COMPANY INTERVIEW

INVESTools Inc. (INVS)

LEE K. BARBA was appointed Chief Executive Officer and Director of INVESTools Inc. in December 2001 and Chairman in June 2002, after having served as Chief Executive Officer of Telescan, Inc., a leading investor analytics and software company. Prior to joining Telescan in February 2000, he was the Chief Executive Officer of Open Link Financial, a risk management software company. Mr. Barba joined Open Link after serving as President of Coral Energy, a Shell Oil joint venture. Mr. Barba joined Coral Energy after 22 years on Wall Street where he was responsible for managing global trading businesses for Bankers Trust Company. While based in London, he was responsible for managing Bankers Trust's European offices as well as the Global Risk Management Advisory practice, which had offices in Asia and Latin America. Upon returning to New York in 1994, Mr. Barba was the senior executive of Bankers Trust responsible for managing the consolidation of the firm's technology and operations functions for the global capital markets businesses, which included over 2,100 in staff operating throughout Asia, Europe and North America. Earlier in his career, Mr. Barba served as a co-head of the Fixed Income Division at PaineWebber and as a Vice President of Lehman Brothers Kuhn Loeb. He earned his MBA from Columbia University and his BA from the University of North Carolina.

SECTOR – EDUCATION & TRAINING SERVICES (TAL616) TWST: What is INVESTools?

Mr. Barba: INVESTools is the global leader in investor education fulfilling lifelong learning and support to self-directed investors. We've graduated more than 80,000 people around the world from our live and distance learning courses in the six and a half year history of the company.

TWST: Why or where does the discrepancy sometimes occur when people look at your company and are you considered a player within the education environment?

Mr. Barba: We're an outgrowth of what has typically been categorized as a seminar business for people interested in becoming better investors. What differentiates INVESTools from the rest of the pack is the quality of our products, our fulfillment and our branded partnerships — which has led to a current annual revenue run rate exceeding $60 million or several times greater than that of our next largest competitor.

What we have done with our growth strategy is to establish partnerships with some of the most trusted names in financial news and education, including *BusinessWeek*, the leading financial media brand in print, and CNBC, the largest cable business news channel. Products under these brands, which are marketed as BusinessWeek Investor Education and CNBC University, incorporate our comprehensive five-step investing process and include continuous access to our proprietary, advertisement-free Website, which can only be accessed upon graduation from one of our investing programs. Our partnerships with *BusinessWeek* and CNBC are fairly new and we are extending into the market more aggressively through additional branded partnerships, which we will announce later this year.

We have also introduced new products that provide distance learning to our customers. This combination of live training and online follow-up and support is what we refer to as our Personal Training System (PTS) or our "coaching" line of products. The quality of our products is unmatched in the marketplace today and I believe the majority of investors have yet to discover INVESTools.

TWST: What is the differentiator as far as what is available, what you see as competition and what INVESTools actually provides?

Mr. Barba: The key differentiation is that INVESTools is in the business of investor education for investors at all points of the learning continuum — from seasoned investors to those just starting out. We are not transactors or brokers. Many of INVESTools' instructors and other support staff have Series 7 and other licenses and finance degrees, but they are not financial advisors. In our opinion, education is the necessary first step for a self-directed investor. Education precedes transactions or purchasing a stock. That is our whole approach to the business. Just as you wouldn't turn your son or daughter loose to drive on the street without a learner's permit; just as you wouldn't apply for a corporate position without the proper degree; you shouldn't make an investment in the stock market — particularly in the bear market we've seen over the last several years – without the proper tools and education in how to research the fundamentals and technicals on each stock you are reviewing. Investors are increasingly learning that they need to be empowered with the proper tools before they make investment decisions. That is the primary difference between INVESTools and brokerage firms that make tools available but do not necessarily provide the education, training and support to constantly evaluate those decisions.

TWST: What historically has been the customer space for INVESTools and how will that customer space change?

Mr. Barba: It is a very dynamic space for several reasons. A typical customer tends to be a professional, somewhere in the 45 to 60 age group, with approximately $250,000 in investable assets and an average annual income of $75,000 to $100,000, with *BusinessWeek* and CNBC customers at the higher end of this demographic range for income.

Increasingly, we are seeing younger professionals who are in the early stages of acquiring wealth and who are looking to develop a foundation for their investment strategy. We've just signed an agreement with a partner which has been designated by *Barron's* as one of the leading online investor education sites and is therefore a natural partner for us. They focus more on fundamental analysis as opposed to technical analysis or even option investments. This is opening a new demographic for us. We are actively marketing to this segment and working to ensure that our market leading tools can be adapted to multiple branded partners and demographic groups in line with our philosophy that all investors should be educated prior to transacting.

