

INVESTOOLS INC
Form DEF 14A
April 26, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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INVESTools Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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INVESTTOOLS INC.

13947 South Minuteman Drive

DRAPER, UTAH 84020

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

June 15, 2006

To the Stockholders of INVESTools Inc.:

The annual meeting of stockholders (the Annual Meeting) of INVESTools Inc. (the Company) will be held on Thursday, June 15, 2006, at 9:00 a.m. (local time) at the New York Hilton and Towers, 1335 Avenue of the Americas, 53rd to 54th streets, New York, New York 10019, for the following purposes:

1. To elect two Class II directors of the Company to hold office until the 2009 Annual Meeting of Stockholders.
2. To approve an amendment to the Company s 2001 Stock Option Plan to increase the number of shares of common stock available for issuance thereunder from 6,000,000 to 8,000,000 shares.
3. To ratify the appointment of KPMG LLP as the Company s independent registered public accounting firm for the year ending December 31, 2006.
4. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Further information regarding the meeting and the above proposals is set forth in the accompanying Proxy Statement. The Board of Directors has fixed the close of business on April 17, 2006 as the record date for the meeting, and only holders of common stock of record at such time will be entitled to vote at the Annual Meeting or any adjournments thereof. You are cordially invited to attend the Annual Meeting in person. Even if you plan to attend the Annual Meeting, we urge you to vote your shares at your earliest convenience in order to ensure that your shares will be represented at the meeting. You can vote by signing, dating and returning the enclosed proxy card, or by submitting your proxy voting instructions by telephone or through the Internet. If you hold your shares through a broker or other nominee you should contact your broker to determine whether you may submit your proxy by telephone or Internet.

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By Order of the Board of Directors,

Lee K. Barba
Chairman of the Board

May 1, 2006

INVESTTOOLS INC.

13947 South Minuteman Drive

DRAPER, UTAH 84020

PROXY STATEMENT

2006 Annual Meeting of Stockholders

This Proxy Statement and accompanying Proxy Card are being furnished to stockholders in connection with the solicitation of proxies by the Board of Directors of INVESTools Inc., a Delaware corporation (the Company), for use at the 2006 Annual Meeting of Stockholders of the Company to be held at the New York Hilton and Towers, 1335 Avenue of the Americas, 53rd to 54th streets, New York, New York 10019, at 9:00 a.m. (local time) on Thursday, June 15, 2006, and at any adjournments thereof (such meeting or adjournment(s) thereof referred to as the Annual Meeting), for the purpose of considering and voting upon the matters set forth in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement and the accompanying form of proxy card are first being mailed to stockholders on or about May 2, 2006.

The close of business on April 17, 2006, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. As of the record date, there were 44,970,236 shares of the Company's common stock, par value \$0.01 per share (the Common Stock), issued and outstanding. Each share is entitled to one vote on all issues requiring a stockholder vote at the Annual Meeting. The presence, in person or by proxy of at least a majority of the outstanding shares of Common Stock on the record date is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business.

The directors will be elected by a plurality of the votes of the shares present or represented by proxy and entitled to vote at the Annual Meeting. Withheld votes, if any, will not be taken into account in determining the outcome of the election of directors. Stockholders may not cumulate their votes for the election of directors. Approval of the amendment to the Company's 2001 Stock Option Plan to increase the number of shares of Common Stock available for issuance thereunder from 6,000,000 to 8,000,000 shares, and the ratification of the appointment of the independent registered public accounting firm will require the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting. Broker non-votes will not be voted but an abstention will have the effect of a vote **AGAINST** the approval of the amendment to increase the number of shares of Common Stock available for issuance under the 2001 Stock Option Plan, and **AGAINST** the ratification of the appointment of the independent registered public accounting firm.

All shares represented by properly executed or submitted proxies, unless such proxies previously have been revoked, will be voted at the Annual Meeting in accordance with the directions on the proxies. If no direction is indicated, the shares will be voted **FOR** the election as directors of the nominees listed therein, **FOR** the approval of the amendment to the Company's 2001 Stock Option Plan to increase the number of shares of Common Stock available for issuance thereunder from 6,000,000 to 8,000,000 shares, **FOR** the ratification of KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2006, and in the discretion of the persons named in the proxy in connection with any other business that may properly come before the Annual Meeting. Any person who signs and mails the enclosed proxy, even though executed and returned, may revoke the proxy at any time prior to the voting of the proxy (i) by the execution and submission of a revised proxy, (ii) by written notice to the Corporate Secretary of the Company or (iii) by voting in person at the Annual Meeting. However, a proxy will not be revoked simply by attending the Annual Meeting and not voting. To revoke a proxy previously submitted by telephone or the Internet, a stockholder of record can simply vote again at a later date, using the same procedures, in which case the later submitted vote will be recorded and the earlier vote will thereby be revoked.

