

INVESTOOLS INC
Form 10-K
March 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2005**

Commission File Number: **001-31917**

INVESTOOLS INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

76-0685039

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

13947 South Minuteman Drive

Draper, Utah

(Address of principal executive offices)

84020

(Zip Code)

Registrant's telephone number, including area code:

(801) 816-6918

Securities registered pursuant to Section 12(b) of the
Act:

None

Securities registered pursuant to Section 12(g) of the
Act:

Common Stock, \$.01 par value per share

(Title of Class)

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2005 (the last business day of the Registrant's most recently completed second fiscal quarter) based on the closing price of the common stock on the American Stock Exchange for such date, was \$156.7 million. The number of shares of the Registrant's common stock converted and outstanding on February 15, 2006 was 44,773,081.

Documents Incorporated by Reference:

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 30, 2006 is incorporated by reference in Part III of the Form 10-K.

INVESTTOOLS INC.

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Forward Looking Statement

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All statements in this Annual Report on Form 10-K that are not historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by words such as believe, intend, expect, may, could, would, will, should, plan, project, contemplate, anticipate, or similar statements. In addition, from time to time, we (or our representatives) make forward-looking statements of this nature in our annual report to shareholders, proxy statement, quarterly reports on Form 10-Q, current reports on Form 8-K, press releases or in oral or written presentations to shareholders, securities analysts, members of the financial press or others. All such forward-looking cautionary statements, whether written or oral, and whether made by us or on our behalf, are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, the forward-looking statements reflect only our current views concerning future events, and we assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements we make, whether as a result of new information, future events, or otherwise. Forward-looking statements are subject to risks and uncertainties which could cause actual results, performance or trends to differ materially from those expressed in the forward-looking statements. We have made every reasonable effort to ensure that the information and assumptions on which these statements and projections are based are current, reasonable, and complete, but there can be no assurance that management's expectations, beliefs or projections as expressed in the forward-looking statements will actually occur or prove to be correct. Factors that could cause actual results to differ materially are discussed under Business Factors That May Affect Future Results.

Part I

Item 1. **Business**

Operations Overview

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INVESTTools Inc. (referred to as INVESTTools, the Company, we, us, or our) is a leader in investor education. Our mission is to educate and empower individual investors to make their own financial decisions to achieve their financial goals at any time or place by using the INVESTTools Method live, by correspondence or online. We hope to establish the INVESTTools Method as the most widely recognized, adopted and endorsed approach to investor education. We offer a full range of investor education products and services that provide lifelong learning and support to self-directed investors. We have more than 209,000 graduates of our basic courses and 68,000 subscribers to our websites. Our products and services are built around the INVESTTools Method, a unique integration of a disciplined investing process, web-based tools, personalized instruction and support. Our investor education products and services are offered in a variety of learning formats with courses ranging from beginning to advanced, thus addressing the needs of all investor levels.

Corporate Background

INVESTTools was incorporated in Delaware on May 21, 2001, and began operations on December 6, 2001, as a result of a merger between ZiaSun Technologies, Inc., a Nevada corporation (ZiaSun), and Telescan, Inc., a Delaware corporation (Telescan). Former ZiaSun and Telescan stockholders acquired an approximate 75% and 25% ownership interest in INVESTTools, respectively. ZiaSun and Telescan each became wholly owned subsidiaries of INVESTTools.

Our subsidiaries are:

ZiaSun, which owns 100% of Online Investors Advantage, Inc. (OIA). OIA owns 100% of the following dormant entities that have no operations: INVESTTools Asia Pacific Pte., Limited (INVESTTools Asia), Investor Education California, LLC, INVESTTools Hong Kong Ltd. (INVESTTools Hong Kong), Seminar Marketing Group, Inc. (SMG) and Memory Improvement Systems, Inc. (MIS).

Telescan, which owns 100% of INVESTTools Inc., a dormant California corporation with no operations (INVESTTools California).

SES Acquisition Corp., a California corporation operating under the name 360 Group. We acquired 360 Group in February 2004. 360 Group was a direct marketing agency that offered services such as custom database development and management, strategic planning, media list planning and buying, creative and

production services, response management and analytic services. We acquired 360 Group in order to internalize our marketing department.

Prophet Financial Systems, Inc. (Prophet), a California corporation, acquired on January 26, 2005. Prophet is a Web-based content and services provider that enables active investors to use technical analysis to trade more profitably. Prophet's website, www.Prophet.Net, is a premier Web provider of advanced charting technology.

Business Segments

Management analyzes our operations by reviewing financial information regarding products and services that are aggregated into a single operating segment, investor education.

Business Strategy

Our products and services are primarily built around a 5-Step Investing Formula that is designed to teach both experienced and beginning investors how to approach the stock selection process and actively manage their investment portfolios. Course offerings are generally combined with web-based tools, personalized instruction techniques and ongoing support and are offered in a variety of learning formats, which solidify the students' understanding of the investing process and help in their effort to take control of their financial future.

