

INVESTOOLS INC
Form 10-K
March 17, 2008

Use these links to rapidly review the document
[INVESTOOLS INC. FORM 10-K REPORT INDEX](#)
[PART IV](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

**For the fiscal year ended December 31, 2007
Commission File Number: 000-52012**

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.)

45 Rockefeller Plaza, Suite 2012, New York, New York
(Address of principal executive offices)

10111
(Zip Code)

Registrant's telephone number, including area code:
(801) 816-6918

Name of exchange on which registered: **The NASDAQ Stock Market LLC**
Securities registered pursuant to Section 12(b) of the Act: **Common Stock, \$.01 par value per share**
Securities registered pursuant to Section 12(g) of the Act: **NONE**
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

Edgar Filing: INVESTTOOLS INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2007 (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 NASDAQ Global Market for such date, was \$429.0 million. The number of shares of the Registrant's common stock outstanding on March 12, 2008 was 66,013,765.

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 6, 2008 is incorporated by reference in Part III of the Form 10-K.

INVESTTOOLS INC.
FORM 10-K REPORT INDEX

<u>FORWARD LOOKING STATEMENT</u>	3
---	---

PART I

ITEM 1.	<u>BUSINESS</u>	3
ITEM 1A.	<u>RISK FACTORS THAT MAY AFFECT FUTURE RESULTS</u>	12
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	26
ITEM 2.	<u>PROPERTIES</u>	26
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	26
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	27

PART II

ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER REPURCHASES OF EQUITY SECURITIES</u>	28
ITEM 6.	<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	31
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	31
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	48
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	49
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	49
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	49

PART III

PART IV

ITEM 15.	<u>EXHIBITS AND FINANCIAL STATEMENTS</u>	53
----------	--	----

Forward Looking Statement

Certain statements in this Annual Report on Form 10-K that are not purely historical information, including, without limitation, estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Examples of such forward-looking statements include, but are not limited to, the statements concerning trends in revenue, costs and expenses; our accounting estimates, assumptions and judgments; our business plans relating to each of our products and services; our ability to scale our operations in response to changing demands and expectations of our customers; the level of demand for our products and services; and the competitive nature of and anticipated growth in our markets. Such forward-looking statements may be identified by words such as "believe", "intend", "expect", "may", "could", "would", "will", "will be", "will continue", "should", "plan", "estimate", "project", "contemplate", "anticipate", or other words and terms of similar meaning. In addition, from time to time, we (or our representatives) may 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, webcasts, 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.

Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or trends to differ materially from those expressed in the forward-looking statements. Potential risks, among others, that could cause actual results to differ materially are discussed under "Item 1A Risk Factors." We assume no obligation to 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.

PART I

ITEM 1. BUSINESS

Overview

Investtools Inc. (referred to as "Investtools", the "Company", "we", "us", or "our") operates in two reportable segments: Investor Education and Brokerage Services. We entered the Brokerage Services segment on February 15, 2007, through a merger with thinkorswim Group, Inc. You will find information concerning the financial results and the total assets of each segment in Note 17 to the Consolidated Financial Statements. Information concerning the merger with thinkorswim Group, Inc. will be discussed further in this Annual Report on Form 10-K, which is incorporated herein by reference.

The Company offers market-leading investor education and brokerage and related financial products and services for self-directed investors. Our Investor Education segment offers a full range of investor education products and services that provide lifelong learning in a variety of interactive delivery formats. Our educational products and services cover a broad range of financial products, including equity securities, options, fixed income, index products, futures, other derivatives and foreign exchange. Our Investor Education segment's mission is to educate and empower individual investors to make their own financial decisions to achieve their financial goals at any time or place live or online. Our education products and services offer a unique integration of a disciplined investing process, web-based tools, personalized instruction and support. We have more than 337,000 graduates of our foundation courses and 102,800 active subscribers to our websites.