TWST: Is all the technology in place? Have all the internal investments been done?

Mr. Barba: Every year, INVESTools goes through what we call a relaunch or upgrade of the core InvestorToolbox Website with each of our partners. During this process, we integrate new data and update tools and analytics within our core ProSearch™ financial screening technology. This past year we added real-time quotes and improved industry group analytics.

In the 2004 relaunch we plan to incorporate more sophisticated "paper trading" functionality to assist our graduates in setting up purchases and sales in an effort to test their investment decisions before they make transactions. This will enable us to do "dry runs" with our customers using our coaching programs to make sure investors are following the five step investing process before executing a live transaction. We will be upgrading all of our options data and options functionality, including options search capabilities. It is a constant process of upgrading our tools, but typically major relaunches are done in January and February, brand by brand, to ensure technical continuity and to make sure that the InvestorToolbox site is the best investor education site available in the market.

"INVESTools' exclusive license agreements with BusinessWeek and CNBC cannot be replicated by competitors and represent substantial future growth potential for the company."

TWST: You've talked about increasing your distribution channels and the number of products. Is there any record or are there expectations that this actually increases the variety or the diversity of the revenue streams and the customer traction that you do have?

Mr. Barba: We use a benchmark called the lifetime value of the customer. Focusing on the lifetime value of the customer is one of our strategic goals. We have segmented our relationship with our customers into a front-end (sales), a middle-end (fulfillment), and a back-end (distance learning) process of "touching" the customer during the course of their relationship with INVESTools. We have gone from two to three "touches" with our customers annually to as many as 10 to 15 touches in 2003. Communication points include support, customer service, InvestorToolbox renewals, and various product related communications. Our customer database, which is a valuable corporate asset, contains approximately 650,000 names and we are demonstrating through our back-end sales and lifetime value strategy that we can not only retain these customers, but also fulfill their needs for additional or lifelong learning.

"Our current customer retention rates, depending on individual brands, average 65% of all graduates — the highest in the industry — and we have about 20,000 graduates a year from our live and distance learning programs. Subscription renewals, at approximately $300 for six months, are becoming a $10 million annuity revenue stream for INVESTools."

With regard to product diversification and additional revenue streams, INVESTools will begin marketing a series of four new two-day workshops called Investing for a Living later this year. Each of the new workshop products will be priced at approximately $3,000, which is similar in price to our core two-day investing workshop. Through branded distribution partnerships and a more diversified product mix, we have increased the average lifetime value of the customer to approximately $4,000 in 2003, and anticipate that figure to grow to as high as $7,500 in the next two to three years.

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TWST: Do these new distribution channels substantially impact your cost of acquisition for those individuals or is that a meaningful metric as you look at what you are doing?

Mr. Barba: Customer acquisition costs are extremely important in terms of how we operate INVESTools and in how we think of bringing value to our shareholders. For example, *BusinessWeek* and CNBC have a higher cost of customer acquisition because of marketing that relies more heavily on newspaper, radio and television. This compares with several of our new partnerships, which are promoted exclusively through database or back-end marketing, which relies primarily on e-mail and direct mail. We plan to capitalize on database marketing as we expand our partnerships to achieve both demographic and product diversification. Although this strategy generates lower response rates, its lower cost yields higher margins on each customer acquired.

TWST: Walk us through the top-level management team, the changes you have undergone recently and how they relate to the strategy and the resources that you have.

Mr. Barba: Our management team has evolved since working with an outside management consultant to identify our strengths and weaknesses following our merger. We have since reorganized the company to retain the positive aspects of its entrepreneurial culture while becoming more disciplined in response to a business model that relies on partner relationships and a lifetime value product strategy requiring streamlined processes and internal controls. We are not downplaying creativity, but flawless execution of our new product and customer satisfaction initiatives is our primary focus.

We are committed to moving forward with these new initiatives only after retaining either the outside expertise through our vendor relationships or by acquiring the skill set within our senior management team. For example, following the recruitment of a senior industry leader in the field of coaching, our PTS product line has grown into a sizeable revenue stream for the company. Similarly, we have retained multiple marketing companies and outsourced product distribution in an effort to achieve "best practices" in all of our customer fulfillment activities.

TWST: Financially, give us a summary of the strengths that you have looking at the balance sheet. Are you targeting for improvement?