We seek to offer students a full range of investor education products that provide lifelong learning. Generally, students are introduced to our products and services through a free preview event. Attendees of the preview event are given an invitation to attend a more comprehensive instructor-led live or online workshop or purchase an in-depth online or DVD-based home study program, all of which include subscription access to the Investor Toolbox website. Following completion of the initial workshop or home study program, graduates are offered continuing education and advanced courses to build on what they have learned. These continuing education bundles often contain personalized one-on-one coaching or starting in 2006 one-to-many online coaching sessions, which are spread out over a period of time and include ongoing support through a live 800-number and a live chat hotline for continuing education assistance. Products are offered under three brands, INVESTools Investor Education, Success Magazine Investor Education and BusinessWeek Investor Education.

Learning Formats

Depending on the brand under which the learning formats are marketed, content and services available to students (i.e., length of workshop, number or length of coaching programs and access to certain Investor Toolbox features) may vary.

Preview Event We offer directly or through partners, a free event that introduces attendees to basic investing concepts and provides a broad overview of the financial markets. Depending on the brand under which the preview event is marketed, participants may receive a gift for attending. Attendees are offered an invitation to attend a more comprehensive workshop or purchase an in-depth online or DVD-based home study program.

Workshops We offer one and two-day live, instructor-led investing workshops that cover topics ranging from basic investing principles to advanced strategies. The workshops provide hands-on experience using our proprietary Investor Toolbox website. The basic investing principles workshop includes a six month subscription to the Investor Toolbox website as part of the workshop fee.

Home Study Programs We offer most of our courses in an online or DVD-based home study program. These programs are offered to preview attendees who are unable to attend the instructor-led workshops and workshop graduates seeking to expand their investment knowledge base through advanced courses. The home study programs provide hands-on training using our proprietary Investor Toolbox website. The basic investing principles home study course includes a six month subscription to the Investor Toolbox website as part of the home study course fee.

Coaching Our coaching line of products offer investors one-on-one telephone coaching or one-to-many online coaching and support. The sessions, which are offered for both basic and advanced courses, allow investors to learn at their own pace and successfully apply what they are learning. One-on-one coaching is offered over a set period of time, depending upon the course.

Live Coaching Workshops Our live coaching workshops provide students with an in depth, interactive learning experience and a low student-to-coach ratio. These courses are taught by our most experienced coaches. They included stock and options training as well as more advanced active investing courses.

Ongoing Support (web subscriptions) As long as alumni maintain an active subscription to the Investor Toolbox website, they have unlimited e-mail access to coaches. Students who participate in the coaching programs also have access to instructors through a Live Chat online support option and coaches through a live 800-number hotline where they can check their work.

eLearning (web subscriptions) Alumni can access a series of topical online tutorials called webinars through our Investor Toolbox website. The click on demand webinars are designed to walk graduates through the portion of the Investor Toolbox website that relates to the subject being covered.

Course Offerings

5-Step Investing Formula This foundational course is designed to teach both experienced and beginning investors how to select stocks according to a step-by-step, disciplined investing process. The 5 steps are: (1) searching for an investment, (2) industry group analysis, (3) fundamental analysis, (4) technical analysis, and (5) portfolio management. There are no prerequisites to take this course.

Basic Options This course is designed to introduce students to the power of options and teach them how to start trading options which will give them opportunities to increase their profits and diversify their investing strategies. The course also provides investors with a number of options-related strategies such as puts, covered calls and LEAPS that may help their investment portfolio. Students must complete the 5-Step Investing Formula prior to taking this course.

Advanced Technical Analysis This course is designed to teach students technical analysis and advanced charting techniques to identify investment opportunities, reduce ambiguity and to give them opportunities to profit in any financial market condition. The course teaches the skills and discipline to interpret trends and trading opportunities based on the physical behavior of the market as seen through technical analysis and charting techniques. Students must complete the 5-Step Investing Formula prior to taking this course.

Advanced Options This course is a multi-part course designed to teach students advanced options strategies one step at a time. Building on the principles taught in our Basic Options course, the Advanced Options course introduces new options strategies such as debit spreads, credit spreads, diagonal spreads, straddles and strangles, index options and butterfly spreads. Students must complete the 5-Step Investing Formula and Basic Options prior to taking this course.

INVESTools Currency Trader This course prepares students to trade in the foreign exchange markets using the same risk management skills and principles that professional, institutional and advanced individual currency traders utilize. The course focuses on technical analysis and advanced charting techniques to help investors identify, analyze and leverage global currency trading opportunities, reduce risk and increase profit potential. The course provides investors with the proper know-how for taking advantage of the steady stream of unique opportunities created by the constant flow of world events. There are no prerequisites to take this course.

