INVESTOOLS INC
Form 10-K
March 31, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

Commission File Number: 0-31226

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.)
585 East 1860 South **Provo, Utah** (Address of principal executive offices)	**84606** (Zip Code)

Registrant s telephone number, including area code:
(801) 724-6913

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)

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 ý No o

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2004 (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 $90.6 million.

The number of shares of the Registrant s common stock converted and outstanding on March 15, 2005 was 44,978,968.

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 June 10, 2005 is incorporated by reference in Part III of the Form 10-K.

INVESTOOLS INC.

FORM 10-K REPORT INDEX

INVESTOOLS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Forward Looking Statement

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 , coul would , will , should , plan , project , contemplate , anticipate , or similar statements. In addition, from time to time, we (or our representat 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

INVESTools Inc. (referred to as INVESTools , 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 unfulfilled financial goals anytime, anywhere by using the INVESTools Method live, by correspondence or online establishing the INVESTools 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 to help them improve their investment performance. We have more than 144,000 graduates and 51,000 subscribers to our websites. Our products and services are built around the INVESTools 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.

In January 2005, we announced the relocation of our corporate headquarters from Houston, Texas to Salt Lake City, Utah. Our interim corporate headquarters and principal executive office is located at 585 East 1860 South, Provo, Utah 84606. We also maintain offices in New York, New York; Houston, Texas; Palo Alto, California and San Rafael, California. We intend for the corporate relocation to Salt Lake City to be complete in May 2005.

Corporate Background

INVESTools 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 INVESTools, respectively. The merger was accounted for under the purchase method of accounting. ZiaSun and Telescan each became wholly owned subsidiaries of INVESTools.

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: INVESTools Asia Pacific Pte., Limited (INVESTools Asia), Investor Education California, LLC, INVESTools Hong Kong Ltd. (INVESTools Hong Kong), Seminar Marketing Group, Inc. (SMG) and Memory Improvement Systems, Inc. (MIS).

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

SES Acquisition Corp., a California corporation operating under the name 360 Group. We acquired 360 Group on February 26, 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, ProphetNet, 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 built around a 5-Step Investing Formula that is designed to teach both experienced and beginning investors how to approach the stock selection process according to our proven investing formula. Course offerings are generally combined with personalized instruction 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 investors 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 workshop or purchase an in-depth DVD-based home study program, both of which include subscription access to the Online Investor Toolbox website. Workshops and home study programs are often bundled with personalized, one-on-one coaching sessions, which are spread out over a period of time and include ongoing support through a live 800-number hotline for technical assistance. 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. Products are offered under INVESTools Investor Education, Success Magazine Investor Education, BusinessWeek Investor Education and CNBC Investor Education brands.

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 of coaching sessions and access to certain Online Investor Toolbox features) may vary.

Preview Event We offer 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 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 Online Investor Toolbox website. The basic investing principles workshop includes a six month subscription to the Online Investor Toolbox website as part of the workshop fee.

Home Study Programs We offer several of our courses in a DVD at home study format. 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 DVD-based home study programs provide hands-on training using our proprietary Online Investor Toolbox website. The basic investing principles home study course includes a six month subscription to the Online Investor Toolbox website as part of the home study course fee.

One-on-One Coaching Our personalized coaching line of products offer investors one-on-one coaching and support in interactive sessions with a coach. 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 In 2004, we introduced a live coaching format that provides students with an in depth, interactive learning experience and a low student to teacher ratio. These courses are offered in an attractive resort location, and 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 Online Investor Toolbox website, they have unlimited e-mail access to instructors. Students who participate in the one-on-one coaching program 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) In 2004, we introduced short, online tutorials called webinars on two topics, Market Forecast and Covered Calls, through our Online Investor Toolbox website. The click on demand webinars are designed to walk graduates through the portion of the Online Investor Toolbox site that relates to the subject being covered. In 2005, we will extend online delivery of our products through our eToolbox strategy.

