit warrant to our placement agent exercisable to purchase 300,000 units at \$4.50 per share and another unit warrant exercisable to purchase 150,000 shares at \$6.00 per share. None of the selling stockholders are officers or directors of WIN and only one selling stockholder is a 10% or greater stockholder.

RESTATEMENT*Overview*

This amendment to Whitney Information Network, Inc.'s Registration Statement on Form S-1 restates our financial statements and other financial information for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 and for each of the quarters in the years 2005 and 2004. The effect of the restatement on our statement of financial position at the end of the reported periods is summarized in the table below. The financial restatements reflect:

a modification associated with a change in revenue recognition policy and restatement of revenue from expired courses;

reclassifications in financial statement categories and the timing of accruals necessary for comparability to the current period's presentation; and

a revision to the revenue recognition policy with respect to our teleconferencing product and service offering, and subscription services.

Summary effects of restatement

The following table sets forth the effects of the restatement on our previously reported Consolidated Statement of Operations for the years ended December 31, 2005, 2004, 2003, 2002 and 2001.

Effects of restatement	Total	Years ended December 31,				
		2005	2004	2003	2002	2001
(in thousands except per share amounts)						
Revenue recognition policy change	\$ (30,004)	\$ (12,791)	\$ (1,698)	\$ (5,767)	\$ (8,446)	\$ (1,302)
Teleconferencing and subscription deferral policy	(1,116)	(746)	(370)			
Net earnings (loss)	\$ (31,120)	\$ (13,537)	\$ (2,068)	\$ (5,767)	\$ (8,446)	\$ (1,302)
Earnings (loss) per share as previously reported:						
Diluted		\$ 1.86	\$ (3.48)	\$ (0.19)	\$ 0.71	\$ 0.33
Basic		1.96	(3.48)	(0.19)	0.78	0.33
Earnings (loss) per share as restated:						
Diluted		\$ 0.41	\$ (3.72)	\$ (0.89)	\$ (0.28)	\$ 0.16
Basic		0.43	(3.72)	(0.89)	(0.28)	0.16

Background

In connection with the review of our Registration Statement on Form S-1, we had discussions with Staff members of the Securities and Exchange Commission ("SEC") regarding the May 2005 change in policy with respect to revenue recognition in the United Kingdom. We elected to amend our policy in the United Kingdom with respect to the acceptance of students allowed to take courses subsequent to the expiration of the contract we had with the student.

The original policy was established at the inception of our European operations and was initially driven by customer service and capacity considerations. As the United Kingdom operations matured, we sought to establish conformity with our North American operations; therefore, the policy changed in May 2005 to recognize revenue upon the student contract's expiry. In the second quarter of 2005, we changed the policy and recorded \$1.3 million in revenue in connection with expired contracts.

We revised the May 2005 policy associated with delivering education content to those students who attend classes after the expiration of the contract. We restated revenue from the United Kingdom to reflect the implementation of the revised revenue recognition policy.

The SEC further inquired about the revenue recognition policy in the United States and Canada with respect to expired contracts. We modified our revenue recognition policy in the United States and Canada as well. Upon the implementation of the new revenue recognition policy, we restated our Consolidated Financial Statements from 2001 through and including 2005.

Revenue recognition policy

We are engaged primarily in the business of providing real estate and financial education to individual investors through courses of study as well as educational materials. We offer our students multiple course packages. Students pay for the courses in advance and we record the proceeds from the sale of courses as deferred revenue when it is received. Revenue is earned when the student attends the course.

The student is permitted to attend courses (in all available learning formats) throughout the life of the student contract. We allow students to attend courses subsequent to expiration upon request. The tuition is generally nonrefundable. A student may receive a refund within three days of the purchase by exercising a right of rescission. In such cases, the corresponding amount of deferred revenue is relieved with no impact on the Consolidated Statement of Operations.

We recognize revenue based on:

when the course is attended by the student; or

likelihood of the attendance by the student is remote (course breakage), which is based on the historical:

percentage of students who never attended a course and those students who never attended a course subsequent to expiration; and

highest number of days in which 95% of those students who attended our courses subsequent to expiry.

We determine our course breakage rate based upon estimates developed from historical student attendance patterns. Based on our historical information, we can determine the likelihood of an expired course remaining unattended. Moreover, we determined that we do not have a legal obligation to remit the value of expired courses to relevant taxing jurisdictions.

To apply course breakage, we calculate verifiable and objective supporting data as of each balance sheet date.

To the extent our financial markets education division (EduTrades, Inc. a wholly owned subsidiary) and United Kingdom businesses do not have three full years of data (subsequent to course expiration), we recognize revenue based on course attendance. Only at such time that we have developed verifiable and objective data over a three year period subsequent to course expiration will we apply course breakage based on the methodology described above.

With respect to our EduTrades division and the United Kingdom, we expect to have sufficient data to apply course breakage by the end of 2006. Accordingly, we anticipate reflecting course breakage as contemplated above in the quarter ending December 31, 2006, for the courses sold as of the beginning of the first quarter of 2003 through the end of the fourth quarter of 2005 which remain expired and unattended. We expect to recognize a significant amount of deferred revenue in the fourth quarter of 2006 from initial application of the course breakage to our EduTrades division and United Kingdom businesses.

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As a result of applying this policy, during the years ended December 31, 2005, 2004 and 2003 we recognized \$16.6 million, \$18.1 million and \$19.0 million, respectively, in revenue related to course breakage.

Reclassifications

We reviewed our financial statement classifications and restated the 2004 and 2003 Consolidated Financial Statements as necessary for comparability with the 2005 presentation. These reclassifications have no cumulative effect on reported earnings, cash flows or adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) for 2004 and 2003.

Teleconferencing and subscription services

Upon review of our revenue recognition policies for all service and product offerings, we concluded the previous revenue recognition policy with respect to our teleconferencing and subscription based offerings needed to be modified in order to comply with the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and Staff Accounting Bulletin No. 104 (SAB 104). These restatements have no cumulative effect on our Consolidated Statement of Cash Flows.

In response to the issues raised as described above, we

completed a review of our revenue recognition practices and have implemented changes as necessary to account for revenue recognition in accordance with the revised policies as of January 1, 2006; and

taken action to assure material expense accruals are recorded in the appropriate period; and

restated our previously issued Consolidated Financial Statements to reflect the new revenue recognition policies and accrual practices.

Effects of restatement

The following tables set forth the effects of the restatement on affected line items within our previously reported financial statements for the years ended December 31, 2005, 2004 and 2003 and for each of the quarters in the years 2005 and 2004.

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in thousands, except per share amounts)					
Consolidated Statement of Operations						
Revenue	\$ 178,564	\$ 163,107	\$ 139,859	\$ 136,259	\$ 94,958	\$ 89,805
Direct course expenses	96,520	94,765	57,952	91,763	46,804	51,868
Advertising and sales expense	50,003	49,839	79,533	49,664	27,508	30,092
Earnings (loss) from operations	4,377	(9,161)	(30,776)	(32,844)	(1,709)	(7,476)
Net earnings (loss)	\$ 17,388	\$ 3,850	\$ (29,896)	\$ (31,963)	\$ (1,558)	\$ (7,325)
Per share amounts:						
Diluted earnings (loss) per share	\$ 1.86	\$ 0.41	\$ (3.48)	\$ (3.72)	\$ (0.19)	\$ (0.89)
Basic earnings (loss) per share	1.96	0.43	(3.48)	(3.72)	(0.19)	(0.89)

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	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Statement of Changes in Stockholders' Deficit

Balance at January 1	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)	\$ (3,102)	\$ (12,865)
Increase (decrease) attributable to net earnings (loss)	17,388	3,850	(29,896)	(31,963)	(1,558)	(7,325)
Currency translation adjustments, net (a)	(155)	(100)	166	55	(348)	(591)
Balance at December 31	\$ (9,052)	\$ (40,486)	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)

(a) The change in foreign currency translation is attributable to the restatements arising from the change in revenue recognition policies.

At December 31	2005		2004	
	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Balance Sheets

Deferred course expenses	\$ 9,513	\$ 14,401	\$ 8,825	\$ 11,898
Deferred course expenses, noncurrent		99		
Total assets	97,216	102,203	56,955	60,028
Deferred revenue	80,580	116,777	62,689	83,713
Deferred revenue, noncurrent		224		
Total liabilities	102,329	138,750	88,587	109,611
Foreign currency translation adjustment	(337)	(650)	(182)	(550)
Accumulated deficit	(19,757)	(50,878)	(37,145)	(54,728)
Total stockholders' deficit	(9,052)	(40,486)	(33,609)	(51,560)
Total liabilities and stockholders' deficit	\$ 97,216	\$ 102,254	\$ 56,955	\$ 60,028

2005

Unaudited quarterly information	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands, except per share amounts)

Consolidated Statement of Operations

Revenue	\$ 40,170	\$ 38,434	\$ 46,520	\$ 40,898	\$ 46,820	\$ 44,050	\$ 45,054	\$ 39,725
Operating expenses	36,062	38,020	44,053	43,380	45,407	46,454	48,665	44,415
Earnings (loss) from operations	4,108	414	2,467	(2,482)	1,413	(2,404)	(3,611)	(4,690)

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2005

Net earnings (loss)		4,149 \$	811 \$	3,159 \$	(2,120) \$	9,069 \$	5,252 \$	1,011 \$	(94)
Per share amounts:									
Diluted earnings (loss) per share	\$	0.48 \$	0.08 \$	0.35 \$	(0.24) \$	0.97 \$	0.56 \$	0.10 \$	(0.01)
Basic earnings (loss) per share		0.48	0.09	0.36	(0.24)	1.04	0.60	0.11	(0.01)
				7					

2004

Unaudited quarterly information	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands, except per share amounts)

Consolidated Statement of Operations

Revenue	\$ 38,509	\$ 32,164	\$ 38,607	\$ 32,572	\$ 32,154	\$ 38,858	\$ 30,589	\$ 32,665
Operating expenses	38,462	37,368	43,578	42,762	44,348	45,285	44,247	43,688
Earnings (loss) from operations	47	(5,204)	(4,971)	(10,190)	(12,194)	(6,427)	(13,658)	(11,023)
Net earnings (loss)	\$ 208	\$ (5,043)	\$ (4,369)	\$ 9,482	\$ (12,021)	\$ (6,359)	\$ (13,764)	\$ (11,079)
Per share amounts								
Diluted earnings (loss) per share	\$ 0.02	\$ (0.59)	\$ (0.51)	\$ (1.11)	\$ (1.40)	\$ (0.74)	\$ (1.61)	\$ (1.29)
Basic earnings (loss) per share	0.02	(0.59)	(0.51)	(1.11)	(1.40)	(0.74)	(1.61)	(1.29)

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth summary consolidated financial data as of and for the three months ended March 31, 2006 and 2005, respectively. The data has been derived from our unaudited Consolidated Financial Statements which appear elsewhere in this prospectus. The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the notes thereto which appear elsewhere in this prospectus.

All financial information, except per share data, is unaudited and expressed in thousands.

	Three months ended March 31,	
	2006	2005
		(restated)
Statement of Operations data:		
Revenue	\$ 44,914	\$ 38,434
Net earnings (loss)	\$ (3,825)	\$ 811
Diluted earnings (loss) per share	\$ (0.36)	\$ 0.09
Statement of Cash Flows data:		
Cash provided by operations	\$ 8,732	\$ 6,708
Cash provided by (used in) investing activities	\$ 966	\$ (561)
Cash used in financing activities	\$ (4,691)	\$ (87)
Increase in cash and cash equivalents	\$ 4,973	\$ 5,693

The following table sets forth our summary consolidated financial data as of and for the five year period ended December 31, 2005. This data has been derived from our audited Consolidated Financial Statements which appear elsewhere in this prospectus. The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the notes thereto which appear elsewhere in this prospectus.

All financial information, except per share data, is expressed in thousands.

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Statement of Operations data:					
Revenue	\$ 163,107	\$ 136,259	\$ 89,805	\$ 51,178	\$ 41,274
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)	\$ (2,216)	\$ 1,232
Diluted earnings (loss) per share	\$ 0.41	\$ (3.72)	\$ (0.89)	\$ (0.28)	\$ 0.16
Statement of Cash Flows data:					
Cash provided by operations	\$ 17,022	\$ 600	\$ 10,732	\$ 7,873	\$ 5,290
Cash provided by (used in) investing activities	\$ 8,640	\$ (10,604)	\$ (7,732)	\$ (4,907)	\$ (829)
Cash provided by (used in) financing activities	\$ 3,015	\$ 1,387	\$ 599	\$ 367	\$ (875)
Increase (decrease) in cash and cash equivalents	\$ 28,577	\$ (8,562)	\$ 3,008	\$ 3,333	\$ 3,585
<i>Other operating data:</i>					

As used in the following operating data and our reconciliation, EBITDA means net earnings (loss) before income taxes plus interest expense, depreciation and amortization expense, as well as the stock portion of the gift to the estate of the former President, interest and nonoperating income, stock based compensation, minority interest and equity earnings in related parties and gain from the sale of assets. We refer to "Adjusted EBITDA" to mean 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 under generally accepted accounting principles.

We use Adjusted EBITDA as a key measure in evaluating our operations and decision-making. We feel it is 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. In addition, we provide Adjusted EBITDA because we believe investors and security analysts find Adjusted EBITDA to be a useful measure for evaluating our performance.

The vast majority of our costs to acquire the student have been expended up to the point of registration, such as media, travel, facilities and instructor fees for the introductory workshops; these costs are expensed when incurred. However, the tuition paid at registration is deferred until the course is attended by the student, the student has received the course content in an electronic format, or estimated course breakage is recognized, at which time the revenue is deemed earned. Thus, reporting under generally accepted accounting principles in the United States of America (U.S. GAAP) creates significant timing differences with respect to revenue and expenses, both in the form of cash flows and in the form of our Consolidated Statement 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 U.S. GAAP financial measure.

Adjusted EBITDA should not be considered as an alternative to net earnings (loss), cash flows provided by operations, investing or financing activities or other financial statement data presented in the 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 measurement determined in accordance with U.S. GAAP and is susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similar titled measures of performance from other companies.

All financial information is unaudited and expressed in thousands.

	Three months ended March 31,	
	2006	2005
		(restated)
Net (loss) earnings	\$ (3,825)	\$ 811
Interest income, net	(326)	(30)
Other income	(166)	(270)
Stock gift	937	
Stock option compensation	252	
Depreciation and amortization	450	480
Minority interest and equity earnings	(30)	(84)
Gain on sale of assets		(13)
EBITDA	(2,708)	894
Net change in deferred revenue	12,353	9,139
Net change in deferred course costs	(1,050)	(762)
Adjusted EBITDA	\$ 8,595	\$ 9,271

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All financial information is expressed in thousands.

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)	\$ (2,216)	\$ 1,232
Other income	(1,801)	(892)	(154)	(81)	(357)
Interest expense (income), net	28	499	3	(86)	104
Income tax benefit	(6,798)				
Depreciation and amortization	1,856	1,610	950	598	293
Minority interest and equity earnings	2,138	(182)		(102)	
Gain on sale of assets	(6,579)	(305)			
EBITDA	(7,306)	(31,233)	(6,526)	(1,887)	1,272
Net change in deferred revenue	33,288	27,828	19,468	11,581	2,196
Net change in deferred course costs	(2,602)	(3,546)	(3,339)	(1,791)	(578)
Adjusted EBITDA	\$ 23,380	\$ (6,951)	\$ 9,603	\$ 7,903	\$ 2,890

All financial information is unaudited and expressed in thousands.

	Three months ended March 31,	
	2006	2005
		(restated)
Cash received from course and product sales	\$ 57,267	\$ 47,573
Less: Net change in deferred revenue	(12,353)	(9,139)
Revenue for financial reporting purposes	\$ 44,914	\$ 38,434

All financial information, except per share amounts, is expressed in thousands.

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Cash received from course and product sales	\$ 196,395	\$ 164,087	\$ 109,273	\$ 62,759	\$ 43,470
Less: Net change in deferred revenue	(33,288)	(27,828)	(19,468)	(11,581)	(2,196)
Revenue for financial reporting purposes	\$ 163,107	\$ 136,259	\$ 89,805	\$ 51,178	\$ 41,274

Consolidated Balance Sheets data:

March 31, 2006	December 31,				
	2005	2004	2003	2002	2001

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	December 31,					
	(unaudited)	(restated)		(restated)		(restated)
		(restated)				
Total assets	\$ 106,853	\$ 102,203	\$ 60,028	\$ 55,552	\$ 28,272	\$ 16,128
Long term debt	\$ 6,894	\$ 3,374	\$ 12,312	\$ 10,953	\$ 1,650	\$ 700
Stockholders' deficit	\$ (42,217)	\$ (40,486)	\$ (51,560)	\$ (19,930)	\$ (12,865)	\$ (11,698)
Book value per share deficit	\$ (3.88)	\$ (3.87)	\$ (5.98)	\$ (2.33)	\$ (1.59)	\$ (1.48)
Shares outstanding	10,878	10,456	8,618	8,548	8,097	7,878

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RISK FACTORS

You should carefully consider the risks and uncertainties described below and the other information in this prospectus before deciding whether to invest in the common stock.

Volatility in the real estate or securities markets may reduce interest in our educational courses, thereby reducing our revenue.

The level of public interest in investing in real estate or in securities significantly influences the demand for our educational and training programs. The real estate and securities markets have experienced varying levels of volatility in recent years. Negative developments in either market could cause a reduced demand for our programs, products and services, thereby reducing our revenue.

Failure to comply with state laws regulating the marketing and sale of our educational courses could harm our reputation and reduce the demand for our course offerings.

Many states regulate the marketing and sale of our educational courses, including the content of advertisements to attract students. Failure to comply with these regulations could result in legal action instituted by the states, including cease and desist and injunction actions. In the event we are subject to such legal action, our reputation would be harmed and the demand for our course offerings could be significantly reduced. In the past, we have been involved in four state regulatory investigations which we have resolved and we are currently involved in four other such regulatory investigations. See "Business Government Regulation" for a detailed discussion of these regulatory investigations.

If we do not successfully introduce new programs, products and services, our growth rate and revenue will be reduced.

Our growth strategy is dependent on our ability to sell existing training programs, products and services to new students, to open new markets and to develop and introduce new educational programs, products and services. If we are unable to expand our markets and products, our growth rate and revenue will be reduced. Market conditions and the level of customer interest may be different for our current products than for new products, and there can be no assurance that we will be able to compete favorably with, and obtain market acceptance for, any such new programs, products or services.

If we fail to maintain an effective system of internal controls, or fail to develop a system to evaluate the effectiveness of such controls, we may not be able to accurately report our financial results or prevent financial fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would reduce our ability to obtain subsequent financing, if necessary, as well as reduce the trading price of our common stock.

We will need to document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our independent accountants will need to issue an opinion on that assessment and the effectiveness of those controls, subject to the requirements of Section 404 of the *Sarbanes-Oxley Act of 2002*. We will be subject to Section 404 requirements at the end of our fiscal year ending December 31, 2007. This will require us to develop a system to document and test the effectiveness of our internal controls. Failure to do so or failure to maintain an effective system of internal controls at the end of our fiscal year ending December 31, 2007 could negatively effect our ability to obtain subsequent financing as well as our stock price. Furthermore, if we identify any issues complying with those requirements, we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us.

We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. On the basis of these findings, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not effective. In connection with the 2005 audit of our Consolidated Financial Statements, our independent registered public

accounting firm, issued a management letter which noted that we had the material weaknesses described below in our internal control over financial reporting. These deficiencies included:

Bank reconciliations were incorrectly prepared containing improper reconciling items resulting in misstatements to the recorded balance in the general ledger.

Errors in deferred revenue and revenue recognition were noted. We place excessive reliance on our systems in certain circumstances without adequate review over systems and processes.

A general lack of review over the accounting and reporting functions and inadequate reconciliation procedures exist in many areas of the accounting function.

Inadequate EDP controls including general access controls.

We do not currently maintain complete records and adequate supporting documentation over our stock options and warrants.

Our calculation of foreign currency translation adjustments contained errors.

We do not have adequate procedures to provide for inventory obsolescence.

These material weaknesses are a result of a lack of sufficient and qualified personnel over the accounting and reporting function, a lack of formalized processes and procedures over key areas in the accounting and reporting functions and inadequate supervision and review over the financial reporting function.

Subsequent to identifying the material weaknesses in our internal control over financial reporting, we initiated corrective actions to address these internal control deficiencies. We will continue to evaluate the effectiveness of our disclosure controls and internal controls and procedures on an ongoing basis, taking corrective action as appropriate. Thus far in 2006, we hired an experienced Chief Financial Officer. In addition, we hired or appointed a Chief Financial Officer for our EduTrades division, a Director, Corporate Accounting, a Director, Accounting Operations, a Director, Financial Systems, a Director, Sarbanes-Oxley Compliance and Implementation, a Director, Planning and Analysis and a Vice President, Strategy and Business Development. We are actively recruiting for several new positions that have been approved by the Board of Directors in the areas of financial reporting, financial planning and analysis, financial systems and continued upgrades in the Controller's department. We also upgraded our current accounting and financial reporting systems. In the interim, we have retained the services of two certified public accountants and other accounting professionals to assist in the preparation of our Consolidated Financial Statements until the positions are filled.

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 be hampered in this regard by our current level of staffing or 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 to meet our reporting obligations, result in misstatements in our 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.

In addition, the efforts to improve our internal controls could require us to expand significant time and management resources or make other substantial changes. If our internal controls are deemed to be inadequate, or if other unforeseen events occur, our external auditors could resign, leading to a delay in the preparation of our financial statements and an increase in our audit fees. If we were required to obtain new external auditors, those auditors could require a lengthy period to become familiar with our operations. The process of retaining new external auditors could also limit our access to the capital markets for an extended period of time.

The current market price of our common stock significantly exceeds our book value per share and increases the risk that our market price per share may decline in the future.

The market price of our common stock was \$7.80 per share at the close of business on August 11, 2006 and greatly exceeded our December 31, 2005 book value, which was a stockholders' deficit of \$40.8 million or \$(3.90) book value per share deficit. Moreover, our stock price increased significantly in the fourth quarter of 2005. The lower book value per share compared to our market price per share and the recent significant increase in our market price increase the risk that our market price per share may decline in the future.

Our Chairman and Chief Executive Officer owns approximately 50% of our outstanding capital stock, which means that he has the ability to approve or disapprove any matter requiring stockholder approval or prevent a change of control in our Company.

Russell A. Whitney, our Chairman and Chief Executive Officer, owns approximately 50% of our outstanding capital stock. As such, Mr. Whitney can approve or disapprove any matter requiring the vote of our stockholders, including the election of directors. Mr. Whitney could, without other stockholders, vote to approve a transaction that may not be in the best interests of other stockholders or reject a transaction that may be in the best interests of other stockholders. Moreover, Mr. Whitney's stock ownership may prevent a third party from acquiring a controlling position in our common stock because in many instances, a third party desiring to purchase a controlling position in a public company is willing to pay a premium to the market price. Mr. Whitney's stock ownership would likely prevent such an event from occurring.

Outside business interests of Mr. Whitney could result in conflicts of interests that could negatively impact investor interest in our Company.

Mr. Whitney has outside passive investment interests in real estate and owns a 25% interest in Gulfstream Development Corp., a construction company. In the past, Mr. Whitney owned residential real estate lots in Cape Coral, Florida, some of which were purchased by our students. From time to time, some of our students used Gulfstream to build residences upon lots which they have purchased from Mr. Whitney or others. These kinds of arrangements could create, or appear to create, conflicts of interest if our students purchased lots from Mr. Whitney or contracted with Gulfstream to construct residences on such lots. any conflict of interest or appearance of a conflict of interest in connection with our arrangements with our students could negatively impact investor interest in our company and therefore our stock price and liquidity. We do not have any formal procedure for resolving any such conflicts of interest. See "Related Party Transactions" for a more detailed discussion of these potential conflicts of interest.

The loss of any of our key personnel, especially Mr. Whitney, could disrupt our operations and reduce our profitability.

Our future success depends to a significant extent on the continued services of our senior management, including Mr. Whitney. We do not maintain key-man life insurance on the life of Mr. Whitney. The loss of the services of Mr. Whitney or other senior management could disrupt our operations and reduce our profitability.

Our Board of Directors, without stockholder approval, may issue preferred stock which could reduce the voting power or rights of our other stockholders and make it more difficult for a third party to acquire a majority of our outstanding voters stock.

Our Board of Directors, without stockholder approval, may issue up to 10.0 million shares of preferred stock. The Board of Directors can fix the rights, preferences and privileges of the shares of each series and any qualifications, limitations or restrictions, which could reduce the voting power or other rights of the holders of common stock. Issuance of preferred stock could also have the effect of making it more difficult for a third-party to acquire, or of discouraging a third-party from attempting to acquire, a majority of our outstanding voting stock.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements deal with our current plans, intentions, beliefs and expectations and statements of future economic performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," or "predicts" or the negative of such terms. These forward-looking statements include, without limitation, statements about our market opportunity, our strategies, competition, expected activities and expenditures as we pursue our business plan, and the adequacy of our available cash resources. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements involve known and unknown risks and uncertainties which may cause our actual results in future periods to differ materially from what is currently anticipated. We make cautionary statements in certain sections of this prospectus, including under the heading "Risk Factors." You should read these cautionary statements as being applicable to all related forward-looking statements wherever they appear in this prospectus, in the materials referred to in this prospectus, in the materials incorporated by reference into this prospectus, or in our press releases. No forward-looking statement is a guarantee of future performance, and you should not place undue reliance on any forward-looking statement. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Industry data and other statistical information used in this prospectus are based on independent publications, government publications, reports by market research firms or other published independent sources. Some data are based on pure good faith estimates, derived from our review of internal surveys and the independent sources just listed. Although we believe these sources to be reliable, we have not independently verified the information.

PRICE RANGE OF OUR COMMON STOCK

Our common stock is quoted on NASD's Over-the-Counter Bulletin Board under the trading symbol "RUSS" since August 1998. The high and low closing prices of our common stock for the last two and one-half years, by calendar quarter, are set forth below. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

	High Closing Price	Low Closing Price
	<u> </u>	<u> </u>
Six months ended June 30, 2006		
Second Quarter	\$ 11.26	\$ 7.69
First Quarter	\$ 10.80	\$ 7.10
Year ended December 31, 2005		
Fourth Quarter	\$ 9.75	\$ 4.55
Third Quarter	\$ 5.00	\$ 2.82
Second Quarter	\$ 3.40	\$ 1.20
First Quarter	\$ 2.38	\$ 1.10
Year ended December 31, 2004		
Fourth Quarter	\$ 4.00	\$ 1.90
Third Quarter	\$ 4.65	\$ 3.25
Second Quarter	\$ 4.90	\$ 3.95
First Quarter	\$ 5.05	\$ 4.20

As of July 19, 2006, we had approximately 415 record and beneficial stockholders.

DIVIDEND POLICY

We have not paid dividends on our common stock in the past but may pay dividends in the future based upon our cash position and anticipated cash needs.

CAPITALIZATION

The following table sets forth our cash, cash equivalents and restricted cash and our consolidated capitalization at December 31, 2005. You should read this data in conjunction with the Consolidated Financial Statements and notes to the Consolidated Financial Statements contained elsewhere in this prospectus (in thousands, except share amounts).

	March 31, 2006	December 31, 2005
	<u> </u>	<u> </u>
	(unaudited)	(restated)
Cash, cash equivalents and restricted cash	\$ 43,662	\$ 38,650
Total long term debt	\$ 6,894	\$ 3,374
Stockholders' deficit:		
Common stock, no par value, 25,000,000 shares authorized, 10,878,016 and 10,455,910(1) issued and outstanding, respectively	\$ 12,175	\$ 10,593
Paid in capital	995	449
Foreign currency translation adjustment	(684)	(650)
Accumulated deficit	(54,703)	(50,878)
Total stockholders' deficit	\$ (42,217)	\$ (40,486)

	March 31, 2006	December 31, 2005
Total capitalization	\$ (35,323)	\$ (37,112)

(1)

Excludes 1,415,000 shares of common stock issuable on the exercise of outstanding stock options, 570,350 shares of outstanding nonvested common stock options, 153,575 shares of common stock reserved for future issuance under the 1998 Stock Option Plan, 200,000 warrants issued in 2004, 875,000 shares of common stock underlying common stock purchase warrants in connection with the Offering, and the unit purchase warrant issued to our placement agent for 300,000 shares of common stock and 150,000 unit warrants. An additional 625,000 shares of common stock underlying common stock purchase warrants will be personally provided by our Chairman and Chief Executive Officer.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Restatement*Overview*

This amendment to Whitney Information Network, Inc.'s Registration Statement on Form S-1 restates our financial statements and other financial information for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 and for each of the quarters in the years 2005 and 2004. The effect of the restatement on our statement of financial position at the end of the reported periods is summarized in the table below. The financial restatements reflect:

a modification associated with a change in revenue recognition policy and restatement of revenue from expired courses;

reclassifications in financial statement categories and the timing of accruals necessary for comparability to the current period's presentation; and

a revision to the revenue recognition policy with respect to our teleconferencing product and service offering, and subscription services.

Summary effects of restatement

The following table sets forth the effects of the restatement on our previously reported Consolidated Statement of Operations for the years ended December 31, 2005, 2004, 2003, 2002 and 2001.

Effects of restatement	Total	Years Ended December 31,				
		2005	2004	2003	2002	2001
(in thousands except per share amounts)						
Revenue recognition policy change	\$ (30,004)	\$ (12,791)	\$ (1,698)	\$ (5,767)	\$ (8,446)	\$ (1,302)
Teleconferencing and subscription deferral policy	(1,116)	(746)	(370)			
Net earnings (loss)	\$ (31,120)	\$ (13,537)	\$ (2,068)	\$ (5,767)	\$ (8,446)	\$ (1,302)
Earnings (loss) per share as previously reported:						
Diluted		\$ 1.86	\$ (3.48)	\$ (0.19)	\$ 0.71	\$ 0.33
Basic		1.96	(3.48)	(0.19)	0.78	0.33
Earnings (loss) per share as restated:						
Diluted	\$	0.41	\$ (3.72)	\$ (0.89)	\$ (0.28)	\$ 0.16
Basic		0.43	(3.72)	(0.89)	(0.28)	0.16

Background

In connection with the review of our Registration Statement on Form S-1, we had discussions with Staff members of the Securities and Exchange Commission ("SEC") regarding the May 2005 change in policy with respect to revenue recognition in the United Kingdom. We elected to amend our policy in the United Kingdom with respect to the acceptance of students allowed to take courses subsequent to the expiration of the contract we had with the student.

The original policy was established at the inception of our European operations and was initially driven by customer service and capacity considerations. As the United Kingdom operations matured, we sought to establish conformity with our North American operations; therefore,

the policy changed in May 2005 to recognize revenue upon the student contract's expiry. In the second quarter of 2005, we changed the policy and recorded \$1.3 million in revenue in connection with expired contracts.