Continuing Education Programs

Designed for the serious student, our continuing education programs offer students a comprehensive access to a multitude of products at one price point. Typically investors receive additional online or home study courses, coaching sessions and extended Investor Toolbox website access. Depending on the brand under which the programs are marketed, content and services available to students (i.e., length of workshop, number of coaching sessions and access to certain online Investor Toolbox features) may vary.

Associate Investor Program In addition to the foundational 5-Step Investing Formula course and initial six month Investor Toolbox website access, the Associate Investor Program provides investors with six 5-Step Investing Formula one-on-one coaching sessions, the Basic Options home study course and six Basic Options one-on-one coaching sessions.

Master Investor Program In addition to the foundational 5-Step Investing Formula course and initial six month Investor Toolbox website access, the Master Investor Program provides investors with six 5-Step Investing Formula coaching sessions, the Basic Options Workshop, Basic Options home study course, six Basic Options coaching sessions and in 2006, a weekly review of one-to-many coaching sessions called Masters Talk. The Master Investor Program also includes the Advanced Technical Analysis and Charting home study course, an additional twelve months of Investor Toolbox website access and a one year VIP pass for basic and alumni workshops.

Program of High Distinction In addition to the foundational 5-Step Investing Formula course and initial six month Investor Toolbox website access, the Program of High Distinction provides investors with six 5-Step Investing Formula coaching sessions, the Basic Options Workshop, Basic Options home study course, six Basic Options coaching sessions, the Advanced Options Workshop, Advanced Options home study course, the Advanced Technical Analysis Workshop and the Advanced Technical Analysis home study course. In 2006, the program is being upgraded to include the Advanced Options weekly coaching one-to-many coaching sessions called Options Trading Room and Advanced Technical weekly coaching one-to-many sessions called Technical Analysis Trading Room. The Program of High Distinction also includes a three day live coaching mentor training class, an additional 24 months of Investor Toolbox website access and a two year VIP pass for basic, alumni and advanced workshops.

Active Investing Workshops Three dynamic, intensive workshops, which were added in early 2005, are offered to students. Each workshop one for stocks, one for options and one for currency trading are designed to offer attendees more sophisticated strategies and technology. Attendees are taught how to take advantage of shorter-term (intraday to one-week) price swings by closely monitoring the market during open hours and making numerous, quick but well informed decisions to buy, hold or sell. This aggressive trading technique is based primarily on the real-time technical analysis of volume, key indicators and technical chart patterns and formations. Each workshop has a low student to coach ratio to give students more personal coaching and deeper comprehension. With oversight from an experienced instructor, investors practice money management, evaluating and calibrating risk tolerance, monitoring total cash flow and actively managing portfolio growth, all in real time.

Value Added Tools

Investor Toolbox Our Investor Toolbox website gives investors access to the investment tools needed to execute the strategies taught in our investor education programs. The site has proprietary features that are not accessible on other financial websites, including more than 50 pre-built stock searches, comparative reports, market indicators, market commentary and portfolio tracking features. An initial six month subscription to the site is included with the purchase of a basic level investing workshop or home study course. At the end of the initial subscription, graduates are offered renewals for a fee, which depends on the length of the renewal period and whether additional products or services are purchased. Currently, we offer one to sixty month subscription renewals.

Cyber Trader is a feature that will be added in 2006, the Cyber Trader trading platform will allow graduates to trade without leaving the Investor Toolbox website.

OptionsXpress® Trading Platform is a feature that was added in 2005, the OptionsXpress Trading Platform allows graduates to trade without leaving the Investor Toolbox website.

Sales and Marketing Strategy

Revenue is derived from: (i) the initial sale of our products and services as a result of marketing efforts across multiple acquisition channels which include, but are not limited to, television, print, postal mail, radio, online banner, paid and organic search and email direct marketing campaigns driving customers to either a free preview of investor education products offered at locations near the prospect or the opportunity to speak with a telesales representative about the products offered; and (ii) the additional sale of products and services to graduates as a result of continued interaction with us in workshops, periodic email and direct mail communications and through access to coaches and instructors.

We experienced growth in initial product sales in 2005 as a result of: (i) continued refinements to our initiated and controlled direct marketing efforts for our own brand, INVESTools, and (ii) expanded relationships with co-marketing partners, such as Money In Training and Success Magazine Investor Education, where the partners are responsible for driving leads and acquiring new customers to the organization. We experienced significant growth in additional product sales and services to graduates as a result of the introduction of multiple new products and product bundles.

Industry Trends

Technology has generated significant growth in the education markets and acceptance of for-profit involvement in the improvement of education is now a mainstream concept. However, only recently has the education market begun to emerge as a true industry. Broadly defined, the education industry covers a full range of for-profit and non-profit educational products and services that are delivered through both traditional and technology-based channels and includes such disparate elements as early childhood education, corporate training and lifelong learning. We believe that our mission of fulfilling the lifelong education needs of self-directed investors most accurately falls within the confines of

the education industry.