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 investors to the power of options and teach them how to start trading options to give them opportunities to increase 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 Options This course is a multi-part course designed to teach investors 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.

Advanced Technical Analysis This course is designed to teach investors 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.

INVESTools Currency Trader - This course, which was added in early 2005, prepares investors to trade in the forex 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 home study courses, one-on-one coaching sessions and extended Online Investor Toolbox 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 Online Investor Toolbox 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 Online Investor Toolbox access, the Master Investor Program provides investors with nine 5-Step Investing Formula one-on-one coaching sessions, the Basic Options Workshop, Basic Options home study course, nine Basic Options one-on-one coaching sessions, the Advanced Options home study course, an additional twelve months of Online Investor Toolbox 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 Online Investor Toolbox access, the Program of High Distinction provides investors with six 5-Step Investing Formula one-on-one coaching sessions, the Basic Options Workshop, Basic Options home study course, nine Basic Options one-on-one coaching sessions, the Advanced Options Workshop, Advanced Options home study course, nine Advanced Options one-on-one coaching sessions, the Advanced Technical Analysis Workshop, Advanced Technical Analysis home study course, six Advanced Technical Analysis one-on-one coaching sessions, the Active Investing Workshops, a three day live Program of High Distinction mentor training class in a resort location, an additional 24 months of Online Investor Toolbox 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 investors. The three workshops 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 teacher ratio to give investors the personal training and deeper comprehension. Attendees are provided the use of their own trading station complete with computer, dual monitors, streaming data and live paper trading accounts. With guidance 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

Online Investor Toolbox Our Online Investor Toolbox websites 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.

OptionsXpress® Trading Platform A feature that was added in 2005, the OptionsXpress Trading Platform allows graduates to trade without leaving the Online 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, radio, television, print, postal mail 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. In 2004, we made the decision to expand our student acquisition efforts by engaging with multiple external marketing agencies to produce a Direct Response Television (DRTV) infomercial designed to drive lead flow to the INVESTools brand. The DRTV infomercial was launched in January 2005.

We experienced growth in initial product sales in 2004 as a result of: (i) continued refinements to our initiated and controlled direct marketing efforts for branded partnerships, such as BusinessWeek Investor Education and CNBC Investor Education, and (ii) expanded relationships with co-marketing partners, such as Money In Training and Success Magazine Investor Education, where the partners themselves 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.

Of the $105 billion for-profit sector, (1) which has grown rapidly for most of the past decade, it is estimated that the nearly

$17 billion market for post-secondary education is expected to be the fastest growing sector in the industry for the next several years. (2) Related to the market for investor education, since more than half of all U.S. households, an estimated 53 million, own equity securities, 48% of which were initially purchased inside employer retirement plans, (3) 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 (4) 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) KnowledgeQuest Education Group LLC, 2002

(2) School Reform News, August 2002

(3) ICI/SIA Study, Equity Ownership in America, 2002

(4) 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 (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. Although management believes that our trademarks provide adequate protection for the proprietary aspects of our business operations, management cannot assure that such trademarks will: (i) be of substantial protection or commercial benefit to us, (ii) afford us adequate protection from competing products, or (iii) not be challenged or declared invalid.

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.

Most of our products and services are based on proprietary technology that is updated to meet customer needs and remain competitive. Protecting our rights to our proprietary technology and their two patents is important. Our base technology allows us to offer distinctive services and products to customers, which differentiates us from our competitors. The patent protection associated with our proprietary technology expires at different times over the next 12 years. Although management believes that our patents provide adequate protection for the proprietary aspects of our technology, management cannot assure that such patents will: (i) be of substantial protection or commercial benefit to us, (ii) afford us adequate protection from competing products, or (iii) not be challenged or declared invalid.

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 have 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 adviser or otherwise engaged in providing investment advice or making investment recommendations.

Sales and Marketing

Our products and services are marketed via a number of distribution channels, including radio, television, print, postal mail 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 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 can 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

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) 724-6913.