We revised the May 2005 policy associated with delivering education content to those students who attend classes after the expiration of the contract. We restated revenue from the United Kingdom to reflect the implementation of the revised revenue recognition policy.

The SEC further inquired about the revenue recognition policy in United States and Canada with respect to expired contracts. We modified our revenue recognition policy in the United States and Canada as well. Upon the implementation of the new revenue recognition policy, we restated our Consolidated Financial Statements from 2001 through and including 2005.

Revenue recognition policy

We are engaged primarily in the business of providing real estate and financial education to individual investors through courses of study as well as educational materials. We offer our students multiple course packages. Students pay for the courses in advance and we record the proceeds from the sale of courses as deferred revenue when it is received. Revenue is earned when the student attends the course.

The student is permitted to attend courses (in all available learning formats) throughout the life of the student contract. We allow students to attend courses subsequent to expiration upon request. The tuition is generally nonrefundable. A student may receive a refund within three days of the purchase by exercising a right of rescission. In such cases, the corresponding amount of deferred revenue is relieved with no impact on the Consolidated Statement of Operations.

We recognize revenue based on:

when the course is attended by the student; or

likelihood of the attendance by the student is remote (course breakage), which is based on the historical:

percentage of students who never attended a course and those students who never attended a course subsequent to expiration; and

highest number of days in which 95% of those students who attended our courses subsequent to expiry.

We determine our course breakage rate based upon estimates developed from historical student attendance patterns. Based on our historical information, we can determine the likelihood of an expired course remaining unattended. Moreover, we determined that we do not have a legal obligation to remit the value of expired courses to relevant taxing jurisdictions.

To apply course breakage, we calculate verifiable and objective supporting data as of each balance sheet date.

To the extent our financial markets education division (EduTrades, Inc. a wholly owned subsidiary) and United Kingdom businesses do not have three full years of data (subsequent to course expiration), we recognize revenue based on course attendance. Only at such time that we have developed verifiable and objective data over a three year period subsequent to course expiration will we apply course breakage based on the methodology described above.

With respect to our EduTrades division and the United Kingdom, we expect to have sufficient data to apply course breakage by the end of 2006. Accordingly, we anticipate reflecting course breakage as contemplated above in the quarter ending December 31, 2006, for the courses sold as of the beginning of the first quarter of 2003 through the end of the fourth quarter of 2005 which remain expired and unattended. We expect to recognize a significant amount of deferred revenue in the fourth quarter of 2006 from initial application of the course breakage to our EduTrades division and United Kingdom businesses.

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As a result of applying this policy, during the years ended December 31, 2005, 2004 and 2003 we recognized \$16.6 million, \$18.1 million and \$19.0 million, respectively, in revenue related to course breakage.

Reclassifications

We reviewed the financial statement classifications and restated the 2004 and 2003 Consolidated Financial Statements as necessary for comparability with the 2005 presentation. These reclassifications have no cumulative effect on reported earnings, cash flows or adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) for 2004 and 2003.

Teleconferencing and subscription services

Upon review of our revenue recognition policies for all service and product offerings, we concluded the previous revenue recognition policy with respect to our teleconferencing and subscription based offerings needed to be modified in order to comply with the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and Staff Accounting Bulletin 104 (SAB 104). These restatements have no cumulative effect on our Consolidated Statement of Cash Flows.

In response to the issues raised described above, we

completed a review of our revenue recognition practices and have implemented changes as necessary to account for revenue recognition in accordance with the revised policies as of January 1, 2006; and

taken action to assure material expense accruals are recorded in the appropriate period; and

restated our previously issued Consolidated Financial Statements to reflect the new revenue recognition policies and accrual practices.

Effects of restatement

The following tables set forth the effects of the restatement on affected line items within our previously reported financial statements for the years ended December 31, 2005, 2004 and 2003 and for each of the quarters in the years 2005 and 2004.

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
(in thousands, except per share amounts)						
Consolidated Statement of Operations						
Revenue	\$ 178,564	\$ 163,107	\$ 139,859	\$ 136,259	\$ 94,958	\$ 89,805
Direct course expense	96,520	94,765	57,952	91,763	46,804	51,868
Advertising and sales expense	50,003	49,839	79,533	49,664	27,508	30,092
Earnings (loss) from operations	4,377	(9,161)	(30,776)	(32,845)	(1,709)	(7,476)
Net earnings (loss)	\$ 17,388	\$ 3,850	\$ (29,896)	\$ (31,963)	\$ (1,558)	\$ (7,325)
Per share amounts:						
Diluted earnings (loss) per share	\$ 1.86	\$ 0.41	\$ (3.48)	\$ (3.72)	\$ (0.19)	\$ (0.89)
Basic earnings (loss) per share	1.96	0.43	(3.48)	(3.72)	(0.19)	(0.89)

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Statement of Changes in Stockholders' Deficit

Balance at January 1	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)	\$ (3,102)	\$ (12,865)
Increase (decrease) attributable to net earnings (loss)	17,388	3,850	(29,896)	(31,963)	(1,558)	(7,325)
Currency translation adjustments, net (a)	(155)	(100)	166	55	(348)	(591)
Balance at December 31	\$ (9,052)	\$ (40,486)	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)

(a)

The change in foreign currency translation is attributable to the restatements arising from the change in revenue recognition policies.

At December 31

	2005		2004	
	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Balance Sheets

Deferred course expenses	\$ 9,513	\$ 14,401	\$ 8,825	\$ 11,898
Deferred course expenses, noncurrent		99		
Total assets	97,216	102,203	56,955	60,028
Deferred revenue	80,580	116,777	62,689	83,713
Deferred revenue, noncurrent		224		
Total liabilities	102,329	138,750	88,587	109,611
Foreign currency translation adjustment	(337)	(650)	(182)	(550)
Accumulated deficit	(19,757)	(50,878)	(37,145)	(54,728)
Total stockholders' deficit	(9,052)	(40,486)	(33,609)	(51,560)
Total liabilities and stockholders' deficit	\$ 97,216	\$ 102,203	\$ 56,955	\$ 60,028

2005

Unaudited quarterly information

	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands, except per share amounts)

Consolidated Statement of Operations

Revenue	\$ 40,170	\$ 38,434	\$ 46,520	\$ 40,898	\$ 46,820	\$ 44,050	\$ 45,054	\$ 39,725
Operating expenses	36,062	38,020	44,053	43,380	45,407	46,454	48,665	44,415
Earnings (loss) from operations	4,108	414	2,467	(2,482)	1,413	(2,404)	(3,611)	(4,690)

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2005

Net earnings (loss)		4,149 \$	811 \$	3,159 \$	(2,120) \$	9,069 \$	5,252 \$	1,011 \$	(94)
Per share amounts:									
Diluted earnings (loss) per share	\$	0.48 \$	0.08 \$	0.35 \$	(0.24) \$	0.97 \$	0.56 \$	0.10 \$	(0.01)
Basic earnings (loss) per share		0.48	0.09	0.36	(0.24)	1.04	0.60	0.11	(0.01)
				20					

2004

Unaudited quarterly information	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands, except per share amounts)

Consolidated Statement of Operations

Revenue	\$ 38,509	\$ 32,164	\$ 38,607	\$ 32,572	\$ 32,154	\$ 38,858	\$ 30,589	\$ 32,665
Operating expenses	38,462	37,368	43,578	42,762	44,348	45,285	44,247	43,688
Earnings (loss) from operations	47	(5,204)	(4,971)	(10,190)	(12,194)	(6,427)	(13,658)	(11,023)
Net earnings (loss)	\$ 208	\$ (5,043)	\$ (4,319)	\$ (9,482)	\$ (12,021)	\$ (6,359)	\$ (13,714)	\$ (11,079)
Per share amounts								
Diluted earnings (loss) per share	\$ 0.02	\$ (0.59)	\$ (0.51)	\$ (1.11)	\$ (1.40)	\$ (0.74)	\$ (1.61)	\$ (1.29)
Basic earnings (loss) per share	0.02	(0.59)	(0.51)	(1.11)	(1.40)	(0.74)	(1.61)	(1.29)

Selected Consolidated Financial Data

The following table sets forth summary consolidated financial data as of and for the three months ended March 31, 2006 and 2005, respectively. The data has been derived from our unaudited Consolidated Financial Statements which appear elsewhere in this prospectus. The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the notes thereto which appear elsewhere in this prospectus.

All financial information, except per share data, is unaudited and expressed in thousands.

Three months ended March 31,	
2006	2005
(restated)	

Statement of Operations data:

Revenue	\$ 44,914	\$ 38,434
Earnings (loss) from operations	\$ (4,347)	\$ 414
Net earnings (loss)	\$ (3,825)	\$ 811
Diluted earnings (loss) per share	\$ (0.36)	\$ 0.09

Statement of Cash Flows data:

Cash provided by operations	\$ 8,732	\$ 6,708
Cash provided by (used in) investing activities	\$ 966	\$ (561)
Cash used in financing activities	\$ (4,691)	\$ (87)
Increase in cash and cash equivalents	\$ 4,973	\$ 5,693

The following table sets forth our selected consolidated financial information as of and for the five year period ended December 31, 2005. The data for the five years are derived from our audited Consolidated Financial Statements, which appear elsewhere in this prospectus. The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the notes thereto.

All financial information, except per share data, is expressed in thousands.

Years ended December 31,

	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Statement of Operations data:					
Revenue	\$ 163,107	\$ 136,259	\$ 89,805	\$ 51,178	\$ 41,274
Earnings (loss) from operations	\$ (9,161)	\$ (32,845)	\$ (7,476)	\$ (2,486)	\$ 979
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)	\$ (2,216)	\$ 1,232
Diluted earnings (loss) per share	\$ 0.41	\$ (3.72)	\$ (0.89)	\$ (0.28)	\$ (0.16)
Statement of Cash Flows data:					
Cash provided by operations	\$ 17,022	\$ 600	\$ 10,732	\$ 7,873	\$ 5,290
Cash provided by (used in) investing activities	\$ 8,640	\$ (10,604)	\$ (7,732)	\$ (4,907)	\$ (829)
Cash provided by (used in) financing activities	\$ 3,015	\$ 1,387	\$ 599	\$ 367	\$ (875)
Increase (decrease) in cash and cash equivalents	\$ 28,577	\$ (8,562)	\$ 3,008	\$ 3,333	\$ 3,585
<i>Other operating data:</i>					

As used in the following operating data and our reconciliation, EBITDA means net earnings (loss) before income taxes plus interest expense, depreciation and amortization expense, as well as the stock portion of the gift to the estate of the former President, interest and nonoperating income, stock based compensation, minority interest and equity earnings in related parties and gain from the sale of assets, interest and nonoperating income, minority interest and equity earnings in related parties. We refer to "Adjusted EBITDA" to mean 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 under generally accepted accounting principles.

We use Adjusted EBITDA as a key measure in evaluating our operations and decision-making. We feel it is 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. In addition, we provide Adjusted EBITDA because we believe investors and security analysts find Adjusted EBITDA to be a useful measure for evaluating our performance.

The vast majority of our costs to acquire the student have been expended up to the point of registration, such as media, travel, facilities and instructor fees for the introductory workshops; these costs are expensed when incurred. However, the tuition paid at registration is deferred until the course is attended by the student, the student has received the course content in an electronic format, or the contract expires, at which time the revenue is deemed earned. Thus, reporting under generally accepted accounting principles in the United States of America (U.S. GAAP) creates significant timing differences with respect to revenue and expenses, both in the form of cash flows and in the form of our Consolidated Statement 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 U.S. GAAP financial measure.

Adjusted EBITDA should not be considered as an alternative to net earnings (loss), cash flows provided by operations, investing or financing activities or other financial statement data presented in the 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 measurement determined in accordance with U.S. GAAP and is susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similar titled measures of performance from other companies.

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All financial information is unaudited and expressed in thousands.

	Three months ended March 31,	
	2006	2005
		(restated)
Net (loss) earnings	\$ (3,825)	\$ 811
Interest income, net	(326)	(30)
Other income	(166)	(270)
Stock gift	937	
Stock option compensation	252	
Depreciation and amortization	450	480
Minority interest and equity earnings	(30)	(84)
Gain on sale of assets		(13)
EBITDA	(2,708)	894
Net change in deferred revenue	12,353	9,139
Net change in deferred course costs	(1,050)	(762)
Adjusted EBITDA	\$ 8,595	\$ 9,271

All financial information is expressed in thousands.

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)	\$ (2,216)	\$ 1,232
Other income	(1,801)	(892)	(154)	(81)	(357)
Interest expense (income), net	28	499	3	(86)	104
Income tax benefit	(6,798)				
Depreciation and amortization	1,856	1,610	950	598	293
Minority interest and equity earnings	2,138	(182)		(102)	
Gain on sale of assets	(6,579)	(305)			
EBITDA	(7,306)	(31,233)	(6,526)	(1,887)	1,272
Net change in deferred revenue	33,288	27,828	19,468	11,581	2,196
Net change in deferred course costs	(2,602)	(3,546)	(3,339)	(1,791)	(578)
Adjusted EBITDA	\$ 23,380	\$ (6,951)	\$ 9,603	\$ 7,903	\$ 2,890

All financial information is unaudited and expressed in thousands.

Three months ended March 31,	
2006	2005
	(restated)

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Three months ended March 31,

	<u>Three months ended March 31,</u>	
Cash received from course and product sales	\$ 57,267	\$ 47,573
Less: Net change in deferred revenue	(12,353)	(9,139)
	<u> </u>	<u> </u>
Revenue for financial reporting purposes	\$ 44,914	\$ 38,434
	<u> </u>	<u> </u>

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All financial information, except per share amounts, is expressed in thousands.

Years ended December 31,

	2005	2004	2003	2002	2001
	(restated)	(restated)	(restated)	(restated)	(restated)
Cash received from course and product sales	\$ 196,395	\$ 164,087	\$ 109,273	\$ 62,759	\$ 43,470
Less: Net change in deferred revenue	(33,288)	(27,828)	(19,468)	(11,581)	(2,196)
Revenue for financial reporting purposes	\$ 163,107	\$ 136,259	\$ 89,805	\$ 51,178	\$ 41,274

Consolidated Balance Sheets data:

	March 31, 2006	December 31,				
	(unaudited)	2005	2004	2003	2002	2001
	(unaudited)	(restated)	(restated)	(restated)	(restated)	(restated)
Total assets	\$ 106,853	\$ 102,203	\$ 60,028	\$ 55,552	\$ 28,272	\$ 16,128
Long term debt	\$ 6,894	\$ 3,374	\$ 12,312	\$ 10,953	\$ 1,650	\$ 700
Stockholders' deficit	\$ (42,217)	\$ (40,486)	\$ (51,560)	\$ (19,930)	\$ (12,865)	\$ (11,698)
Book value per share deficit	\$ (3.88)	\$ (3.87)	\$ (5.98)	\$ (2.33)	\$ (1.59)	\$ (1.48)
Shares outstanding	10,878	10,456	8,618	8,548	8,097	7,878

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of our consolidated financial condition and results of operations for the periods indicated should be read in conjunction with our consolidated financial statements, related notes and the other financial data included elsewhere in this prospectus. The discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include those described under "Risk Factors", "Special Note Regarding Forward-Looking Statements" and elsewhere in this prospectus.

Executive Overview

In the United States, the United Kingdom and Canada, we offer postsecondary nonaccredited introductory workshops, primary and advanced courses and training in two primary fields of study:

Real estate investing

Financial markets investing

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:

Building Wealth

Cash Flow Generator®

Private label brands:

M2 Advantage®

RE Success System

For financial investment workshops and introductory courses:

Teach Me To Trade®

Star Trader

Options Success

Private label brand:

Stock Success System

Our umbrella brand for advanced courses:

Wealth Intelligence Academy

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

Intensified real estate training
Wholesale buying
Foreclosure training
Lease option
Property management and cash flow
Keys to creative real estate financing

Asset protection & 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 advanced technical analysis
The Trading P.I.T. hedging techniques
The Advanced P.I.T. spread strategies

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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

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

Live instruction in classroom settings

Onsite mentoring

Telephonic coaching

Electronic access

Conferences

We enter into strategic alliances with promoters that market products and services to potential students.

We are also aware of other macroeconomic trends including changes in the real estate markets, financial markets, overall employment, early retirement, consumer confidence that may impact overall demand, and believe we can adapt our curriculum development and marketing message accordingly to changing trends. Moreover, we are also cognizant that we compete in an area where the barrier is low with respect to content development, however, access to students and the fulfillment of the courses require substantial cash outflow before cash inflow is realized in the form of tuition.

Our international presence in the United Kingdom and Canada represents approximately 7.2% of revenue in 2005 which is below the approximate 10.8% of revenue in 2004. We intend to review our entire international strategy during the upcoming year. The review is taking place so that we can assess whether market conditions support a further investment of resources in the international market and conversely, if we should consider exiting the international market.

The review will consist of:

Assessing the current state, outlook and trends for the postsecondary education market with an emphasis in real estate and financial markets education for the individual investor

Dimensionalizing the market potential and our business model

Supporting our brand positioning, our competitive strengths and overall business case to warrant investment outside North America, through:

Clarifying the positioning of the respective brands in our portfolio

Identifying core competencies

Articulating competitive advantages and weaknesses

Benchmarking operating metrics to industry norms and selected competitors

Evaluating our financial capabilities and opportunities

Reviewing other points of differentiation

Articulating our international five year strategic, development and economic plan

Prioritizing our initiatives over the near term and developing a near term tactical plan

Over the past five years, revenue grew at a compounded annual rate of 37.7%. Our operating expenses grew at a 32.7% compounded annual growth rate during the same period. Through continued leveraging of our fixed costs, improving our overall marketing efficiency and course delivery, and prudently increasing our prices, we endeavor to grow revenue at a faster rate than the growth of operating expenses.

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Our unaudited operating results are expressed as a percentage of revenue below:

	Three months ended March 31,	
	2006	2005
	(restated)	
Revenue	100.0%	100.0%
Operating expenses:		
Direct course expenses	58.9	53.6
Advertising and sales expense	31.6	28.9
General and administrative expense	19.2	16.4
	<u>109.7</u>	<u>98.9</u>
(Loss) earnings from operations	(9.7)	1.1
Other income (expense):		
Other income	0.4	0.7
Interest income, net	0.7	0.1
Equity earnings from related parties	0.1	0.1
Gain on sale of assets		
	<u>1.2</u>	<u>0.9</u>
(Loss) earnings before income taxes	(8.5)	1.9
Minority interest		0.2
Net earnings (loss)	(8.5)%	2.1%

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

	Years ended December 31,				
	2005	2004	2003	2002	2001
	(restated)				
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:					
Direct course expenses	58.1	67.3	57.8	50.5	48.8
Advertising and sales expense	30.6	36.4	33.5	27.2	28.0
General and administrative expense	17.0	20.3	17.1	27.1	20.8
	<u>105.7</u>	<u>124.1</u>	<u>108.3</u>	<u>104.9</u>	<u>97.6</u>
Earnings (loss) from operations	(5.7)	(24.1)	(8.3)	(4.9)	2.4
Other income (expense):					
Other income	1.1	0.7	0.2	0.1	

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Years ended December 31,

Interest (expense) income, net	(0.0)	(0.4)	(0.0)	0.2	0.6
Equity earnings from related parties	(0.1)	0.1		0.2	
Gain on sale of assets	4.0	0.2			
	<u>5.0</u>	<u>0.6</u>	<u>0.2</u>	<u>0.5</u>	<u>0.6</u>
Earnings (loss) before income taxes	(0.7)	(23.5)	(8.2)	(4.3)	3.0
Income tax benefit	4.2				
Minority interest	(1.2)				
Net earnings (loss)	<u>2.3%</u>	<u>(23.5)%</u>	<u>(8.2)%</u>	<u>(4.3)%</u>	<u>3.0%</u>

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Our cost structure is particularly sensitive to increasing television advertising and production costs and travel related expenses. However, a very meaningful part of our cost structure is variable in nature, such as instructor related costs which are primarily a function of sales realized.

We obtain the majority of our students through introductory workshops. These introductory workshops are established in various metropolitan areas in the United States, the United Kingdom and Canada. Prior to the actual workshop, we expend a significant amount of money in the form of advertising through various media channels. The following table represents the expense categories and as a percentage of the total, respectively, that comprise advertising and sales expense for the three months ended March 31, 2006 and 2005 (unaudited), respectively, and the three years in the period ended December 31, 2005 (in thousands):

Expense category	Three months ended March 31,			
	2006		2005	
			(restated)	
Television expense	\$ 9,662	68.0%	\$ 7,234	65.1%
Direct mail expense	1,445	10.2	1,016	9.1
Newspaper expense	382	2.7	1,118	10.1
Internet expense	37	0.3		0.0
Other	362	2.5	126	1.1
Media spending	11,888	83.7	9,494	85.4
Direct sales commissions	2,314	16.3	1,625	14.6
Advertising and sales expense	\$ 14,202	100.0%	\$ 11,119	100.0%

Expense category	Years ended December 31,					
	2005		2004		2003	
	(restated)		(restated)		(restated)	
Television expense	\$ 33,179	66.6%	\$ 31,659	63.7%	\$ 19,974	66.4%
Direct mail expense	5,041	10.1	6,938	14.0	3,895	12.9
Newspaper expense	3,345	6.7	3,030	6.1	1,202	4.0
Internet expense	10	0.0	466	1.0		
Radio expense			860	1.7	146	0.5
Other					1,278	4.2
Media spending	\$ 41,575	83.4	\$ 42,953	86.5	\$ 26,495	88.0
Direct sales commissions	8,264	16.6	6,711	13.5	3,597	12.0
Advertising and sales expense	\$ 49,839	100.0%	\$ 49,664	100.0%	\$ 30,092	100.0%

Direct sales commissions represented the largest percentage increase in advertising and sales expense. In 2005 and 2004, direct sales commissions increased 23.1% and 86.6%, respectively, over the year earlier comparable period. Our outreach programs revenue increased by 70.4% and 121.7% in 2005 and 2004, respectively, over the prior year.

Our advertising and sales expense represented approximately 30.6% of our revenue in 2005. Overall advertising and sales expense over the past five years increased at a 32.5% compound annual growth rate, 5.2 percentage points below revenue's compound annual growth rate of 37.7%.

Approximately 22.4% of those students attending the introductory workshops purchase one or more of our courses. For advanced courses the student pays the tuition at the time of registering for

the course or program. As reflected in the following chart, cash sales from course and product sales differs from the revenue reported for financial statement purposes (unaudited, in thousands).

Three months ended March 31,	
2006	2005
(restated)	
Cash received from course and product sales	\$ 57,267
Less: Net change in deferred revenue	(12,353)
Revenue for financial reporting purposes	\$ 44,914

Years ended December 31,				
2005	2004	2003	2002	2001
(restated)				
Cash received from course and product sales	\$ 196,395	\$ 164,087	\$ 109,273	\$ 62,759
Less: Net change in deferred revenue	(33,288)	(27,828)	(19,468)	(11,581)
Revenue for financial reporting purposes	\$ 163,107	\$ 136,259	\$ 89,805	\$ 51,178

Due to the timing differences between cash collection and the time at which our students actually take the course, we have historically recorded a substantial amount of deferred revenue. Deferred revenue at the end of each year may result in reported revenues in subsequent years. As reflected in the table below, our deferred revenue as a percentage of total revenue have ranged from 60% to 72% range since 2001 (in thousands).

Years ended December 31,				
2005	2004	2003	2002	2001
(restated)				
Deferred revenue	\$ 117,001	\$ 83,713	\$ 55,885	\$ 36,417
Revenue for financial reporting purposes	163,107	136,259	89,805	51,178
Deferred as a percentage of revenue	71.7%	61.4%	62.2%	71.2%

The vast majority of our costs to acquire the student has been expended up to the point of registration, such as media, travel, facilities and instructor fees for the introductory workshops; these costs are expensed when incurred. However, the tuition paid at registration is deferred until the course is attended by the student, the student received the course content in an electronic format, or the contract expires, at which time the revenue is deemed earned. Thus, reporting under generally accepted accounting principles in the United States of America creates significant timing differences with respect to revenue and expenses, both in the form of cash flows and in the form of our consolidated income statement. 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 nongenerally accepted accounting principles operating metric.

We can continue to have differences between cash flows and reported revenues in our Consolidated Statement of Operations as the students have yet to take the courses they have paid for. The overall expenses associated with delivering the advanced courses are significantly lower than the expenses surrounding the introductory courses. We hire speakers, instructors, trainers and mentors on an independent contractor basis. These individuals are compensated primarily on a commission basis or sometimes on a fixed fee basis.

EduTrades, our financial markets education division, began operations in July 2002, with the acquisition of *Teach Me to Trade*®, with sales commencing in the fourth quarter of 2002.

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One-half of all U.S. households own stocks, either directly or through a mutual fund or retirement plan, according to a 2005 survey by the Securities Industry Association, Federal Reserve Board and U.S. Census Bureau. This represents 56.9 million households in 2005, when compared to 40.0 million ten years ago, and 15.9 million in 1983. Investment in the stock market and in mutual funds continues to be significant. In 2005, equity fund inflows amounted to \$147.6 billion.

Approximately 67% of all equity investors are between the ages of 35 and 64, with a median and mean age of 51 years of age, the peak earning and investing years, according to the Securities Industry Association/Investment Company Institute survey. According to the U.S. Census Bureau and the same survey, of the 91.1 million individuals, or approximately one-third of all individuals in the U.S., individuals who own equities, the median household income is \$65,000, the median financial household assets are \$125,000, 70% are married, 56% are college graduates and 70% are employed.

Since that time, investment in the stock market and mutual funds continues to be substantial, and there has been significant growth in investments in alternate financial instruments such as options, single stock futures and indexes. Trading in option contracts reached record levels in 2005. According to the Chicago Board of Options Exchange, there were 468.2 million option contracts traded in 2005 compared to 361.1 million in 2004, a 29.7% increase. This trend has continued through the first six months of 2006, where trades in option contracts have increased 56% to 338.4 million contracts from 216.6 million contracts over the same period in 2005.

Accordingly, in July 2005, we established EduTrades as a separate subsidiary for our financial markets education division. Reasons behind establishing EduTrades as a separate subsidiary and positioning it as a public company subsidiary include:

- Affording investors an opportunity to invest exclusively in our financial markets education business;
- Allowing the market to isolate and judge the performance of EduTrades, Inc., making it easier to value;
- Shares in EduTrades can be used for strategic acquisitions;
- Presenting an opportunity to provide stock options to attract and reward EduTrades employees;
- Allowing most of EduTrades' senior management team to focus exclusively on the financial markets education sector; and
- Supplying capital for product and service development, infrastructure and general corporate purposes

In November 2005, EduTrades filed a registration statement with the Securities and Exchange Commission to sell a minority interest to the public. The registration statement has not been declared effective by the SEC. We have agreed to various agreements to provide shared administrative services for both EduTrades and us to maximize our cost leverage in both companies.

We entered into an Administrative Services Agreement, a Fulfillment Agreement, a Lead Marketing Agreement, an Assignment Agreement and a Voting Agreement with EduTrades. A summary of each agreement follows:

Administrative Services Agreement:

We provide administrative and operational assistance as needed, in the following areas:

- Executive management
- Finance and business planning
- Accounting and control
- Business development
- Strategic alliances
- Legal
- Bookkeeping

Confirmations

Education content and product development

Facilities management

Human resources

Information technology

Marketing

Operations

Sales

Shipping

We are compensated for all services under this Agreement at a monthly rate of:

Actual expenses incurred

An allocation of shared expenses based primarily upon the revenues of both EduTrades and us

An administrative fee of 15% of the shared expense

Fulfillment Agreement:

EduTrades agreed to fulfill all outstanding financial market education obligations sold to students prior to August 1, 2005. These training obligations encompass all obligations related to the financial markets education training, including mentoring sessions, sold by us or any of our business entities prior to August 1, 2005 that have not yet been fulfilled. Each outstanding course or mentorship that has not been fulfilled is deemed an unfulfilled training obligation. We will pay to EduTrades a contractually fixed amount each month per student for each training session fulfilled by it. This agreement terminates on August 1, 2006.

Lead Marketing Agreement:

We provide marketing services to EduTrades to be conducted and targeted at our customer leads database. Direct advertising and marketing services which relate to EduTrades are reimbursed to us and shared expenses are billed with a 15% administrative fee as provided in the Administrative Services Agreement. This agreement can be cancelled by EduTrades or us upon 90 days notice.

Assignment Agreement:

We assigned to EduTrades as of July 25, 2005 all of our rights, title and interest, on a worldwide basis, including, without limitation, all intellectual property rights, including copyrights, student lists and moral rights, in and to certain proprietary products, patent applications, copyrights, internet property and proprietary information. This agreement includes a right of first refusal for us to repurchase the assigned assets if we propose to transfer the assets to a third party through a merger or acquisition.

Voting Agreement:

Commencing on the date of the consummation of EduTrades initial public offering and for a period of five years thereafter, we agreed that the voting securities we own or hereafter acquire in EduTrades would vote by a majority vote of the independent directors serving on our Board of Directors with respect to any vote submitted to our shareholders at any annual or special shareholders' meeting. In the event there are no independent directors serving on our Board at the time of any such meeting during the five year term of the agreement, we agreed that the voting securities we now own or hereafter acquired in EduTrades will be voted by the remaining directors serving on the our Board at any such meeting in the same manner as the majority of the voting securities not owned by us are voted at the shareholders' meeting.

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EduTrades has been operated by us since we started the financial markets education in 2002. We do not expect a significant disruption to our day to day operations of the business as a result of EduTrades' public offering. However, additional staff is being added to support the administrative needs of EduTrades as a public company.

EduTrades contributed approximately 22.1%, 23.5% and 16.2% of our revenue for 2005, 2004 and 2003, respectively and 41.9% and 15.7% for the three months ended March 31, 2006 and 2005, respectively.

Noncore Investments

We also have investments in various projects that are noncore to our mission. These investments were opportunistic in nature and leverage the experience of our Chief Executive Officer and management team in real estate development. The investments we currently hold have not materially impacted our liquidity.

As of December 31, 2005, our noncore investments consisted of equity interests in real estate ventures in Costa Rica and Southwest Florida.

Costa Rica Investment

Our total investment, including initial and working capital advances, in Costa Rica as of March 31, 2006, December 31, 2005 and 2004, amounted to \$2.2 million (unaudited), \$2.1 million and \$1.8 million, respectively, representing a:

30% equity interest in a company, Rancho Monterey, S.A., that owns approximately 350 acres of undeveloped land on the Pacific coast;

20% equity interest in a company, Monterey del Mar, S.A. that owns an ocean front hotel on the Pacific coast of Costa Rica;

8% equity interest in a company, Monterey del Este, S.A. organized to develop unimproved land in Costa Rica consisting of approximately 425 acres contiguous to our investment in Rancho Monterey, S.A.

Included in these amounts are working capital advances of \$1.4 million (unaudited), \$1.4 million and \$1.1 million as of March 31, 2006, December 31, 2005 and 2004, respectively.

