

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

INVESTools Inc. (IED)



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 1995, 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 more than 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.

(SAZ234) TWST: Would you begin with a brief historical sketch of INVESTools and a picture of the things you're doing at the present time?

Mr. Barba: INVESTools is the result of a merger of two companies in December 2001 — Telescan, which was a NASDAQ-listed technology-oriented company, and ZiaSun Technologies, which was a Bulletin Board-listed company whose primary business was educating investors using Telescan's tools. At the present time INVESTools is the market leader in providing investor education primarily in the stock and currency markets, having graduated more than 134,000 students from our courses, which are priced anywhere

from \$495 for a basic one-day workshop or home study course to over \$21,000, which is for our Program of High Distinction (P.H.D.), which includes training in advanced options and technical analysis over a two year time frame.

TWST: What is the key to the company's success over the last few years?

Mr. Barba: Unquestionably the key to the company's success is the quality of our products and the quality of our employees, who are directly in front of our students in live workshops and on the phone providing distance learning coaching services to our students. It begins with our core product, which is called InvestorToolbox, a

private Website that is accessed with a password and user name once you've purchased one of our education products. The InvestorToolbox site is absolutely what is bringing the market leadership to our company and bringing our students back for continuing education products, including a series of additional advanced courses for continuing lifetime education, enabling them to become a more disciplined investor following a five step method of analyzing a stock.

TWST: What are the principal products?

Mr. Barba: The primary product is what we refer to as our basic workshop. This is a one- or two-day live event held in about 60 cities in the United States. Basic workshop content is also offered in a home study format. As part of attendance at the basic workshop or purchase of a basic home study course, the student is provided with manuals and DVDs, which can be reviewed at home, as well as access to the InvestorToolbox Website and your instructor through e-mail for the initial subscription period of six months. The instructors in the classrooms, who are all active, successful investors, take the student through our 5-Step Investing Formula, which is a foundational, disciplined investing process using sophisticated analytical tools and data provided through InvestorToolbox. The process starts with searching for a quality stock, proceeding through fundamental and technical analysis of the stock, portfolio analysis and finally industry group analysis because you want to make sure you're in an industry in which the money flows from institutional buyers are in a positive trend. We also recommend that our students use our paper trading tools to watch the stocks they have analyzed until they are confident in their use of the Website and their practice portfolios are consistently showing gains.

TWST: Overall would you say that the things you teach are basically closer to conventional or closer to moving away from the center?

Mr. Barba: We find that our students value participating in our market research, which is used in all of our product development efforts to make sure that the education we provide is helping our students to succeed. Every step of a student's interface with INVESTools is evaluated. We are constantly talking with our students and seeking their feedback in our workshops and following each student experience. Our students value the organized five-step investing process and the best analytical tools available on the Web through InvestorToolbox. We recently acquired a company by the name of Prophet Financial Systems, Inc. The charting and technical analysis tools on their Website , Prophet.Net, have been rated as number one

by *Barron's* since 2001 and a "*Forbes*' Favorite" since 1999, and has received other awards as well. So the quality of what we've aggregated on the Website , in addition to the live, distance and online training that we provide to our students, makes what we offer a highly valued package. It brings discipline to students so that they can be sure that before they invest they've done a thorough analysis on all aspects of that investment.

TWST: Are you able in some cases to track students' success as they begin to invest?

Mr. Barba: Our internal market research has told us that the most successful students who use our products are those who have spent the most time on the InvestorToolbox Website , taking the five-step process seriously and rigorously before making an investing decision. In the last market research that we conducted that reviewed this subject, we saw that our most active users are people who spend up to six hours a week on our Website , and many of them were receiving returns in excess of 35%, on a self-reported basis, on their portfolios.

TWST: What distinguishes you from your competitors?

Mr. Barba: The distinguishing characteristic is clearly the quality of our products. We've been in business developing the tools that our students use within InvestorToolbox since the early 1980s. Many of our competitors either don't own their intellectual property or have pieced together a set of tools from other companies in order to make their products work. Our tools were designed from the ground up beginning in 1983 with the intention of providing tools to the self-directed individual investor in order for them to make better investment decisions. The number of searches that can be conducted using our search engine on various pre-built searches has more than 600 variables. The search capabilities of many of our competitors average 20-30 variables.