Human Resources

At December 31, 2004, we had 374 employees. Of the 374 employees, 22 percent were employed in customer acquisition related positions, 55 percent were employed in customer fulfillment and retention related positions, 10 percent were employed in technology positions, and 13 percent were employed in administrative and marketing positions. We also had 12 persons under contract primarily in educational services.

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

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.

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 and 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. We believe, however, there are alternative sources for such technology. 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 its 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 increases more slowly than anticipated, we could 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.

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 other of our users information, which could adversely affect our reputation and financial results.

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 regulation, 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, they 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 accesses approximately 90% of our new students through co-branding (Business Week and CNBC) 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.

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*.**

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.

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 the Company does not believe it is probable that it will have to pay any significant amounts in the lawsuit filed against the Company by the Australian Securities and Investment Commission as described in Item 3, below, an adverse finding could subject the Company to undetermined penalties. Although we are currently not a party to 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.

Item 2. Properties

Our headquarters are currently located in Provo, Utah. In August 2004, we entered into a 63 month lease agreement for a facility in Salt Lake City, Utah that commences on May 1, 2005. We expect to move current operations from leased facilities in Provo, Utah to the Salt Lake City, Utah location in the first half of 2005. It is expected that the month-to-month lease for the Provo facility will be 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. During 2003 as part of the restatement, this shortage was recognized as a loss related to the lease agreement, and an appropriate long-term liability was recorded for the amount of the shortage. See Footnote 3 of the Consolidated Financial Statements for further explanation of this matter. Square footage and the monthly rent of this facility are not reflected in the figures shown in the table below.

In addition to the Provo and Salt Lake City, Utah locations, we have leased office space in New York, New York, Houston, Texas, and San Rafael, California.

In April 2004, we ceased operations of our wholly owned subsidiary Investor Education California, LLC.

The following table shows the amount of square footage of our leased facilities and monthly rent as of December 31, 2004:

City	**Square Feet Rented**		**Monthly Rent as of December 2004**
Provo	30,000	$	38,575
San Rafael	6,016		17,266
Houston	9,495		22,520
New York	235		4,846
	45,746	$	83,207

Item 3. Legal Proceedings

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 financial position or results of operations.

On July 9, 2004, the Australian Securities and Investment Commission (ASIC) filed a lawsuit against Online Investors Advantage, one of our wholly-owned subsidiaries (OIA) and Phillip Town, a workshop presenter on behalf of OIA (Town). The lawsuit, filed in the Supreme Court of Queensland, alleges that (i) OIA failed to provide a financial services guide or other information to attendees at seminars held in Brisbane and Melbourne in July 2004, as otherwise required under the Australian Corporations Act; (ii) failed to provide to the attendees of the Brisbane seminar a warning regarding the provision of general financial advice that was required to be given under the Corporations Act; (iii) engaged in misleading or deceptive conduct at the Brisbane and Melbourne seminars, regarding certain oral representations made by the presenter at the seminars (on behalf of OIA) and regarding certain written representations appearing in the registration form for workshops conducted on behalf of Online; and (iv) carried on a financial services business, as defined in the Corporations Act, without the required Australian license. ASIC sought a temporary injunction prohibiting OIA from holding any workshops while the lawsuit is pending. The court did not grant the injunction but did order OIA to place $0.4 million into escrow for all revenues received from its workshops while the lawsuit is pending. These amounts are included in current portion of restricted cash in the accompanying Consolidated Balance Sheets. ASIC sought to stop OIA from delivering the workshop and to refund to participants the fees paid for the workshop. In addition, if the court finds in favor of ASIC, we could be assessed penalties. A trial of the proceedings was heard on September 6-8, 2004, in the Supreme Court of Queensland. At trial, ASIC abandoned two of its allegations that OIA had engaged in misleading and deceptive conduct. At the conclusion of the trial the court reserved its decision. We anticipate the court s judgment at any time. We believe that we have good defenses to the alleged claims and intend to continue to vigorously defend against this lawsuit. At this time it is not possible to determine the amount of penalties that may be assessed, if any. Furthermore, we believe that it is not probable that we will have to pay any significant amounts as a result of this proceeding.