For the year ended December 31, 2005, 2004 and 2003, under the equity method of accounting, we reflected our share of the (loss) earnings in the amounts of \$(0.2) million, \$0.2 million and nil, respectively.

Not included above is the land, building and fixtures with respect to a 7,000 square foot conference center we own in Monterey del Mar, Costa Rica. Our historical cost and related accumulated depreciation are reflected in our Consolidated Balance Sheets under the caption "property and equipment".

It is our intention to divest our interests in Costa Rica at the appropriate time.

Southwest Florida Investment

In 2004, we entered into a joint venture under which we hold a 50% interest in Tranquility Bay of Southwest Florida, LLC which owns 74 acres of land zoned for residential development in Southwest Florida. We do not intend to keep our interest as a long term holding and will divest this investment at the appropriate time. The investment entity has no ongoing activity other than minimal costs of carrying the land. Under the equity method of accounting, we record our share of these costs which were less than \$0.1 million in 2005 and nil in 2004. For the three months ended March 31, 2006 and 2005, our share of costs were nil and nil (unaudited), respectively.

Critical Accounting Policies

Revenue recognition policy

We are engaged primarily in the business of providing real estate and financial education to individual investors through courses of study as well as educational materials. We offer our students multiple course packages. Students pay for the courses in advance and we record the proceeds from the sale of courses as deferred revenue when it is received. Revenue is earned when the student attends the course, or the likelihood of attendance is deemed remote.

The student is permitted to attend courses (in all available learning formats) throughout the life of the student contract. We allow students to attend courses subsequent to expiration upon request. The tuition is generally nonrefundable. A student may receive a refund within three days of the purchase by exercising a right of rescission. In such cases, the corresponding amount of deferred revenue is relieved with no impact on the Consolidated Statement of Operations.

We recognize revenue based on:

when the course is attended by the student; or

likelihood of the attendance by the student is remote (course breakage), which is based on the historical:

percentage of students who never attended a course and those students who never attended a course subsequent to expiration; and

highest number of days in which 95% of those students who attended our courses subsequent to expiry.

We determine our course breakage rate based upon estimates developed from historical student attendance patterns. Based on our historical information, we can determine the likelihood of an expired course remaining unattended. Moreover, we determined that we do not have a legal obligation to remit the value of expired courses to relevant taxing jurisdictions.

To apply course breakage, we calculate verifiable and objective supporting data as of each balance sheet date.

To the extent our financial markets education division (EduTrades, Inc. a wholly owned subsidiary) and United Kingdom businesses do not have three full years of data (subsequent to course expiration), we recognize revenue based on course attendance. Only at such time that we have developed verifiable and objective data over a three year period subsequent to course expiration will we apply course breakage based on the methodology described above.

With respect to our EduTrades Division and the United Kingdom, we expect to have sufficient data to apply course breakage by the end of 2006. Accordingly, we anticipate reflecting course breakage as contemplated above in the quarter ending December 31, 2006, for the courses sold as of the beginning of the first quarter of 2003 through the end of the fourth quarter of 2005 which remain expired and unattended. We expect to recognize a significant amount of deferred revenue in the fourth quarter of 2006 from initial application of the course breakage to our EduTrades division and United Kingdom businesses.

Teleconferencing and subscription services

As required by Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and the SEC's Staff Accounting Bulletin No. 104, our teleconferencing product and service offering is an arrangement with multiple deliverables. The delivered items should be considered a separate unit of accounting if all of the following criteria are met:

The delivered item(s) has value to the customer on a standalone basis. That item(s) has value on a standalone basis if it is sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the delivered item(s), the Task Force observed that this criterion does not require the existence of an observable market for that deliverable(s).

There is objective and reliable evidence of the fair value of the undelivered item(s).

If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

We determined the criteria detailed above have been met:

The product and the service have value to the student on a standalone basis.

The product can be and is sold separately.

As discussed below, we feel there is objective and reliable evidence to determine the value of the product.

Lastly, there are no general rights of return for the teleconferencing offering.

We recognized as revenue the product portion of the deliverable at point of purchase, and amortize the service component over the life of the package.

From a balance sheet perspective, the liability which we designate as "deferred revenue," will increase as cash receipts are collected in advance and the classes to which they pertain have not yet taken place or the students have not attended. When there are more courses attended, as compared to the amount of new course sales, our deferred revenue will decrease and therefore increase our earnings. Furthermore, since we receive cash in advance of providing the courses, we need to retain sufficient cash to pay final course costs.

Advertising and sales expense and prepaid advertising

Advertising costs and direct sales expenses are expensed as incurred. Advertising paid in advance is recorded as prepaid until such time as the advertisement is published.

Deferred expenses

Certain direct course expenses are deferred until such time the course is conducted and the related revenue is earned.

Historically, the amount of cash received from course and product sales is directly related to the amount of advertising and direct sales expenses incurred. The cash received from advanced course sales can be deferred to over three years after the advertising and sales expenses are incurred. Our Statement of Operations can show increased losses, or reduced net earnings, in periods in which course registration and cash receipts are growing at a fast rate.

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First Quarter 2006 compared to First Quarter 2005

Revenue

Our revenue for the three months ended March 31, 2006 amounted to \$45.3 million, an increase of 17.9% over \$38.4 million in the comparable period in 2005 (unaudited, in thousands):

	Three months ended March 31,		% change
	2006	2005	
		(restated)	
<i>Cash received from course and product sales:</i>			
Three day sessions	\$ 6,337	\$ 6,731	(5.8)%
Advanced courses	30,943	27,036	14.4
Outreach programs	14,079	7,912	77.9
Products sales	3,445	2,812	22.5
Other	2,463	3,082	(20.1)
Total cash received from course and product sales	57,267	47,573	20.4
Less: Net change in deferred revenue	(12,353)	(9,139)	(35.2)
Revenue for financial reporting purposes	\$ 44,914	\$ 38,434	16.9%

The strong growth in our outreach programs and advanced courses offset the decline realized in basic training sessions and other sales. We decided to reduce the tuition prices for the three day sessions in 2005 to provide the opportunity for more students to benefit from our offerings and provide the opportunity for our students to be exposed to our advanced courses. Our advanced course tuition pricing increased mid-quarter by 10.2% weighted average on an annualized basis.

Our other sales showed a decline of 20.1% over the comparable period in 2005, primarily driven by decline of approximately \$0.9 million in cash received from course and product sales at our Orlando convention.

The following illustrates the number of educational events, the number of students and the average number of students per paid course for the comparative periods:

	Three months ended March 31,		% change
	2006	2005	
<i>Number of courses</i>			
Free introductory workshops	1,231	1,158	6.3%
Three day sessions	228	191	19.4
Advanced live courses	143	148	(3.4)
Advanced electronic courses	59	44	34.1
	1,661	1,541	7.8%
<i>Number of students</i>			
Three day sessions	14,497	12,724	13.9
Advanced live courses	3,476	3,340	4.1
Advanced electronic courses	1,771	572	209.6
	19,744	16,636	18.7%

Average students per paid course

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	Three months ended		
	March 31,	66.6	(4.6)
Three day sessions	65.6		
Advanced live courses	24.3	22.6	7.7
	48.4	47.4	2.1%

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Our financial markets education division's cash received from courses and product sales grew 98% over 2005, to \$27.0 million, while the real estate division decreased 5.6% to \$30.3 million.

We experienced a 2.2% increase in overall registrations to our free introductory courses over the same period in 2005. On a brand level, all domestic brands had positive performance in the three months ended March 31, 2006 over the same period in 2005. Leading the way was *Teach Me To Trade*® and *Star Trader* with a 98% increase in cash received from course or product sales over the same period 2005, while our most mature brands, *Building Wealth* grew at 3.1% and *Cash Flow Generator*® at 6.9%, rounding out our major brands.

In the quarter, we realized an encouraging shift of individuals registering to our free introductory workshops via our branded Websites. However, we also saw a decline in response in our newspaper and direct mail effort in the quarter. The following chart reflects the media source by which prospective students registered for our free introductory workshops:

	Three months ended March 31,	
	2006	2005
Television	68.5%	68.1%
Direct mail	11.5	12.1
Newspaper	1.4	6.4
Website	18.6	13.4
	100.0%	100.0%

Revenue recognized from course breakage was \$5.3 million in the three months ended March 31, 2006, compared to \$4.8 million in three months ended March 31, 2005, an increase of 0.5 million. Revenue from course breakage was 11.8% and 12.5% of total revenue for the three months ended March 31, 2006 and 2005, respectively.

We expanded our options for course delivery towards our goal of providing our students with multiple channels of accessing our course content and minimizing the number of expired contracts. We increased the number of courses offered on DVD and the opportunities to take courses via the Internet, and expanded our live presentations within the United States. We have also implemented outreach notifications as courses near expiration by email and the U.S. mail.

Direct course expenses

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

In the first three months of 2006, direct course expenses increased \$5.9 million to \$26.5 million, or 28.6% from \$20.6 million in the same period 2005. As a percentage of revenue, direct course expenses

increased from 53.6% of revenue in 2005 to 58.9% in 2006. The components of this 5.3 percentage points (pp) increase include:

	Margin change Q1 2006 vs. Q1 2005
Decrease in event expense	(0.6)pp
Increase in effective sales commissions rate	2.5
Increase in advanced course delivery costs	2.8
Other direct course expenses, net	0.6
	5.3pp

Advertising and sales expense

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

Purchased media to generate registrations to our free introductory workshops

Sales commissions associated with supporting student recruitment

Advertising and sales expense for 2006 amounted to \$14.2 million, an increase of 27.7% (or \$3.1 million) compared to \$11.1 million in 2005. Advertising and sales expense in the 2006 period was 31.6% of revenue, as compared to 28.9% of revenue for comparable period in 2005. The following chart illustrates this change of 2.7 percentage points:

	Margin change Q1 2006 vs. Q1 2005
Increase in media purchases	1.3pp
Increase in sales commissions to support student recruitment	1.4
	2.7pp

Our media spending is primarily via television commercials, which increased by 23.0% in the first quarter over the same period in 2005. We also shifted some of our media spending to direct mail over the past year from newspaper, as reflected in the following media spending as a percentage of total media spending:

	Three months ended March 31,	
	2006	2005
Television	83.8%	77.3%
Direct mail	12.5	10.8
Newspaper	3.7	11.9
	100.0%	100.0%

Sales commissions increase was a result of a access mix shift to outbound sales, which saw a 77.9% increase in cash received from course and product sales over the same period in 2005. The effective sales commission rate declined by 3.2 percentage points for the three months ended March 31, 2006 over the same period in 2005.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, facility expenses and travel for the corporate staff.

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General and administrative expenses were \$8.6 million in three months ended March 31, 2006, an increase of \$2.3 million, or 36.7%, as compared to \$6.3 million in the three months ended March 31, 2005. As a percentage of revenue, general and administrative expenses increased from 16.4% of revenues in 2005, to 19.2% in the 2006 period. Included in general and administrative expenses for 2006 is \$1.4 million for a gift to the widow of the former President and Chief Operating Officer who passed away in 2002. The gift, valued at \$0.9 million, consisted of 98,156 shares of the Company's common stock plus \$0.5 million in related income taxes. Also included in the current quarter's results is an additional \$0.3 million accrual associated with the liquidated damages provision in the registration rights agreement further discussed in Note 16 to the Consolidated Financial Statements.

The components of the 2.8 percentage point increase in general and administrative include:

	Margin change Q1 2006 vs. Q1 2005
Stock gift to the widow of the former President	3.0pp
Liquidated damages provision accrual	0.6
Stock option compensation expense	0.5
Costs associated with customer relations management system installation	0.3
Other general and administrative expenses, net	(1.6)
	2.8pp

(Loss) earnings from operations

We incurred a loss of \$4.3 million from operations in the three months ended March 31, 2006, compared to earnings from operations of \$0.4 million from operations in the comparable 2005 period. Our increase in revenue of 16.9% was offset by a 29.6% increase in operating expenses. Higher operating costs and unfavorable timing differences were the primary drivers for the margin decline.

Other income (expense)

Other income in 2006 was \$0.2 million compared to \$0.3 million in 2005.

Interest income, net, increased by \$0.3 million to \$0.3 million as a result of the larger cash and cash equivalents balance resulting from increased cash received from course registration receipts, proceeds from the real estate investment sales and stock offering in 2005, coupled with a reduced long term debt outstanding.

We recognize deferred tax assets and liabilities, at enacted income tax rates, based on the temporary differences between the financial reporting basis and the tax basis of our asset and liabilities. We include any effects of changes in income tax rates or tax laws in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a corresponding valuation allowance against the deferred tax asset. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. In 2005, we determined that it was more likely than not that we would realize our deferred tax assets and we reversed our valuation allowance of \$11.3 million in 2005.

Net (loss) earnings

Net loss in the three months ended March 31, 2006 amounted to \$3.8 million, compared to net earnings of \$0.8 million for the three months ended March 31, 2005. The decrease in earnings from operations and the aforementioned stock gift contributed to the net loss for 2006 period.

Liquidity and Capital Resources at March 31, 2006

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. Cash increased by \$27.9 million to \$38.2 million as of March 31, 2006 from March 31, 2005. Cash provided by operations, proceeds from the sale of noncore investments and the sale of common stock were the primary reasons for the year over year improvement, with respect to cash generation.

Cash provided by operations was \$8.7 million versus \$6.7 million in three months ended March 31, 2006 and 2005, respectively. The increase is primarily attributable to cash received on courses and products, evidenced by the increase in deferred revenue of \$12.3 million, offset by an increase in deferred course expenses of \$1.0 million and the net loss of \$3.8 million.

Cash provided by investing activities was \$1.0 million in 2006, as compared to a usage of \$0.6 million for the same period last year. In 2006, we collected \$1.7 million in principal payments on a note receivable, offset by \$0.6 million in capital expenditures in connection with hardware and software associated with our customer relationship management investment, and a \$0.1 million in investments in affiliates. We will deploy excess capital to invest in computer and software upgrades and to support our geographic expansion. We will pursue opportunistic, strategic acquisitions.

Cash used in financing activities amounted to \$4.7 million in the first quarter of 2006 versus \$0.1 million in the same period in 2005. The primary reason for the change was a \$5.1 million payment to our Chairman and Chief Executive Officer in connection with the sale of common stock in December 2005 that the Company temporarily reserved the funds in December 2005 and issued the proceeds in January 2006. In the first three months of 2006, we received \$0.6 million from the exercise of stock options.

Merchant account reserves which represent funds on deposit with credit card processors, was \$5.4 million at March 31, 2006 and December 31, 2005. At March 31, 2006 and December 31, 2005, we had used letters of credit to secure merchant accounts and certain state bonding requirements aggregating \$1.3 million, respectively, which are supported by certificates of deposit which earn interest rates ranging from 2.9% to 3.7%.

Historically, we have been able to fund all of our operations primarily through existing working capital.

As a result of a significant and growing deferred revenue balance, our working capital deficit will continue to grow. We intend to continue to use working capital for operating purposes. We may establish a credit facility to support our growth strategy. From time to time, we evaluate potential acquisitions of business products or technologies that complement our business. To the extent that resources are insufficient to fund future activities, we may need to raise additional funds. However, there can be no assurance that additional funding, if needed, will be available. If adequate funds are not available on acceptable terms, we may be unable to expand our business, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, operating results and financial condition.

The following reflects our commitments for debt and other commitments as of March 31, 2006 (unaudited, in thousands):

	Debt	Operating Lease Commitments	Total
2006	\$ 1,096	\$ 561	\$ 1,657
2007	482	446	928
2008	382	139	521
2009	351	192	543
Thereafter	4,583	137	4,720
	\$ 6,894	\$ 1,475	\$ 8,369

2005 compared to 2004

Revenue

Our revenue for the year ended December 31, 2005 amounted to \$163.1 million, an increase of 19.7% over revenue of \$136.3 million in 2004. The increase was driven by expanded advance course offerings and attendees per event, offset by a decrease in the revenue generated from introductory courses, as reflected in the following chart (in thousands):

	Years ended December 31,		% change
	2005	2004	
	(restated)	(restated)	
<i>Cash received from course and product sales:</i>			
Three day sessions	\$ 25,017	34,202	(26.9)%
Advanced courses	112,008	91,855	21.9
Outreach programs	40,415	23,723	70.4
Products sales	12,317	8,828	39.5
Other	6,638	5,479	21.2
	196,395	164,087	19.7
Less: Net change in deferred revenue	(33,288)	(27,828)	(19.6)
	\$ 163,107	\$ 136,259	19.7%

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The following illustrates the number of educational events, the number of students, the average number of students per paid course for the comparative periods:

	Years ended December 31,		%
	2005	2004	
<i>Number of courses</i>			
Free introductory workshops	4,744	4,826	-1.7%
Three day sessions	992	915	8.4
Advanced live courses	582	537	8.4
Advanced electronic courses	162	25	548.0
	<u>6,480</u>	<u>6,303</u>	<u>2.8%</u>
<i>Number of students</i>			
Three day sessions	53,742	30,280	77.5
Advanced live courses	21,662	19,978	8.4
Advanced electronic courses	9,832	741	1,226.9
	<u>85,236</u>	<u>50,999</u>	<u>67.1%</u>
<i>Average students per paid course</i>			
Three day sessions	54.2	33.1	63.7%
Advanced live courses	37.2	37.2	
	<u>47.9</u>	<u>34.6</u>	<u>38.4%</u>

We decided to reduce the tuition prices at our introductory courses to provide the opportunity for more students to benefit from our offerings and provide the opportunity for our students to be exposed to our advanced courses. Our blended average tuition level per student for an introductory course declined 63.9%, while the number of students taking the introductory courses increased 77.5%.

Our weighted average tuition for advanced courses fell slightly by 3.8% reflecting a shift in course mix, while the number of students enrolled increased by 8.4%.

Our financial markets education division's cash received from courses and product sales grew 72.3% over 2004, to \$78.3 million, while the domestic real estate division increased 9.1% to \$108.1 million. International saw a 32.1% decline in 2005 to \$10.1 million.

On a brand level, all domestic brands had strong performance over 2004. Leading the way was *Star Trader* with a 214% increase in cash received from course and product sales over 2004, followed by *Teach Me To Trade*® with a 38.8% increase, while our most mature brands, *Building Wealth* grew at 15.5% and *Cash Flow Generator*® at 10.8%, rounding out our major brands.

Revenue recognized from course breakage was \$16.2 million in 2005, compared to \$18.1 million in 2004, a decrease of \$1.9 million. Revenue from course breakage was 10.0% and 13.3% of total revenue for 2005 and 2004, respectively.

We expanded our options for course delivery towards our goal of providing our students with multiple channels of accessing our course content and minimizing the number of expired contracts. We increased the number of courses offered on DVD, the opportunities to take courses via the Internet, and have expanded our live presentations within the United States. We have also implemented outreach notifications by email and the U.S. mail as courses near expiration.

Direct course expenses

Direct course expenses relate to our free, introductory and advanced courses and consist of instructor fees, commissions, facility costs, salaries associated with our field travel team coordinators and related travel expenses.

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In 2005, direct course expenses increased \$3.0 million to \$94.8 million, or 3.3% from \$91.8 million in 2004. As a percentage of revenue, direct course expenses decreased from 67.3% of revenue in 2004 to 58.1% in 2005. The components of this 9.2 percentage points (pp) reduction include:

	Margin change 2005 vs. 2004
Efficiency gains in course delivery	5.0pp
Reduced effective sales commissions rate	2.3
Event administration	2.9
Other direct course expenses	(1.0)
	9.2pp

The effective sales commission rate is indicative of the increase in the average number of students attending our three day sessions and free introductory workshops. The improvement in course delivery and event management is the result of cost control measures implemented in the fourth quarter of 2004 that were realized throughout 2005 along with our ability to leverage revenue increases without corresponding increases in costs.

Direct course expense efficiencies in 2006, are not expected at the same level as achieved in 2005, due to the nonrecurring nature of the benefit of the cost control measures realized in 2005.

Advertising and sales expense

Advertising expense consists of purchased media and sales expenses consist of sales commissions to our sales force supporting our student recruitment.

Advertising and sales expense for 2005 amounted to \$49.8 million, an increase of 0.4% or \$0.1 million compared to \$49.7 million in 2004. Advertising and sales expense in 2005 was 30.6% of revenue, as compared to 36.4% of revenue for 2004. The following chart illustrates the 5.8 percentage points margin improvement:

	Margin change 2005 vs. 2004
Improved response from television	2.8 pp
Improved response from direct mail	2.0
Other media efficiencies	1.2
Increase in sales commissions rates	(0.2)
	5.8 pp

Approximately 80% of all advertising is through television commercials and infomercials, with the balance consisting of direct mail and newspaper advertisement.

Our media spending in television increased 6.1 percentage points in 2005 when compared to the same period in 2004. The following table illustrates our media spending mix.

	Years ended December 31,	
	2005	2004
Television	79.8%	73.7%
Direct mail	12.1	16.2
Newspaper	8.1	7.1

	Years ended December 31,	
	_____	_____
Other		3.0
	_____	_____
	100.0%	100.0%
	_____	_____

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The number of prospective students registering for our events increased 15.6% over 2004, and yet our advertising expenditures in 2005 on a dollar basis was essentially flat compared to 2004. Many improvements with respect to media purchases and scheduling were realized in 2005. We also benefited from our cost per television placement, which decreased by 4.0% in 2005 compared to 2004.

While continued improvement is expected into the future, efficiency gains are not expected to be realized at the same levels realized in 2005, due in part to the nonrecurring nature of both cost control benefits and changes to our media purchasing and scheduling practices that were realized in 2005.

General and administrative expenses

General and administrative expenses primarily consist of compensation, benefits, insurance, facility expenses, and travel for the corporate staff.

General and administrative expenses were \$27.7 million in 2005 and 2004. As a percentage of revenue, general and administrative expenses decreased from 20.3% of revenues in 2004, to 17.0% in 2005, due primarily to cost control measures initiated in the fourth quarter of 2004 and realized throughout 2005, and our ability to leverage the increase in revenue without a corresponding increase in overhead.

Primary contributors to the 3.3 percentage point (pp) reduction in general and administrative costs include:

	Margin change 2005 vs. 2004
Reduced headcount	1.2 pp
Lowered professional fees	0.4
Reduced other general and administrative expenses, net	1.7
	<hr/>
	3.3 pp
	<hr/>

We expect to continue benefiting from overhead leverage, however not at the same levels realized in 2005 due in part to the nonrecurring nature of the cost control benefits realized in 2005. Moreover, we continue to invest in our infrastructure to support the continued growth. Staff increases of approximately 75 employees worldwide, additional research and development of new education courses and support necessary to further expand our geographical penetration within the United States will all require increased resources in 2006.

Earnings (loss) from operations

We incurred a loss from operations of \$9.2 million in 2005, compared to a loss from operations of \$32.8 million in 2004. Our increase in revenues combined with the marketing efficiencies, reduced sales costs and reduced general and administrative expenses described above were the primary contributing factors to this year over year improvement. Loss from operations in 2005 was 5.7% of revenues as compared to a loss from operations of 24.1% of revenues in 2004.

Other income (expense)

Other income (expense) was \$8.2 million in 2005, a \$7.3 million increase over the \$0.9 million for 2004, primarily due to an increase in gain on sale of assets of \$6.6 million. The increase in gain on sale of assets was primarily due to a pretax gain of \$5.6 million (\$3.5 million after minority interest expense) realized on the sale of an office building in Orlando, Florida.

Other nonoperating income increased by \$0.9 million to \$1.8 million. Other income for 2005 includes \$1.2 million in insurance proceeds from a business interruption claim arising from the impact of Hurricane Charley in 2004.

Interest expense (net of interest income) decreased from \$0.5 million in 2004 to nil million in 2005 as interest income resulting from our the increase in cash and cash equivalents balance offset interest expense from the reduction in long term debt.

Equity loss for our related parties investment in Costa Rica amounted to \$0.2 million compared to \$0.2 million in equity earnings in 2004.

Income tax benefit

We recognize deferred tax assets and liabilities, at enacted income tax rates, based on the temporary differences between the financial reporting basis and the tax basis of our asset and liabilities. We include any effects of changes in income tax rates or tax laws in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a corresponding valuation allowance against the deferred tax asset. In 2005, we determined that it was more likely than not that we would realize our deferred tax assets and we reversed our valuation allowance of \$11.3 million which resulted in a net tax benefit of \$6.8 million being recorded in our Consolidated Statement of Operations.

In arriving at the conclusion that it is more likely than not that we would realize our deferred tax assets, we reversed our valuation allowance resulting in a tax benefit for 2005. We prepared a ten year earnings model with key operating assumptions, along with a detailed economic model by business unit and by brand for 2006. We compared these models to historical trends by business unit and by brand, along with detailed operating assumptions by brand to arrive at this conclusion.

Overall key operating growth assumptions were conservatively determined at a discount when compared to current trends. Operating margin assumptions were based on historical trends. No additional income from gain on sales was assumed.

Our current trend further supports the reversal of a portion of the valuation allowance. The Company recorded approximately \$8 million in taxable income for the year ended 2005 and made a payment of approximately \$0.2 million representing our Alternative Minimum Tax for 2005. Moreover, results in the first quarter of 2006 show cash received on course and products sales increased approximately 20.4% over the same period in 2005, further supporting our projections.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The Company believes, based on the assumptions contained in its economic plan and the current trends of the business, that it is more likely than not that the deferred tax asset will be realized in the future.

Management does not feel an additional tax asset has been created as a result of the restatement. As discussed in Note 11 *Income taxes* in Notes to Consolidated Financial Statements. Additionally, the restatement does not affect any previously filed tax returns.

Net earnings (loss)

Net earnings in 2005 amounted to \$3.9 million, a \$35.9 million improvement over 2004's \$32.0 million net loss. Improved revenue growth, operating and overhead cost controls, sale of assets, gain on sale of noncore investments, along with the recognition of a deferred tax asset contributed to the improved 2005 results.

Liquidity and capital resources at December 31, 2005

In December 2005, we closed a private placement of 3,000,000 units of our securities, each unit consisting of one share of common stock at \$4.50 per share and one-half common stock purchase warrant to purchase an additional share at \$6.00 per share. The securities are being registered for sale pursuant to this prospectus. Russell A. Whitney, our Chief Executive Officer, sold 1,250,000 of the units and we sold the remaining 1,750,000 units. The private placement generated net proceeds to us of approximately \$7.2 million after offering costs.

Our capital requirements consist primarily of working capital, capital expenditures and acquisitions. Historically, we have funded our working capital and capital expenditures using cash and cash equivalents on hand. Cash increased by \$28.6 million in 2005 to \$33.2 million, compared to a decrease of \$8.6 million in 2004. Cash generation from tuition, proceeds from the sale of noncore investments and the sale of common stock were the primary reasons for the \$37.2 million year over year improvement, with respect to cash generation.

Cash provided by operations was \$17.0 million versus \$0.6 million provided by operations in 2004. The increase is primarily attributable to better operating margins as previously discussed as well as cash collections on courses and products, evidenced by the increase in deferred revenue of \$33.3 million, offset by an increase in deferred course expenses of \$2.6 million.

Cash provided by investing activities was \$8.6 million in 2005, as compared to a usage of \$10.6 million for the same period last year. The increase is primarily due to the sale of real estate investments resulting in cash proceeds of \$9.8 million in 2005. In 2004, we purchased \$9.7 million in property and equipment and invested \$1.5 million in noncore investments, as compared to \$0.7 million in property and equipment purchases in 2005. We will deploy excess capital to invest in property and equipment in future periods for expansion, computer and software upgrades and geographic expansion. We will continue to pursue other opportunistic, strategic acquisitions.

Cash provided by financing activities amounted to \$3.0 million in 2005. Nearly \$12.3 million in cash was received from the sale of stock in December 2005, comprised of approximately \$7.2 million net proceeds to the Company and \$5.1 million from shares sold by our Chairman and Chief Executive Officer that was subsequently paid in January 2006. Offsetting this was \$9.0 million in payments of long term debt, principally from the proceeds of the SCB Building sale. As we continue to generate cash flow from operations, we may consider some additional reduction of long term debt as a financing option.

Merchant account reserves which represent funds on deposit with credit card processors, was \$5.4 million on December 31, 2005 as compared with \$2.2 million on December 31, 2004. At December 31, 2005, we had used letters of credit to secure merchant accounts and certain state bonding requirements aggregating \$1.8 million, which are supported by certificates of deposit which carry an interest rate of 2.9% and 3.7%, respectively

Historically, we have been able to fund all of our operations primarily through existing working capital.

As a result of significant and growing deferred revenue balance, our working capital deficit will continue to grow. We intend to continue to use working capital for operating purposes. We intend to establish a credit facility to support our growth strategy. At the current time, we have started very preliminary discussions with a few financial institutions. From time to time, we evaluate potential acquisitions of business products or technologies that complement our business. To the extent that resources are insufficient to fund future activities, we may need to raise additional funds. However, there can be no assurance that additional funding, if needed, will be available. If adequate funds are not available on acceptable terms, we may be unable to expand our business, develop or enhance our

products and services, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, operating results and financial condition.

As of December 31, 2005 we have long term debt of \$3.4 million, consisting of notes payable secured by certain assets that include real estate in the United Kingdom and our corporate airplane. The future loan payments, along with commitments under noncancelable operating leases, are set forth in the table below (in thousands):

	Debt	Operating Lease Commitments	Total
2006	\$ 462	\$ 748	\$ 1,210
2007	444	446	890
2008	377	186	563
2009	307	192	499
2010	310	137	447
Thereafter	1,474		1,474
	<u>\$ 3,374</u>	<u>\$ 1,709</u>	<u>\$ 5,083</u>

Additionally, in December 2005 we entered into a commitment for a new computer software package. The total commitment of approximately \$2.5 million includes installation, training and support services.

We believe our cash resources are sufficient to fund our operations and growth plans in 2006.

Impact of Inflation

Inflationary factors such as increases in the cost of labor directly affect our operations. Most of our leases provide for cost-of-living adjustments and require us to pay taxes, insurance and maintenance expenses, all of which are subject to inflation. Additionally, our future lease costs for new facilities may include potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on increased costs to our customers.

Depreciation expense is based on historical cost of fixed assets, and is therefore potentially less than it would be if it were based on current replacement cost. While property and equipment acquired in prior years will ultimately have to be replaced at higher prices, it is expected that replacement will be a gradual process over many years.

2004 compared to 2003

Revenue

Revenue for the year ended December 31, 2004 was \$136.3 million, an increase of \$46.5 million or 51.7%, compared to revenue of \$89.8 million in 2003. There was significant growth in all segments of the business. Within the real estate segment, the *Cash Flow Generator*® brand, which was introduced in 2003, had revenue of \$22.5 million in 2004. Revenue in the financial markets in 2004 were \$32.1 million, an increase of 120.6% versus 2003 revenue of \$14.5 million. Financial markets segment revenue has grown from 16.2% of total revenue in 2003 to 23.5% of total revenue in 2004.

Revenue recognized from course breakage was \$19.0 million in 2003, compared to \$18.1 million in 2004, a decrease of \$0.9 million. Revenue from course breakage was 13.3% and 21.1% of total revenue for the 2004 and 2003, respectively.