Also, INVESTools' advanced courses take you beyond stocks and into options and advanced technical analysis. In our latest product, Active Investing Workshops, you go beyond technical analysis into learning how to trade live in the market in a classroom environment. All of these products are distinguished by the quality of the tools and support that's provided and the experience and success of our instructors and coaches. By scale we are significantly larger than anybody else in the stock investing business, and, as I said earlier, are now looking to enter the currency education markets based on market research that there are not currently high quality products in that market.

On the high end, brokerage firms could also be considered competitors. They have, in many cases, very good tools that are made available if a customer opens and maintains a brokerage account. However, they do not provide the education to unlock the value and usability of their tools for the average investor. They don't provide the live support in a workshop or through coaching that we have found that students value so highly — the support students need in order to succeed on their own. So, on the low end, our competitors don't have the quality products, and on the higher end, premium online brokers or full-service brokerage firms don't provide the support and education to unlock the value of the tools. It's the quality, consistency, and level of support we're providing to the students that distinguishes INVESTTools.

TWST: You mentioned starting to go into education in the currency markets. What else is on your agenda for the next few years?

Mr. Barba: We've indicated to investors, based on our dominance in the stock-investing field and our expectations in terms of our partnership with RefcoFX in developing what we believe is the market-leading currency offering, that we will be expanding at some point in the future into futures and commodities, as well as the fixed-income markets, to fill out the full range of products that investors can trade in liquid, public markets. Of course, in all of the markets we enter, we will provide a full range of entry level, intermediate and advanced courses so that our products suit the needs of all investor groups no matter what their experience level.

TWST: How closely related are your fortunes to those of the general economy? If the economy got a lot better or a lot worse, how would it affect you?

Mr. Barba: Our perspective has always been that, whether going up or down, the market is not the determinant for our students in deciding how or when to proceed with their investor education. There are 53 million households in America that invest in the stock market, yet very few of them have made the educational investment required in these sophisticated markets to understand and be able to determine a good stock from a bad one. We teach our students that knowing when not to buy a stock is as important as when you should buy a stock. This is as valuable to know in a bear market as in a bull market. We often suggest to our students that, although they've put their money in a mutual fund or in a managed account, they may not realize the amount that they're actually paying for their money to be managed, and many of the students have concluded that the results of

these investment strategies have not met their expectations. Therefore, those administrative fees would be better invested in their own education, which empowers them to make these decisions on their own as self-directed investors. At a minimum, each investor should be able to independently verify any leads that they receive, whether from their broker, a friend or through the financial press. Investor-Toolbox and our education is the best set of products and services to achieve this objective.

TWST: Could you tell us more about your fee structure?

Mr. Barba: Our baseline product pricing, as I said earlier, runs from \$495, which provides a one-day basic workshop or home study course through our *Success Magazine* partnership, to \$3,999 for our Money in Training (MIT) and *BusinessWeek* Investor Education two-day basic workshop or home study course. Peter Lowe is the manager of the *Success Magazine* relationship and he runs what we call arena events, in which speakers, such as former Mayor Rudolph Guliani and General Tommy Franks, as well as other well-known public speakers who are in the current news, appear on his stage. In this type of event, during the course of the day Peter offers a stock investing product, which is ours, branded *Success Magazine*. So the price suits that venue and that student demographic. The ticket sales to attend the event, often with 20,000 people in attendance at one time, are very low, and we've customized our product to suit his needs.

At the high end of our baseline product, with our MIT and *BusinessWeek* partners, the product pricing for the basic workshop or home study course is approximately \$3,999, and these products are more extensive in terms of what's available to those students on the InvestorToolbox Website . We are also testing our own branded workshops in the \$3,000 price range, which have been quite successful. The workshops through these partners are also two-day instead of one-day, and the price includes, in some cases, the first six sessions of our coaching product.

Beyond the basic workshop or home study course, all of our partnerships offer a full range of advanced courses, including our continuing education programs — our Associate Investor Program at \$2,999 to \$3,999, which begins a student's option investing education, all the way up to our Program of High Distinction (P.H.D.), which offers advanced option and technical analysis workshops, coaching and home study products, at \$19,499 to \$21,499.