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 (ZiaSun). 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 December 2004, one of our vendors sued for collection of a disputed accounts receivable. We are in discussions with the vendor regarding a resolution of the claim. We believe that this will be resolved without a material adverse effect on us.

We are not aware of pending claims or assessments, other than as described above, which may have a material adverse effect on our 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

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
2004		
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
2003		
Quarter ended March 31	$ 0.39	$ 0.17
Quarter ended June 30	0.34	0.14
Quarter ended September 30	1.37	0.15
Quarter ended December 31	1.80	0.59

On March 15, 2005, the closing price of our common stock as reported by the American Stock Exchange was $4.91. As of March 15, 2005, we had 813 stockholders of record, and approximately 8,700 beneficial holders.

Dividend Policy

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.

In accordance with the agreement pursuant to which the stock was issued, on May 15, 2002, the 120,000 outstanding shares of our Series A Convertible Preferred Stock converted into 1,666,667 shares of our common stock. Accrued dividends of

$75,000 were converted into 41,667 shares of common stock.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2004 with respect to our equity compensation plans previously approved by stockholders and equity compensation plans not previously approved by stockholders.

	Equity Compensation Plans				
Plan Category	**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)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**	
Equity compensation plans approved by stockholders (1)	3,304,468	3,854,468	$ 1.63	3,135,375	3,685,375
Equity compensation plans not approved by stockholders					
Total	3,304,468	3,854,468	$ 1.63	3,135,375	3,685,375

(1) This amount includes an option granted by the Company to its Chief Executive Officer in 2002. The vesting of the options is contingent upon an event occurring in the future. 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

In October 2004, we repurchased 304,000 shares of our common stock for $0.7 million pursuant to a separation agreement and general release with Scott K. Waltz, our former Senior Vice President and Chief Marketing Officer.

Item 6. Selected Consolidated Financial Data

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 and has been restated to reflect adjustments discussed in Footnote 3, Restatement to the Consolidated Financial Statements.

Statement of Operations

	Years Ended December 31, 2004	2003 Restated	2002 Restated	2001 Restated	2000
Revenue	$ 97,169	$ 69,802	$ 53,923	$ 51,560	$ 54,667
Cost of revenue	64,225	41,172	25,411	22,794	21,157
Selling expense	23,973	20,427	19,023	18,429	16,962
General and administrative expense	18,837	12,783	14,154	8,458	7,784
Special charges	1,084	673		6,454	73,051
Net loss before income taxes and cumulative effect of accounting change	(11,719)	(5,771)	(5,401)	(9,151)	(67,446)
Net loss from continuing operations before cumulative effect of accounting change	(11,727)	(7,301)	(5,207)	(9,151)	(70,547)
Cumulative effect of accounting change			(28,417)		
Net loss available to common stockholders	$ (11,727)	$ (7,301)	$ (33,669)	$ (9,044)	$ (77,226)
Net loss per common share - diluted					
Net loss from continuing operations before cumulative effect of accounting change	$ (0.26)	$ (0.17)	$ (0.12)	$ (0.28)	$ (2.37)
Net loss from discontinued operations	$	$	$	$ 0.01	$ (0.23)
Cumulative effect of accounting change, net of tax	$	$	$ (0.68)	$	$
Net loss available to common stockholders	$ (0.26)	$ (0.17)	$ (0.80)	$ (0.27)	$ (2.60)
Diluted weighted average shares outstanding	45,045	43,692	41,983	32,684	29,744