(1) We believe that a significant opportunity exists to educate the public about how to make good investment decisions. A Harris Interactive / Securities Industry Association survey (2) confirmed our belief, citing that as more investment related information has become available to the public through the Internet, and with increasing cases of corporate accounting fraud and financial mismanagement, as well as the need for reform related to the United States Social Security program, investors continue to look to the securities industry to educate them about how to make better investments to secure their financial future.

(1) ICI/SIA Study, Equity Ownership in America, 2004

(2) Harris Interactive Annual SIA Investor Survey, November 2003

Competition

Generally, competitive factors within the educational market include the range and depth of foundational and continuing education course offerings, the quality of instructors and coaches, the quality of reference materials provided in connection with course studies and the cost of the educational process. We are aware of several companies that provide some level of investor education in similar delivery formats. However, we believe that: (i) the depth and quality of our curriculum and training, (ii) the range of our foundational and continuing education course offerings, from beginner to advanced, (iii) our branded and co-marketing product distribution partnerships, (iv) the quality of our instructors and coaches, and (v) our database of prospects and students provide us with a considerable competitive advantage compared to other investor education providers.

Intellectual Property

We have registered and received approval for a number of trademarks in the United States and foreign countries that are important to our future success. Of critical importance to us is the INVESTools trademark. The INVESTools trademark is a widely recognized, adopted and endorsed approach to investor education and is associated with quality and reliable service. Loss of the proprietary use of the INVESTools trademark or a diminution in the perceived quality associated with that name could harm our growth in the investor education industry. In addition, as a result of acquiring Prophet Financial Systems, Inc. (Prophet) we acquired the Prophet trademark and tradename. The Prophet trademark and tradename is a widely recognized charting website that has won various awards and been recognized as a leader in online financial charting applications.

We have registered and maintain a multitude of domain names to ensure continuity of delivery for all of our websites. Domain names are typically renewed several months prior to their respective expiration dates for a period of two years or longer to prevent loss of ownership.

We attempt to protect our trade secrets and other proprietary information with product development partners, employees and consultants through nondisclosure agreements, contract provisions and copyright, patent, trademark and trade secret laws. With respect to technologies that we license to third parties for use in specific applications or platforms, we rely on licensing agreements to ensure additional protection related to the source code of our products as a trade secret and as an unpublished copyright work. Management believes that our products, trademarks and other proprietary rights do not infringe on the proprietary rights of third parties, and management is not aware of any current infringement claims against us.

Regulatory Compliance

General

With the exception of the general requirement that we and our subsidiaries be registered or qualified to do business in the United States and any foreign countries in which we operate, the products and services provided through the use of our technology currently are not subject to the approval of any government regulatory body. However, certain foreign countries require that we register with their respective securities and investments commission or similar regulatory body prior to conducting investment-related workshops. We are registered with the Australian Securities and Investments Commission (ASIC) and have a compliance officer residing in Australia.

We are not a broker-dealer or otherwise engaged in the business of effecting transactions in securities. We are not an investment advisor or otherwise engaged in providing investment advice or making investment recommendations.

Sales and Marketing

Our products and services are marketed via a number of channels, including television, print, postal mail, radio, online banners, paid and organic search and email direct marketing campaigns, which are regulated by numerous federal and state laws and regulations, including, but not limited to, anti-fraud laws, consumer protection laws, privacy laws, telemarketing laws, telephone solicitation laws and spam laws. While to date we have not been

adversely impacted by any such regulation, management believes that our marketing activities will increasingly be subject to such regulation, which may: (i) limit our ability to solicit new customers or offer additional products or services to existing customers, and (ii) result in noncompliance, which may subject us to fines or various forms of civil or criminal prosecution. Such regulation could have an adverse effect on our financial condition and results of operations. We have reviewed our marketing and sales practices and have made modifications, where required, to ensure compliance. We continue to monitor the status of existing and proposed regulatory guidelines to ensure compliance.

Although our operations on the Internet are not currently regulated by any government agency, it is possible that a number of laws and regulations may be adopted in the future governing the Internet. In addition, existing laws may be interpreted to apply to the Internet in ways not currently applied. Regulatory and legal requirements are subject to change and may become more restrictive, making our business units compliance more difficult or expensive or otherwise restricting our ability to conduct their businesses as they are now conducted.

Securities and Exchange Commission

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As a public company, we are required to file periodic reports, as well as other information, with the Securities and Exchange Commission (SEC) within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC's web site located at <http://www.sec.gov>.