Edgar Filing: INVESTTOOLS INC - Form 10-K

On February 15, 2007, the Company merged with thinkorswim Group, Inc. ("thinkorswim"), a leading online brokerage firm and provider of related technology-based financial services to self-directed options traders and retail investors. thinkorswim offers customers a broad range of products including equity securities, index products, exchange traded options, futures, mutual funds, bonds and foreign exchange. Since it began its brokerage operations in 2001, thinkorswim has been creating innovative technology for its customers. thinkorswim provides sophisticated trading tools and analytics, including tools for devising and implementing complex, multi-leg options strategies as well as other investment strategies. thinkorswim also provides unique scalable software, desktop, mobile and wireless front-end trading platforms that allow its customers to trade electronically and to implement these complex strategies with single clicks. thinkorswim offers its customers an automated and user friendly account opening process and provides its customers access to its trade desk, which is staffed with experienced traders, who provide real-time customer support via email, chat and telephone. thinkorswim customers are able to monitor their positions, view their account balances, positions, profits and losses on a real time basis. The combination of thinkorswim's unique technology and its customer service has resulted in a high degree of customer loyalty. thinkorswim, Inc. is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is registered as an introducing broker with the Commodity Futures Trading Commission ("CFTC"). It is a member of and regulated by the Financial Industry Regulatory Authority ("FINRA") and the National Futures Association ("NFA"). All securities transactions are cleared on a fully disclosed basis pursuant to a clearing agreement with our primary clearing broker, Penson Financial Services.

In connection with the merger with thinkorswim, we acquired thinkorswim Advisors, Inc. ("Advisors"), a subsidiary of thinkorswim and an SEC registered investment advisor. Advisors provides investment management services based upon diversified portfolios, which include alternative investment styles. It also offers traditional and return enhanced investment strategies. Advisors' Red Option division provides a monthly subscription service that provides trade recommendations for a number of options trading strategies. Advisors has an educational division focused on options trading, called Option Planet.

The products and services offered by Investtools Inc. have received numerous accolades from third parties including thinkorswim's ranking by Barron's as its top rated software-based online broker and best for options traders in 2006 and 2007, and Prophet's top Barron's ranking for best technical analysis tools from 2002 to 2006.

Investtools is a Delaware corporation that was incorporated in 2001. Our corporate offices are located at 45 Rockefeller Plaza, Suite 2012, New York, New York 10111, and our telephone number is 801-816-6918. We also maintain significant operational offices in Draper, Utah and Chicago, Illinois.

We maintain an Internet website at www.investtools.com and www.thinkorswim.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4, 5 as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include our website addresses throughout this filing only as textual references. The information contained on our websites is not incorporated by reference into this Form 10-K.

2007 Significant Business Developments

Acquisition of thinkorswim Group, Inc.

On February 15, 2007, Atomic Acquisition Corp., a wholly-owned subsidiary of Investtools merged with and into thinkorswim Group, Inc., a Delaware corporation, and a leading online brokerage company specializing in options. thinkorswim shareholders received merger consideration of \$181.7 million in cash and 19.1 million shares of stock valued at \$8.75 per share. Also on February 15, 2007, we entered into a Credit Agreement with JPMorgan which provided us with a senior secured

term loan of \$125 million to fund a portion of the cash consideration and, separately, also provided us with a committed senior secured revolving credit facility of \$25 million. Immediately following the transaction, thinkorswim shareholders held approximately 30 percent of the ownership of Investtools, and two former thinkorswim shareholders became members of our expanded, eight-member Board of Directors. In connection with the merger with thinkorswim, certain employees and consultants of thinkorswim will now be eligible to participate in a retention bonus pool which equals, in the aggregate, \$20 million conditioned upon continued employment. The bonuses will be paid in equal annual installments over the three-year period following the closing of the merger. Such amounts are being expensed over the retention period of three years. The first payment was made in February 2008. In addition, we granted employees and consultants of thinkorswim options to purchase 2,255,563 shares of Common Stock under our 2001 Stock Option Plan, half with an exercise price equal to the fair market value of the underlying Common Stock at the time of grant, and half with an exercise price equal to 150% of such fair market value. Approximately 125,000 of these stock options were granted to consultants to thinkorswim. We have accounted for these in accordance with EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services".