In addition to an increase in the number of courses held, in November 2004, we raised the price of our courses an average of 10.2%. It was the first price increase in our courses for over two years.

Direct course expenses

Direct course expenses were \$91.8 million for the year ended December 31, 2004, an increase of \$39.9 million or 76.9% compared to \$51.9 million in 2003. Direct course expenses as a percent of revenue were 67.3% for 2004 versus 57.8% for 2003. The overall increase in direct course expenses is primarily attributable to the increase in number of courses held which were 2,468 in 2004 compared to 2,132 in 2003.

The primary components of the 9.5 percentage point (pp) increase in direct course expenses are:

	Margin change 2004 vs. 2003
Speaker fees and commissions	4.4pp
Introductory course delivery	5.2
Coaching and mentoring	1.9
Event production and travel	2.7
Product cost	(3.5)
Other direct course expenses	(1.2)
	9.5pp

Advertising and sales expenses

Advertising and sales expense, of which advertising represents approximately 86% of the expense for the year ended December 31, 2004, were \$49.7 million, an increase of \$19.6 million or 65.0%, compared to \$30.1 million in 2003. As a percentage of revenue, advertising and sales expenses were 36.4% and 33.5%, respectively, in 2004 and 2003. The growth of the advertising and sales expense over 2003 is primarily due to the increase in free introductory workshops held. Advertising and sales expense has a direct correlation to the number of free introductory workshops we conduct. The addition of more brands, the continued expansion of the brands internationally, and the expansion in the number of selling teams for each brand contribute to increase.

The increase in advertising and sales expense from 2003, as a percentage of revenue by component, is illustrated below:

	Margin change 2004 vs. 2003
Television	0.9pp
Direct mail	0.8
Newspaper	0.9
Other media	0.8
Sales expenses	(0.5)
	2.9pp

General and administrative expenses

General and administrative expenses were \$27.7 million in 2004, an increase of \$12.4 million or 80.6%, compared to \$15.3 million in 2003. This increase was due primarily to increased personnel hired to handle the increase in our volume of business. Payroll and payroll benefits account for approximately 57% of general and administrative expenses. It includes bonuses to executive officers of \$1.5 million. This makes general and administrative expenses highly variable and thus controllable as our volume grows or contracts. General and administrative expenses as a percent of sales were 20.3% and 17.1% in 2004 and 2003, respectively.

The 3.2 percentage point (pp) increase in general and administrative expenses is illustrated in the chart below:

	Margin change 2004 vs. 2003
Payroll and benefit costs	2.2pp
Professional fees	1.0
	3.2pp

Loss from operations

Loss from operations for 2004 was \$32.8 million, as compared to a loss from operations of \$7.5 million for 2003. The increased loss from operations is directly attributable to increased expenses in all categories in 2004 over the prior period, and to the fact that new sales of advanced training courses continue to outpace the rate at which courses are offered and delivered to students. This is reflected in the fact that deferred revenue increased by \$27.9 million in 2004, as compared to \$19.5 million in 2003.

Other income

Other income increased by \$0.7 million from 2003. This was primarily due to gain on sale of assets, recovery of merchant deposits and equity in earnings from affiliates, offset by an increase in interest expense (net of interest income) \$0.5 million from additional borrowings in 2004 used to finance improvements to a real estate investment.

Net loss

Net loss for 2004 was \$32.0 million or \$3.72 per share compared to \$7.9 million or \$0.89 per share, in 2003. The increase in net loss is attributable to the aforementioned increase in loss from operations.

OUR BUSINESS

Current operations

Since 1992 we have provided postsecondary educational and training courses for students throughout the United States. In recent years we have expanded our operations to include course offerings to students in Canada and the United Kingdom. Our courses provide instruction in:

- real estate investing
- business strategies
- stock market investment techniques
- cash management
- asset protection
- other financially-oriented subjects.

We also develop and sell educational resource materials, which we prepare, to support our course offerings and for sale to the general public.

Beginning in 1992, we focused primarily on basic and advanced real estate training programs which we offered throughout the United States. In 2002, we expanded our offerings to include financial markets education, which has come to represent an substantial part of our business, as reflected in the following table showing the relative percentage of revenue by segment.

	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)	(restated)	(restated)	(restated)	(restated)
Real estate education	57.7%	84.3%	78.2%	76.0%	83.8%
Financial markets education	42.3	15.7	21.8	24.0	16.2
	100.0%	100.0%	100.0%	100.0%	100.0%

Since 2001, we have gradually expanded our course offerings and geographical markets. We currently offer approximately 200 educational courses and training programs per month covering more than 27 financially-oriented subjects which we provide either for free or on a fee basis.

For the year ended December 31, 2005, approximately 92.8% of our revenue was generated from domestic sales and 7.2% was generated from sales made in Canada and the United Kingdom. Our tuition weighted average is approximately \$411 for a basic course and \$14,159 for an advanced course package. We conduct our coursework at:

- leased training and meeting facilities and conference centers;
- regional training centers located in hotels or other temporarily rented facilities selected by us; and
- our own facilities in the United States, United Kingdom or Costa Rica.

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Our students are primarily recruited by attending free introductory workshops related to a specific educational subject which is hosted by one of our trainers or others and held at a local hotel or other rented auditorium facility. The subject, date and location of the training session are generally advertised in local newspapers, on our the Web site of our respective brands, in television advertisements and through direct mailings and telemarketing. We hold these sessions in metropolitan areas throughout the United States, Canada, United Kingdom and Costa Rica. Following the free informational training workshop, the student may purchase reference materials on the subject discussed or may elect to receive further fee-based training in the many courses we offer, either in the student's hometown or in regional training centers. We engage nearly 275 trainers, instructors and mentors in connection with our various educational course offerings.

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Following the first fee-based training session, students interested in learning more on the course topics may also subscribe to our periodic publications, purchase books or software programs or attend advanced training courses. In addition to our over 25 resource publications, we offer advanced courses throughout the United States, in Canada and the United Kingdom. We also provide post-training programs conducted by over 80 mentors, who travel to students' hometowns for "hands on" business training.

Our telemarketing business is responsible for approximately 25% of cash receipts. We telemarket our products and services to four types of people, consisting of those who:

registered to attend one of our free preview workshops, but did not attend

attended one of our workshop events, who purchased another of our courses, and who completed training within the last six months

attended one of our free introductory workshops and chose not to purchase anything

contact us via the Internet and request to be contacted

Our strategy

Our goal is to continue to expand our course work breadth and geographic reach within the real estate education and financial market education industry. In order to do so, we have implemented a strategy that includes:

Increasing the number and types of our course offerings both branded and private label, to reflect student interests. We intend to continue to increase the number and type of our educational course offerings in order to attract more students. New courses will further diversify our offerings and include subjects which we believe are gaining in interest and popularity among students.

Expanding our international markets. Consistent with our earlier expansions to Canada and the United Kingdom, we intend to add new markets in order to attract students we do not currently reach. Initially, we expect to focus our expansion efforts on English speaking European countries, beginning with Ireland, Scotland, Australia and India.

Marketing our reference materials and online courses. We intend to emphasize the direct marketing of educational products and reference materials which we currently use primarily to support our training programs. These products will be marketed on a stand alone basis through direct mail campaigns and promotions on our websites. We also intend to develop selected courses electronically, primarily online, as well as through traditional student-attended programs and classes. Our electronic courses will be used to supplement our existing courses and will be marketed using television infomercials developed and produced by us. Responses generated from our direct mail and infomercials will be used to market our existing training programs and courses to those who respond.

Identifying and developing strategic alliances with other education brands. We seek to align ourselves with relevant consumer brands and leverage our respective strengths to deliver an superior student education experience.

Diversifying our media advertising. We intend to increase our print and television advertising and test new forms of marketing, including direct mail campaigns, e-mail campaigns, database marketing and conventions. We also intend to develop and produce television commercials and infomercials to specifically market our reference materials and our electronic courses.

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Developing or acquiring accredited or licensed proprietary schools. We are licensed in Texas as a proprietary school and intend to explore this portion of our education business. We may seek to expand our proprietary school operations by developing new schools that offer postsecondary education technical courses or by acquiring existing schools or education brands from third

parties. We have no understandings or agreements to develop or acquire any such schools at the present time.

Educational training

Following a free informational workshop, we offer our students a variety of educational courses, as well as educational materials. These courses provide the opportunity to train either in the student's home town or at local or regional camps. Our trainers take students step-by-step through a curriculum that stresses a broad range of financial educational training, money management and asset protection. We do not have any specific educational requirements for our trainers, but we do require that they have experience with respect to the subjects they teach and that they have completed training programs which we provide that prepares them to teach their particular subjects. Our financial educational training is taught to students in the United States, Canada and the United Kingdom through traditional course study and hands-on training, and includes the following subjects:

Basic Training. Following the free educational training session, our students may elect to learn more about the subject by attending a basic course in the student's home town.

Real Estate. Our *Building Wealth* workshop training is a local training program offering a curriculum that focuses on the general business of real estate and teaches the fundamentals of negotiating real estate purchases with sellers, rehabilitating distressed properties, leasing rental units to tenants and using a database to generate multiple sources of cash flow. Students are taught the mechanics of completing a real estate transaction in their community, from making an offer to closing the transaction, with emphasis upon creative financing strategies.

Our *Cash Flow Generator*® training is also a local training program offering a curriculum in real estate but with a different emphasis. It concentrates on the "buy, fix up and sell concept." It emphasizes turning real estate quickly rather than holding long-term.

Business. Our three-day business local training workshops currently are in development and are being designed to teach students how to organize and build a business, how to broker or buy judgments, discount notes and mortgages, how to fund a retirement plan at maximum levels, how to purchase property at discount prices through auctions or online trading and how to arrange E-commerce accounts for clients and customers.

Financial. Our *Teach Me To Trade*® is a local training program offering a curriculum that focuses on stock market trading strategies and uses software and specific teaching techniques designed by us. Students are taught to understand the stock markets, investment strategies, risks and how to maximize returns in both bull and bear markets.

Our *Star Trader* training is similar to the *Teach Me To Trade*® training, but with different emphasis. *Star Trader* emphasizes stock trading and the use of options and option trading in its program. Similar to our two real estate training brands, *Star Trader* appeals to students who have a higher risk tolerance than Teach Me To Trade students.

Advanced Real Estate Courses

Upon completion of a local basic training program, students may seek more advanced training at our specialized regional training centers, which are generally three days in length and are held in locations around the country. Many of these programs offer local tours so that students can observe negotiating techniques and view properties in the area. Students are led through real estate acquisition and financing transactions from beginning to end and are provided with a number of real estate acquisition strategies.

MillionaireU Intensified Real Estate Training. Our Intensified Real Estate Training course is offered at training centers in Cape Coral, Florida and in other locations in Florida and in other states. This course expands upon the students' knowledge of real estate gained from our basic course. During

Intensified Real Estate Training, students learn how to locate and analyze various property types and how to effectively analyze property income and expense. Students telephone actual sellers and then tour properties offered for sale throughout the Cape Coral and Fort Myers, Florida areas. Students then conduct real estate investment negotiations and may complete transactions under the supervision of their instructor. Guest speakers including investors, property managers, developers, grant officers, loan officers, realtors and mortgage brokers explain how students can locate financing for a variety of transactions, from multi-unit apartment complexes to unimproved land.

Wholesale Buying. Our Wholesale Buying training course instructs students on the fundamentals of identifying, locating, negotiating, financing and disposing of wholesale properties. Students are also taught how to develop an investor database and how to manage out-of-state properties. While enrolled in this program, students develop a five-year investment plan with the help of our instructors. This program is focused upon taking students from the level of novice investor to a proficiency in managing a real estate investment portfolio.

Foreclosure. Our Foreclosure Training course teaches the intricacies of the real estate foreclosure process, how and why foreclosures occur, the role of secured lenders in foreclosure actions and discusses laws that affect lenders and borrowers. Students visit a local county courthouse to search foreclosure records and review title and tax information. Students visit with owners of properties that are in foreclosure and learn how to negotiate transactions for properties in foreclosure. Our instructors also teach students how to read foreclosure notices and how to refinance their acquisitions to generate cash at the closing. Students also learn how to inspect, estimate the value of and rehabilitate houses.

Purchase Options. Our Purchase Option training course is designed to teach students how to control an equitable interest in property without actually owning the property and how to create lease options on properties. Students learn how to structure lease options and purchase options and how to generate cash from purchase real estate transactions. Included with the course is a field trip and detailed information on how to select appropriate properties for option or purchase. Other sessions include negotiating with prospective sellers and prospecting for tenants, buyers and lessees.

Property Management Cash Flow. Our Property Management & Cash Flow training course teaches students how to manage their rental properties, including how to analyze monthly cash flows. Students also learn how to earn income by managing the properties of others and how to find and retain tenants. The course curriculum includes numerous approaches to resolving tenant-landlord problems such as delinquent rents, raising rents and evicting tenants. Our instructors discuss governmental regulations and the tax implications associated with real estate. Students learn about the profit potential for acquiring student housing and rooming houses as well as learning how to find and rehabilitate distressed properties. The program also teaches basic marketing techniques to increase profits.

Investing in Mobile Homes. Our Manufactured/Mobile Homes & RV Parks training course teaches students how to buy, sell and rent mobile homes and parks, an often overlooked segment of the real estate market. While mobile homes cost far less than frame constructed homes, they can yield a significant rate of return on investment. Other subjects include developing and operating a mobile home park, expanding rental "pads" and lots to hold more units, obtaining standard and unconventional financings, estimating fix-up, improvement and moving costs, obtaining seller financing terms and identifying attractive properties at foreclosures and repossessions.

Commercial Real Estate Investing. Our Commercial Real Estate Investing training course highlights the fundamentals of analyzing, buying, managing and disposing of commercial properties. Students also learn how to establish relationships with lenders and government financing agencies. This course, like many of our courses, teaches students how to rehabilitate properties and how to locate and pre-qualify tenants. Our trainers also teach students about various leasing arrangements and describe

various legal forms used in commercial property management. Students finish their training with a four-hour analysis tour of commercial properties.

Keys to Creative Real Estate Financing. Our Keys to Creative Real Estate Financing course teaches students how to create and refinance mortgages, how to exchange properties without tax consequences and how to structure financings in light of prior credit problems. Discussions also include determining home equity, engaging in real estate negotiations and the use of hard-money lenders.

Business Success Training

Our Business Success programs offer a series of training courses associated with starting a business, growing a business and protecting assets.

Asset Protection and Tax Relief. Our Asset Protection and Tax Relief training course describes various legal entities used to hold property such as partnerships, corporations, and land and international trusts and the use of these entities to protect assets. Students also learn how to minimize income tax and estate tax liabilities and to develop their own personal investment plans.

Discount Notes and Mortgages. Our Discount Notes and Mortgages training course teaches students how to broker and buy commercial paper at a discount. Students learn how to locate funding sources for discounted notes and mortgages. Trainers also teach students how to discount other sources of debt such as business leases, business notes, inheritances, lotteries, life insurance policies and structured settlements.

Financial Markets Education Courses

Our Financial Training programs are designed to help students learn about stock market and international equity investing.

Master Trader . Our Master Trader Advanced Training course is a three-day program offering intensified training designed to provide traders and investors with the knowledge needed to prosper in various market environments. This program offers the students a selection of long and short-term strategies and uses state of the art proprietary software. Course work includes technical analysis, fundamental analysis and our Master Training techniques.

Trading P.I.T. Our Trading P.I.T. ("pros-in-training") course describes the trading approaches of top money managers. The course teaches students how to create an income stream using more conservative trading techniques and other strategies designed to limit risk while increasing the probability of success. Strategies covered include a number of trading approaches such as bidirectional trading, hedged directional trading, non-directional trading, floor-trading strategies and capital preservation. Our 5-Point STAR Trader Formula allows users to quickly scan the market, generate forecasts and select strategies.

Single Stock Futures. Our Single Stock Futures course addresses changes in rules regarding single stock futures. We discuss new tools associated with spread trading and leveraged trading. Students are taught the legal framework of single stock futures, set-ups and strategies and where single stock futures fit into their diversified portfolios.

Advanced P.I.T. Training Camp. Our Advanced P.I.T. Training course offers our students the opportunity to experience the market from the inside directly from the floor of an organized exchange during a market visit followed by a simulated floor trading session after the market closes. Instruction is provided by our options trainers. Subjects include advanced spread trading strategies, portfolio repair and creating a personal mutual fund.

International Finance and Investment Training Course. We have recently developed a new advanced training program in international finance and investment which is offered in our Costa Rica conference center. This program offers a curriculum that includes wealth building and investment opportunities

overseas. The training also addresses the benefits of establishing a business internationally, investing in foreign markets, raising venture and working capital internationally and asset protection.

Mentoring Programs

We offer advanced training programs conducted by our over 80 mentors, who work with students individually in "hands-on" business training.

Real Estate. Our real estate mentoring program applies the curriculum of the basic real estate camps to the student's city of choice. Under this program, one of our mentors travels to the student's city for three to four days and often guides the student through an investment transaction. Students review the real estate acquisition techniques involved and learn the real estate characteristics of the local market. Students can put to practice the skills they have gained while working directly with an experienced mentor.

Financial Markets. For mentored financial markets education, our students travel to our state-of-the-art learning center in Salt Lake City and spend three and one-half days coached by an experienced stock market trader.

Each of these brands appeals to different students depending upon business acumen and risk tolerances.

Additional Offerings

We market directly to customers a wide range of educational and reference products that supplement our training programs, such as our *Building Wealth* Real Estate Home Study Course; Real Estate Success System Software; Business Success System Software; Discount Notes and Mortgages Home Study Course; self-help courses and manuals that provide students with information about their credit along with first-time homebuyers' manuals.

Marketing

We create interest in and demand for our educational programs, products and services through a mix of television advertising, print advertising, direct mail, e-mail, attendance at trade shows and Internet marketing. We employ a sales force of over 100 individuals trained to handle the needs of new students, to promote new products and services to existing and former students and to respond to customer inquiries via phone, e-mail or the Internet.

Our marketing programs include:

Television advertising, which is our primary means for promoting our educational courses. We generally concentrate our television advertising in the cities where our courses are scheduled to be held. Television advertising is often used in coordination with direct mail marketing and newspaper advertising, in order to maximize sales efforts and create greater name recognition within the target population. For the future, we are investigating the use of television infomercials to sell our new electronic course offerings.

Limited news print advertising, which we also purchase in markets where our training courses are scheduled to be held.

Direct mail and e-mail marketing, which we use in promoting our educational training courses and marketing new educational products, programs and services to our current and former students and to prospects whose names have been provided to us by third party vendors.

Internet marketing is primarily focused on our Web site at <http://www.russwhitney.com>. The site contains information about our products, programs and services, many of which may be purchased online.

Cross promotional advertising campaigns, which we employ from time to time in conjunction with other financial education service providers.

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We also enter into strategic alliances with promoters that market products and services other than ours to potential students in large and small venues. These alliances allow us an agreed upon amount of time at the programs to attract students for our introductory courses. Our alliances are with unrelated third parties and create students for us with no requirement for us to expend funds on initial advertising or marketing. Our strategic alliances receive from us a commission on any advanced course tuition we collect as a result of us being provided access to their students. The amount of compensation these alliances receive varies depending on the quality of the student, the negotiated amounts with the strategic alliance partner, the costs associated with enrollment and the cost of delivery.

Cash received and commissions paid from course and product sales through strategic alliances are shown in the following table (in thousands, except number of strategic alliances):

	Years ended December 31,		
	2005	2004	2003
Strategic alliances	6	6	5
Cash received from courses and products	\$ 16,249	\$ 17,799	\$ 10,087
Commissions paid	\$ 2,916	\$ 3,803	\$ 3,119

Competition

The financial education training business is highly-fragmented and intensely competitive. In a broad sense, we compete with national and international postsecondary education companies, such as Apollo Group, Inc., ITT Education Services, Inc., DeVry, Inc. and United Technical Institute, Inc., which offer technical and industrial training and career training. We do not, however, compete with these or other companies that offer undergraduate or advanced degrees or continuing education programs. More specifically, we compete with a number of smaller companies, such as Investools, Inc., Wizetrade, Robbins Research International and Dynetech Corporation, which offer training on specific business subjects including real estate and stock market investing. Generally, competitive factors within the proprietary educational market include the range and depth of course offerings, the quality of teachers and trainers, the quality of reference materials provided in connection with course studies and the cost of the educational process.

We believe that the range and depth of our course offerings and our brand name offer competitive advantages over many of our direct competitors. We train our own teachers and trainers and we prepare most of our own course materials which we believe offer us competitive advantages over companies that do not train their own teachers or develop their own educational materials. As a result of constantly attending the training sessions of our competitors, we believe that the quality of our teachers, trainers and reference materials are consistent or superior to those of our competitors. Our charges for our educational courses are also consistent with those of our competitors.

Intellectual property

We regard our educational materials and products, trademarks, service marks and trade symbols as proprietary and we rely primarily on statutory and common law protections, such as copyrights and trademarks, to protect our interests in these materials. While some of our products and trade names are commonly used terms and do not afford us significant copyright or trademark protection, we also use employee and third-party noncompetition and nondisclosure agreements and other contractual methods of protecting proprietary rights to safeguard our intellectual property.

Employees

At July 24, 2006, we had approximately 476 employees, plus 273 independent contractors who act as trainers, instructors and mentors. Our employees are not represented by a labor union, and we believe our relations with our employees are satisfactory. Our independent contractors are paid commissions based upon the tuition dollar value of courses selected by students at our free

informational workshops and three day sessions, and are paid fixed fees for teaching and mentoring individual courses. All independent contractors execute letter agreements with us which set forth commission structure and provide for confidentiality and covenants not to compete.

Government Regulation

We rely on advertising to attract new students and most states regulate postsecondary education advertising practices. Since our inception we are aware of four occasions in which states have investigated our advertising practices. These states were Florida, Michigan, Pennsylvania and Tennessee. In 1996 Florida terminated its investigation into our advertising practices without charges or penalties. In 1998 we agreed to a Michigan Assurance of Discontinuance that required us to be licensed to sell business opportunities. We paid an investigation fee of \$250, did not admit wrongdoing and have been conducting business in Michigan since 1998 without incident. In 1998 we agreed to a Pennsylvania Assurance of Voluntary Compliance pursuant to which we agreed to comply with all applicable requirements of the Consumer Protection Law. We did not admit wrongdoing and have been conducting business in Pennsylvania since 1998 without incident. We paid Pennsylvania \$4,000 to cover investigative costs. In 1997 we agreed to a Tennessee Agreed Final Order in which we agreed not to violate the Tennessee Consumer Protection Act in connection with our advertisements. We did not admit wrongdoing and have been conducting business in Tennessee since 1997 without incident. We paid Tennessee \$9,500, of which \$7,500 was to cover investigative costs.

From time to time, we receive inquires from state regulators relative to our business operations and our advertising efforts to attract new students. Although we believe we are currently in full compliance with all applicable state regulations, we are aware of four current inquiries or investigations in the states of Florida, Kansas, Wisconsin and Indiana.

The Florida investigation was commenced in 2005 and stems from consumer complaints made to the state from years 2002-2005. According to information provided to us by the state, there were approximately 50 complaints from across the country made to the Attorney General's telephone hotline over the past four years. This averages about 13 complaints per year or approximately 1 complaint for every 21,000 students we have educated over the four year period. Our records indicate that many of these complaints were already handled directly with the consumer or resolved through another agency. Our legal team has worked diligently to resolve the few remaining complaints and we believe that our continued cooperation with Florida regulators will result in closure of the investigation without any further legal proceedings.

Indiana filed a lawsuit against us in March 2005 alleging that our operations fall within certain business opportunity regulations and that we failed to register accordingly. We believe the lawsuit has no merit and are aggressively defending the action.

In March 2005 and February 2006 we received subpoenas from Wisconsin and Kansas, respectively, requesting information about our advertising and student testimonials. We believe these are routine inquires and expect no further action.

Subsidiaries

We conduct a significant portion of our business through the following nine subsidiaries.

Whitney Education Group provides educational programs in the U.S.

Wealth Intelligence Academy provides advanced educational programs in the U.S.

Whitney Canada, Inc. provides educational programs in Canada.

Whitney International Limited provides education and training, primarily in the U.K.

Whitney Consulting Services, Inc. performs telemarketing services in real estate, investments and financial training seminars and individual one-on-one coaching programs.

Whitney U.K. Limited provides educational programs throughout the United Kingdom.

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Whitney Leadership Group holds all of the copyright and intellectual property rights associated with our educational materials and licenses these rights for payments.

MRS Equity Corp. manages the processing of the payments of homeowners that purchase a program we offer that allows for them to pay their mortgages every two weeks instead of monthly.

EduTrades, Inc. provides financial markets education courses.

Facilities

The following chart summarizes our office locations (in thousands, except square footage).

Purpose	Location	Own/Lease	Approximate square footage	Lease expiration	Annual rental
Corporate headquarters	Cape Coral, FL	Own	40,734		
Conference center	Monterey del Mar, Costa Rica	Own	7,000		
European headquarters	London, England	Own	5,600		
Existing EduTrades and telemarketing headquarters	Draper, UT	Lease	13,553	October 2007	\$ 168
New EduTrades and telemarketing headquarters	Murray, UT	Lease	32,646	December 2012	392
Canadian headquarters	Ontario, Canada	Lease	1,200	April 2010	20
Training center	Salt Lake City, UT	Lease	6,783	September 2010	112
Training center	Cape Coral, FL	Lease(1)	2,200	month-to-month	23
Support facility	Cape Coral, FL	Lease(1)	9,000	June 2009	167
Training center	Cape Coral, FL	Lease(1)	4,802	June 2007	87
			123,518		\$ 969

(1) Related party lease.

We own the land and building of our executive offices at 1612 East Cape Coral Parkway, Cape Coral, Florida. Our executive office building is approximately 40,734 square feet in size and is situated on approximately 4.5 acres. We own an approximately 7,000 square foot conference and training center in Costa Rica, which we designed and built in 2002. We also own an approximately 5,600 square foot building on Bath Road, Chiswick, London, England which is our European headquarter offices and a training facility.

We lease 13,553 square feet of office space at 12244 South Business Park Drive, Suite 230, in Draper, Utah. The lease expires in October 2007 and is payable at the rate of \$13,975 per month. To support our expanding business operations, we entered into a 72-month office lease in Murray, Utah. The lease is for 32,646 square feet. We intend to assign or sublease our existing space in Draper, Utah. We will receive a credit on our lease in Murray, Utah, prior to any assignment or sublease of the Draper, Utah lease.

Our Canadian subsidiary leases approximately 1,200 square feet of office space at 3780-14th Avenue, Unit 20, Ontario, Canada. The lease expires in April 2010 and is payable at rates increasing from \$1,081 to \$1,654 per month over the term of the lease.

We lease approximately 6,783 square feet of office space at 2 South 400 West in Salt Lake City, Utah. The lease expires in 2010 and is payable at the rate of \$9,327 per month. The facilities are being used as a training center.

Related party leases

We lease approximately 2,200 square feet of training facilities at 1611 East Cape Coral Parkway ("1611 Cape Coral Parkway"), approximately 9,000 square feet of space at 1625 East Cape Coral Parkway ("1625 Cape Coral Parkway") which is used for offices and shipping, and 4,802 square feet at 1630 SE 47th Terrace which we use as a training facility and for storage, all in Cape Coral, Florida from Cape Promenade Trust which is for the benefit of Russell A. Whitney, our Chief Executive Officer, and his wife, 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 respectively. We are on a month-to-month basis with respect to the 1611 Cape Coral Parkway lease that expired in March 2006. We extended the lease with respect to 1625 East Cape Coral Parkway through June 30, 2009.

We locate what we refer to as regional training centers in hotels in a number of cities across our market areas. We rent, generally for three to five days, meeting rooms in these hotels for use in training our students.

OUR MANAGEMENT

Executives and Directors

Information concerning each of our executives and directors is set forth below:

Name	Age	Position
Russell A. Whitney	50	Chairman of the Board of Directors and Chief Executive Officer
Nicholas S. Maturo	58	President and Chief Operating Officer
Alfred R. Novas	43	Chief Financial Officer
Ronald S. Simon	63	Executive Vice President, Secretary and Director
John F. Kane	52	Executive Vice President, Real Estate Education Division
Anil K. Singh	50	Vice President, Marketing
Frederick A. Cardin	59	Director
Chester P. Schwartz	61	Director
Stephen L. Cootey	37	Director
Anthony B. Petrelli	53	Director

Directors hold office for a period of one year from their election at the annual meeting of stockholders or until their successors is duly elected and qualified. Officers are elected by, and serve at the discretion of, the Board of Directors.

Russell A. Whitney, Chairman of the Board of Directors and Chief Executive Officer. Mr. Whitney is our founder and has been Chief Executive Officer of our Company and its predecessors since 1987. Mr. Whitney is also an active real estate investor for his own account and has written and published several books on wealth building topics.

Nicholas S. Maturo, President and Chief Operating Officer. Mr. Maturo joined us in 2002, became our Chief Operating Officer in 2003 and President in 2004. He was the Chief Operating Officer of Food Trader, Inc. from 2000 to 2001. From 1981 to 2000, he held a number of executive positions with Kraft Foods and was Chief Information Officer when he left Kraft. Mr. Maturo earned a Bachelor of Commerce degree in finance and economics from McGill University and also completed the Executive General Management Program at McGill University.

Alfred R. Novas, Chief Financial Officer. Mr. Novas joined us in 2006 from Novas and Associates where he led a strategic and financial planning consulting practice since 2002. From 2001 to 2002, Mr. Novas was President and Chief Executive Officer of Childtime Learning Centers, Inc. Prior to this, Mr. Novas held senior financial and executive positions with Burger King Corporation, The Pillsbury Company and Pizza Hut, Inc., a former division of PepsiCo, Inc. Mr. Novas started his career with Touche Ross & Co. (now Deloitte & Touche LLP), has a Bachelor of Business Administration degree from the University of Notre Dame and a Masters of Accounting from St. Thomas University.

Ronald S. Simon, Executive Vice President, Secretary and Director. Mr. Simon is a Certified Public Accountant and has been our Acting Chief Financial Officer from 2004 through 2006 and a member of our Board of Directors since 1998. Mr. Simon was a self-employed certified public accountant from 1987 until he joined us as our Chief Financial Officer in 1998. In 2002, he was appointed our Executive Vice President. Mr. Simon holds a Bachelor of Science degree in accounting from the University of Illinois.

John F. Kane, Executive Vice President, Real Estate Education Division. Mr. Kane was appointed to his current position in 2003. He previously was the President of Precision Software Services, Inc., one of our wholly owned subsidiaries, since 1993.

Anil K. Singh, Vice President, Marketing. Mr. Singh was appointed in 2004. Prior to joining us, he was Vice President, Marketing for The Markets, LLC from 2002 to 2004. Mr. Singh was Chief

Marketing Officer at Paytrust, Inc. from 2000 to 2001. He also held senior marketing positions at American Business Financial Services, Inc., Advanta Corporation and Time Warner, Inc.