We maintain a corporate Web site at <http://www.investools.com>, on which investors may access free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q and amendments to those reports as soon as is reasonably practicable after furnishing such material with the SEC. In addition, we will voluntarily provide electronic or paper copies of our filings free of charge upon request to our Investor Relations department at (801) 816-6918.

Human Resources

At December 31, 2005, we had 486 employees. Of the 486 employees, 17 percent were employed in customer acquisition related positions, 60 percent were employed in customer fulfillment and retention related positions, 11 percent were employed in technology positions, and 12 percent were employed in administrative and marketing positions. We also had 7 persons under contract primarily in educational services.

Our key personnel are covered by employment and confidentiality agreements. No person employed by us, either full-time, part-time or on a contract basis, is covered by a collective bargaining agreement or represented by a union, and we have never experienced a work stoppage due to a protest or related activities. Management considers relations with our personnel to be good.

Item 1A. Risk Factors That May Affect Future Results

Our business may suffer if we are not successful in developing, maintaining and defending proprietary aspects of technology used in our products and services.

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Our success and ability to compete are dependent on our ability to develop and maintain the proprietary aspects of our technology. Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation, even if we prevailed, could be costly, divert resources and could have a material adverse effect on our business, operating results and financial condition. We can give no assurance that our means of protecting our proprietary rights will be adequate, or that our competitors will not independently develop similar technology. Any failure by us to protect our intellectual property could have a material adverse effect on our business, operating results and financial condition. We integrate third-party software into code creating and supporting some of our products and services. This third-party software may not continue to be available on commercially reasonable terms. If we are unable to maintain licenses to the third-party software included in the code supporting our product services, features of our products or services could be unavailable, until equivalent software could be developed or licensed and integrated. This delay could adversely affect our business, operating results and financial condition.

Any negative changes in economic conditions, significant price increases, inflation or adverse events related to various industries, or the willingness of investors to trade could harm discretionary spending and have a material adverse effect.

We believe that the level of public interest in investing, particularly in the securities and option markets as well as electronic trading has significantly influenced the market for these products and services. The securities markets have experienced substantial volatility in recent periods. A sharp drop or sustained or gradual decline in securities prices or other developments in the securities markets typically could cause individual investors to be less inclined to invest in the securities markets, which would be likely to result in reduced interest in our investor educational

products and services.

We depend on continued growth in use of the Internet and online commerce.

Our ability to expand our delivery platforms and penetrate new markets could be stagnated without continued growth in the use and efficient operation of the Internet. Web-based markets for information, products and services are new and rapidly evolving. If Internet usage does not continue to grow or grow slower than anticipated, we may be unable to secure new sponsorship and subscription arrangements for our offerings. To the extent our business relies on web-based delivery platforms, our operations will also be dependent on adequate network infrastructure, consistent quality of service and availability to customers of cost-effective, high-speed Internet access. If our systems cannot meet customer demand for access and reliability, these requirements will not be satisfied, and customer satisfaction could degrade substantially, adversely affecting our prospects for market penetration and profitability.

Future regulations or the interpretation of existing laws pertaining to the Internet could decrease the demand for our products or increase the cost of doing business.

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Any new law or regulation pertaining to the Internet, or the application or interpretation of existing laws, could increase our cost of doing business, decrease the demand for our products and services, or otherwise harm our business. We must comply with a variety of federal and state laws affecting the content of materials distributed over the Internet, as well as regulations and other laws restricting the collection, use and disclosure of personal information that we may obtain in the course of providing our online services. Future laws or regulations may relate to information retrieved from or transmitted over the Internet, consumer protection, online content, user privacy, taxation and the quality of products and services. Compliance with future laws and regulations, or existing laws as they may be interpreted in the future, could be expensive, time consuming, impractical or impossible.

We may be liable for invasion of privacy or misappropriation by others of our users' information, which could adversely affect our reputation and financial results.

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Some of our services require the disclosure of sensitive information by the user. We rely on a number of security systems for our services to protect this information from unauthorized use or access. We cannot predict whether new technological developments could circumvent these security measures. If the security measures that we use to protect personal information or credit card information are ineffective, we may be subject to liability, including claims for invasion of privacy, impersonation, unauthorized purchases with credit card information or other similar claims. In addition, the Federal Trade Commission and several states have investigated the use of personal information by certain Internet companies. We could incur significant expenses if new regulations regarding the use of personal information are introduced or if our privacy practices are investigated.

Laws and regulations can affect our operations and may limit our ability to operate in certain jurisdictions.

Federal, state and international laws and regulations impact our operations and may limit our ability to obtain authorization to operate in some states or countries. Many federal, state and international governmental agencies assert authority to regulate providers of investment education programs. Although we believe that we are currently in compliance with all such regulations, there can be no assurance that the federal, state or international regulatory structure will not change. For example, if we were required to comply with, or found to be in violation of, a regulatory body's current or future licensing or regulatory requirements, we could be subject to civil or criminal sanctions, including monetary penalties. Additionally, we could be required to incur significant on-going expenses to comply with regulatory requirements or, conceivably, could be barred from providing investment education services in that jurisdiction. If any of these things occur, it could have a material adverse effect on our business and results of operations and may cause our stock price to decline.