TWST: Looking ahead, what about possible problems or challenges?

Mr. Barba: Our main challenge right now is rapid growth, which means continuing to attract what has made us great to date — great people to instruct, coach and support the success of our students. We don't want to have rapid growth at the expense of quality. Quality is a primary factor that distinguishes INVESTools from all of our competitors.

To date, we are putting in place best practices in terms of our recruiting processes and being the employer of choice to assure us the best staff in the field of investor education. To this end, we've announced that we're moving to a new building in the Salt Lake City area, which can accommodate up to 400 in staff, from our current location in Provo, Utah. This move is a substantial upgrade that will bring our employees into a high quality work place.

TWST: How do you bring your instructors together, while at the same time allowing them to retain their individuality?

Mr. Barba: Each of our instructors is unique, both in terms of their style of investing and in terms of their style of presentation. What our students value is this diversity, as many, particularly those who proceed with their continuing education, attend multiple events and learn from the differences between our instructors. Some instructors, like Stacy Acevedo, are successful using advanced charting and technical analysis to decide when to buy or sell a stock. Others, like Mark Larson, are successful options traders. The combination of their individual success stories, knowledge of InvestorToolbox and the 5-step INVESTools Method™ and their public speaking skills are highly valued by our equally diverse student base. Often instructors attend other instructors' presentations to learn from each other and it is not unusual for a successful student to become an employee of the company and, in several cases, successful instructors or coaches. To assure that the quality of instruction is maintained, we are constantly auditing our workshops and coaching sessions. In addition, students fill out an evaluation form following each of their experiences with our staff.

TWST: How long have you been CEO?

Mr. Barba: Including the time I spent as Chief Executive Officer of Telescan, one of the two companies that merged to form INVESTools, I just passed my fifth anniversary as Chief Executive Officer of the company.

TWST: What are the elements in your own background that led you to become CEO of Telescan and then of INVESTools?

Mr. Barba: My career spanned more than 22 years on Wall Street where I participated in municipal finance, corporate finance,

the fixed income markets and the derivatives markets on a global basis, having been based in London for a period when I managed all of a leading bank's foreign offices. During these assignments with Paine Webber, Lehman Brothers and Bankers Trust, I was involved in retail and institutional markets and witnessed tremendous growth in all of these markets from the mid-1970s through the bull markets of the 1990s. What attracted me to INVESTools was the opportunity to change the dynamic for the individual investor using the tools that the Web made available and bringing together the best analytical tools — of equal quality to those used by professional investors — for the individual. This is the most exciting experience of my career and has changed tens of thousands of investors' perspectives about being able to successfully invest and plan for their financial future with greater confidence through knowledge.

We believe that investing starts with education — that only after a student has the tools and the knowledge to understand the investment decisions they make should they participate in the markets. We believe that the set of products and services offered by INVESTools is everything an investor will need for continuing education over a lifetime of investing. With our recently announced acquisition of Prophet.Net and our partnership with OptionsXpress, our students are assured that they are getting the best services available on the Web, given their number one rankings by *Barron's* in their respective areas. Everyone at INVESTools is tremendously excited about redefining how individual investors think about approaching the markets by starting with well-grounded investor education and then continuing their education throughout their lifetime.

TWST: Do any students ever express the feeling of butterflies in their stomach as a problem? Is there anything you can do about that?

Mr. Barba: We are well aware, as I said earlier, that our high end students are on the InvestorToolbox Website six hours a week and are receiving above average returns when they make this commitment of time and discipline. These students use our education and tools with confidence, as they are experienced investors — not nervous investors. However, we likewise are increasingly aware that we're starting to attract a large number of first time or novice investors because of the size of our market and our diverse partnerships. Although we've historically described our course as being appropriate for someone with some investing experience, we've become much more sensitive to younger people who are purchasing our

basic workshop without any prior investing experience. Based on internal marketing, we've discovered that our average student demographic has declined from the mid-50-year-old range to below 50 years of age. Furthermore, from recent event attendance we've seen people in their 20s and 30s who have a hunger to learn how to invest, but did not know how to find a disciplined process and a set of tools such as InvestorToolbox.