Acquisition of Certain Exclusivity Rights and Expanded Relationship

On February 27, 2007, we entered into a long-term relationship and acquired certain exclusive rights and intellectual property of a group of active option traders, which was an existing customer of thinkorswim. Pursuant to a definitive agreement, Investtools issued 650,000 unregistered common shares, and subject to meeting certain thresholds over annual and cumulative three-year periods, will issue an additional 950,000 contingent shares of unregistered common shares to these traders. The value of the contingent shares were measured in accordance with EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services" based upon the value of the common shares at the time the contingent shares are earned. Under the agreement thinkorswim will indefinitely be the exclusive provider for brokerage services to this group of active option traders and their customers, subject to limited termination rights granted to each party.

Business Strategy

We offer retail investors a full range of financial services technology as a leading online broker for the educated investor. Our diverse portfolio of student and brokerage account acquisition channels seeks to initiate each customer relationship based on consistent use of our products and services to create maximum lifetime value per customer. We achieve this goal by offering our students and traders a full range of investor education and transaction services through a broad curriculum of courses in equity securities, options, forex, futures, index products, other derivatives and fixed income investment analysis integrated with award winning online brokerage services accessed through software, web-based and mobile applications.

Our business strategy is based on educating our students and accounts to understand, analyze and manage investment and portfolio risk with the objective of preserving capital. Customers are instructed in a seven step disciplined, risk-adjusted approach to the capital markets which includes creating a watch list of investments in our paperMoney application to practice trading strategies prior to entering the markets. Building our retail customer relationships on the foundation of investor education, we have created a high value, active account base for our brokerage services with a profitable customer acquisition model for students sourced through our investor education business unit. We believe that this business strategy is scalable and positions us for continued growth in customer acquisition, sales and profitability.

Edgar Filing: INVESTTOOLS INC - Form 10-K

Investor Education Business Strategy

We offer a comprehensive suite of investor education products and services for stock, option, foreign exchange, futures, mutual fund and fixed-income investors. Our products and services are primarily built around an investing method that is designed to teach both experienced and beginning investors how to approach the selection process for investment securities and actively manage their investment portfolios. Course offerings are generally combined with web-based tools, personalized instruction techniques and ongoing service and support and are offered in a variety of learning formats, which solidify the students' understanding of the investing process and help in their effort to take control of their financial future.

We seek to offer students a full range of investor education products that provide lifelong learning. Generally, students are introduced to our products and services through a free preview event, either live or online. Attendees of the preview event also have the opportunity to attend a more comprehensive instructor-led live workshop or an in-depth online home study program. Following completion of the initial workshop or home study program, graduates are offered continuing education and advanced courses to build on what they have learned. These continuing education bundles often contain personalized one-on-one coaching and one-to-many online coaching sessions, which are spread out over a period of time and include ongoing support through a live 800-number and a live-chat hotline for continuing education assistance.

Investor Education Segment Learning Formats / Course Offerings

The content and services available to students, i.e., length of workshop, types of coaching services, length of time over which services are performed, and access to certain Investtools Online features may vary. The different learning formats are as follows:

Preview Event A free event, either live or online, that introduces students to fundamental investing concepts and provides a broad overview of the financial markets. Students are offered an opportunity to purchase a more comprehensive, live workshop, and are offered access to a comprehensive online course featuring hours of multimedia content, quizzes, forums, and live, online-presentations.

Workshops Live, instructor-led investing workshops that cover topics ranging from fundamental investing principles to advanced investment and option strategies. The workshops provide training for using our proprietary Investtools Online website.

Home Study/Online Courses We also offer all of our courses in an online format. The home study programs provide training using our proprietary Investtools Online website. The Foundation course includes a six-month subscription to the Investtools Online website. Additional online courses on advanced topics are also available.

Coaching Services Coaching services, including interactive workshops, provide students with a personal learning experience, on-demand access to coaches via the telephone, live events or online. Offered in connection with our education curriculum, the coaching services allow students to learn at their own pace and apply what they are learning. The interactive coaching workshops (Interactive Stocks and Options, High Probability Trading) are taught by our most experienced coaches and are delivered online or live at either our Chicago or Utah facility. On-demand and one-to-many coaching services are subscription products offered in one to sixty-month time periods. One-to-many coaching services include weekly, topic-driven live webinar sessions (Trading Rooms), advanced strategy-based group discussions (Active Investor Talk), and market-based group instruction (Masters Talk®).