If we are not able to continually enhance our web-based products and services and adapt them to changes in technology, our future revenue growth could be adversely affected.

If our improvement and adaptation of our web-based products and services is delayed, results in systems interruptions or is not aligned with market expectations or preferences, our revenue growth could be adversely affected. The online environment is rapidly evolving, and the technology used in web-based products changes quickly. We must therefore be able to quickly modify our solutions to adapt to emerging online standards and practices, technological advances, and changing user and sponsor preferences. Ongoing enhancement of our web site, web-based products and related technology will entail significant expense and technical risk. We may use new technologies ineffectively or fail to adapt our web site, web-based products and related technology on a timely and cost-effective basis.

We rely on our strategic partners to provide us with access to leads and customers.

We currently access approximately 69% of our revenue through co-branding (Business Week) and co-marketing (Success Magazine and Money in Training) relationships. Our strategic partners may enter into identical or similar relationships with our competitors, which could diminish the value of the partners for customer acquisition. Our strategic partners could terminate their relationship with us. If any of these organizations were to terminate their relationship with us our ability to distribute our product and services could be impaired. We may not be able to maintain our existing relationships or enter into new strategic relationships.

Our ability to offer courses may be affected by natural disaster, strikes and other unpredictable events.

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Natural disasters, external labor disruptions and other adverse events may affect our ability to conduct our business, resulting in loss of revenue. Severe blizzards or floods may reduce the ability of our course participants to travel to our courses. These natural disasters may also disrupt the printing and transportation of the materials used in our direct mail campaigns. Furthermore, postal strikes could occur in the countries where we operate which could delay and reduce delivery of our direct mail marketing materials. Transportation strikes could also occur in the countries where we operate, adversely affecting course attendance. The future occurrence of any of these events could have a material adverse effect on our business and results of operations and may cause our stock price to decline.

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

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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.

We may desire or need to raise additional capital in the future and it may not be available on acceptable terms.

We may desire or need to raise additional capital in the future and it may not be available on acceptable terms. 52

If we need but are unable to obtain additional capital to expand our operations and invest in new products and services, our business may be adversely affected. In the future we may require substantial additional capital to finance ongoing operations or the growth of our business. To the extent that our existing sources of liquidity and cash flow from operations are insufficient to fund our activities, we may need to raise additional funds. We cannot be certain that we will be able to obtain additional financing on favorable terms. If we fail to raise additional funds, we may need to sell debt or additional equity securities or to reduce our growth to a level that can be supported by our cash flow. Without additional capital, we may not be able to: further develop or enhance our services and products; acquire necessary technologies, products or businesses; expand operations in the United States or internationally; hire, train and retain employees; market our services and products; or respond to competitive pressures or unanticipated capital requirements.

We need to successfully integrate recently acquired and potential additional operating companies.

As a result of recent acquisitions and, as part of our general business strategy, we expect to experience significant growth and expect such growth to continue into the future. This growth is expected to place a significant strain on our management, financial, operating and technical resources. Failure to manage this growth effectively could have a material adverse effect on our financial condition or results of operations. There can be no assurance that we will be able to effectively integrate the acquired companies with our own operations. Expansion will place significant demands on our marketing, sales, administrative, operational, financial and management information systems, controls and procedures. Accordingly, our performance and profitability will depend on the ability of our officers and key employees to (i) manage our business and our subsidiaries as a cohesive enterprise, (ii) manage expansion through the timely implementation and maintenance of appropriate administrative, operational, financial and management information systems, controls and procedures, (iii) add internal capacity, facilities and third-party sourcing arrangements as and when needed, (iv) maintain service quality controls, and (v) attract, train, retain, motivate and manage effectively our employees. There can be no assurance that we will integrate and manage successfully new systems, controls and procedures for our business, or that our systems, controls, procedures, facilities and personnel, even if successfully integrated, will be adequate to support our projected future operations. Any failure to implement and maintain such systems, controls and procedures, add internal capacity, facilities and third-party sourcing arrangements or attract, train, retain, motivate and manage effectively our employees could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our chief executive officer and chairman of the board for his depth of industry experience and knowledge.

We are highly dependent on the services of Lee K. Barba, our CEO and Chairman of the Board. Mr. Barba has extensive experience, knowledge and contacts in the financial and investment industries. If Mr. Barba were to terminate his employment with us, we would lose valuable human capital, adversely affecting our business. We currently do not maintain key man insurance on Mr. Barba or any other member of our senior management team. Neither Mr. Barba nor any other member of our senior management team intends to retire or is nearing retirement age.