Frederick A. Cardin, Director. Dr. Cardin has been a director since 2003. Since 1996, he has been managing director of Harvard Growth Strategies, a consulting firm which advises clients on business strategies, financing and marketing. From 1974 to 1981, he was a member, and subsequently a partner and a director, of the Cambridge Research Institute, a strategic planning consulting firm in Cambridge, Massachusetts. From 1970 to 1971 he held a faculty appointment in international finance at the Harvard Business School. Dr. Cardin earned his Masters of Business Administration with distinction and his Doctorate in Finance from the Harvard Graduate School of Business Administration. He earned a Bachelor's degree in economics summa cum laude from Tufts University.

Chester P. Schwartz, Director. Mr. Schwartz has been a director since 2003. Since 1970 he has been engaged in the private practice of law in Denver, Colorado, specializing in real estate and commercial law. He earned a Bachelor of Science degree in business administration and accounting and a Juris Doctor degree from the University of Colorado.

Stephen L. Cootey, Director. Mr. Cootey joined us as a director in 2006. Since 2004 he has been a Principal at Prides Capital LLC, an affiliate of Prides Capital Fund I, L.P. and an investment firm specializing that actively invests in small- and micro-cap public and private companies. Prides Capital Fund I LP is a 15.2% stockholder of WIN and Mr. Cootey was appointed as one of our directors at the request of Prides Capital Fund I, LP. From 2001 to 2004, Mr. Cootey was a Vice President with Credit Suisse First Boston. Prior to that time, Mr. Cootey maintained over six years of management, consulting and operational experience at the Goldman Sachs Group, Inc. and Andersen Consulting. He is a director of eDiets.com, Inc., a NASDAQ traded public company. Mr. Cootey holds a B.A. in physics and government from Bowdoin College in Brunswick, Maine and a Masters of Business Administration from the Columbia Business School in New York, New York.

Anthony B. Petrelli, Director. Mr. Petrelli joined us as a director in 2006. Since 1987 he has been the Senior Vice President and a director of Neidiger, Tucker, Bruner, Inc. a Denver, Colorado based securities brokerage firm. His responsibilities at Neidiger include managing its Corporate Finance and Investment Banking Department. He is also a member of the firm's Management Committee and administers the distribution and syndication of its public underwritings and private placements. Since 2003 he has been Chairman, President and a director of the National Investment Banking Association (NIBA). Since 1991 he has served on a number of committees of the National Association of Securities Dealers, Inc. (NASD), most recently as a member of the NASD's Statutory Disqualifications Committee, Vice Chairman of the NASD's National Adjudicatory Council and member of the NASD's Corporate Finance Committee and its Small Firm Advisory Board. He earned a Bachelor of Science degree and Masters of Business Administration degree from the University of Colorado.

Committees of the Board of Directors

Audit Committee

Our Board of Directors has established a standing Audit Committee that consists of three directors. The current members of the Audit Committee are Messrs. Schwartz, Cardin and Petrelli. Mr. Schwartz is the Audit Committee Chairman. The Board of Directors has determined that each of these directors is "independent" as defined and as required by the Securities and Exchange Commission. The Board of Directors has also determined that each of these directors is financially literate and that Mr. Schwartz further qualifies as an "audit committee financial expert" as such term is defined in the applicable rules of the Securities and Exchange Commission.

The Audit Committee assists the Board in fulfilling its responsibility to provide oversight with respect to our financial statements and reports and other disclosures provided to stockholders, the

system of internal controls and the audit process. Its duties include reviewing the adequacy of our internal accounting and financial controls, reviewing the scope and results of the audit plans of our independent and internal auditors, reviewing the objectivity, effectiveness and resources of the internal audit function, and assessing our financial reporting activities and accounting standards and principles. The Audit Committee also selects and engages our independent auditors and approves their fees. In 2005, the Committee met four times. In 2006, through July 24, 2006, the Audit Committee met four times.

The Audit Committee has considered whether the provision of nonaudit services performed by our independent auditors is compatible with maintaining that firm's independence.

Compensation Committee

Our Compensation Committee is comprised of Messrs. Schwartz, Cardin and Cootey, all of whom are independent directors. Mr. Cardin is our Compensation Committee Chairman. The Compensation Committee recommends approval by the Board of the compensation of our executive officers, the annual compensation budget for all other employees, together with bonuses, grants of stock options and any changes to our benefit plans.

Although bound by the negotiated annual salary requirements of employment agreements we have with our executives, the Compensation Committee is charged with determining bonus compensation for our executive officers. The Compensation Committee is charged with determining bonus compensation for our executive officers. Under our bonus plan, executive officers are limited to 50% of their salaries. Bonuses for our Chief Executive Officer may range from 50% to 150% of his salary. Within these parameters, we consider year over year net earnings, cash flows and revenue growth, as well as whether we met business plans and forecasts set for the year. We do not have a specific formula to apply these factors which are weighed on an individual basis by our Compensation Committee.

Governance and Nominating Committee

Our Governance and Nominating Committee consists of Messrs. Schwartz, Cardin and Perrelli. Mr. Schwartz is our Governance and Nominating Committee Chairman. The Governance and Nominating Committee monitor the implementation of the Company's corporate Governance Guidelines, to prepare and supervise the Board's Annual Reviews and Director Independence and to identify review and evaluate candidates for election as director.

Code of Ethics

Our Board of Directors has adopted a Code of Ethics that applies to our executive officers, senior financial officers and directors of our company. We have filed a copy of our Code of Ethics with the Securities and Exchange Commission and have also posted the Code of Ethics on our Web site.

In accordance with the *Sarbanes-Oxley Act of 2002*, we have adopted procedures to facilitate the submission, on a confidential and anonymous basis, of complaints, reports and concerns by any person regarding (1) accounting, internal accounting controls or auditing matters, (2) actual or potential violations of laws, rules or regulations, and (3) other suspected wrongdoing, including in connection with our Code of Ethics.

SUMMARY COMPENSATION TABLE

Name and Principal Position in 2005	Annual Compensation			Long Term Compensation Awards			
	Year	Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Award(s)	Shares Underlying Options	All Other Compensation
Russell A. Whitney, Chairman of the Board and Chief Executive Officer	2005	\$ 659,189	\$ 850,000	\$ 78,170(2)		125,000	
	2004	553,846	600,000				
	2003	400,000	275,000			75,000	
Nicholas S. Maturo, President and Chief Operating Officer	2005	\$ 275,000	\$ 250,000			100,000	
	2004	230,769	125,000			100,000	
	2003	180,000	20,000			45,000	
Ronald S. Simon, Exec. Vice President, Acting Chief Financial Officer, Secretary and Director	2005	\$ 275,000	\$ 300,000			100,000	
	2004	230,769	125,000			100,000	
	2003	180,000	75,000			50,000	
John F. Kane, Executive Vice President, Real Estate Education Division	2005	\$ 215,385	\$ 200,000			100,000	
	2004	190,785	75,000			25,000	
	2003	120,000	15,000			25,000	
Anil K. Singh, Vice President, Marketing	2005	\$ 184,423	\$ 100,000			50,000	
	2004	131,924	15,000	\$ 22,904(3)		20,000	

- (1) In accordance with SEC rules, disclosure is omitted where total Other Annual Compensation is less than \$50,000 or 10% of the total annual salary and bonus.
- (2) Represents speaker fees at conferences of \$65,135 and nonbusiness use of corporate airplane in the amount of \$13,035.
- (3) Represents relocation expense reimbursement.

Employment Agreements

In 2003, we entered into an employment agreement with Mr. Whitney which expires in 2007. The agreement provided an initial salary of \$400,000 per year, together with bonuses to be granted by the Compensation Committee of our Board of Directors, and customary employee benefits, including health insurance. The Compensation Committee established Mr. Whitney's salary at \$600,000 for 2006. Bonuses granted by the Board of Directors to Mr. Whitney are determined by the Compensation Committee and have historically been between 50% and 150% of

his salary, depending upon our level of net earnings, cash flows and revenue growth.

Also in 2003, we also entered into employment agreements with Messrs. Maturo, Simon and Kane, providing for initial annual salaries of \$180,000, \$180,000, and \$172,000, respectively. The employment agreements expire in 2007. The Compensation Committee established annual salaries of \$300,000, \$300,000 and \$250,000 for Messrs. Maturo, Simon and Kane, respectively in 2006. We have instituted a

cash bonus plan which will be administered by the Compensation Committee of our Board of Directors. Under the bonus plan, employees, including all of our executive officers, except our Chief Executive Officer, may receive cash bonuses in accordance with our Incentive Plan based upon a number of factors, including the meeting or exceeding of internally prepared budgets and forecasts, along with other subjective criteria.

The following table sets forth certain information regarding grants of stock options to Russell A. Whitney, Nicholas S. Maturo, Ronald S. Simon, John F. Kane and Anil K. Singh, the executive officers who received stock options during the years 2003 through 2005. The fair value of the grants has been estimated utilizing the Black Scholes option pricing.

Name	Number of underlying securities options granted during last 12 months	% of total options granted during last 12 months	Exercise or base price per share	Expiration date	Grant date present value
Russell A. Whitney	125,000	21.2%	\$ 5.60	11/1/2015	\$ 1,057,500
Nicholas S. Maturo	100,000	16.9%	\$ 5.60	11/1/2015	\$ 846,000
Ronald S. Simon	100,000	16.9%	\$ 5.60	11/1/2015	\$ 846,000
John F. Kane	100,000	16.9%	\$ 5.60	11/1/2015	\$ 846,000
Anil K. Singh	50,000	8.5%	\$ 5.60	11/1/2015	\$ 423,000

(1) Our present value computations were based upon the following assumptions: 77.9% volatility, ten year life, risk free rate of return of 4.35% and a 0% dividend yield.

The following table sets forth, on an aggregated basis, each exercise of stock options during the last completed fiscal year by each of the named executive officers and the fiscal year-end value of unexercised options.

Name	Shares acquired on exercise	Value realized	# of securities underlying unexercised options at December 31, 2005	Value of unexercised in-the-money options at December 31, 2005
Russell A. Whitney	0	0	192,200	\$ 989,028
Nicholas S. Maturo	0	0	245,000	\$ 1,206,250
Ronald S. Simon	0	0	543,000	\$ 3,543,125
John F. Kane	0	0	165,000	\$ 816,600
Anil K. Singh	0	0	70,500	\$ 324,500

We have not adopted any retirement, pension or profit sharing plans for the benefit of our officers or directors although we adopted our 1998 Stock Option Plan for the benefit of our officers, directors, employees and consultants. We also offer our employees a 401(k) plan. Our contributions to the plan, charged to operations, for the years ended December 31, 2005, 2004, and 2003, were \$0.2 million, \$0.1 million, \$0.0 million, respectively.

Compensation of Directors

Independent directors receive \$10,000 per year for serving as members of the Board of Directors. Members of the Audit Committee receive an additional \$2,500 per year. Expenses incurred by our directors in attending Board meetings are reimbursed, and independent directors each receive 5,000 stock options under our 1998 Stock Option Plan upon joining our Board. Additional stock options have been and will be granted to our Board members from time to time in the future.

Stock Option Plan

In 1998 we adopted a stock option plan which provides for the grant of options intended to qualify as "incentive stock options" or "nonqualified stock options" within the meaning of Section 422 of the United States Internal Revenue Code of 1986 (the "Code"). Incentive stock options are issuable only to employees.

The purposes of the plan are to attract and retain the best available personnel, to provide additional incentives to our employees and to promote the success of our business.

We have reserved 2,187,500 shares of common stock for issuance under the plan, which is administered by the Compensation Committee of our Board of Directors. Under the plan, the Compensation Committee determines which individuals will receive options, the time period during which the options may be partially or fully exercised, the number of shares of common stock that may be purchased under each option and the option price. As of August 11, 2006, options to purchase 1,480,350 shares of common stock at exercise prices ranging from \$1.81 per share to \$10.80 per share were outstanding under the plan. Of these options, 1,205,200 have been issued to executives and directors at exercise prices ranging from \$1.81 per share to \$10.80 per share.

The per share exercise price of the common stock subject to options must not be less than the fair market value of the common stock on the date the option is granted. In the case of incentive stock options, the aggregate fair market value, determined as of the date the option is granted, of the common stock that any person may purchase in any calendar year pursuant to the exercise of incentive stock options must not exceed \$100,000. No person who owns, directly or indirectly, at the time of the granting of an incentive stock option, more than 10% of the total combined voting power of all classes of our stock is eligible to receive incentive stock options under the plan unless the option price is at least 110% of the fair market value of the common stock subject to the option on the date of grant. The stock options are subject to anti-dilution provisions in the event of stock splits, stock dividends and the like.

No incentive stock options are transferable by an optionee other than by will or the laws of descent and distribution, and during the lifetime of an optionee, the option is only exercisable by the optionee. The exercise date of an option granted under the plan must not be later than ten years from the date of grant. Any options that expire unexercised or that terminate upon an optionee's ceasing to be employed by us will become available once again for issuance. Shares issued upon exercise of an option rank equally with other shares then outstanding.

PRINCIPAL STOCKHOLDERS

The following table sets forth the common stock ownership of each person known by us to be the beneficial owner of five percent or more of our common stock, by each of our officers and directors and by all officers and directors as a group. Each person holds record and beneficial ownership and has sole voting and investment power with respect to the shares of common stock shown. The address of all of these individuals is in our care at 1612 East Cape Coral Parkway, Cape Coral, Florida 33904.

Name of Owner	Number of Shares	Percent of Class(1)
Russell A. Whitney(2)	5,531,819	49.3%
Nicholas S. Maturo(3)	250,000	1.3
Alfred R. Novas(4)	25,000	*
Ronald S. Simon(2)(5)	478,175	3.4
John F. Kane(6)	350,833	2.4
Anil K. Singh(7)	60,500	*
Frederick A. Cardin(8)	25,000	*
Chester P. Schwartz(9)	25,269	*
Stephen L. Cootey(10)	5,000	*
Anthony B. Petrelli(11)	5,000	*
All officers and directors as a group (ten persons)	6,756,596	57.0
Prides Capital Fund I, LP(12)	1,650,000	15.0
Heartland Value Fund(13)	900,000	8.2
QVT Fund LP(14)	600,000	5.4

*

Less than 1%

(1)

Includes stock options and common stock purchase warrants exercisable within 60 days from the date of the prospectus.

(2)

Includes 9,619 shares of common stock and 297,200 stock options held by Mr. Whitney and members of his family. All of Mr. Whitney's shares of common stock are held in International Securities 3, LLC, a limited liability company owned by Mr. Whitney and his wife and managed by Mr. Simon.

(3)

Includes 245,000 stock options.

(4)

Comprised of 25,000 stock options.

(5)

Includes 443,000 stock options.

(6)

Includes of 125,000 stock options.

(7)

Includes 60,000 stock options.

(8)

Comprised of 25,000 stock options.

(9)

Includes 25,000 stock options.

(10)

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Mr. Cootey, an employee of Prides Capital LLC, does not vote the shares owned by Prides Capital Fund I, LP and disclaims beneficial ownership of the securities, except to the extent of his pecuniary interest in Prides Capital LLC.

- (11) Comprised of 5,000 stock options.
- (12) Includes 550,000 common stock purchase warrants.
- (13) Includes 300,000 common stock purchase warrants.
- (14) Includes 200,000 common stock purchase warrants.

RELATED PARTY TRANSACTIONS

We lease 2,200 square feet of training facilities at 1611 East Cape Coral Parkway, 9,000 square feet of space at 1625 East Cape Coral Parkway which is used for shipping, and 4,802 square feet at 1630 SE 47th Terrace which we use as a Training Center and for storage, all in Cape Coral, Florida from Cape Promenade Trust which is for the benefit of Russell A. Whitney, our Chairman of the Board and Chief Executive Officer, and his wife, Ingrid Whitney. The leases are for three years and began on March 1, 2003, March 1, 2003 and June 1, 2004, respectively. We are on a month-to-month basis with respect to 1611 East Cape Coral Parkway that expired in March 2006. We extended the lease with respect to 1625 East Cape Coral Parkway through June 30, 2009.

Between 2002 and 2005, Mr. Whitney benefited from our students' purchase of residential lots and the construction of homes on lots they acquire in the Cape Coral, Florida area because the students purchased these lots from Mr. Whitney or from other lot owners. The students were presented this opportunity at one of our advanced real estate courses by realtors representing Gulfstream Development Corp. ("Gulfstream"), a company owned 25% by Mr. Whitney. We had no involvement in the students' decision to purchase lots or in their dealings with the realtor or Gulfstream. The purchase price of lots sold by Mr. Whitney was consistent with lot prices sold by others in the Cape Coral area. Gulfstream often constructs homes on lots owned by our students. Through an informal arrangement with Gulfstream, we receive \$1,000 for every Gulfstream home built for our students, amounting to \$0.3 million and \$0.3 million for the years ended December 31, 2005 and 2004, respectively.

We also have investments in three entities in which our Chairman and Chief Executive Officer and Executive Vice President, Secretary have minority ownership interests. The entities are Rancho Monterey, S.A., Monterey del Este, S.A. and Monterey del Mar, S.A., which is described in more detail under Noncore Investments in Management's Discussion and Analysis of Financial Condition and Results of Operation. Our Chief Executive Officer owns 11% of Rancho Monterey, S.A. and 8% of Monterey del Este, S.A. Our Executive Vice President, Secretary owns 1% of Rancho Monterey, S.A.

In our view, the terms of the transactions described above are no less favorable than could have been obtained from independent third parties. All affiliated transactions must be approved by a majority of the independent and disinterested members of our Board of Directors.

SELLING STOCKHOLDERS

The following tables set forth the names of selling stockholders who are offering common stock and common stock upon exercise of warrants, together with the number of shares of our common stock beneficially owned by the selling stockholders as of the date hereof. Each selling stockholder is offering all shares owned by him or her.

The following shares may be offered from time to time by the selling stockholders named below who are not obligated to sell any of their shares of common stock. Since the selling stockholders may sell all or part of the shares of common stock offered in this prospectus, we cannot estimate the number of shares of our common stock that will be held by the selling stockholders upon termination of this offering.

None of the selling stockholders are officers or directors of us and only Prides Capital Fund I, LP owns in excess of 10% of our common stock. All of the selling stockholders are accredited investors and purchased units of our securities in a December 2005 private placement, each unit consisting of one share of common stock at \$4.50 per share and one-half common stock purchase warrant, at \$6.00 per share. The address of each selling stockholder is in care of our company at 1612 East Cape Coral Parkway, Cape Coral, Florida 33904.

Name of Beneficial Owner	Shares Owned Prior to Offering	Shares Underlying Warrants Owned Prior to Offering	Shares Owned After Offering	Percent Owned After Offering
Cerisano, Michael	10,000	5,000	0	0
CSL Associates, LP	35,000	17,500	0	0
Credit Agricole (Suisse) SA Mosaic Europe Agrichgg Funds	55,000	27,500	0	0
Double U Master Fund LP c/o Navigator Management Ltd.	11,110	5,555	0	0
Ferkin, Martin J.	13,404	6,702	0	0
Heartland Value Fund	600,000	300,000	0	0
Iroquois Master Fund Ltd.	50,000	25,000	0	0
Lazarus Investment Partners LLLP	222,222	111,111	0	0
Lewis Opportunity Fund LP	20,000	10,000	0	0
Mosaic Partners Fund	37,000	18,500	0	0
Mosaic Partners Fund (U.S.), LP	28,000	14,000	0	0
Noble International Investments, Inc.(1)	300,000	150,000	0	0
Noble Special Situations Fund, LP	40,000	20,000	0	0
Pequot Capital Management, Inc.(2)	333,264	166,632	0	0
Prides Capital Fund I, LP c/o Prides Capital	1,100,000	550,000	0	0
QVT Fund LP	400,000	200,000	0	0
Radcliffe Investment Partners I	5,000	2,500	0	0
Sunrise Equity Partners, L.P.	30,000	15,000	0	0
Wasserman, Eric	10,000	5,000	0	0
Totals	3,300,000	1,650,000	0	0

(1)

Represents shares and warrants issuable pursuant to Noble's unit purchase warrant to purchase up to 300,000 units of our securities at \$4.50 per unit. Each unit consists of one share of common stock and one-half common stock purchase warrant and another unit warrant exercisable to purchase 150,000 at \$6.00 per unit. The unit warrants were earned by Noble in consideration of its

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acting as our placement agent in connection with our private placement of units to the selling stockholders.

(2)

Shares beneficially owned by Pequot Capital Management, Inc. are held of record by the following funds in the following amounts: Pequot Scout Fund, L.P., 329,484 Shares; Pequot Mariner Master Fund, L.P., 170,412 Shares.

Pequot Capital Management, Inc. which is the Investment Manager/Advisor (as applicable) to the above named funds exercises sole dispositive, investment and voting power for all the Shares. Arthur J. Samberg is the controlling shareholder of Pequot Capital Management, Inc. and disclaims beneficial ownership of the shares except for his pecuniary interest.

Information Regarding the Selling Stockholders

The shares of our common stock which the selling stockholders are offering for resale will be sold from time to time in one or more of the following transactions:

block transactions;

transactions on the Bulletin Board or on such other market on which our common stock may trade from time to time;

privately negotiated transactions;

through the writing of options on the shares; or

any combination of these transactions

The sale price to the public in these transactions may be:

the market price prevailing at the time of sale;

a price related to the prevailing market price;

negotiated prices; or

such other price as the selling stockholders determine from time to time.

In the event that we permit or cause this prospectus to lapse, the selling stockholders may sell shares of our common stock pursuant to Rule 144 under the Securities Act of 1933. The selling stockholders will have the sole and absolute discretion not to accept any purchase offer or make any sale of these shares of our common stock if they deem the purchase price to be unsatisfactory at any particular time.

The selling stockholders or their pledges, donees, transferees or other successors in interest, may also sell these shares of our common stock directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. These broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of these shares of our common stock for whom such broker-dealers may act as agents or to whom they sell as principal, or both. As to a particular broker-dealer, this compensation might be in excess of customary commissions. Market makers and block purchasers purchasing these shares of our common stock will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of our common stock in block transactions to market makers or other purchasers at a price per share which may be below the prevailing market price of our common stock. There can be no assurance that all or any of these shares of our common stock offered hereby will be issued to, or sold by, the selling stockholders. Upon effecting the sale of any of these shares of our common stock offered under this prospectus, the selling stockholders and any brokers, dealers or

agents, hereby, will be deemed to be "underwriters" as that term is defined under the Securities Act of 1933 or the Securities Exchange Act of 1934, or the rules and regulations thereunder.

Alternatively, the selling stockholders may sell all or any part of the shares of our common stock offered hereby through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into. If a selling stockholder enters into an agreement or agreements with an underwriter, then the relevant details will be set forth in a supplement or revision to this prospectus.

The selling stockholders and any other persons participating in the sale or distribution of these shares of our common stock will be subject to applicable provisions of the Securities Exchange Act of 1934 and the rules and regulations thereunder including, without limitation, Regulation M. These provisions may restrict activities of, and limit the timing of purchases and sales of any of these shares of our common stock by, the selling stockholders. Furthermore, pursuant to Regulation M, a person engaged in a distribution of our securities is prohibited from bidding for, purchasing, or attempting to induce any person to bid for or purchase our securities for a period beginning five business days prior to the date of this prospectus until such person is no longer a selling stockholder. These regulations may affect the marketability of these shares of our common stock.

We will pay substantially all of the expenses incident to the registration and offering of our securities, other than commissions or discounts of underwriters, broker-dealers or agents.

DESCRIPTION OF SECURITIES

Common Stock

We are authorized to issue up to 25,000,000 shares of no par value common stock, of which 11,025,516 shares were outstanding on July 24, 2006. Each share of common stock is entitled to one vote on all matters submitted to a vote of the stockholders, and cumulative voting is not permitted. Upon issuance, shares of common stock are not subject to further assessment or call. Subject to the prior rights of any series of preferred stock that may be issued by us in the future, holders of common stock are entitled to receive ratably such dividends that may be declared by the Board of Directors out of funds legally available therefor and are entitled to share ratably in all assets remaining after payment of liabilities in the event of our liquidation, dissolution or winding up. Holders of our common stock have no preemptive rights or rights to convert their common stock into any other securities. Our outstanding common stock is fully paid and nonassessable.

We have not paid dividends on our common stock since inception and do not plan to pay dividends in the foreseeable future. Any earnings will be retained to finance growth.

Preferred Stock

We are authorized to issue up to 10,000,000 shares of preferred stock with such rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, under our articles of incorporation, our Board of Directors may, without stockholder approval, issue preferred stock with dividend, liquidation, conversion, voting, redemption or other rights which could adversely affect the voting power or other rights of the holders of the common stock. The issuance of any shares of preferred stock having rights superior to those of the common stock may result in a decrease of the value or market price of the common stock and could further be used by the Board of Directors as a device to prevent a change in our control. We have no other anti-takeover provisions in our articles of incorporation or bylaws. Holders of the preferred stock may have the right to receive dividends, certain preferences in liquidation and conversion rights.

Common Stock Eligible for Future Sale

We have 11,025,516 shares currently outstanding, of which 3,000,000 shares are being registered hereby, and the remaining 8,025,516 shares are free trading or, in the case of our officers and directors, may be sold pursuant to Rule 144 promulgated under the Securities Act of 1933. On the effective date of this prospectus, we will also have registered for resale 1,500,000 shares underlying warrants issued to the selling stockholders and 450,000 units issuable to Noble International Investments, Inc. upon exercise of its unit purchase warrant, consisting of 300,000 shares and 150,000 underlying warrants.

Rule 144

In general, under Rule 144, a person (or persons whose shares are aggregated) who has held securities acquired in a non public offering for at least one year may under certain circumstances, sell, within any three month period, that number of shares which does not exceed the greater of one percent of the then outstanding shares of common stock (approximately 110,026 shares), or the average weekly trading volume during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of shares by a person without any quantity limitation after the securities have been held for two years. We are unable to predict what affect, if any, such sale of shares of common stock, under Rule 144 or otherwise, may have on the then prevailing per share market price of the common stock.

Transfer Agent and Warrant Agent

Our transfer agent and warrant agent is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

Limitation on Liabilities

Our articles of incorporation provide that the liability of our directors for monetary damages is eliminated to the full extent provided by Colorado law. Under Colorado law, a director is not personally liable to a company or its stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to our company and our stockholders; (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) for authorizing the unlawful payment of a dividend or other distribution on our capital stock or the unlawful purchases of our capital stock; or (iv) for any transaction from which the director derived any improper personal benefit.

The effect of this provision in our articles of incorporation is to eliminate our rights and the rights of our security holders (through security holders' derivative suits on our behalf) to recover monetary damages from a director for breach of the fiduciary duty of care as a director, including any breach resulting from negligent or grossly negligent behavior, except in the situations described in clauses (i) through (iv) above. This provision does not limit or eliminate our rights or the rights of any security holder to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a director's duty of care or any liability for violation of the federal securities laws.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by the Law Office of Gary A. Agron, Greenwood Village, Colorado. Mr. Agron owns 207,816 shares of our common stock.

EXPERTS

Our Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003 have been audited by Ehrhardt Keefe Steiner & Hottman PC, an independent registered public accounting firm as set forth in their report appearing elsewhere herein and are included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1, as amended, under the Securities Act of 1933, as amended, covering securities offered hereby. Our wholly owned subsidiary, EduTrades, Inc., has filed a Registration Statement on Form S-1, as amended, covering securities offered in connection with the EduTrades, Inc. public offering. As permitted by the rules and regulations of the Commission, this prospectus does not contain all of the information set forth in the Registration Statement and the exhibits. For further information with respect to our Company and our securities, reference is made to the Registration Statement and the exhibits, which may be examined without charge at the Public Reference Room maintained by the Commission at 100 F Street, NE, Washington, DC 20549, copies of which may be obtained from the Commission upon payment of the prescribed fees. You may also contact the Commission at 1-800-SEC-0330 for further information regarding the Public Reference Room and its facilities.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file periodic reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information may be inspected at the public reference facilities maintained by the Commission at 100 F Street, NE, Washington, DC 20549. Copies of these materials may be obtained at prescribed rates from the Commission at that address. The reports, proxy statements and other information can also be inspected on the Commission's Web site at www.sec.gov.

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Whitney Information Network, Inc.

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2006	December 31, 2005	December 31, 2004
	(unaudited)	(restated)	(restated)
Assets			
Current assets:			
Cash and cash equivalents	\$ 38,217	\$ 33,244	\$ 4,667
Restricted cash	5,445	5,406	2,181
Accounts receivable, net	3,865	3,789	448
Accounts receivable, related parties			1,168
Notes receivable, current portion	2,080	1,785	
Deferred course expenses, current portion	15,405	14,401	11,898
Prepaid advertising and other	2,443	2,841	1,977
Inventory	1,313	1,087	1,390
Deferred registration costs	460	315	
Total current assets	69,228	62,868	23,729
Notes receivable, net of current portion	7,140	9,158	
Property and equipment, net	10,457	10,082	24,548
Investment in related parties	2,192	2,103	847
Investment in real estate joint venture	2,716	2,716	2,701
Intangible assets, net	5,552	5,754	6,576
Goodwill	2,000	2,000	1,500
Deferred income tax asset	7,287	7,287	
Deferred course expenses, net of current portion	145	99	
Other assets	136	136	127
	\$ 106,853	\$ 102,203	\$ 60,028
Liabilities and Stockholders' Deficit			
Current liabilities:			
Accounts payable	\$ 3,210	\$ 3,691	\$ 7,413
Income taxes payable	298	356	
Accrued course expenses	2,331	1,841	2,174
Other accrued expenses	6,983	7,377	3,999
Due to stockholders from sale of common stock		5,110	
Long term debt, current portion	1,096	462	504
Deferred revenue	129,050	116,777	83,713
Total current liabilities	142,968	135,614	97,803
Long term debt, net of current portion	5,798	2,912	11,808
Deferred revenue, net of current portion	304	224	
Total liabilities	149,070	138,750	109,611
Minority interest		3,939	1,977
Commitments and contingencies			
Stockholders' deficit:			
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued and outstanding			

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	March 31, 2006	December 31, 2005	December 31, 2004
Common stock, no par value, 25,000,000 shares authorized, 10,878,016, 10,455,910 and 8,618,186 shares issued and outstanding, as of March 31, 2006, December 31, 2005 and 2004, respectively	12,175	10,593	3,269
Paid-in capital	995	449	449
Foreign currency translation adjustment	(684)	(650)	(550)
Accumulated deficit	(54,703)	(50,878)	(54,728)
Total stockholders' deficit	(42,217)	(40,486)	(51,560)
	\$ 106,853	\$ 102,203	\$ 60,028

See notes to Consolidated Financial Statements.