We're also looking at offering courses exclusively for women. There's a statistic that by the time a woman in America is 50 years old, there is a greater than 70% chance that she will be the "head of household" for financial purposes. Yet there is no training in high school, college or even in most graduate programs an investor can take in this country that specifically teaches you how to invest your money. Quite the opposite, you are taught to rely on others for the most important issue in your personal life — your financial security! INVESTTools is the answer to that gap in the average investor's need. Furthermore, what the President is talking about in terms of Social Security reform is further verification that, particularly with the younger demographic, investors in this country want to take more control of their investable assets, including their Social Security asset, and are looking for tools such as ours to help them do better in more structured programs. So, actually, rather than butterflies, our students approach our workshops and investor education products with the excitement and passion that comes from knowing that they are beginning to take control of their financial assets and future.

TWST: Could you fill us in on the backgrounds of a couple of your key colleagues?

Mr. Barba: We've been working very hard to build out a management team that can support the growth that we're currently experiencing. Ida Kane just joined INVESTTools as our Chief Financial Officer — she was previously with FranklinCovey in Salt Lake City as the Chief Financial Officer and Vice President of Operations. We're delighted to bring her on board. She's very energetic and has tremendous experience in the field of venture capital and in a workshop-oriented business, as FranklinCovey is in a business similar to ours in terms of fulfilling live training events. She's been on board for about a month now and has made a tremendously positive impact on the company. She is 35 years old and we value her energy and her independence in reviewing our operations.

At the same time she came on board, to meet growth demands, we had our former Chief Financial Officer, Paul Helbling, as-

sume the role of Chief Administrative Officer. More and more the complexity of our business is based on contract management with our vendors and with our partners, and Paul has taken over that position after more than five years with the company and we value his experience in helping us get our arms around our growing administrative needs, including human resources, which he has recently assumed responsibility for.

Of course, Tim Knight joined INVESTTools through our acquisition of Prophet.Net, of which Tim was the founder. Tim and his team have already had a major impact on our thinking in terms of the next generation of InvestorToolbox, which we refer to as the eToolbox. Tim will play a leading role in developing the future InvestorToolbox from the perspective of the student's user experience as well as from the online product definition perspective.

We have also recently promoted several officers internally, including Dale Ainge to Senior Vice President of Student Acquisition and Fulfillment, Nelson Gonzalez to Senior Vice President of Inside Sales and Student Retention and Dan Olson to Vice President of Marketing.

TWST: What would you expect INVESTTools to look like three years from now?

Mr. Barba: I'm frequently asked whether or not the company can continue to grow at anywhere near the rates that we've seen over the last two years. While I don't know if we can have quarter-on-quarter growth of 40%-50%, we believe we should continue to grow at approximately 20% at the top line and, more important from our perspective, to achieve improving net margins.

The complexity of INVESTTools from an investor's standpoint is that we have a substantial amount of deferred revenue, which is generated due to the sale of products that have up to two years or more of services associated with them. For example, our Program of High Distinction (P.H.D.), an approximate \$20,000 product, entitles the student to two years of attendance at any of our events. If they want to go back again and again to the basic workshop, they can, but they are also entitled to attend all of our advanced courses, including our live coaching, which is done in Park City, Utah. The fact that it's a two year set of educational services means that we can only recognize revenue as the service is provided, and therefore, we have generated quarter-on-quarter dramatic increased growth in deferred revenue, which is deducted from gross sales each quarter. As a result, we are reporting a GAAP loss on the net income line even though we are generating tremendous positive cash flow. That's why cash, in-

cluding marketable securities and restricted cash, has grown from \$12.7 million at the end of 2003 to more than \$26 million at the end of 2004, even though each quarter is showing a net loss. Obviously we're making money because we've generated a significant amount of cash, which is a true indicator of the performance of the company.

INVESTools should continue to grow not just through student acquisition, but through the continuing increase in the lifetime value of each student now that we have created a full suite of continuing education products to meet the needs of investors, whether they have never purchased a stock or whether they are active investors trading five to 10 times per month. We see INVESTools in three years as the continuing leader in all fields of investor education, expanding back into global markets we have not visited since 2001, and providing our products in live, distance learning and online formats that suit our students' needs in a lifetime, continuing education service model.