Legal proceedings could adversely affect our business and results of operations.

We are from time to time involved in various lawsuits and legal proceedings. While we intend to vigorously defend the lawsuit filed against us by Ross Jardine and True North Academy LLC as described in Item 3 below, an adverse finding could subject us to undetermined penalties. During the fourth quarter of 2005, the litigation with the Australian Securities and Investment Commission was resolved with no material adverse effect on our business and results of operations. Although we currently are not a defendant in any other material legal proceedings, any claim, with or without merit, could result in costly litigation or require us to modify or cease sales of our products or services, any of which could have a material adverse effect on our business and results of operations.

Items 1B. Unresolved Staff Comments

As of December 31, 2005, we have no unresolved comments from the Securities Exchange Commission.

Item 2. **Properties**

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Our headquarters are currently located in Draper, Utah. In August 2004, we entered into a 63 month lease agreement for the Draper facility commencing on May 1, 2005. The month-to-month lease for the Provo, Utah facility was terminated at approximately the same time.

In September 2003, we discontinued the use of a leased office space in Provo, Utah. As such, this lease was sublet to an independent party for an amount that does not cover in full our lease obligation under the original lease agreement. Square footage and the monthly rent of this facility are not reflected in the figures shown in the table below.

In addition to the Draper, Utah location, we have leased office space in New York, New York, Houston, Texas, Palo Alto and San Rafael, California.

In November 2005, we entered into a 13 month lease agreement to lease additional office space at our Palo Alto location to accommodate operations previously performed at our San Rafael location that were moved to Palo Alto and expansion of staff in Palo Alto. In the same month, we entered into an agreement with a real estate broker to sublease the San Rafael, California location. We expect this to take place sometime during the first half of 2006. As the facility was not subleased at December 31, 2005, square footage and monthly rent of the San Rafael facility are reflected in the figures shown in the table below.

The following table shows the amount of square footage of our leased facilities and monthly rent as of December 31, 2005:

City	Square Feet Rented	Monthly Rent as of December 2005
Draper	52,000	\$ 53,828
Houston	9,495	19,671
Palo Alto	6,806	18,412
San Rafael	6,016	17,687
New York	235	4,477
	74,552	\$ 114,075

Item 3. **Legal Proceedings**

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From time to time we are involved in certain legal actions arising in the ordinary course of business. It is the opinion of management that such litigation will be resolved without a material adverse effect on our liquidity, financial position or results of operations.

On March 4, 2003, a foreign national filed a complaint in the San Diego Superior Court against ZiaSun Technologies, Inc., one of our wholly-owned subsidiaries. The complaint alleges that certain individuals, who are not parties in the lawsuit, persuaded the plaintiff to purchase shares of ZiaSun common stock and the complaint also alleges a failure to deliver a stock certificate. ZiaSun does not have any ownership or control of the third party brokerage house from whom plaintiff claims to have purchased stock. The plaintiff was seeking unspecified damages for the alleged fraud in the sale of the stock. On February 9, 2005, the court awarded a summary judgment in our favor. In March 2005, the plaintiff filed for an appeal to continue to pursue this litigation. We believe that this matter will be resolved without material adverse effect on us.

In October 2005, the Supreme Court of Queensland, ruled on a lawsuit filed on July 9, 2004, by the Australian Securities and Investment Commission (ASIC) against Online Investors Advantage, one of our wholly-owned subsidiaries (OIA). The Court found that most of the claims pursued by ASIC had not been made out against OIA, but found for ASIC in respect to certain claims, all of which hinged on the Court's finding that the website was a financial product, as that term is defined under the Australian Corporations Act. There were no penalties assessed against us as a result of this ruling. On October 31, 2005, the Court dismissed ASIC's claim regarding the repayment of money to participants at the workshops. Accordingly, \$0.3 million of funds previously held in escrow have been released to us. Given OIA's success on the majority of ASIC's claims, ASIC was ordered to pay 80% of OIA's legal costs. Given that ASIC succeeded in respect to a small number of its claims, OIA was ordered to pay 20% of ASIC's legal costs. The net of these amounts can not be estimated at this time and therefore no amounts have been recorded in the Consolidated Financial Statements. We expect these amounts to be settled in the first half of 2006.

On November 1, 2005, Ross Jardine and True North Academy L.L.C. filed a lawsuit against us in the Third Judicial District Court, Salt Lake City, Utah. The lawsuit alleges that we abused Mr. Jardine's personal identity under Utah state

law, his name and likeness, and appropriated the commercial value of Mr. Jardine's identity and violated his privacy. In January 2006, we filed our answer and counterclaim and in February 2006 we filed a motion for summary judgment. We intend to vigorously defend this action.