Mr. Barba: Investors who are willing to take a fresh look, or perhaps even a first look, at INVESTools will see some startling numbers. As I mentioned earlier, through the first six months of the year we had an annual revenue run rate exceeding $60 million and we anticipate a very strong fourth quarter, which is typically our best quarter of the year. Cash grew from $5.2 million at December 31, 2002, to $8.3 million, including investments in treasury securities, at June 30, 2003, and we have no debt. So we have a much stronger balance sheet.

On the revenue side, recurring revenue, which is largely derived from subscription renewals, grew from $2.5 million in 2002 to a current annual run rate of $10 million. Revenue from our coaching or PTS product, which was introduced in the third quarter of last year, contributed $5 million in revenue this year to date and we anticipate this growth to continue.

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With increased cash and a $60 million annual revenue run rate, INVESTools, with a market cap of $8 million, is undervalued in today's market. As further evidence of our continued growth and the success of the strategies we have put in place, we had one of our best months in the history of the company in June and are looking forward to some good results, positive cash flow and a positive bottom line for the rest of the year.

TWST: Looking at the stock price, about a year ago it was $0.51. The recent price is in the mid-twenty cent range. When you look at the peaks and valleys over the past year, what part do you feel are the internal and external impacts?

Mr. Barba: As a Bulletin Board company we fall beneath the radar of most analysts and the stock is therefore a bit more volatile, sometimes trading 5%-10% in price on very low volume. As a result of our merger between Telescan, Inc., and ZiaSun Technologies, Inc., in December 2001, we have had an evolution in our management team and shareholder base that, in many cases, resulted in a disposition of their shares, creating downward pressure on the stock price. This is turning around as several key members of management and the Board, including myself as CEO, have recently purchased INVESTools stock when permitted to do so within SEC regulated insider-trading windows.

"This fall we plan to introduce a $99 get-started kit in conjunction with one of our partners. This will open up a tremendous area of growth as we develop products that can be marketed nationally and that apply to all investors instead of the more experienced demographic we currently educate."

Since our primary focus has been on growing INVESTools revenue, profits and customer base, we have not aggressively gone to the market with our story. We now believe we are at a point where a more aggressive investor relations program is appropriate.

TWST: What role does the investor relations program play at this point? What are its goals as you look out over the next 12-24 months?

Mr. Barba: As I just stated, going forward we plan to be more aggressive in telling our story. Frankly, we did not want to promote INVESTools until the foundation for stock price appreciation based on strong growth fundamentals and a solid management team was in place. An improved balance sheet, increased cash, a growing top line, the highest renewal rates in the industry and quality products and partnerships give us an incredibly strong platform from which to promote INVESTools as an investment.

TWST: What would be the three or four summary statements that would compel an investor to include INVESTools within their current portfolio and then within their long-term investment strategy?

Mr. Barba: Internally, the driving force behind our strategy has been the identification of our most important goals: i) expand distribution and product diversification — we've done this quarter by quarter in very dramatic ways; ii) increase customer satisfaction — our retention rates are the highest in the industry; and iii) grow the lifetime value of the customer — which, in less than a year, has grown from $3,000 to $4,000 per customer acquired. Investors can easily track our progress against these benchmarks.

Externally, the way we've diversified our products through partnerships gives us a lot of latitude to attract varying demographic groups in the marketplace and at different pricing points. This fall we plan to introduce a $99 get-started kit in conjunction with one of our partners. This will open up a tremendous area of growth as we develop products that can be marketed nationally and that apply to all investors instead of the more experienced demographic we currently educate. There are well over 50 million investors in America and we believe that they should be properly educated and have the tools at their fingertips before making their investment decisions, particularly in a post-Enron environment. INVESTools is the premier provider of these products and services and we will benefit from investors' desire to be empowered to make better investment decisions.

Investors who looked at INVESTools in December 2001, when we completed the merger, compared to June 2003, will see that we have undergone substantial changes. We have evolved into a more mature company with the internal technology platforms, organizational structure and operating processes and internal controls that create a foundation for sustained growth.

From an investor's standpoint, I would conclude with three thoughts in recommending INVESTools' stock: i) INVESTools is the leader in the rapidly growing market for investor education with products relevant and suitable to anyone who owns shares in a public company; ii) INVESTools' exclusive license agreements with *BusinessWeek* and CNBC cannot be replicated by competitors and represent substantial future growth potential for the company; and iii) INVESTools' customer satisfaction and retention rates demonstrate a strong foundation for our product diversification and lifetime value of the customer strategies. Understanding these three points, along with our daily improvement in each of these areas, demonstrates why INVESTools represents an excellent stock for long-term appreciation.

TWST: Thank you. (DWA)

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