Ongoing Support and Tutorials (web subscriptions) As long as graduates maintain an active subscription to Investtools Online, they have access to student and technical support through a live-chat online support option and through an 800-number hotline. Alumni can access a series of inexpensive or free topical, recorded online tutorials. The click-on-demand tutorials are

Edgar Filing: INVESTTOOLS INC - Form 10-K

designed to walk graduates through the portion of the Investools Online website that relates to the subject being covered.

thinkorswim paperMoney ® This application became available to Investools' graduates after our merger announcement with thinkorswim in September 2006. It replicates the live online trading platform available to thinkorswim account holders. paperMoney provides the student with a "paper" \$100,000 portfolio they can use to learn how to execute trades online and test strategies. paperMoney includes additional charting and tools for analyzing options strategies. All students have access to weekly online tutorials on the paperMoney platform.

The different course offerings are as follows:

Investing Foundation Course The foundation course covers the 7-Step Investing Formula® and is designed to teach both experienced and beginning investors how to approach the market, streamline the stock selection process and actively manage their investment portfolios. The 7 steps are (1) Prepare to be an investor (2) Protect your investment capital (3) Start analyzing from the top down (4) Conduct a thorough fundamental analysis (5) Search for additional strong stocks (6) Conduct a thorough technical analysis (7) Manage your portfolio.

Additional courses include Basic Options, Advanced Technical Analysis, Advanced Options, Forex and Advanced Forex. The course content ranges from strategies to provide the online investor with a number of investment strategies to help create additional profits and cash flows, to instruction around advanced option and spot currency trading strategies.

Investools Online Our proprietary Investools Online website houses our education curriculum, Investor Toolbox® tools and online community. Investools Online is the source of all educational content and analytical tools that enable students to study, review and analyze the seven steps of the Foundation Course as well as advanced investment strategies and provide students the investment tools needed to execute the strategies taught in our investor education programs. The website has proprietary features that are not accessible on other financial websites, including more than 200 pre-built stock searches and 9 customizable search engines, comparative analyst reports, over 130 market indicators, intra-day market commentary, portfolio tracking features, industry leading advanced charting tools, audio and video commentary broadcasts and account management features.

Continuing Education Programs

Designed for the advanced student, our continuing education programs offer students comprehensive access to a multitude of products and services at a bundled price. Typically included in the continuing education bundles are additional curriculum, online courses, live workshops, coaching services and extended access to Investools Online.

Pre-bundled continuing education programs offered in our workshop events include: Trading Rooms, Associate Investor Program, Master Investor Program and Program of High Distinction. In addition, the Company offers additional continuing education including: Active Investing Workshops, Interactive Stock and Options, High Probability Trading, and Capital Markets. Programs range from six months to 24 months and are priced between approximately \$800 and \$25,000. Students also have the option of purchasing products and services a la carte or bundled from our telesales organizations.

Brokerage Services Business Strategy

We have created a suite of award-winning trading products that harness the latest technology to allow our customers to securely trade stocks, options, bonds, mutual funds, futures and forex with easy-to-use interfaces. Our brokerage products are targeted to both novice investors and active traders, both large and small. We believe that the level of our customer support, educational materials, professional-level trade analysis tools and order execution capabilities differentiate us from our competitors, and give us a customer retention rate significantly higher than industry averages. We are

committed to building better products for our customers through tighter integration of content and technology.

Brokerage Services Platform / Products

The different brokerage platforms are as follows:

thinkDesktop Our flagship trading platform is a technology leader in the online brokerage industry. Real-time streaming quotes, single-click order execution, live position updates and risk metrics, live account balances and margin requirements, profit/loss figures, charts, live CNBC Plus streaming video and a broad range of advanced trading tools are designed to assist the educated investor be an effective trader.