TWST: What do you feel about the price of your stock at present?

Mr. Barba: Obviously our stock has appreciated over 100% year on year. By anybody's standard that's a pretty good performance, but we think the stock's performance has been driven by the understanding of the free cash flow that the company is generating. The stock did particularly well when people saw that we used that cash to acquire a strategic asset in Prophet.Net, which we announced in January of this year. The stock has done extremely well since then, reinforcing the notion that we can continue to grow rapidly, that we're doing it with the best products on the market, and that we paid a fair price without diluting current shareholder value. We are an extremely shareholder-friendly company. We're now up to 40-50 institutional shareholders from none 15 months ago. I make myself available to them, as do Ida Kane and Paul Helbling, in order to assure them that we are taking every step possible to continue the growth and increase the net margins as we continue to grow rapidly in the future. We believe continued growth will result from the continuing introduction of our new products and now our extension into new markets, currency being the most recent example.

TWST: What would be the two or three best reasons for the long-term investor to take a very good look at INVESTools?

Mr. Barba: For one, it would appear that we are still undervalued based on various multiples applied to free cash flow generated and top-line revenue growth. So on standard metrics we are perceived as undervalued.

Two, we have the best product in the market and the most sophisticated student acquisition process in the industry. With more than 134,000 graduates, the number of students verifies the quality of the InvestorToolbox site and the way we're presenting our investor education to the public as highly sought after, even though it is by far the most expensive product in the market. It's the service and the product that keep bringing people back.

Three, the opportunity for us to expand beyond stocks and even beyond core market products to brokerage, which we've done through our OptionsXpress and RefcoFX relationships, are further signs that we can continue to grow. We've recently announced that our eToolbox initiative (an internal name for a project to change the nature of the Website we're training our students on) will be a public portal accessible by anybody on the Web, whereas today you can only access our Website if you've spent the money to take the course. We're very excited that we can become the Amazon or the eBay in the field of investor education. We're already the leader and we think we can scale the business substantially by offering some of our courses online 24/7 in multiple languages and multiple markets around the world. That's the next big challenge for the company.

TWST: Is there anything you'd like to add, particularly with regard to your long-term objectives?

Mr. Barba: What I've told shareholders about our long-term plans is, one, look quarter by quarter at what we've accomplished. A year ago we undertook a major market research project to understand our students. Out of that project came three enormously successful new products, our Associate Investor Program, our Master Investor Program, and our Program of High Distinction (P.H.D.). These advanced course programs have sold well beyond all of our internal expectations and are continuing to do so in 2005. So, if 2004, was about introducing new products, investors can look for that trend to continue and for us to enter new markets such as currency.

Investors can also see that we've acquired Prophet.Net, and we think that's a tremendous growth asset. We've entered into a partnership with OptionsXpress, the number one rated discount online broker by *Barron's* since 2003. We've entered into a partnership with RefcoFX in which we developed our currency course. These are three new partnerships that we have already announced. So when we say, "Next step, eToolbox," which allows us to scale infinitely and enter new markets on the Web very quickly, we believe we've built credibility with our investors in that what we say, we do, and the new

opportunity to take InvestorToolbox into this public portal model is a tremendous one.

Finally, we've told our investors that in our current workshop model, we have relied primarily on direct mail, e-mail, newspaper and radio for student acquisition. At the beginning of this year we launched our first direct response television (DRTV) infomercial using our own brand, and we told shareholders two weeks ago that the DRTV initiative was also exceeding our expectations. Every time we've introduced a new element to our business, we have met or exceeded our expectations. The eToolbox initiative also introduces reduced costs in our operations as we drive our students less to one-on-one touches and more to getting their support through live chat on our Website and getting their course materials online, which will have a dramatic positive impact on our cost structure.

We're working both sides of the P&L, the revenue side as well as the cost side, and driving very hard to improve our margins this year well beyond those of 2004, which were a dramatic improvement over 2003, and we think we can hit it.

TWST: Thank you.

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