Balance Sheet Data

	As of December 31, 2004	2003 Restated	2002 Restated	2001 Restated	2000
Cash and cash equivalents	$ 10,736	$ 4,458	$ 5,160	$ 5,930	$ 3,524
Marketable securities	13,840	7,808			
Working capital deficit	(18,858)	(9,723)	(5,501)	(3,316)	(542)
Total assets	49,778	26,551	25,305	55,174	47,713
Total stockholders equity	(7,232)	3,184	10,284	43,213	42,099

The restatements of amounts previously presented in selected financial data are summarized as follows:

		As Restated		As Reported
		(in thousands, except per share amounts)		
2003:				
Revenue	$	69,802	$	73,420
Net income (loss) before income taxes		(5,771)		30
Net loss from operations before cumulative effect of accounting change		(7,301)		(1,500)
Net loss available to common stockholders	$	(7,301)	$	(1,500)
Net loss per common share - diluted				
Net loss from operation before cumulative effect of accounting change	$	(0.17)	$	(0.03)
Cumulative effect of accounting change, net of tax	$		$	
Net loss available to common stockholders	$	(0.17)	$	(0.03)
Working capital deficit	$	(9,723)	$	321
Total stockholders equity (deficit)		3,184		13,867

		As Restated		As Reported
		(in thousands, except per share amounts)		
2002:				
Revenue	$	53,923	$	56,142
Net loss before income taxes		(5,401)		(1,650)
Net loss from continuing operations before cumulative effect of accounting change		(5,207)		(1,456)
Net loss available to common stockholders	$	(33,669)	$	(29,918)
Net loss per common share - diluted				
Net loss from continuing operations before cumulative effect of accounting change	$	(0.12)	$	(0.03)
Cumulative effect of accounting change, net of tax	$	(0.68)	$	(0.68)
Net loss available to common stockholders	$	(0.80)	$	(0.71)
Working capital deficit	$	(5,501)	$	(986)
Total stockholders equity (deficit)		10,284		15,166

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Our mission is to educate and empower individual investors to make their own financial decisions to achieve their unfulfilled financial goals by using the INVESTools Method ™, an integration of Web-based tools, instruction and support. We do not promote individual stocks, bonds, derivatives or any other types of investments, but rather teach investors how to perform research and analyze investments. Such investor education is delivered through instructor-led workshops, home study products, and one-to-one coaching, and includes an Online Investor Toolbox ™ website subscription. We market our workshop products through radio/television and print media as well as direct mailings and email, or in conjunction with events or conferences conducted by our co-marketing partners.

At workshop events and subsequent to workshop events attendees have the opportunity to purchase additional products. This has become a significant revenue channel and source of increased lifetime value of each student. Leads generated in the marketing process are additionally pursued through telemarketing efforts selling the entire range of products.

Restatement

During 2004, we restated our Consolidated Financial Statements as of December 31, 2003 and for each of the years in the two year period ended December 31, 2003, as discussed in detail in Footnote 3 to our Consolidated Financial Statements. Certain adjustments impacting our Consolidated Financial Statements for 2001 were also identified, and we have recorded the cumulative effect of adjustments for 2001 of $1.1 million to the opening accumulated deficit for 2002. The $1.1 million adjustment to opening accumulated deficit resulted from errors related to the timing of revenue recognition as described in the paragraphs below.

We previously issued consolidated balance sheets, consolidated statements of operations, comprehensive loss, stockholders (deficit)/equity and cash flows for the years ended December 31, 2003 and December 31, 2002, and the three fiscal quarters of 2004. Based on errors discovered, these consolidated financial statement have been restated.

The aggregate effect of the restatement increased previously reported net loss available to common shareholders for the years ended December 31, 2003 and December 31, 2002 by $5.8 million and $3.8 million, respectively. The aggregate effect of the restatement increased previously reported basic and diluted loss per share for the years ended December 31, 2003 and December 31, 2002 by $0.14 and $0.09, respectively.