Web-based trading Our comprehensive browser-based trading platform allows customers to access our powerful trade execution, position monitoring and account management functionality from almost any computer. thinkorswim's web-based trading is fully synchronized with thinkDesktop, has real-time streaming data and information, and eliminates page refreshes to make it one of the fastest of the browser-based platforms.

thinkMicro Our application for non-stylus mobile devices offers customers stock, option and futures trading functionality with real-time streaming quotes, charts and account management features.

thinkMobile Our platform for Wireless Application Protocol (WAP) enabled devices and cell phones with Internet access and mini-browsers provides trade execution, account and position information, and real-time quotes to customers with easy-to-use navigation.

thinkAnywhere Our wireless trading application gives customers full trading and position monitoring functionality on pocket PC devices. It has a fully configurable layout, real-time streaming stock, option and futures quotes, and single-click order entry.

thinkPod Our portable, light-weight applet for trade execution, position management, charts and real-time streaming quotes allows customers to access thinkorswim technology directly from any website, and soon via the iPhone, through a streamlined interface.

thinkPipes Our professional trade execution, order management and direct market access (DMA) platform is designed for institutional money managers, hedge funds, market makers, regional and tier 1 broker/dealers and equity specialists with automated trade routing and execution functionality, an open API and customizable analytics.

We schedule approximately 12 releases each year with multiple new features and enhancements. Recent developments include:

Portfolio Margining We introduced portfolio margining to give qualified accounts the benefits of more efficient use of trading capital as defined by new regulations that allow margin to be determined by the risk of a portfolio.

Forex Trading thinkorswimFX is our new forex interface which allows customers to trade 123 different spot currency pairs.

paperMoney Traders who want to practice executing orders and managing positions can do so on paperMoney, which is a virtual trading application that replicates the thinkorswim desktop platform. Users are provided a "paper" portfolio they can use to learn how to execute trades and test strategies. paperMoney is free and accessible simply by registering for a username and password.

Edgar Filing: INVESTTOOLS INC - Form 10-K

thinkScript We created a proprietary programming language that lets technologically advanced customers code their own technical studies and trade indicators on our charting package.

Edgar Filing: INVESTTOOLS INC - Form 10-K

thinkBack thinkBack is our option strategy back testing feature. Powered by five years of historical option data, thinkBack gives customers the ability to track simple and complex simulated option trades over time with real option prices.

thinkMoney Our quarterly magazine delivers articles on topics for beginners to advanced traders and showcases new products, market commentary, trading tips and platform "How-To's".

Advanced Order Execution We redesigned our order routing architecture to give customers greater control and flexibility when routing orders. With the ability to control the sequence of executions, order trigger prices, and the time of executions and cancels, customers can implement their trading strategies without being tied to a computer.

Marketing

We engage in a broad range of activities that include:

Direct Response Television We run various long form and short form direct response television advertisements on network cable and local and national television for the Investor Education segment.

Internet Marketing We advertise extensively on the Internet using search placement, banners and advertisements on targeted sites, such as financial portals for education and brokerage prospects. We also benefit from an increasing number of non-paid Internet referrals, including leads directed to our domain names as a result of Web searches using Internet search engines.

Direct Mail Direct mail is effective at reaching individuals that express an interest in investor education and self-improvement. We can also reach specific metro areas for local marketing efforts in connection with our live preview events.

Print and Broadcast We rely on print and broadcast advertising to target new education prospects and to assist with building brand recognition.

Re-Marketing Re-marketing efforts include direct mail, telephone and e-mail sent to existing students in our education database. Re-marketing is an important part of our marketing campaign given our growing database of qualified prospects.

Referrals Referrals continue to be an important source of new students and brokerage customers.

We track leads for every direct mail campaign and direct response television campaign by allowing potential students the opportunity to respond using the following methods:

Calling us at a specific toll-free number or

Directing the potential student to one of our specific URL addresses on the Internet that are used to track individual marketing campaigns for reach and effectiveness.

Competition

We are aware of several companies that offer competing educational products or services. While these companies may have greater resources, we believe that: (i) the depth and quality of our curriculum and training, (ii) the range of our foundation and continuing education course offerings, from beginner to advanced, (iii) our portfolio of channel partners, (iv) the quality of our instructors and coaches, (v) our database of prospects and students, and (vi) our focus on improved learning formats such as online and