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

(unaudited, in thousands, except per share data)

	Three months ended March 31,	
	2006	2005 (restated)
Revenue	\$ 44,914	\$ 38,434
Operating expenses:		
Direct course expenses	26,455	20,611
Advertising and sales expense	14,202	11,119
General and administrative expenses	8,604	6,290
	49,261	38,020
(Loss) earnings from operations	(4,347)	414
Other income (expense):		
Other income	166	270
Interest income, net	326	30
Equity earnings from related parties	30	22
Gain on sale of assets		13
	522	335
(Loss) earnings before income taxes	(3,825)	749
Minority interest		62
Net (loss) earnings	\$ (3,825)	\$ 811
Effect of foreign exchange rates	(34)	(367)
Comprehensive (loss) earnings	\$ (3,859)	\$ 444
(Loss) earnings per share:		
Diluted	\$ (0.36)	\$ 0.09
Basic	\$ (0.36)	\$ 0.09
Weighted average common shares outstanding:		
Diluted	10,738	8,677
Basic	10,738	8,676

See notes to Consolidated Financial Statements.

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statement of Operations and Comprehensive Earnings (Loss)

(in thousands, except per share data)

	Years ended December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Revenue	\$ 163,107	\$ 136,259	\$ 89,805
Operating expenses:			
Direct course expenses	94,765	91,763	51,868
Advertising and sales expense	49,839	49,664	30,092
General and administrative expenses	27,664	27,676	15,321
	172,268	169,103	97,281
Loss from operations	(9,161)	(32,844)	(7,476)
Other income (expense):			
Other income	1,800	893	154
Interest expense, net	(28)	(499)	(3)
Equity earnings (loss) from related parties	(176)	159	
Gain on sale of assets	6,579	305	
	8,175	858	151
Loss before income taxes	(986)	(31,986)	(7,325)
Minority interest	(1,962)	23	
Income tax benefit	6,798		
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)
Effect of foreign exchange rates	(100)	55	(591)
Comprehensive earnings (loss)	3,750	(31,908)	(7,916)
Earnings (loss) per share:			
Diluted	\$ 0.41	\$ (3.72)	\$ (0.89)
Basic	\$ 0.43	\$ (3.72)	\$ (0.89)
Weighted average common shares outstanding:			
Diluted	9,360	8,589	8,188
Basic	8,859	8,589	8,188

See notes to Consolidated Financial Statements.

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Three months ended March 31,	
	2006	2005
		(restated)
Operating activities:		
Net (loss) earnings	\$ (3,825)	\$ 811
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	450	480
Stock compensation expense	252	
Stock gift	937	
Gain on sale of assets		(13)
Minority interest		(62)
Provision for income taxes		
Changes in operating assets and liabilities:		
Restricted cash	(38)	(771)
Accounts receivable, net	(76)	277
Prepaid advertising and other	398	(398)
Inventory	(226)	(48)
Deferred course expenses	(1,050)	(762)
Accounts payable	(481)	(1,943)
Accrued course expenses	490	562
Deferred revenue	12,353	9,139
Other accrued expenses	(394)	(564)
Income taxes payable	(58)	
	<u>10,918</u>	<u>5,492</u>
Net change in operating working capital		
	8,732	6,708
Cash provided by operations	<u>8,732</u>	<u>6,708</u>
Investing activities:		
Purchase of property and equipment	(624)	(952)
Purchase of goodwill		(333)
Proceeds from sale of assets		13
Proceeds received on notes receivable	1,723	
Investments in and advances to related parties, net	(89)	711
Minority interest distribution	(44)	
	<u>966</u>	<u>(561)</u>
Cash provided by (used in) investing activities		
	966	(561)
Financing activities:		
Payment to stockholder from sale of common stock	(5,110)	
Principal payments on long term debt	(81)	(87)
Proceeds from exercise of stock options	645	
Stock registration costs	(145)	
	<u>(4,691)</u>	<u>(87)</u>
Cash used in financing activities		
	(4,691)	(87)
Effect of foreign currency translation	(34)	(367)
Increase in cash and cash equivalents	4,973	5,693
Cash and cash equivalents, beginning of period	33,244	4,667

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	Three months ended March 31,	
Cash and cash equivalents, end of period	\$ 38,217	\$ 10,360

See notes to Consolidated Financial Statements.

Supplemental cash flow information:

Cash received for interest was \$0.4 million and \$0.1 million for the three months ended March 31, 2006 and 2005, respectively.

Cash paid for interest was \$0.1 million and \$0.1 million for the three months ended March 31, 2006 and 2005, respectively.

Supplemental disclosure of noncash activity:

Long term debt of \$3.6 million was added in March 2006 in connection with our acquisition of the remaining 50% interest in SCB Building, LLC

In 2005, 85,470 shares of common stock valued at \$0.2 million were issued along with \$0.3 million in cash in connection with the acquisition of SpeakTek, Inc.

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Operating activities:			
Net earnings (loss)	\$ 3,850	\$ (31,963)	\$ (7,325)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,856	1,610	950
Gain on sale of assets	(6,579)	(305)	
Minority interest	1,962	(23)	
Changes in operating assets and liabilities:			
Restricted cash	(3,225)	(389)	67
Accounts receivable, net	(3,341)	867	(807)
Prepaid advertising and other	(864)	353	(1,633)
Inventory	303	(677)	(349)
Deferred tax asset, net of deferred tax liability	(7,287)		
Deferred course expenses	(2,602)	(3,546)	(3,339)
Other assets	(19)	(96)	7
Accounts payable	(3,722)	4,195	1,456
Accrued course expenses	(333)	528	1,582
Deferred revenue	33,288	27,828	19,468
Other accrued expenses	3,379	2,218	655
Income taxes payable	356		
	<u>15,933</u>	<u>31,281</u>	<u>17,107</u>
Net change in operating working capital	15,933	31,281	17,107
Cash provided by operations	<u>17,022</u>	<u>600</u>	<u>10,732</u>
Investing activities:			
Purchase of property and equipment	(701)	(9,682)	(2,884)
Proceeds from sale of investment properties	9,777	827	
Purchase of goodwill and intangible assets	(333)	(250)	(470)
Purchase of equity interest in investment properties		(2,701)	(2,000)
Investments in and advances to related parties, net	(103)	1,202	(2,378)
	<u>8,640</u>	<u>(10,604)</u>	<u>(7,732)</u>
Cash provided by (used in) investing activities	8,640	(10,604)	(7,732)
Financing activities:			
Proceeds from sale of common stock	7,155		
Due to stockholders from sale of common stock	5,110		
Proceeds of long term debt	103	6,363	2,500
Principal payments on long term debt	(9,041)	(291)	(560)
Proceeds of note payable to officer			62
Principal payments on note payable to officer		(4,713)	(1,119)
Proceeds from exercise of stock options	3	28	16
Distribution to officer			(300)
Stock registration costs	(315)		
	<u>3,015</u>	<u>1,387</u>	<u>599</u>
Cash provided by financing activities	3,015	1,387	599
Effect of foreign currency translation	(100)	55	(591)

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	Years ended December 31,		
Increase (decrease) in cash and cash equivalents	28,577	(8,562)	3,008
Cash and cash equivalents, beginning of year	4,667	13,229	10,221
Cash and cash equivalents, end of year	\$ 33,244	\$ 4,667	\$ 13,229

See notes to Consolidated Financial Statements.

Supplemental cash flow information:

Cash paid for interest was \$0.2 million, \$0.5 million and \$0.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Capital expenditures of \$2.7 million and \$2.5 million in 2004 and 2003, respectively that were financed through borrowings have been included as purchases of property and equipment and proceeds of long term debt on the Statement of Cash Flows. These transactions had been presented as a supplemental disclosure of noncash activity in prior years.

The net change in accounts receivable, related parties for all years has been restated and included in the Investing Activities of the Consolidated Statement of Cash Flows section under the caption "Investment in and advances to related parties, net" for comparative purposes (see Note 1-*Restatement*). In 2004 and 2003, the net change of \$1.3 million and (\$2.5 million), respectively had been presented in the operating activities section.

Supplemental disclosure of noncash activity:

During the first quarter of 2005, 85,470 shares of common stock valued at \$0.2 million were issued along with cash of \$0.3 million for the final payment of the *Star Trader* brand purchase agreement, with the total of \$0.5 million being recorded as goodwill.

A portion of the consideration received on the sale of the SCB Building, as discussed in Note 4 *Mergers, acquisitions and capital accounts*, includes \$11.0 million in notes receivable out of \$20.3 million in total proceeds.

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WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Deficit

(in thousands)

	Common Stock		Additional paid-in capital	Foreign currency translatioin adjustment	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance at December 31, 2002 (restated)	8,097	\$ 940	\$ 449	(14)	\$ (14,240)	\$ (12,865)
Issuance of stock for the stock purchased of MRS Equity Corp.	63	125				125
Issuance of stock for assets purchased of Success Development, Inc.	180	900				900
Issuance of stock for the stock purchased of SpeakTek, Inc.	200	1,000				1,000
Issuance of stock for assets purchased	2	10				10
Issuance of stock for stock options exercised	6	16				16
Issuance of cash and note payable to majority stockholder for interest in Whitney Leadership Group, Inc.					(1,200)	(1,200)
Foreign currency translation adjustment				(591)		(591)
Net loss					(7,325)	(7,325)
Balance at December 31, 2003 (restated)	8,548	2,991	449	(605)	(22,765)	(19,930)
Issuance of stock for the stock purchased of SpeakTek, Inc.	56	250				250
Issuance of stock for stock options exercised	15	28				28
Foreign currency translation adjustment				55		55
Net loss					(31,963)	(31,963)
Balance at December 31, 2004 (restated)	8,619	\$ 3,269	\$ 449	\$ (550)	\$ (54,728)	\$ (51,560)
Issuance of stock for the stock purchased of SpeakTek, Inc.	85	166				166
Issuance of stock for stock options exercised	2	3				3
Private placement of securities, net of offering costs of \$720	1,750	7,155				7,155
Foreign currency translation adjustment				(100)		(100)
Net earnings					3,850	3,850
Balance at December 31, 2005 (restated)	10,456	\$ 10,593	\$ 449	\$ (650)	\$ (50,878)	\$ (40,486)
Stock gift to the estate of the former President	98	937				937
Issuance of stock for stock options exercised	324	645				645
Acquisition of 50% interest in SCB Building LLC			294			294
Stock compensation			252			252
Foreign currency translation adjustment				(34)		(34)
Net loss					(3,825)	(3,825)
Balance at March 31, 2006 (unaudited)	10,878	\$ 12,175	\$ 995	\$ (684)	\$ (54,703)	\$ (42,217)

See notes to Consolidated Financial Statements.

WHITNEY INFORMATION NETWORK, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 Restatement

Overview

Whitney Information Network, Inc. and Subsidiaries' Consolidated Financial Statements and other financial information have been restated for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 and for each of the quarters in the years 2005 and 2004. The effect of the restatement on our statement of financial position at the end of the reported periods is summarized in the table below. The financial restatements reflect:

a modification associated with a change in revenue recognition policy and restatement of revenue from expired courses;

reclassifications in prior period line item expense categories and the timing of accruals necessary for comparability to the current period's presentation; and

a revision to the revenue recognition policy with respect to our teleconferencing product and service offering and subscription services.

The following discussion details the reasons for the restatement and reclassifications in our Consolidated Financial Statements.

Restatement Revenue Recognition

We are engaged primarily in the business of providing real estate and financial education to individual investors through courses of study as well as educational materials. We offer our students multiple course packages. Students pay for the courses in advance and we record the proceeds from the sale of courses as deferred revenue when it is received. Revenue is earned when the student attends the course.

The student is permitted to attend courses (in all available learning formats) throughout the life of the student contract. We allow students to attend courses subsequent to expiration upon request. The tuition is generally nonrefundable. A student may receive a refund within three days of the purchase by exercising a right of rescission. In such cases, the corresponding amount of deferred revenue is relieved with no impact on the Consolidated Statement of Operations.

We recognize revenue based on:

when the course is attended by the student; or

likelihood of the attendance by the student is remote (course breakage), which is based on the historical:

percentage of students who never attended a course and those students who never attended a course subsequent to expiration; and

highest number of days in which 95% of those students who attended our courses subsequent to expiry.

We determine our course breakage rate based upon estimates developed from historical student attendance patterns. Based on our historical information, we can determine the likelihood of an expired course remaining unattended. Moreover, we determined that we do not have a legal obligation to remit the value of expired courses to relevant taxing jurisdictions.

To apply course breakage, we calculate verifiable and objective supporting data as of each balance sheet date.

Reclassification

Reclassifications were required in prior period line item expense categories and the timing of accruals necessary for comparability to the current period's presentation. The need for reclassifications is a result of the lack of sufficient and qualified personnel over the accounting and reporting function. As qualified people were brought into the organization, consideration was given to the presentation of the particular line items. It was determined the reclassification would better demonstrate the activities of our business.

Restatement Teleconference and subscription service

Upon review of our revenue recognition policies for all service and product offerings, we concluded the previous revenue recognition policy with respect to our teleconferencing and subscription based offerings needed to be modified in order to comply with the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* and Staff Accounting Bulletin 104 (SAB 104). These restatements have no cumulative effect on our Consolidated Statement of Cash Flows.

Effects of Restatement

The following tables set forth the effects of the restatement on affected line items within our previously reported financial statements for the years ended December 31, 2005, 2004 and 2003 and for each of the quarters in the years 2005 and 2004.

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All financial information expressed in thousands.

	Revenue	Direct Advertising & sales expenses	General & administrative expenses	Total operating expenses	Earnings (loss) from operations	Interest Other income (expense) net	Interest income, Equity earnings	Gain on sale of assets	Earnings before taxes and minority interest	Minority Interests	Income tax	Net earnings (loss)		
Year ended December 31, 2005														
As previously reported	\$ 178,564	\$ 96,520	\$ 50,003	\$ 27,664	\$ 174,187	\$ 4,377	\$ 1,800	\$ (28)	\$ (176)	\$ 6,579	\$ 12,552	\$ (1,962)	\$ 6,798	\$ 17,388
Restatements:														
Revenue recognition policy change	(14,173)	(1,382)		(1,382)	(12,791)						(12,791)			(12,791)
Revenue deferral policy	(1,283)	(373)	(164)	(537)	(746)						(746)			(746)
2005 as restated	\$ 163,107	\$ 94,765	\$ 49,839	\$ 27,664	\$ 172,269	\$ (9,161)	\$ 1,800	\$ (28)	\$ (176)	\$ 6,579	\$ (986)	\$ (1,962)	\$ 6,798	\$ 3,850
2004														
As previously reported	\$ 139,859	\$ 57,952	\$ 79,533	\$ 33,150	\$ 170,635	\$ (30,776)	\$ 894	\$ (499)	\$ 159	\$ 305	\$ (29,917)	\$ 23		\$ (29,894)
Reclassifications:														
Payroll & related costs		5,694	(864)	(4,830)										
Commissions		13,462	(13,462)											
Product cost		3,655	(3,655)											
Event staging		7,505	(7,505)											
Shipping		4,521	(4,521)											
Advertising		117		(117)										
Merchant fees		(3)	3											
Administrative costs		359		(359)										
Other		33	135	(168)										
2004 as reclassified	\$ 139,859	\$ 93,295	\$ 49,664	\$ 27,676	\$ 170,635	\$ (30,776)	\$ 894	\$ (499)	\$ 159	\$ 305	\$ (29,917)	\$ 23		\$ (29,894)
Restatements:														
Revenue recognition policy change	\$ (3,005)	\$ (1,307)		(1,307)	(1,698)						(1,698)			(1,698)
Revenue deferral policy	(595)	(224)		(224)	(371)						(371)			(371)
2004 as restated	\$ 136,259	\$ 91,763	\$ 49,664	\$ 27,676	\$ 169,103	\$ (32,845)	\$ 894	\$ (499)	\$ 159	\$ 305	\$ (31,986)	\$ 23		\$ (31,963)
2003														
As previously reported	\$ 94,958	\$ 46,804	\$ 27,508	\$ 22,355	\$ 96,667	\$ (1,709)	\$ 154	\$ (3)			\$ (1,558)			\$ (1,558)
Reclassifications:														
Payroll & related costs		2,971	(511)	(2,460)										
Commissions		(11)	11											
Shipping		267		(267)										
Advertising		(851)	2,668	(1,817)										
Merchant fees		1,956		(1,956)										
Administrative costs		103	127	(230)										
Other		15	289	(304)										
2003 as reclassified	\$ 94,958	\$ 51,254	\$ 30,092	\$ 15,321	\$ 96,667	\$ (1,709)	\$ 154	\$ (3)			\$ (1,558)			\$ (1,558)

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	Revenue	Direct course expenses	Advertising & sales expense	General & administrative expenses	Total operating expenses	Earnings (loss) from operations	Interest Other income (expense) net	Interest (expense) Equity earnings	Gain on sale of assets	Earnings before taxes and minority interest	Minority Interests	Income tax	Net earnings (loss)
Restatements:													
Revenue recognition policy change	(5,153)	614			614	(5,767)				(5,767)			(5,767)
2003 as restated	\$ 89,805	\$ 51,868	\$ 30,092	\$ 15,321	\$ 97,281	\$ (7,476)	\$ 154	\$ (3)		\$ (7,325)			\$ (7,325)

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	Revenue	Direct course expenses	Advertising & sales expense	General & administrative expenses	Total operating expenses	Earnings from operations	Other income (expense)	Interest (expense) net	Equity earnings	Gain on sale of assets	Earnings before taxes and minority interest	Minority interest	Income tax	Net earnings (loss)
Three months ended March 31, 2005, as previously reported	\$ 40,170	\$ 18,835	\$ 11,898	\$ 5,329	\$ 36,062	\$ 4,108	\$ 70	\$ (91)	\$	\$	\$ 4,087	\$ 62		\$ 4,149
<i>Reclassifications:</i>														
Payroll & related costs		133	78	(211)										
Commissions		494	(494)											
Product cost		137	(137)											
Event staging		181	(181)											
Administrative & other costs	(34)	6		290	296	(330)	330							
Other income							(156)	121	22	13				
Three months ended March 31, 2005 as reclassified	40,136	19,786	11,164	5,408	36,358	3,778	244	30	22	13	4,087	62		4,149
<i>Restatements:</i>														
Revenue recognition policy change	(975)	(43)			(43)	(932)					(932)			(932)
Revenue deferral policy	(727)	(240)	(45)		(285)	(442)					(442)			(442)
Accrual timing		1,108		882	1,990	(1,990)	26				(1,964)			(1,964)
Three months ended March 31, 2005, as restated	\$ 38,434	\$ 20,611	\$ 11,119	\$ 6,290	\$ 38,020	\$ 414	\$ 270	\$ 30	\$ 22	\$ 13	\$ 749	\$ 62		\$ 811

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	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Earnings (loss) per share:						
Diluted	\$ 1.86	\$ 0.41	\$ (3.48)	\$ (3.72)	\$ (0.19)	\$ (0.89)
Basic	1.96	0.43	(3.48)	(3.72)	(0.19)	(0.89)

	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Statement of Changes in Stockholders' Deficit

Balance at January 1	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)	\$ (3,102)	\$ (12,865)
Increase (decrease) attributable to net earnings (loss)	17,388	3,850	(29,896)	(31,963)	(1,558)	(7,325)
Currency translation adjustments net (a)	(155)	(100)	166	55	(348)	(591)
Balance at December 31	\$ (9,052)	\$ (40,486)	\$ (33,609)	\$ (51,560)	\$ (4,157)	\$ (19,930)

(a)

The change in foreign currency translation is attributable to the restatements arising from the change in revenue recognition policies.

At December 31

	2005		2004	
	As previously reported	As restated	As previously reported	As restated

(in thousands)

Consolidated Balance Sheets

Deferred course expenses	\$ 9,513	\$ 14,401	\$ 8,825	\$ 11,898
Deferred course expenses, noncurrent		99		
Total assets	97,216	102,203	56,955	60,028
Deferred revenue	80,580	116,777	62,689	83,713
Deferred revenue, noncurrent		224		
Total liabilities	102,329	138,750	88,587	109,611
Foreign currency translation adjustment	(337)	(650)	(182)	(550)
Accumulated deficit	(19,757)	(50,878)	(37,145)	(54,728)
Total stockholders' deficit	(9,052)	(40,486)	(33,609)	(51,560)
Total liabilities and stockholders' deficit	\$ 97,216	\$ 102,203	\$ 56,955	\$ 60,028

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2005

Unaudited quarterly information	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in thousands except per share amounts)							
Consolidated Statement of Operations								
Revenue	\$ 40,170	\$ 38,434	\$ 46,520	\$ 40,898	\$ 46,820	\$ 44,050	\$ 45,054	\$ 39,725
Operating expenses								
Direct course expenses	18,835	20,611	25,234	25,307	27,248	26,419	25,203	22,428
Advertising and sales expense	11,898	11,119	12,917	12,376	13,549	14,010	11,639	12,334
General and administrative	5,329	6,290	5,902	5,697	4,610	6,025	11,823	9,653
	36,062	38,020	44,053	43,380	45,407	46,454	48,665	44,415
Earnings (loss) from operations	4,108	414	2,467	(2,482)	1,413	(2,404)	(3,611)	(4,690)
Other income (expense), net	(21)	322	(60)	(377)	669	669	1,008	982
Gain on sale of assets		13	524	511	253	253	5,802	5,802
Minority interest	62	62	228	228	55	55	(2,307)	(2,307)
Income tax benefit					6,679	6,679	119	119
Net earnings (loss)	\$ 4,149	\$ 811	\$ 3,159	\$ (2,120)	\$ 9,069	\$ 5,252	\$ 1,011	\$ (94)
Per share amounts:								
Diluted earnings (loss) per share	\$ 0.48	\$ 0.08	\$ 0.35	\$ (0.24)	\$ 0.97	\$ 0.56	\$ 0.10	\$ (0.01)
Basic earnings (loss) per share	0.48	0.09	0.36	(0.24)	1.04	0.60	0.11	(0.01)

2004

Unaudited quarterly information	First quarter		Second quarter		Third quarter		Fourth quarter	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in thousands except per share amounts)							
Consolidated Statement of Operations								
Revenue	\$ 38,509	\$ 32,164	\$ 38,607	\$ 32,572	\$ 32,154	\$ 38,858	\$ 30,589	\$ 32,665
Operating expenses								
Direct course expenses	15,418	19,386	13,947	22,262	16,032	26,303	12,555	23,812
Advertising and sales expense	12,838	12,265	22,301	14,774	19,665	11,606	24,729	11,019
General and administrative	10,206	5,717	7,330	5,726	8,651	7,376	6,963	8,857
	38,462	37,368	43,578	42,762	44,348	45,285	44,247	43,688
Earnings (loss) from operations	47	(5,204)	(4,971)	(10,190)	(12,194)	(6,427)	(13,658)	(11,023)
Other income (expense), net	161	(144)	652	708	173	68	(106)	(79)
Gain on sale of assets		305						
Minority interest								23

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2004

Net earnings (loss)	\$	208	\$	(5,043)	\$	(4,319)	\$	(9,482)	\$	(12,021)	\$	(6,359)	\$	(13,764)	\$	(11,079)
Per share amounts:																
Diluted earnings (loss) per share	\$	0.02	\$	(0.59)	\$	(0.51)	\$	(1.11)	\$	(1.40)	\$	(0.74)	\$	(1.61)	\$	(1.29)
Basic earnings (loss) per share		0.02		(0.59)		(0.51)		(1.11)		(1.40)		(0.74)		(1.61)		(1.29)

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2005

Unaudited quarterly information	March 31		June 30		September 30		December 31	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
	(in thousands except per share amounts)							
Consolidated Balance Sheets								
Cash and cash equivalents	\$ 13,312	\$ 10,360	\$ 16,012	\$ 13,969	\$ 20,898	\$ 20,170	\$ 33,244	\$ 33,244
Restricted cash		2,952	5,392	7,435	7,285	8,013	5,406	5,406
Deferred course expenses	9,258	12,637	9,593	13,723	9,726	14,218	9,513	14,401
Other current assets	5,273	5,240	3,985	3,980	10,463	8,120	9,817	9,817
Total current assets	27,843	31,189	34,982	39,107	48,372	50,521	57,980	62,868
Note receivable							9,158	9,158
Property and equipment, net	25,450	24,426	24,420	23,421	22,933	21,788	10,082	10,082
Intangible assets, net	6,156	6,361	5,866	6,005	5,751	6,031	5,754	5,754
Deferred tax asset					4,887	6,679	7,287	7,287
Other noncurrent assets	4,833	5,708	4,831	5,750	5,082	5,897	6,955	7,054
Total assets	\$ 64,282	\$ 67,684	\$ 70,099	\$ 74,284	\$ 87,025	\$ 90,916	\$ 97,216	\$ 102,203
Deferred revenue	\$ 70,136	\$ 92,800	\$ 74,552	\$ 102,770	\$ 80,463	\$ 112,233	\$ 80,580	\$ 116,777
Accounts payable	5,470	6,839	3,054	4,448	5,544	5,851	3,691	3,691
Due to stockholder							5,110	5,110
Other current liabilities	4,778	5,373	5,650	6,628	5,980	7,915	10,036	10,036
Total current liabilities	80,384	105,012	83,256	113,847	91,987	125,999	99,417	135,614
Long term debt, noncurrent	11,654	11,654	11,501	11,501	10,553	10,553	2,912	2,912
Deferred revenue, noncurrent		52		125		206		224
Total liabilities	92,038	116,718	94,757	125,472	102,540	136,758	102,329	138,750
Minority interest	1,915	1,915	1,687	1,687	1,632	1,632	3,939	3,939
Commitments and contingencies								
Common stock	3,436	3,436	3,436	3,436	3,435	3,435	10,593	10,593
Paid in capital	449	449	449	449	449	449	449	449
Foreign currency translation adjustment	(560)	(917)	(393)	(723)	(263)	(574)	(337)	(650)
Accumulated deficit	(32,996)	(53,917)	(29,837)	(56,037)	(20,768)	(50,784)	(19,757)	(50,878)
Total stockholders' deficit	(29,671)	(50,949)	(26,345)	(52,875)	(17,147)	(47,474)	(9,052)	(40,486)
Total liabilities and stockholders' deficit	\$ 64,282	\$ 67,684	\$ 70,099	\$ 74,284	\$ 87,025	\$ 90,916	\$ 97,216	\$ 102,203

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2004

Unaudited quarterly information	March 31		June 30		September 30		December 31	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
(in thousands except per share amounts)								
Consolidated Balance Sheets								
Cash and cash equivalents	\$ 22,608	\$ 20,536	\$ 14,916	\$ 12,844	\$ 8,893	\$ 6,734	\$ 4,667	\$ 4,667
Restricted cash		2,072		2,072		2,159	2,181	2,181
Deferred course expenses	7,798	10,339	8,403	11,718	9,397	11,710	8,825	11,898
Other current assets	6,986	6,986	6,792	6,792	5,661	5,661	4,983	4,983
Total current assets	37,392	39,933	30,111	33,426	23,951	26,264	20,656	23,729
Property and equipment, net	17,789	17,184	21,874	21,409	27,996	27,736	24,781	24,548
Intangible assets, net	6,930	7,524	6,802	7,256	6,952	7,201	6,352	6,576
Other non current assets	1,736	1,746	1,878	1,889	1,770	1,781	5,166	5,175
Total assets	\$ 63,847	\$ 66,387	\$ 60,665	\$ 63,980	\$ 60,669	\$ 62,982	\$ 56,955	\$ 60,028
Deferred revenue	\$ 46,549	\$ 70,279	\$ 49,857	\$ 79,589	\$ 55,583	\$ 78,568	\$ 62,689	\$ 83,713
Accounts payable	1,377	1,377	2,917	2,917	5,612	5,612	7,413	7,417
Other current liabilities	7,020	7,020	5,657	5,657	5,453	5,453	6,678	6,677
Total current liabilities	54,946	78,676	58,431	88,163	66,648	89,633	76,780	97,803
Long term debt, noncurrent	10,771	10,771	8,421	8,421	11,922	11,922	11,807	11,808
Total liabilities	65,717	89,447	66,852	96,584	78,570	101,556	88,587	109,611
Minority interest	2,000	2,000	2,000	2,000	2,000	2,000	1,977	1,977
Commitments and contingencies								
Common stock	3,015	3,015	3,017	3,017	3,267	3,267	3,269	3,269
Paid in capital	449	449	449	449	449	449	449	449
Foreign currency translation adjustment	(293)	(669)	(244)	(629)	(187)	(530)	(182)	(550)
Accumulated deficit	(7,041)	(27,855)	(11,409)	(37,441)	(23,430)	(43,759)	(37,145)	(54,728)
Total stockholders' deficit	(3,870)	(25,060)	(8,187)	(34,604)	(19,901)	(40,573)	(33,609)	(51,560)
Total liabilities and stockholders' deficit	\$ 63,847	\$ 66,387	\$ 60,665	\$ 63,980	\$ 60,669	\$ 62,982	\$ 56,955	\$ 60,028

In addition to the aforementioned restatement adjustments, the Consolidated Balance Sheets include certain other reclassifications identified during the restatement process. These changes had no effect on the Consolidated Statements of Operations.

Restatement Statement of Cash Flows

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As a result of displaying restricted cash on the Consolidated Balance Sheets, we have revised the changes in operating assets and liabilities section and the cash and cash equivalents to reflect this change.

The net change in accounts receivable, related parties is included in the Investing Activities section of the statement under the caption "Investments in and advances to related parties". The reason this is classified in "Investing activities" is due to Management's conclusion that the repayment of this receivable will come from sales of the land underlying the investment. Accordingly we have revised 2004 and 2003 to include the net changes for accounts receivable, related parties in the Investing Activities portion of the Consolidated Statement of Cash Flows for comparability to the 2005 presentation.

Originally provided as a supplemental disclosure of noncash activity, we reflected the gross payments of capital expenditures and the proceeds of long term debt in 2004 and 2003 that were financed through bank borrowings. We believe this is a more appropriate

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presentation of the Statement of Cash Flows in accordance with Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. The summary effect on the Consolidated Statement of Cash Flows is as follows (in thousands):

	Years ended December 31,					
	2005		2004		2003	
	As previously reported	As restated	As previously reported	As restated	As previously reported	As restated
Change in restricted cash	\$ (3,216)	\$ (3,225)	\$ (2,190)	\$ (389)	\$	\$ 67
Cash provided by (used in) operations	\$ 17,086	\$ 17,022	\$ (1,478)	\$ 600	\$ 10,769	\$ 10,732
Cash provided by (used in) investing activities	8,640	8,640	(10,438)	(10,604)	(8,018)	(7,732)
Cash provided by financing activities	3,015	3,015	1,387	1,387	537	599
Foreign currency translation (a)	(155)	(100)	166	55	(348)	(591)
Increase (decrease) in cash and cash equivalents	\$ 28,586	\$ 28,577	\$ (10,363)	\$ (8,562)	\$ 2,940	\$ 3,008

(a) The change in foreign currency translation is attributable to the restatements arising from the change in revenue recognition policies.

Background

In connection with the review of our Registration Statement on Form S-1, we had discussions with Staff members of the Securities and Exchange Commission ("SEC") regarding the May 2005 change in policy with respect to revenue recognition in the United Kingdom. We elected to amend our policy in the United Kingdom with respect to the acceptance of students allowed to take courses subsequent to the expiration of the contract we had with the student.