Errors in previously issued financial statements were identified in the following three areas:

Timing of Revenue Recognition

We recognized a full month of subscription revenue in the month of sale, which, on an overall basis, caused improper acceleration of revenue in the month of sale;

Website subscribers had been allowed to defer the commencement of their subscription period while subscription revenue had been accounted for commencing in the month of sale;

Certain subscription renewals by students that still had remaining Web time were recognized ahead of the renewal period start date;

We recognized one-on-one coaching sessions over an estimated time period of performance which was significantly different from when the coaching sessions were actually conducted. Accordingly revenue was inappropriately accelerated;

A sales return reserve was established for anticipated product returns, based on historical return percentages. Historically, we failed to establish a reserve for sales returns.

Recording of a Liability for Sales Tax Exposure

We recorded liabilities for potential sales tax related to sales in various states. The effect of recording the potential sales tax liability on our previously reported financial statements is to record an accrued liability for the potential sales tax exposure with a corresponding increase to selling expense.

Loss on Sublease

During 2003, we moved our operations into a larger facility. We had subleased the abandoned facility to a third party for the duration of our contractual lease period. The sublease payments for the abandoned facility were less than our contractually obligated lease payments. As a result, we recorded the obligation in excess of the sublease amount at the time the facility was abandoned. The effect of recording the excess lease obligation on our previously reported financial statements is to record an accrued liability of the excess lease obligation with a corresponding increase to general administrative expense.

The following discussion in this Management s Discussion and Analysis of Financial Condition and Results of Operations reflects the effects of the Restatements.

Concentration Risk

We currently access approximately 90% of our new students through our co-branding (BusinessWeek and CNBC) and co-marketing (Success Magazine and Money in Training) relationships. The loss of one of these partners could have a material adverse effect on our financial performance in the short-term. Our long-term agreement with CNBC has expired, and we are currently operating under a month-to-month agreement with CNBC while we negotiate a new arrangement. While we hope to conclude negotiations with CNBC shortly, recent management changes at CNBC makes us less optimistic about our ability to mutually agree to a renewal of this relationship on economic terms similar to those we have previously enjoyed. However, we are constantly pursuing new student acquisition partnerships and we believe business from new and existing partnerships would replace such lost volumes if they were to occur. There can be no assurance that we will be successful in establishing new partnerships.

Acquisition of 360 Group

In February 2004, we acquired 360 Group. 360 Group, was a direct marketing company that provided services such as custom database development and management, strategic planning, media and list planning and buying, creative and production services, response management, and analytic services. We acquired 360 Group to internalize our marketing department and we do not intend to continue to provide services to third parties. At closing the sellers received 830,000 shares of our common stock valued at $1,875,000 and $875,000 in cash. In addition, we incurred $669,000 of cost related to the acquisition, of which $226,000 was paid with 100,000 shares of our common stock. During the three months ended June 30, 2004, the sellers received an additional cash payment of $213,000 based on a net working capital provision provided for in the merger agreement recorded as additional purchase price resulting in an increase in goodwill. In October 2004, the sellers received an additional cash payment of $438,000 and 415,000 shares of common stock valued at $842,000 based on 360 Group achieving revenue targets during the three months ended September 30, 2004 which was recorded as additional purchase price. In addition to the merger consideration discussed above, we will be obligated to pay up to an aggregate of 415,000 shares of our common stock and approximately $438,000 in cash as additional merger consideration in the form of earn out payments if certain future revenue targets are achieved in 2005. In connection with the merger, Scott K. Waltz, the former Vice President, Client Services of 360 Group, was named our Senior Vice President, Chief Marketing Officer, and Don Klabunde, the former Chief Technology Officer of 360 Group, was named our Vice President, Chief Information Officer.

Effective October 19, 2004, we entered into a separation agreement and general release effective as of October 13, 2004, with Scott K. Waltz, our former Senior Vice President and Chief Marketing Officer. The separation agreement requires us to pay Mr. Waltz $0.2 million in severance and related benefits. Additionally, pursuant to the agreement, we repurchased 304,000 shares of our common stock earned as part of the 2004 earnout for $0.7 million as discussed in the previous paragraph.