In February 2006, we filed a complaint against Stock Investor.com, LLC, True North Academy, L.L.C., Wade Hallam, Leroy Hartman and Tony Montoya in the Fourth Judicial Court, Utah County, Utah. The complaint alleges breach of contract, tortious interference, violation of the Utah Trade Secrets Act, common law unfair competition, violation of the Utah Unfair Competition Act, common law trademark infringement and trade name infringement, and civil conspiracy. We are seeking damages and injunctive relief.

We establish liabilities when a particular contingency is probable and estimable. For contingencies noted above, we have accrued amounts considered probable and estimable. We are not aware of pending claims or assessments, other than as described above, which may have a material adverse impact on our liquidity, financial position or results of operation.

Item 4. **Submission of Matters to a Vote of Security Holders**

During the fourth quarter of 2004, there were no matters submitted to a vote of the stockholders.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities

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Our common stock is traded on the American Stock Exchange under the symbol IED. The following table sets forth, for the periods indicated, the high and low sales prices.

	Company Common Stock	
	High	Low
<u>2005</u>		
Quarter ended March 31	\$ 5.36	\$ 3.35
Quarter ended June 30	5.74	3.30
Quarter ended September 30	4.65	3.25
Quarter ended December 31	5.50	4.05
<u>2004</u>		
Quarter ended March 31	\$ 2.90	\$ 1.51
Quarter ended June 30	2.50	1.71
Quarter ended September 30	2.27	1.58
Quarter ended December 31	3.50	2.10

On March 3, 2006, the closing price of our common stock as reported by the American Stock Exchange was \$7.98. As of January 26, 2006, we had 750 stockholders of record, and as of February 1, 2006 we had 6,814 beneficial holders.

Dividend Policy

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We have never declared a cash dividend on our common stock. The Board of Directors currently intends to retain all earnings for use in our business, and therefore, does not anticipate paying any cash dividends on our common stock in the foreseeable future. The declaration of dividends, if any, in the future would be subject to the discretion of the Board of Directors, which may consider factors such as our results of operations, financial condition, capital needs and acquisition strategy, among other things. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto.

Equity Compensation Plan Information

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The following table sets forth information as of December 31, 2005, with respect to our equity compensation plans previously approved by stockholders and equity compensation plans not previously approved by stockholders.

Plan Category	Equity Compensation Plans			Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	(c)		
Equity compensation plans approved by stockholders (1)	4,052,193	\$ 2.35	2,247,125	2,797,125	
Equity compensation plans not approved by stockholders	4,602,193				
Total	4,052,193	\$ 2.35	2,247,125	2,797,125	

(1) This amount includes an option we granted to our Chief Executive Officer in 2002. The vesting of the options is contingent upon an event occurring in the future that currently is not probable. Based upon the terms of the option, the number of shares issuable upon exercise of the option, if any, will be between 50,000 to 550,000 shares at an exercise price of \$0.18 per share. The option was granted under the INVESTools 2001 Stock Option Plan, which was approved by stockholders.

Issuer Purchases of Equity Securities

There were no stock repurchases during the fourth quarter of 2005.

Item 6. **Selected Consolidated Financial Data**

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The selected consolidated financial data presented below should be read in conjunction with the consolidated financial statements of INVESTools and related footnotes included elsewhere in this document. The selected consolidated financial data has been derived from the consolidated financial statements of INVESTools.

Statement of Operations

(in thousands, except for share data)

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Revenue	\$ 138,621	\$ 97,169	\$ 69,802	\$ 53,923	\$ 51,560
Cost of revenue	92,161	65,659	41,921	25,411	22,794
Selling expense	37,332	24,493	20,669	19,023	18,429
General and administrative expense	24,182	17,843	12,388	14,154	8,458
Special charges	1,077	1,084	673		6,454
Net loss before income taxes and cumulative effect of accounting change	(15,628)	(11,719)	(5,771)	(5,401)	(9,151)
Net loss from continuing operations before cumulative effect of accounting change	(15,742)	(11,727)	(7,301)	(5,207)	(9,151)
Cumulative effect of accounting change				(28,417)	
Net loss available to common stockholders	\$ (15,742)	\$ (11,727)	\$ (7,301)	\$ (33,669)	\$ (9,044)
Net loss per common share diluted:					
Net loss from continuing operations before cumulative effect of accounting change	\$ (0.35)	\$ (0.26)	\$ (0.17)	\$ (0.12)	\$ (0.28)
Net income from discontinued operations	\$	\$	\$	\$	\$ 0.01
Cumulative effect of accounting change, net of tax	\$	\$	\$	\$ (0.68)	\$
Net loss per share available to common stockholders	\$ (0.35)	\$ (0.26)	\$ (0.17)	\$ (0.80)	\$ (0.27)
Basic and diluted weighted average shares outstanding	44,933	45,045	43,692	41,983	32,684

Balance Sheet Data

(in thousands)

2005	2004	As of December 31, 2003	2002	2001
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