The original policy was established at the inception of our European operations and was initially driven by customer service and capacity considerations. As the United Kingdom operations matured, we sought to establish conformity with its North American operations; therefore, the policy changed in May 2005 to recognize revenue upon the student contract's expiry. In the second quarter of 2005, we changed the policy and recorded \$1.3 million in revenue in connection with expired contracts.

The Company revised the May 2005 policy associated with delivering education content to those students who attend classes after the expiration of the contract. We restated revenue from the United Kingdom to reflect the implementation of the revised revenue recognition policy. These restatements have no cumulative effect on our Consolidated Statement of Cash Flows.

The SEC further inquired about the revenue recognition policy in United States and Canada with respect to expired contracts. We modified our revenue recognition policy in the United States and Canada as well. Upon the implementation of the new revenue recognition policy, we restated periods from 2001 to 2005. These restatements have no cumulative effect on our Consolidated Statement of Cash Flows.

While these restatements have no cumulative effect on our Consolidated Statement of Cash Flows, our reported net earnings (loss) changed significantly in any given period.

Note 2 Description of Business and Summary of Significant Accounting Policies

Organization and history

Whitney Information Network, Inc. and Subsidiaries (collectively referred to as the "Company" "we," "us" or "WIN") has provided postsecondary education and training courses for students throughout the United States, the United Kingdom and Canada, interested in learning about the real estate and financial markets.

We incorporated in Colorado in 1996 under the name Gimmel Enterprises, Inc. In 1998, we acquired all of the outstanding common stock of Whitney Education Group, Inc. ("WEG"), a Florida company organized in 1992, and changed our name to WIN Systems International, Inc. In 1999, we changed our name to Whitney Information Network, Inc.

In July 2005, EduTrades, Inc. was formed as a wholly owned subsidiary for holding the rights and brands of the financial markets education division of the Company. In November 2005, we filed a Registration Statement on Form S-1, with the Securities and Exchange commission for the purpose of an initial public offering. The Registration Statement has not been declared effective by the Securities and Exchange Commission.

Principles of consolidation

Our Consolidated Financial Statements include the accounts and balances of Whitney Information Network, Inc. and its wholly owned subsidiaries.

Quarterly data

The information included in these Consolidated Financial Statements as of and for the three months ended March 31, 2006 and 2005 is unaudited, and includes all adjustments in the opinion of management considered necessary for a fair presentation.

Significant accounting policies

The vast majority of our costs to acquire the student has been expended up to the point of registration, such as media, travel, facilities and instructor fees for the introductory workshops; these costs are expensed when incurred. However, the tuition paid at registration is deferred until the course is attended by the student, (in all available learning formats), at which time the revenue is deemed earned.

Thus, reporting under generally accepted accounting principles in the United States of America creates significant timing differences with respect to revenue and expenses, both in the form of cash flows and in the form of our operating results in that we recognize the bulk of our expenses before we recognize revenue in the form of fees and tuition from attendees at our courses. In addition, we recognize a significant portion of our expenses associated with our courses at the time they occur and any money that is collected as a result of those programs is deferred until the student actually takes the course or receives the product offered. As a result of these factors, our cash flows are significantly different than our reported results of operations.

Speaker fee commission payments earned for generating revenue are deferred until such time as the revenue is earned. Advertising costs, training room rentals and direct sales expenses are expensed as incurred. Advertising paid in advance is recorded as prepaid until such time as the advertisement is published.

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Revenue recognition policy

We are engaged primarily in the business of providing real estate and financial education to individual investors through courses of study as well as educational materials. We offer our students multiple course packages. Students pay for the courses in advance and we record the proceeds from the sale of courses as deferred revenue when it is received. Revenue is earned when the student attends the course.

The student is permitted to attend courses (in all available learning formats) throughout the life of the student contract. We allow students to attend courses subsequent to expiration upon request. The tuition is generally nonrefundable. A student may receive a refund within three days of the purchase by exercising a right of rescission. In such cases, the corresponding amount of deferred revenue is relieved with no impact on the Consolidated Statement of Operations.

We recognize revenue based on:

when the course is attended by the student; or

likelihood of the attendance by the student is remote (course breakage), which is based on the historical:

percentage of students who never attended a course and those students who never attended a course subsequent to expiration; and

highest number of days in which 95% of those students who attended our courses subsequent to expiry.

We determine our course breakage rate based upon estimates developed from historical student attendance patterns. Based on our historical information, we can determine the likelihood of an expired course remaining unattended. Moreover, we determined that we do not have a legal obligation to remit the value of expired courses to relevant taxing jurisdictions.

To apply course breakage, we calculate verifiable and objective supporting data as of each balance sheet date.

To the extent our financial markets education division (EduTrades, Inc. a wholly owned subsidiary) and United Kingdom businesses do not have three full years of data (subsequent to course expiration), we recognize revenue based on course attendance. Only at such time that we have developed verifiable and objective data over a three year period subsequent to course expiration will we apply course breakage based on the methodology described above.

With respect to our EduTrades division and the United Kingdom, we expect to have sufficient data to apply course breakage by the end of 2006. Accordingly, we anticipate reflecting course breakage as contemplated above for the quarter ending December 31, 2006, for the courses sold as of the beginning of the first quarter of 2003 through the end of the fourth quarter of 2005 which remains expired and unattended. We expect to recognize a significant amount of deferred revenue in the fourth quarter of 2006 from initial application of the course breakage to our EduTrades division and United Kingdom businesses.

As a result of applying this policy, during the years ended December 31, 2005, 2004 and 2003 we recognized \$16.6 million, \$18.1 million and \$19.0 million, respectively, in revenue related to course breakage.

Teleconferencing and subscription services

As required by Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables and the SEC's Staff Accounting Bulletin No. 104 (SAB No. 104)*, our teleconferencing product and service offering is an arrangement with multiple deliverables. The delivered items should be considered a separate unit of accounting if all of the following criteria are met:

The delivered item(s) has value to the customer on a standalone basis. That item(s) has value on a standalone basis if it is sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the delivered

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item(s), the Task Force observed that this criterion does not require the existence of an observable market for that deliverable(s).

There is objective and reliable evidence of the fair value of the undelivered item(s).

If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

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We determined the criteria detailed above have been met:

The product and the service have value to the student on a standalone basis.

The product can be and is sold separately.

As discussed below, we feel there is objective and reliable evidence to determine the value of the product.

Lastly, there are no general rights of return for the teleconferencing offering.

We recognized as revenue the product portion of the deliverable at point of purchase, and amortize the service component over the life of the package.

Strategic alliances

We account for our strategic alliance arrangements in accordance with the FASB's Emerging Issues Task Force Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. In the cases where we are deemed the principal, the following conditions are present:

We are obligated to fulfill the education delivery to the end customer

We have discretion in the course development and its delivery

We collect cash or credit sales at point of sale

The cash received at strategic alliance partner events is recorded at the full contract amount (gross), and payments to our strategic alliance partners are recorded as direct course expense. The accounting treatment for the revenues and payments to our strategic alliance partners is the same as our own brands. With respect to those payments that relate to future course deliveries, they are deferred, and recorded as revenue and expenses when the course is attended by the student or the likelihood of attendance is deemed remote. Those that relate to product sales are recognized upon the delivery of the product, which is typically at the point of sale.

Deferred course expenses

We defer commissions and fees paid to our speakers until such time the revenue is earned. Our speakers, who are all independent contractors, earn commissions on the cash receipts received at our educational events and are paid approximately 30 days after the educational event. Thus, the only costs resulting from the successful acquisition of a paying customer are capitalized. The deferred course expenses are tracked individually by student and are recognized in the statement of operations as the student attends the course, the same time the associated revenues are recognized.

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We capitalize these commissions and fees paid to our speakers consistent with Statement of Financial Accounting Standard No. 91 *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17, Technical Bulletin No. 90-1 *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* and the SEC's Staff Accounting Bulletin No. 104.

Cash, cash equivalents and restricted cash

We consider all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions it invests with. Restricted cash reflects amounts retained by credit card merchants as a reserve for returns on credit card transactions and deposit balances required under letters of credit. We consider restricted cash as a current asset as credit card merchants can typically hold such reserve funds only up to one year, and our letters of credit are for annual terms.

Concentrations of credit risk

Financial instruments, which potentially subject us to concentration of credit risk, consist principally of cash and short-term cash investments and accounts receivable. We place temporary cash investments with what management believes are high-credit, quality financial institutions. As of the balance sheet date, and periodically throughout the year, we have maintained balances in various operating accounts in excess of federally insured limits. We periodically perform credit analysis and monitor the financial condition of its customers in order to minimize credit risk.

Accounts receivable

Accounts receivable consists of trade receivables from the sale of educational products and services for which a contract has been entered into, payments have not been received, and the related revenue has been deferred. An adjustment is recorded to write off any amounts deemed to be unrealizable and uncollectible.

Inventory

Inventory consists primarily of books, videos and training materials and is stated at the lower of cost or market, determined using the first-in, first-out method (FIFO).

Fair value of financial instruments

The carrying amounts of financial instruments including cash and cash equivalents, short-term investments, receivables, deferred seminar expense, accounts payable, accrued expenses, deferred educational revenues, and notes payable approximated fair value as of the balance sheet date because of the relatively short maturity of these instruments. The fair value of long term notes payable approximates fair value based on current market rates available for similar debt instruments.

Prepaid advertising and sales expense

We expense advertising and sales costs as incurred. Advertising paid for in advance is recorded as prepaid until such time as the advertisement is published.

Deferred registration costs

We are in the process of a registration of our EduTrades subsidiary. Expenses related to this offering have been accounted for as deferred registration costs, and will be charged against the gross proceeds received. The registration statement has not been declared effective by the Securities and Exchange Commission.

Property and equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets as follows:

Buildings	40 years
Furniture fixtures and equipment	7 years
Other assets	5 years
Purchased software	3 years

Intangible assets and goodwill

Intangible assets include customer lists and trademarks and are recorded at cost. Customer lists and trademarks are being amortized over their estimated useful lives of three and 15 years, respectively. Goodwill is not amortized. At December 31, 2005, management performed impairment testing in accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* for all intangible assets and goodwill and determined that impairment was not considered necessary.

Investments in related parties

We acquired a 20% ownership interest in Rancho Monterey, S.A., a Panama corporation, in 2001. This corporation was formed with the purpose of acquiring, developing, and selling land on the Pacific coast of Costa Rica. We are an investor in phase one of this project which includes approximately 350 acres. Prior to January 2004, this venture has incurred solely capitalized development costs and had not had any sales activity. We account for our investment using the equity method of accounting and record its proportionate share of the corporation's profit or loss.

In 2003, we acquired an additional 10% equity interest in the investment for \$0.7 million through the issuance of debt. As part of this transaction, we also received an 8% interest in Monterey del Este, S.A. a Panama corporation organized to develop unimproved real estate in Costa Rica; and a 20% interest in Monterey del Mar, S.A. a Panama corporation organized to develop an ocean front hotel on the Pacific coast of Costa Rica. Our share of the corporation's losses and profits for the years ended December 31, 2005 and 2004 were a loss of \$(0.2) million and a profit of \$0.2 million respectively.

Our Chief Executive Officer individually indirectly owns approximately 11% of Rancho Monterey, S.A. and approximately 6% of Monterey del Este. Our Company's Executive Vice President, Secretary, individually indirectly owns approximately 1% of Rancho Monterey, S.A.

We have, at times, advanced funds to this entity for working capital purposes to secure and protect its investment. Our agreement with the management of this venture is that we will be repaid for these funds from future land sales. At December 31, 2005, \$1.4 million in such advances is included in investment in related parties. At December 31, 2004 \$1.2 million of such advances is shown on the Consolidated Balance Sheets as accounts receivable, related parties.

Investment in real estate joint venture

In 2003 we acquired a 50% equity interest in SCB Building, LLC ("SCB"), an office building in Orlando, Florida. The other 50% member had a \$2.0 million minority interest in SCB, which was contributed in the form of a \$4.0 million building subject to a \$2.0 million mortgage. Subsequent improvements of approximately \$9.6 million were made to the building and were financed primarily by long term debt. As the guarantor of the debt of SCB, the financial statements and results from operations are consolidated in the accompanying Consolidated Financial Statements with a provision for minority interest of the other 50% owner. In March 2006 we acquired the remaining 50% of SCB Building LLC through the issuance of \$3.6 million of long term debt.

In November 2005 we sold the office building, which was the primary asset of SCB, for a pretax gain of \$5.6 million, before minority interest, or a pretax \$3.5 million after minority interest. The debt on the building was paid in full and SCB issued a note receivable, secured by the building, totaling \$11.0 million as part of the \$20.3 million selling price.

In 2004, we entered into a joint venture with an unrelated party. Our contribution to the joint venture of \$2.7 million represents a 50% interest in Tranquility Bay of Southwest Florida LLC ("Tranquility"), which owns 74 acres of land for residential development in Lee

County, Florida. Tranquility has no ongoing activity other than the costs of holding the land. Under the equity method of accounting we record our share of these costs which for 2005 and 2004 were insignificant.

Long-lived assets

We reviews property and equipment, intangible assets and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is measured by the comparison of its carrying amount with the future net cash flows the assets are expected to generate. We look primarily to the undiscounted future cash flows in the assessment of whether or not long-lived assets have been impaired. If such assets are considered to be impaired, the impaired amount is measured as the amount by which the carrying amount of the asset exceeds the present value of the future net cash flows expected to be generated by the respective long lived assets. As of December 31, 2005, according our most recent assessments, there are no impairments in the carrying values of our long-lived assets.

Use of estimates

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

Income taxes

We recognize deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. Temporary differences result primarily from the recognition of deferred expenses for tax purposes. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Translation of foreign currency

We account for foreign currency translation in accordance with SFAS No. 52, *Foreign Currency Translation*. As such, the financial position and results of operations of our foreign subsidiaries are measured using local currency as the functional currency. Revenues and expenses of the subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange as of December 31, 2005 and 2004, respectively.

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Earnings (Loss) per share

We apply the provisions of SFAS No. 128, *Earnings Per Share*. All dilutive potential common shares in 2005 were included in the diluted earnings per share calculation. All dilutive potential common shares in 2004 had an antidilutive effect on diluted per share amounts and therefore were excluded in determining net loss per share. At December 31, 2005 we had 1,985,000 stock options, 1,225,000 warrants and 300,000 warrants to purchase units offered in our offering (see Note 3 *Offering* for 300,000 shares of stock and 150,000 warrants which were excluded from earnings per share as their effect was antidilutive. The total 3,660,000 potential dilutive securities excluded could be dilutive to future earnings.

Stock options and stock-based compensation

SFAS No. 123, *Accounting for Stock-Based Compensation* encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. Through December 31, 2005, the Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees* and provides the required pro forma disclosures prescribed by SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of SFAS No. 123*. We have adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plans.

We have adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for our option plan and the option plan of our wholly owned subsidiary EduTrades, Inc. been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, our net earnings (loss) and basic earnings (loss) per common share would have been changed to the pro forma amounts indicated below (in thousands, except for per share data):

	Years ended December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Net earnings (loss) as reported	\$ 3,850	\$ (31,963)	\$ (7,325)
Add: stock-based compensation included in net profit (loss) as reported			
Deduct: Total stock-based compensation using the fair market value method under SFAS No. 123	1,535	1,374	398
Net earnings (loss) pro forma	\$ 2,315	\$ (33,337)	\$ (7,723)
Basic loss per common share as reported	\$ 0.43	\$ (3.72)	\$ (0.89)
Basic loss per common share pro forma	\$ 0.26	\$ (3.88)	\$ (0.94)

The fair value of each option is estimated on the date of grant using the Black Scholes option pricing model with the following assumptions (average weight):

	Years ended December 31,		
	2005	2004	2003
Expected life in years	7	10	10
Expected volatility	77.9%	57.0%	33.8%
Risk free interest rate	4.39%	4.24%	4.25%
Expected dividend			

The pro forma disclosure includes approximately \$0.8 million of compensation expense for stock options granted by our wholly owned subsidiary EduTrades, Inc. for the year ended December 31, 2005.

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Effective January 1, 2006, we adopted SFAS No. 123R using the modified prospective application method of adoption which requires us to record compensation cost related to unvested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with the provisions of SFAS No. 123R and recognized on a straight line basis over the service periods of each award. We estimate forfeiture rates based on its historical experience.

Prior to 2006, we accounted for stock-based compensation in accordance with APB No. 25 using the intrinsic value method, which did not require that compensation cost be recognized for the Company's stock options provided the option exercise price was established at 100% of the common stock fair market value on the date of grant. Under APB No. 25, we were required to record expense over the vesting period for the value of options granted. Prior to 2006, we provided pro forma disclosure amounts in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148)*, as if the fair value method defined by SFAS No. 123 had been applied to its stock-based compensation. Our net earnings and net earnings per share for the three months ended March 31, 2005 would have been reduced if compensation cost related to stock options had been recorded in the financial statements based on fair value at the grant dates.

The estimated fair value of the options granted during 2006 and prior years was calculated using a Black Scholes Merton option pricing model (Black Scholes model). The following summarizes the assumptions used in the 2006 Black Scholes model:

Risk free interest rate	3.91-4.64%
Weighted average volatility	80.7%
Dividend yield	0.0%
Expected term	6.5years
Weighted average fair market value at grant date	\$ 5.09

The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on our stock and the historical volatility of our stock. The Company generally uses the average of the vesting period and the life of the grant to estimate the option term timing within the valuation model. This methodology is not materially different from the Company's historical data on exercise timing. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

As a result of adopting SFAS No. 123R, the impact to the Consolidated Financial Statements for net loss for the three months ended March 31, 2006 was \$0.3 million higher than if we had continued to account for stock based compensation under APB No. 25. The impact on both basic and diluted loss per share for the three months ended March 31, 2006 was nil. Pro forma net earnings as if the fair value based method had been applied to all awards is as follows (unaudited, in thousands, except for per share amounts):

	Three months ended March 31,	
	2006	2005
		(restated)
Net (loss) earnings-as previously reported	\$ (3,825)	\$ 811
Add: Stock-based compensation programs recorded as expense, net of tax	252	
Deduct: Total stock-based employee compensation expense, net of tax	(252)	(87)
Pro forma net (loss) earnings	\$ (3,825)	\$ 724
(Loss) earnings per share:		
Diluted as reported	\$ (0.36)	\$ 0.09
Diluted pro forma	\$ (0.36)	\$ 0.08
Basic as reported	\$ (0.36)	\$ 0.09
Basic pro forma	\$ (0.36)	\$ 0.08

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The following table summarizes the components of our stock-based compensation programs recorded as expense (in thousands):

	Three months ended March 31, 2006
	(unaudited)
Stock-based compensation expense:	
Pretax compensation expense	\$ 252
Income tax benefit	252
Stock option expense, net of tax	\$ 252

As of March 31, 2006, \$1.5 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of approximately three years.

Reclassifications

Certain reclassifications have been made in the 2004 and 2003 Consolidated Financial Statements to conform to the 2005 presentation.

Recently Issued Accounting Standards

In July 2006, the FASB issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Interpretation requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN No. 48 provides guidance on recognizing, measuring, presenting and disclosing uncertain tax positions that a company has taken or expects to take on a tax return. Our effective date for adopting FIN No. 48 is as of January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening accumulated deficit. We are currently evaluating the impact of FIN No. 48 on our Consolidated Financial Statements.

The EITF reached a consensus on EITF Issue No. 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ("EITF No. 06-03") in June 2006. EITF No. 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The Task Force observed that because the tentative conclusion in this Issue requires only the presentation of additional disclosures, we would not be required to reevaluate its existing policies related to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer. The provisions of EITF No. 06-03 become effective as of January 1, 2007. We are currently examining the impact of adopting EITF No. 06-03 on our Consolidated Financial Statements.

Recently issued accounting pronouncements

Effective January 1, 2006, we adopted the Financial Accounting Standard Board's Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"), which requires us to measure the cost of employee services received in exchange for all equity awards granted including stock options based on the fair market value of the award as of the grant date. SFAS No. 123R supersedes Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* and Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"). We adopted SFAS No. 123R using the modified prospective application method of adoption which requires us to record compensation cost related to unvested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with the provisions of SFAS No. 123R and recognized on a straight line basis over the service periods of each award. We estimate forfeiture rates based on its historical experience.

Note 3 Offering

In December 2005, 3,000,000 shares of common stock and common stock purchase warrants representing 1,500,000 shares of common stock were sold. The Company sold 1,750,000 shares of common stock and issued warrants for 875,000 shares. Our Chairman and Chief Executive Officer sold 1,250,000 shares and warrants for 625,000 shares. In both cases, each warrant allows one share to be purchased for \$6.00. We received \$7.9 million in proceeds and netted approximately \$7.2 million after expenses for its 1,750,000 shares.

The common stock and warrants were issued as a \$13.5 million private placement in which 3,000,000 units of our securities, each unit consisting of one share of common stock and one-half common stock purchase warrant at \$4.50 per unit, were issued to a group of 17 nonaffiliated accredited investors. In addition, a unit warrant was issued to our placement agent exercisable to purchase 300,000 units at \$4.50 per unit including the underlying one-half common stock purchase warrants. Including the units to our placement agent, the Company is registering a total 3,300,000 shares of common stock, plus 1,650,000 units underlying common stock purchase warrants. We collected \$5.6 million of proceeds on behalf of our Chief Executive Officer, who was a selling shareholder in the offering. At December 31, 2005, we have recorded a liability to our Chief Executive Officer of \$5.1 million, net of \$0.5 million in offering costs, on the accompanying Consolidated Balance Sheets, which was paid in the first quarter of 2006.

In connection with this transaction, we entered into a registration rights agreement which provides for us to use its "best efforts" to file a Registration Statement for the resale of the 3,300,000 common shares and the shares underlying the common stock purchase warrant to be declared effective by April 11, 2006 as well as require us to maintain the effectiveness of the Registration Statement for one year subsequent to the effective date. If we fail to have the registration statement declared effective by April 11, 2006 (or if effectiveness is not maintained), the registration rights agreement requires the payment of liquidated damages to the investors on a daily basis of \$4,500 (which represents 1% per month of the proceeds in cash) until the Registration Statement is declared effective or effectiveness is maintained. We have a maximum liability of one year under the registration rights agreement.

The Financial Accounting Standard Board's Emerging Issues Task Force (EITF) has exposed for deliberation the Financial Accounting Standards Board Emerging Issues Task Force Issue No. 05-04, *The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, "Accounting for a Derivative Financial Instrument Indexed to, and Potentially Settled in, a Company's Own Stock."* (See Note 16 *Commitments and Contingencies*).

Accordingly, we estimate a probable liability of approximately \$0.2 million in connection with the liquidated damages provision of the registration rights agreement and is reflected as a current liability in other accrued expenses in our Consolidated Balance Sheets as of December 31, 2005. An additional \$0.3 million was accrued during the quarter ended March 31, 2006 due to delays resulting from the aforementioned restatement of prior period financial statements. The total of \$0.5 million is reflected as a current liability in other accrued expenses in our Consolidated Balance Sheets, as of March 31, 2006.

Note 4 Mergers, acquisitions and capital accounts

On March 8, 2006, we issued 98,156 shares of common stock to the estate of Richard Brevoort, our former President and Chief Operating Officer who passed away in 2002. We recorded a \$1.4 million in expense in the first quarter of 2006 representing the fair value of the securities issued and our obligation for related income taxes.

On March 29, 2006 we issued long term debt of \$3.6 million to acquire the remaining 50% of its consolidated subsidiary SCB Building, LLC. The difference of \$0.3 million between the long term debt and the net book value of minority interest of \$3.9 million has been recorded as additional paid-in capital.

On February 1, 2005, we issued 85,470 shares of common stock valued at \$0.2 million plus cash of \$0.3 million for assets recorded as goodwill for the final payment of the *StarTrader* brand purchase agreement.

In September 2004, we entered into a six-month agreement with Discount Buyers Association of America ("DBAA") to assume operational control over its business and postsecondary education products. Simultaneously, we were granted an option to purchase all of the assets of DBAA. We paid \$0.5 million to DBAA for control of the business operations. We have allowed the option to expire and charged \$0.5 million to expense for the year ended December 31, 2004.

In June 2004, we issued warrants to purchase 200,000 shares of our no par value common stock in exchange for professional services provided to us. The warrants will expire in June 2008, and are exercisable at the following prices: 100,000 shares at \$5.25 per share; and 100,000 shares at \$8.00 per share

In October 2003, we acquired the stock of SpeakTek, Inc. for \$1.6 million, which resulted in \$1.0 million in goodwill, \$0.5 million in customer lists and other intangibles and \$0.1 million in current assets. SpeakTek, Inc. is the holding company for Quantum Vision, Inc., which is the operating entity and provides financial markets education. Of this amount \$0.6 million is payable in cash, and \$1.0 million is payable through 200,000 shares of our newly issued, restricted common stock.

In July 2003, we purchased two related companies, Equity Corp. Holdings, Inc. ("Equity Corp.") and Whitney Leadership Group, Inc. The purchase price of Whitney Leadership, Inc. was \$1.2 million paid to our Chairman and Chief Executive Officer and his wife, payable \$0.3 million in cash at closing and a \$0.9 million promissory note payable in semiannual installments beginning in February 2004 bearing an interest rate of 7% per annum. The payments and debt issued were recorded as a distribution as Whitney Leadership Group, Inc. and we were under common control. The acquisition of Equity Corp. from our Executive Vice President, Real Estate Education Division resulted in \$4.9 million of intellectual property. The purchase price of \$0.3 million, comprised of \$0.1 million in cash, 62,500 shares of our common stock valued at \$0.1 million at closing, and \$0.1 million payable one year from the closing date evidenced by a promissory note bearing interest at 7% per annum. We also agreed to assume and pay a promissory note issued to our chairman by Equity Corp. in June, 2002 in the amount of \$4.8 million payable \$1.0 million in July 2003 and July 2004 and ten installments of \$0.3 million payable in January and July beginning in 2005 through 2009. The unpaid balance bears interest at 7% per annum. Equity Corp. incurred this \$4.8 million obligation when it elected to redeem all of our Chairman's and Chief Executive Officer's stock ownership in Equity Corp., which amounted to 90% of the outstanding stock of Equity Corp., as of June 1, 2002. This note was paid in full during 2004.

In May 2003, we paid \$0.5 million under a six-month management agreement with Success Development, Inc. ("SDI"). Under the agreement, we acquired SDI's customer database and operated is *Cash Flow Generator®* brand. Under this agreement, we received 30% of SDI's profits. During this time period, we also made advances to SDI for working capital purposes. We believe that this balance is collateralized by a bank account maintained by SDI. In November 2003, we exercised the option to purchase SDI for 180,000 shares of common stock, valued at \$0.9 million. This resulted in a \$0.6 million trademark, \$0.3 million customer list and \$0.1 million noncompete agreement.

Note 5 Related party transactions

MRS Equity Corp. was wholly owned by Equity Corp. Holdings, Inc., which manages the processing of payments through customers' accounts to the mortgage holder. Equity Corp. Holdings, Inc. was acquired by us in 2003 and was previously owned by our Executive Vice President, Real Estate Division (See Note 4 *Mergers, acquisitions and capital accounts*).

In 2003, the Company provided payroll services in the amount of \$0.1 million to MRS Equity Corp., and purchased goods and services in the aggregate amount of \$0.1 million from MRS Equity Corp., and Whitney Leadership Group, Inc. prior to its acquisition.

Whitney Leadership Group, Inc. is a company that holds all the copyright and intellectual property rights associated with the education materials and licenses. It was acquired in July, 2003 and was previously owned by our Chairman and Chief Executive Officer and his wife (who is also employed by us) (See Note 4 *Mergers, acquisitions and capital accounts*).

We have rented a training facility located in Cape Coral, Florida, since 1992 from the Chairman of the Board and Chief Executive Officer. Rentals under the related party leases were \$0.2 million, \$0.2 million, and \$0.1 million during 2005, 2004 and 2003, respectively. We lease 2,200 square feet of training facilities at 1611 East Cape Coral Parkway, 9,000 square feet of space at 1625 East Cape Coral Parkway which is used for shipping, and 4,802 square feet at 1630 SE 47th Terrace which we use as a training center and for storage, all in Cape Coral Florida, from Cape Promenade Trust which is for the benefit of Russell A. Whitney, our Chairman and Chief Executive Officer and his wife. The leases are for three years and began in March 2003, March 2003 and June 2004, respectively. We are currently paying rent on a month-to-month basis with respect to the 1611 East Cape Coral Parkway lease that expired March 2006. We extended the lease with respect to 1625 East Cape Coral Parkway through June 30, 2009.

Included in revenue for 2005 and 2004 is \$0.3 million and \$0.3 million, respectively, received under an arrangement with Gulfstream Development Corp., a company owned 25% by our Chairman and Chief Executive Officer. Under this arrangement we receive \$1,000 for each home constructed by Gulfstream for one of our students, who are presented an opportunity to purchase lots at one of our advanced real estate courses by realtors representing Gulfstream. We have no interest in the lots nor any involvement in dealings between students and the realtors or Gulfstream.

Those items above that are reasonably expected to be collected within one year are shown as current.