We believe that the strategic acquisition of 360 Group has been instrumental in increasing total student acquisition and return on marketing. 360 Group has been managing all student acquisition efforts as well as building, and coordinating our marketing database initiatives to improve student retention and cross-selling efforts.

Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon the Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities.

We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Income Taxes

The provision for income taxes is calculated using the asset and liability method. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We provide valuation allowances against the deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on all available information, we do not believe it is more likely than not that our deferred tax assets will be utilized. In determining the adequacy of the valuation allowance, which totaled $11.4 million as of December 31, 2004, we assess our profitability by taking into account the present and anticipated amounts of domestic and international earnings, as well as the anticipated taxable income as a result of the reversal of future taxable temporary differences. For financial reporting purposes, we generally provide taxes at the rate applicable for the appropriate tax jurisdiction.

Valuation of Long-Lived Assets, Including Goodwill

We review annually, or more often if events or circumstances indicate a potential impairment exists, goodwill for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. We have completed our annual impairment review during the fourth quarter of 2004. We did not identify any impairment to our goodwill as a result of this review. We review long-lived assets, including certain identifiable intangibles, for impairment whenever events or changes in circumstances indicate that we will not be able to recover the asset s carrying amount in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

For long-lived assets held and used, including acquired intangibles, we initiate our review whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Recoverability of an asset is measured by comparing its carrying amount to the expected undiscounted cash flows expected to result from the use and eventual disposition of that asset, excluding future interest costs that would be recognized as an expense when incurred. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in:

- identifying a triggering event that arises from a change in circumstances;
- forecasting future operating results; and
- estimating the proceeds from the disposition of long-lived or intangible assets.

Material impairment charges could be necessary should different conditions prevail or different judgments be made.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104), and Financial Accounting Standards Board (FASB) Emerging Issues Task Force No. 00-21 *Accounting for Revenue Arrangements with Multiple Deliverables* (EITF 00-21). Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the buyer is fixed or determinable, and (iv) collectibility is reasonably assured.

We sell our products in various bundles that contain multiple deliverables that include personal training sessions, website subscriptions, educational workshops along with other products and services. In accordance EITF 00-21, sales arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (i) the product has value to the customer on a standalone basis; (ii) there is objective and reliable evidence of the fair value of undelivered items; and (iii) delivery or performance of any undelivered item is probable and substantially in our control. The fair value of each separate element is generally determined by prices charged when each product is sold separately. In certain arrangements, we offer these products bundled together at a discount. The discount is allocated pro rata to each element of revenue based on the relative fair value of each element when fair value support exists for each element in the arrangement. If fair value of all undelivered elements in an arrangement exists but the fair value does not exist for a delivered element, then revenue is recognized using the residual method. Under the residual method, the fair value of undelivered elements is deferred and the remaining portion of the arrangement fee (after allocation of 100% of any discount to the delivered item) is recognized as revenue. We provide some very limited rights of return in connection with our arrangements. We estimate our returns based on historical experience and maintain an allowance for estimated returns, which as been reflected as an accrued liability. Each transaction is separated into its specific element and revenue from each element is recognized according to the following policies:

Product	**Recognition policy**
Workshop	Deferred and recognized as the workshop is provided
Home study	Recognized upon shipping to customer
One on one coaching sessions	Deferred and recognized as sessions are performed
Website subscription renewals	Deferred and recognized on a straight-line basis over the subscription period

Deferred revenue arises from subscriptions to the websites, workshops and personal training sessions because the payments are received before the delivery of the service has been rendered. Deferred revenue is recognized into revenue over the period that the services are performed or the contract period expires. We also sell certificates to attend workshops in the future. Revenue from these sales is deferred until the certificate is used or expires.

Revenue

For the year ended December 31,			2004 vs. Restated 2003		Restated 2003 vs. Restated 2002
2004	2003	2002	Change	%	Change