Note 6 Property and equipment

Property and equipment consist of the following (in thousands):

	March 31, 2006	December 31,	
		2005	2004
	(unaudited)	(restated)	(restated)
Land	\$ 1,754	\$ 1,728	\$ 2,807
Building	4,804	4,778	17,437
Airplane	2,114	2,114	2,114
Software	1,606	1,114	1,114
Equipment	1,330	1,253	1,049
Furniture and fixtures	773	772	819
Leasehold improvements	1,475	1,474	1,428
	<u>13,856</u>	<u>13,233</u>	<u>26,768</u>
Less: accumulated depreciation	(3,399)	(3,151)	(2,220)
	<u>\$ 10,457</u>	<u>\$ 10,082</u>	<u>\$ 24,548</u>

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	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)	(unaudited)			
Depreciation expense	\$ 248	\$ 264	\$ 1,034	\$ 964	\$ 692

Note 7 Intangible assets

Intangible assets consist of the following (in thousands):

	March 31, 2006 (unaudited)	December 31,	
		2005	2004
Customer lists	\$ 5,943	\$ 5,943	\$ 5,943
Trademarks	1,050	1,050	1,050
Other intangibles	795	795	795
	7,788	7,788	7,788
Less: accumulated amortization	(2,236)	(2,034)	(1,212)
	\$ 5,552	\$ 5,754	\$ 6,576

	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)	(unaudited)			
Amortization expense	\$ 202	\$ 216	\$ 822	\$ 646	\$ 258

Future amortization expense of intangibles is as follows:

Years ending December 31,	
2006	\$ 790
2007	629
2008	629
2009	629
2010	629
Thereafter	2,448
	\$ 5,754

Note 8 Long term debt

Long term debt consists of (in thousands):

	March 31, 2006	December 31,	
	(unaudited)	2005	2004
Notes payable to individuals for the purchase of equity interest in SCB Building LLC. Principal and interest payment beginning in April 2006 at an interest rate of 6.25%. The note matures in April 2016.	\$ 3,600		
Mortgage payable to a bank. Principal plus interest at 5.7% due monthly until August 2014 and is collateralized by real estate located in the United Kingdom.	1,934	\$ 1,962	\$ 2,442
Note payable to a finance company. Monthly principal and interest through December 2018. Interest at the LIBOR rate plus 3.4% and is collateralized by an airplane. The note is personally guaranteed (up to \$0.2 million) by the majority stockholder.	1,022	1,035	1,090
Note payable to an individual for purchase of equity interest in Rancho Monterey. Principal and interest payments beginning in July 2003 at an interest rate of 5%. The note matures in June 2008 and is collateralized by the Company's stock.	313	345	472
Note payable to a bank. Interest only payments beginning in July 2003 due monthly until June 2005. Principal and interest payments due beginning July 2005 and amortized over 20 years. Interest at a fixed rate of 7.5%. The note was paid in full in 2005.			7,289
Mortgage payable to a bank. Monthly principal and interest payments through June 2007 with a balloon payment of \$1.0 million due on July 28, 2007 and is collateralized by the building on North Frontage Road, Orlando, Florida. This was paid in full in June 2005.			1,019
Other installment notes payable	25	32	
	6,894	3,374	12,312
Less: current portion	(1,096)	(462)	(504)
	\$ 5,798	\$ 2,912	\$ 11,808

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Maturities of long term obligations over each of the next five years and thereafter from March 31, 2006 and December 31, 2005 respectively are as follows (in thousands):

Years ending	March 31, 2006	December 31, 2005
	(unaudited)	
Year 1	\$ 1,096	\$ 462
Year 2	482	444
Year 3	382	377
Year 4	351	307
Year 5	356	310
Thereafter	4,227	1,474
	\$ 6,894	\$ 3,374

Note 9 Stock options and warrants

Stock-based compensation plans

Our 1998 Stock Option Plan provides for the granting of stock options to key employees. Under the terms and conditions of this plan, any time between the grant date and two years of service, the employee may purchase up to 25% of the option shares. Between two and three years of continuous service, the employee may purchase up to 50% of the option share, and after three years of continuous service, the employee may purchase all remaining option shares. All options expire ten years from the date of the grant.

The following table presents the activity for options outstanding (in thousands, except per share data):

	Number of options	Weighted average exercise price
Outstanding as of December 31, 2002	1,394	\$ 1.93
Granted	201	3.79
Forfeited/canceled	(180)	(2.16)
Exercised	(6)	(3.00)
	1,409	\$ 2.17
Outstanding as of December 31, 2003	1,409	\$ 2.17
Granted	435	4.47
Forfeited/canceled	(15)	(3.94)
Exercised	(15)	(1.87)
	1,814	\$ 2.72
Outstanding as of December 31, 2004	1,814	\$ 2.72
Granted	590	5.43
Forfeited/canceled	(417)	(3.05)
Exercised	(2)	(1.50)
	1,985	\$ 3.56
Outstanding as of December 31, 2005	1,985	\$ 3.56

During 2005, stock options for 475,000 shares were granted to our executives, and stock options for 40,000 shares were granted to members of the Board of Directors.

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The following table presents the composition of options outstanding and exercisable (options in thousands):

<u>Range of exercise prices</u>	<u>Options outstanding</u>	<u>Price(a)</u>	<u>Options exercisable</u>	<u>Price(a)</u>	<u>Life(a)</u>
\$1.75	20	\$ 1.75	20	\$ 1.75	4.33
\$1.81	222	\$ 1.81	222	\$ 1.81	6.25
\$1.88	167	\$ 1.88	167	\$ 1.88	3.75
\$2.00	464	\$ 2.00	464	\$ 2.00	4.58
\$2.55	30	\$ 2.55	8	\$ 2.55	9.50
\$3.10	15	\$ 3.10	15	\$ 3.10	6.67
\$3.70	142	\$ 3.70	107	\$ 3.70	7.16
\$3.90	40	\$ 3.90	30	\$ 3.90	8.00
\$4.10	10	\$ 4.10	7	\$ 4.10	7.25
\$4.50	315	\$ 4.50	235	\$ 4.50	7.25
\$5.60	560	\$ 5.60	140	\$ 5.60	9.80
	1,985	\$ 3.56	1,415	\$ 2.67	5.61

(a) Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

Prior to 2006, the Company accounted for stock-based compensation in accordance with APB No. 25 using the intrinsic value method, which did not require that compensation cost be recognized for the Company's stock options provided the option exercise price was established at 100% of the common stock fair market value on the date of grant. Under APB No. 25, we were required to record expense over the vesting period for the value of options granted. Prior to 2006, we provided pro forma disclosure amounts in accordance with SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148)*, as if the fair value method defined by SFAS No. 123 had been applied to its stock-based compensation. Our net earnings and net earnings per share for the three months ended March 31, 2005 would have been reduced if compensation cost related to stock options had been recorded in the financial statements based on fair value at the grant dates.

The estimated fair value of the options granted during 2006 and prior years was calculated using a Black Scholes Merton option pricing model (Black Scholes model). The following summarizes the assumptions used in the 2006 Black Scholes model:

Risk free interest rate	3.91-4.64%
Weighted average volatility	80.7%
Dividend yield	0.0%
Expected term	6.5years
Weighted average fair market value at grant date	\$ 5.09

The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on our stock and historical volatility of our stock. We generally use the average of the vesting period and the life of the grant to estimate the option term timing within the valuation model. This methodology is not materially different from our historical data on exercise timing. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

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Activity under the Company's stock option plan during the three months ended March 31, 2006 is as follows (unaudited, in thousands, except per share amounts):

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2006	1,985	\$ 3.56		
Granted	35	8.33		
Exercised	(324)	1.99		
Forfeited				
Outstanding at March 31, 2006	1,696	3.96	7.1	8,548
Exercisable at March 31, 2006	1,098	\$ 3.22	6.0	6,342

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price on the last trading day of the first quarter of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2006. The amount of aggregate intrinsic value will change based on the fair market value of our stock.

The aggregate intrinsic value of options exercised during the quarter ended March 31, 2006 was \$2.3 million. Exercise of options during the first quarter of 2006 resulted in cash receipts of \$0.6 million.

Warrants

The following table presents the composition of warrants outstanding at March 31, 2006 (unaudited, in thousands except per share data):

Exercise prices	Warrants granted	Warrants exercisable	Remaining life in years
\$5.25	100	100	3.25
\$6.00	1,025	875	3.75
\$8.00	100	100	3.25
\$5.25 \$8.00	1,225	1,075	3.67

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The following table illustrates the activity for warrants outstanding (in thousands except per share data);

	Number of warrants	Weighted average exercise price
Outstanding as of December 31, 2003		
Granted	200	\$ 6.63
Forfeited/canceled		
Exercised		
Outstanding as of December 31, 2004	200	6.63
Granted	1,025	\$ 6.00
Forfeited/canceled		
Exercised		
Outstanding as of December 31, 2005	1,225	\$ 6.12

The following table presents the composition of warrants outstanding (warrants in thousands):

Exercise prices	Warrants granted	Warrants exercisable	Remaining life
\$5.25	100	100	3.50
\$6.00	1,025	875	4.00
\$8.00	100	100	3.50
\$5.25 - \$8.00	1,225	1,075	3.90

In 2005, we sold 1,750,000 shares of common stock and issued warrants for 875,000 shares. Our Chairman and Chief Executive Officer sold 1,250,000 shares of common stock and warrants for 625,000 shares. In addition we issued a unit warrant to our placement agent exercisable to purchase 300,000 units at \$4.50 per unit (a unit is comprised of one share of stock plus a warrant for one-half share). See Note 3 *Offering*.

Note 10 Employee benefit plan

We have a 401(k) employee savings plan for eligible employees, which provide for a matching contribution from us, determined each year at our discretion. Our contributions, charged to earnings for the years ended December 31, 2005, 2004, and 2003, were \$0.2 million, \$0.1 million, and \$0.0 million, respectively.

Note 11 Income taxes

We had net operating losses of approximately \$27.4 million at December 31, 2005 to offset future federal taxable income for U.S. domestic operations. The net operating losses expire in the years 2020 through 2024. The Company also has \$19.5 million representing net operating losses for state income taxes that expire in years 2010 through 2024. Generally accepted accounting principles requires the future utilization to be recorded as a deferred tax asset if management believes if it is more likely than not that we will generate future taxable income.

As of the end of 2004, we established a valuation allowance to offset all future tax benefits from the operating losses that would have been recorded as deferred tax assets. In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those

temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible. During 2005, Management concluded that it is more likely than not that we will realize the benefits of some of our net operating loss carryforwards creating future tax deductible amounts for the current year and future periods beyond 2005.

In arriving at the conclusion that it is more likely than not that we would realize our deferred tax assets we reversed our valuation allowance resulting in a tax benefit for 2005. We prepared a ten year earnings model with key operating assumptions, along with a detailed economic model by business unit and by brand for 2006. We compared these models to historical trends by business unit and by brand, along with detailed operating assumptions by brand to arrive at this conclusion.

Our current trend further supports the reversal of a portion of the valuation allowance. We recorded approximately \$8 million in taxable income for the year ended 2005 and made a payment of approximately \$0.2 million representing our Alternative Minimum Tax for 2005. Moreover, results in the first quarter of 2006 show cash received on course and product sales increased approximately 20.4% over the same period in 2005, further supporting our projections.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on the assumptions contained in its economic plan and the current trends of the business, that it is more likely than not that the deferred tax asset will be realized in the future.

Management does not feel an additional tax asset has been created as a result of the restatement discussed in Note 1 *Restatement*. Additionally, the restatement does not affect any previously filed tax returns.

We estimate that we will be liable for approximately \$0.2 million in Alternative Minimum Taxes for 2005, which will be carried forward into future periods to offset future taxes. The net operating loss carryforwards from prior years can only be applied to 90% of the current year profits. The deferred tax assets recorded in 2005 represent Management's estimate of all deferred tax benefits to be utilized in the current fiscal year and future periods beyond 2005.

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Our income tax provision is as follows (in thousands):

	Years ended December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Earnings before taxes:			
U.S.	\$ 35	\$ (23,922)	\$ (5,687)
Non-U.S.	(1,021)	(8,064)	(1,638)
Total earnings before income taxes	\$ (986)	\$ (31,986)	\$ (7,325)
Provision for taxes:			
Current:			
Federal	\$ 160		
State	101		
Non-U.S.	228		
	489		
Deferred:			
Federal	(1,046)	(8,526)	(2,093)
State	(122)	(999)	(245)
Non-U.S.	(406)	(1,388)	(808)
	(1,574)	(10,913)	(3,146)
Valuation allowance	(5,713)	10,913	3,146
Total income tax provision	\$ (6,798)	\$	\$
Effective income tax rate	(689.2)%	0.0%	0.0%

The difference between the tax provision at the statutory federal income tax rate and the tax provision attributable to income before income taxes was as follows:

	Years ended December 31,		
	2005	2004	2003
	(restated)	(in percentages) (restated)	(restated)
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income net of federal benefit	4.0	3.1	3.3
Non-U.S. income taxed at different rates	0.4	4.4	11.1
Valuation allowance	(728.6)	(42.5)	(49.4)
Other			
Effective income tax rate	(689.2)%	0.0%	0.0%

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows:

	December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Deferred tax assets:			
Net operating losses, federal	\$ 9,595	\$ 12,120	\$ 906
Net operating losses, state	790	1,104	49
Net operating losses, non-U.S.	31	764	
Depreciation	44		
Intangible amortization	421	537	
Deferred revenue	14,241	8,220	6,761
Valuation allowance	(12,322)	(18,035)	(7,122)
Total deferred tax assets	\$ 12,800	\$ 4,710	\$ 594
Deferred tax liabilities:			
Deferred course expenses	\$ 5,513	\$ 4,236	\$ 594
Depreciation		474	
Total deferred tax liabilities	\$ 5,513	\$ 4,710	\$ 594
Reported as:			
Current deferred tax assets			
Noncurrent deferred tax assets	\$ 12,800	\$ 4,710	594
Current deferred tax liabilities	(5,513)	(4,710)	(594)
Net deferred taxes	\$ 7,287	\$	\$

Note 12 Earnings (Loss) per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur from common shares issuable through stock options and warrants, including 0.5 million, nil and nil options that were dilutive for the years ended December 31, 2005, 2004 and 2003 respectively. There are a total of 1,985,350 stock options, 1,225,000 warrants to purchase common stock outstanding as of December 31, 2005 and a combined 450,000 unit placement warrants issued to our placement agent. The following table sets forth the computation for basic and diluted earnings per share (unaudited, in thousands, except for per share data):

	Three months ended March 31,	
	2006	2005 (restated)
Numerator for diluted earnings (loss) per common share	\$ (3,825)	\$ 811
Denominator for basic earnings per share weighted average shares	10,738	8,676
Effect of dilutive securities options and warrants		1

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	Three months ended March 31,	
Denominator for diluted earnings per share adjusted weighted average shares	10,738	8,677
Diluted (loss) earnings per common share	\$ (0.36)	\$ 0.09

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All financial information, except per share amounts, are expressed in thousands:

	Years ended December 31,		
	2005	2004	2003
	(restated)	(restated)	(restated)
Numerator for diluted earnings (loss) per common share	\$ 3,850	\$ (31,963)	\$ (7,325)
Denominator for basic earnings per share weighted average shares	8,859	8,589	8,188
Effect of dilutive securities options and warrants	501		
Denominator for diluted earnings per share adjusted weighted average shares	9,360	8,589	8,188
Diluted earnings (loss) per common share	\$ 0.41	\$ (3.72)	\$ (0.89)

Where the inclusion of potential common shares is antidilutive, such shares are excluded from the computation.

Note 13 Revenue

The following table illustrates the impact of deferring revenue by reconciling gross cash receipts to recorded revenue for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	Years ended December 31,			% change over	
	2005	2004	2003	2004	2003
	(restated)	(restated)	(restated)		
<i>Cash received from course and product sales:</i>					
Free introductory courses	\$ 25,017	\$ 34,202	\$ 29,970	(26.9)%	14.1%
Advanced courses	112,008	91,855	58,818	21.9	56.1
Outreach programs	40,415	23,723	10,699	70.4	121.7
Products sales	12,317	8,828	6,816	39.5	29.5
Other	6,638	5,479	1,555	21.2	252.3
Total cash received from course and product sales	196,395	164,087	107,858	19.7	52.1
Less: Net change in deferred revenue	(33,288)	(27,828)	(19,468)	(19.6)	(42.9)
Revenue for financial reporting purposes	\$ 163,107	\$ 136,259	\$ 88,390	19.7%	54.1%

Note 14 Business segment information

We operate primarily in two business segments: real estate education and financial markets education. Our revenues are generated through the sale of real estate and financial market educations courses, programs and products. The operating segments reported below are for which segments financial information is available and for which operating results are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

Segment operating results evaluates earnings before corporate and unallocated shared expenses, gain on sale of assets, net interest income, equity earnings from related parties, income tax benefits and minority interest.

The following segment results include allocations of certain costs, including shared administrative costs-based metrics designed to correlate with the consumption of such services. These allocations are

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agreed-upon amounts between the businesses and may differ from amounts that would be negotiated in arm's length transactions (in thousands):

Segment revenues	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
Real estate education	\$ 26,087	\$ 29,787	\$ 116,533	\$ 103,611	\$ 75,466
Financial markets education	18,827	8,647	46,574	32,648	13,339
	<u>\$ 44,914</u>	<u>\$ 38,434</u>	<u>\$ 163,107</u>	<u>\$ 136,259</u>	<u>\$ 89,805</u>
Segment operating earnings	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
Real estate education	\$ (2,024)	\$ 3,589	\$ 8,102	\$ (11,782)	\$ 7,520
Financial markets education	(2,323)	(3,175)	(17,263)	(21,062)	(14,996)
	<u>\$ (4,347)</u>	<u>\$ 414</u>	<u>\$ (9,161)</u>	<u>\$ (32,844)</u>	<u>\$ (7,476)</u>
Depreciation and amortization expense	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
Real estate education	\$ 339	\$ 371	\$ 1,414	\$ 1,206	\$ 647
Financial markets education	111	109	442	404	303
	<u>\$ 450</u>	<u>\$ 480</u>	<u>\$ 1,856</u>	<u>\$ 1,610</u>	<u>\$ 950</u>
Segment identifiable assets	March 31,		December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
Real estate education	\$ 19,533	\$ 13,469	\$ 19,465	\$ 17,003	\$ 13,609
Financial markets education	9,608	7,656	9,078	6,223	6,036
	<u>\$ 29,141</u>	<u>\$ 21,125</u>	<u>\$ 28,543</u>	<u>\$ 23,226</u>	<u>\$ 19,645</u>

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Geographic revenues	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
United States	\$ 42,525	\$ 33,703	\$ 151,320	\$ 121,508	\$ 79,479
Foreign	2,389	4,731	11,787	14,751	10,326
	\$ 44,914	\$ 38,434	\$ 163,107	\$ 136,259	\$ 89,805
	March 31,		December 31,		
Geographic identifiable assets	2006	2005	2005	2004	2003
	(unaudited)				
		(restated)	(restated)	(restated)	(restated)
United States	\$ 25,371	\$ 17,295	\$ 24,910	\$ 19,330	\$ 19,530
Foreign	3,770	3,830	3,633	3,896	115
	\$ 29,141	\$ 21,125	\$ 18,543	\$ 23,226	\$ 19,645

Note 15 Summarized quarterly results (unaudited)

The following table presents unaudited operating results for each quarter within the two most recent years. We believe that all necessary adjustments consisting only of normal recurring adjustments have been included in the amounts stated below to present fairly the following quarterly results when read in conjunction with the Consolidated Financial Statements. Results of operations for any

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particular quarter are not necessarily indicative of results of operations for a full year (in thousands, except for per share data)

	First quarter(a)	Second quarter(a)	Third quarter(b)	Fourth quarter(c)	Full Year
	(restated)	(restated)	(restated)	(restated)	(restated)
2005					
Revenues	\$ 38,434	\$ 40,898	\$ 44,050	\$ 39,725	\$ 163,107
Operating expenses	38,020	43,380	46,454	44,415	172,268
Earnings (loss) from operations	414	(2,482)	(2,404)	(4,690)	(9,161)
Net earnings (loss)	811	(2,120)	5,252	(94)	3,850
Per share amounts:					
Diluted earnings per share(1)	\$ 0.08	\$ (0.24)	\$ 0.56	\$ (0.01)	\$ 0.41
Basic earnings per share(1)	0.09	(0.24)	0.60	(0.01)	0.43
2004					
Revenues	\$ 32,164	\$ 32,572	\$ 38,858	\$ 32,665	\$ 136,259
Operating expenses	37,368	42,762	45,285	43,688	169,103
Loss from operations	(5,204)	(10,190)	(6,427)	(11,023)	(32,844)
Net loss	(5,043)	(9,482)	(6,359)	(11,079)	(31,963)
Per share amounts:					
Diluted earnings (loss) per share(1)	\$ (0.59)	\$ (1.11)	\$ (0.74)	\$ (1.29)	\$ (3.72)
Basic earnings (loss) per share(1)	(0.59)	(1.11)	(0.74)	(1.29)	(3.72)

(1) Earnings (loss) per share are computed independently for each quarter and the full year based upon respective average shares outstanding. Therefore, the sum of the quarterly net earnings per share amounts may not equal the annual amounts reported.

(a) In the first and second quarters of 2005 we received approximately \$0.3 million and \$0.9 million respectively, of an insurance claim that resulted from the interruption of our business caused by Hurricane Charley in 2004. This amount is recorded in Other income.

(b) In the third quarter of 2005, we recorded a deferred tax asset, net of deferred tax liability, of \$6.7 million.

(c) In the fourth quarter of 2005, we recorded \$3.0 million in bonus expense and realized a \$5.6 million gain before minority interest on the sale of the SCB office building.

Note 16 Commitments and contingencies

Liquidated damages provision in registration rights agreement

In December 2005, 3,000,000 shares of common stock and 1,500,000 shares of common stock underlying common stock purchase warrants were sold. We sold 1,750,000 shares of common stock and issued a warrant for 50% of those shares. The Company's Chairman and Chief Executive Officer concurrently sold 1,250,000 and issued common stock purchase warrants for 50% of those shares.

We issued the common stock and warrants in a December 2005, \$13.5 million in private placement in which we sold 3,000,000 units of our securities, each unit consisting of one share of common stock and one-half common stock purchase warrant, at \$4.50 per unit, to a group of 17

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nonaffiliated accredited investors and issued a unit warrant to our placement agent exercisable to purchase 300,000 units at \$4.50 per unit. We received \$7.9 million in proceeds and netted approximately \$7.2 million after expenses.

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In connection with the transaction, we entered into a registration rights agreement which provides, for the Company to use its "best efforts" to file a registration statement for the resale of the 3,300,000 common shares and the 1,650,000 shares underlying the common stock purchase warrant to be declared effective by April 11, 2006 as well as require us to maintain the effectiveness of the registration statement for a one year period subsequent to the effective date. If the issuer fails to have the registration statement declared effective by April 11, 2006 (or if effectiveness is not maintained), the registration rights agreement requires the payment of liquidated damages to the investors on a daily basis of \$4,500 (which represents 1% (per month) of the proceeds in cash) until the registration statement is declared effective or effectiveness is maintained. We have a maximum liability of six months under the registration rights agreement.

The Financial Accounting Standard Board's Emerging Issues Task Force (EITF) has exposed for deliberation the Financial Accounting Standards Board Emerging Issues Task Force Issue No. 05-04, *the Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF Issue No. 00-19, "Accounting for a Derivative Financial Instrument Indexed to and Potentially Settled in, a Company's Own Stock."* As articulated under View C in Issue No. 05-04, the Company views the registration rights agreement and the common stock purchase warrant agreement as separate freestanding agreements which should be accounted for separately. The common stock purchase warrant is classified as equity under the provisions of Issue 00-19, and the registration rights agreement is accounted for under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*.

Accordingly, we estimate a probable liability of approximately \$0.2 million in connection with the liquidated damages provision of the registration rights agreement and is reflected as a current liability in Other Accrued Expenses in our Consolidated Balance Sheet as of December 31, 2005. An additional \$0.3 million was accrued during the quarter ended March 31, 2006 due to delays resulting from the aforementioned restatement of prior period financial statements. The total of \$0.5 million is reflected as a current liability in other accrued expenses in our Consolidated Balance Sheets, as of March 31, 2006.

Software commitment

In December 2005, we entered into a commitment for approximately \$2.5 million for new software which includes licensing, training and maintenance.

Operating leases

We leases office space for administrative and training requirements. These leases expire from March 2006 to December 2012 (in thousands).

	Three months ended March 31,		Years ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)	(unaudited)			
Rental expense for operating leases	\$ 315	\$ 290	\$ 823	\$ 425	\$ 384

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Future minimum rental payments under these noncancelable leases are as follows (in thousands):

Years ending December 31,	
2006	\$ 748
2007	446
2008	186
2009	192
2010	137
	<hr/>
	\$ 1,709
	<hr/>

Litigation

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

Other

In the ordinary course of conducting our business, we are subject to various state and federal requirements. In the opinion of Management, we are in compliance with these requirements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Whitney Information Network, Inc. and Subsidiaries
Cape Coral, Florida

We have audited the accompanying Consolidated Balance Sheets of Whitney Information Network, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related Consolidated Statements of Operations and Comprehensive Earnings (Loss), Stockholders' Deficit and Cash Flows for each of the three years in the period ended December 31, 2005. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whitney Information Network, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the Consolidated Financial Statements, the December 31, 2005, 2004 and 2003 Consolidated Financial Statements have been restated.

/s/ EHRHARDT KEEFE STEINER & HOTTMAN PC

Ehrhardt Keefe Steiner & Hottman PC

August 14, 2006
Denver, Colorado

F-44

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution(1).

SEC registration fee	\$ 5,334
Printing expenses	175,000
Legal fees and expenses	125,000
Accounting fees	350,000
Transfer agent fees	5,000
Miscellaneous expenses	39,666
	<hr/>
Total	\$ 700,000
	<hr/>

(1)

All expenses, except the SEC registration fee, are estimated.

Item 14. Indemnification of Directors and Officers.

Article Seventh (d) of the Registrant's articles of incorporation provides as follows:

"(d) Limitation on Director's Liability. No director of this corporation shall have any personal liability for monetary damages to the corporation or its stockholders for breach of his fiduciary duty as a director, except that this provision shall not eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for: (i) any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) voting for or assenting to a distribution in violation of Colorado Revised Statutes Section 7-106-401 or the articles of incorporation if it is established that the director did not perform his duties in compliance with Colorado Revised Statutes Section 7-108-401, provided that the personal liability of a director in this circumstance shall be limited to the amount of the distribution which exceeds what could have been distributed without violation of Colorado Revised Statutes Section 7-106-401 or the articles of incorporation; or (iv) any transaction from which the director directly or indirectly derives an improper personal benefit. Nothing contained herein will be construed to deprive any director of his right to all defenses ordinarily available to a director nor will anything herein be construed to deprive any director of any right he may have for contribution from any other director or other person."

Item 15. Recent Sales of Unregistered Securities.

During the last three years, the Registrant has not sold any securities which were not registered under the Securities Act, except:

(i)

In October 2003, the Registrant issued 200,000 shares to the principals of SpeakTek, Inc. to acquire all of its outstanding common stock.

(ii)

In December 2005, the Registrant issued 1,750,000 shares and 875,000 warrants and Russell A. Whitney, its Chief Executive Officer, issued 1,250,000 shares and 625,000 warrants to the 17 accredited investors whose names and securities amounts are listed in the prospectus under "Selling Stockholders." The securities were issued in units consisting of one share and one-half warrant for \$4.50 per unit. The Registrant also issued a unit purchase warrant to Noble International Investments, Inc. to purchase up to 300,000 units at \$4.50 per unit as part of its compensation for acting as the Registrant's placement agent in the offering, each unit

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consisting of one share of common stock and one warrant to purchase one half share of common stock.

(iii)

From time to time, the Registrant issues stock options under its 1998 Stock Option Plan and shares issuable upon exercise of these stock options.

With respect to common stock issued under paragraph (i) and (ii) above, the Registrant relied on Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and/or Rule 506 promulgated thereunder. No advertising or general solicitation was employed in offering the securities. The securities were restricted pursuant to legend printed on each certificate. The purchasers were all accredited investors, capable of analyzing the merits and risks of the investment, who acknowledged in writing that they were acquiring the securities for investment and not with a view toward distribution or resale and understood the speculative nature of the investment.

Item 16. Exhibits and Financial Statement Schedules.

Exhibit No.	Title
3.01	Articles of Incorporation of the Registrant, as amended(1)
3.02	Bylaws of the Registrant(2)
5.01	Opinion of Law Office of Gary A. Agron regarding legality of the common stock (includes consent)(5)
5.02	Opinion of Law Office of Gary A. Agron regarding legality of the common stock (revised)(5)
10.01	Securities Purchase Agreement Private Placement(5)
10.02	Stockholders Agreement Private Placement(5)
10.03	Registration Rights Agreement Private Placement(5)
10.04	Warrant Agreement Private Placement(5)
10.05	1998 Stock Option Plan(3)
10.06	Employment Agreement with Mr. Whitney(4)
10.07	Employment Agreement with Mr. Simon(4)
10.08	Employment Agreement with Mr. Maturo(4)
10.10	Employment Agreement with Mr. Kane(4)
21.01	The Registrant has ten active subsidiaries as follows: Precision Software Services, Inc.; Intelligence Network, Inc.; Whitney Canada, Inc.; Whitney Consulting Services, Inc.; Whitney Education Group, Inc.; Whitney Internet Services, Inc.; Whitney Mortgage.com, Inc.; Whitney U.K., Limited; Coral Aviation, Inc.; American Home Buyers Alliance, Inc., and EduTrades, Inc. The Registrant also has two inactive subsidiaries.
23.01	Consent of Law Office of Gary A. Agron (included in Exhibit 5.01 above)(5)
23.02	Consent of Ehrhardt Keefe Steiner & Hottman, PC, an independent registered certified public accounting firm(5)
23.03	Consent of Ehrhardt Keefe Steiner & Hottman, PC, an independent registered certified public accounting firm(5)

23.04 Consent of Ehrhardt Keefe Steiner & Hottman, PC, an independent registered certified public accounting firm

- (1) Incorporated by reference to the Registrant's Registration Statement on Form 10 SB/12G dated March 6, 2001, designated Exhibit 3.1 therein.
- (2) Incorporated by reference to the Registrant's Registration Statement on Form 10 SB/12G dated March 6, 2001, designated Exhibit 3.2 therein.
- (3) Incorporated by reference to the Registrant's Registration Statement on Form 10 SB/12G dated March 6, 2001, designated Exhibit 99.3 therein.
- (4) Incorporated by reference to Amendment No. 1 to the Registrant's Registration Statement on Form S-1, File No. 333-103156 dated July 9, 2003, designated Exhibits 10.07 through 10.11 therein.
- (5) Previously filed.

Item 17. Undertakings.

The Registrant hereby undertakes:

(a) That insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) That subject to the terms and conditions of Section 13(a) of the Securities Exchange Act of 1934, it will file with the Securities and Exchange Commission such supplementary and periodic information, documents and reports as may be prescribed by any rule or regulation of the Commission heretofore or hereafter duly adopted pursuant to authority conferred in that section.

(c) That any post-effective amendment filed will comply with the applicable forms, rules and regulations of the Commission in effect at the time such post-effective amendment is filed.

(d) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

- (i) To include any prospectus required by section 10(a)(3) of the Securities Act;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; and
- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement.

(e) That:

(i) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(ii) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the registrant is relying on Rule 430B:
(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 414(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(iii) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

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The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
 - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
 - (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
 - (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
- (f) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (g) To provide to the underwriter at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Cape Coral, state of Florida, on August 14, 2006.

Whitney Information Network, Inc.

By: /s/ RUSSELL A. WHITNEY

Russell A. Whitney
Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Russell A. Whitney, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, as amended, this Registration Statement has been signed below by the following persons on August 14, 2006.

Signature	Title
/s/ RUSSELL A. WHITNEY	Chairman of the Board and Chief Executive Officer
Russell A. Whitney	
/s/ NICHOLAS S. MATURO	President and Chief Operating Officer
Nicholas S. Maturo	
/s/ ALFRED R. NOVAS	Chief Financial Officer
Alfred R. Novas	
/s/ RONALD S. SIMON	Executive Vice President, Secretary and Director
Ronald S. Simon	
/s/ FREDERICK A. CARDIN	Director
Frederick A. Cardin	
/s/ CHESTER P. SCHWARTZ	Director
Chester P. Schwartz	
/s/ STEPHEN L. COOTEY	Director
Stephen L. Cootey	
/s/ ANTHONY B. PETRELLI	Director

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Signature

Title

Anthony B. Petrelli

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(5)

Previously filed.