(1) ELECTION OF DIRECTORS

General

The persons named as proxyholders in the enclosed proxy have been selected by the Board of Directors to serve as Proxies and will vote the shares represented by valid proxies at the 2006 Annual Meeting of Stockholders and any adjournments thereof. They have indicated that, unless otherwise specified in the proxy, they intend to vote for the election as director each of the persons named as a nominee listed below under

Nominees for Director unless authority to vote in the election of directors is withheld on each proxy. Each nominee is currently a member of the Board of Directors. Each duly elected director will hold

office until the 2009 Annual Meeting of Stockholders or until his successors shall have been elected and qualified. Although the Board of Directors of the Company does not contemplate that a nominee will be unable to serve, if such a situation arises prior to the Annual Meeting, the persons named in the enclosed proxy will vote for the election of such other person as may be nominated by the Board of Directors. Proxies cannot be voted in the election of directors for more than two persons, as that is the number of nominees named herein.

Nominees for Director

The Board of Directors unanimously recommends a vote FOR the election of the nominees listed below.

Lee K. Barba

Mr. Barba was appointed Chief Executive Officer and Director of the Company in December 2001 and Chairman in June 2002, after having served as Chief Executive Officer of Telescan, Inc., a wholly owned subsidiary of the Company (Telescan). Prior to joining Telescan in February of 2000, he was the Chief Executive Officer of Open Link Financial, a risk management software company whose largest shareholder, Coral Energy, was a wholly owned subsidiary of Shell Oil Company. Mr. Barba joined Open Link after serving as President of Coral Energy. 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 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 M.B.A. from Columbia University and his B.A. from the University of North Carolina.

Hans von Meiss

Mr. von Meiss was appointed a Director of the Company in December 2001. Since 1997, Mr. von Meiss has been involved in financial management and consulting and has pursued investments in Internet related businesses. He also serves on the Board of Directors as Chairman of an industrial concern, as a member of the Board of Directors of an ecology company and his own company, G. von Meiss AG. From 1994 to 1997, Mr. von Meiss served as Chief Executive Officer of Swiss Textile Group. From 1991 to 1994, Mr. von Meiss was Chief Executive Officer of a publicly quoted Dutch company following its privatization from the Dutch government. From 1988 to 1991, Mr. von Meiss worked as an independent financial consultant. Mr. von Meiss served as Chief Executive Officer of Dr. Ing. Koenig AG, a leading Swiss service center for flat steel and industrial fasteners from 1984 to 1988. From 1977 to 1984, Mr. von Meiss served in various positions in investment banking with Bankers Trust International Ltd. and Chase Manhattan Ltd. in London. Mr. von Meiss received a Bachelors degree in Economics in 1973 from the University of St. Gallen in Switzerland. He received his M.B.A. from INSEAD, Fontainebleau, France in 1977.

Organization of the Board of Directors

The Company's directors are divided into three classes designated Class I, Class II and Class III. Each class consists, as nearly as possible, of one-third of the total number of directors constituting the entire Board of Directors. At the 2004 Annual Meeting of Stockholders, Class III

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directors were elected for a term expiring at the 2007 Annual Meeting of Stockholders, and at the 2005 Annual Meeting of Stockholders, Class I directors were elected for a term expiring at the 2008 Annual Meeting of Stockholders. The Class II directors serve for a term expiring at the 2006 Annual Meeting of Stockholders. At each annual meeting of stockholders, successors to the class of directors whose term expires at that annual meeting shall be elected for a term expiring at the third succeeding annual meeting. Each director holds office until the annual meeting for the year in which his term expires and until his successor has been elected and qualified.

As of April 21, 2006, the Company's directors were as follows:

Name	Class	Age	Position
Douglas T. Tansill	Class I	67	Lead Director
Stephen C. Wood	Class I	54	Director
Lee K. Barba	Class II	55	Chairman of the Board of Directors and Chief Executive Officer
Hans von Meiss	Class II	58	Director
Michael H. Goldsmith	Class III	40	Director
F. Warren McFarlan	Class III	68	Director

Information concerning the business experience of Messrs. Barba and von Meiss is provided under the section entitled Nominees for Director.

Michael H. Goldsmith

Mr. Goldsmith was appointed a Director of the Company in August 2003. Since February 2003, Mr. Goldsmith has been a Managing Director with Wealth and Tax Advisory Services, Inc., a subsidiary of Hong Kong and Shanghai Banking Corp., and manages the company's state and local tax practice. In September 1991 Mr. Goldsmith joined the New York offices of Arthur Andersen L.L.P. and left in May 2002 as a Tax Partner. He was a Tax Partner in the New York offices of Deloitte & Touche L.L.P. from May 2002 to February 2003, and has been a practicing tax consultant for more than 12 years. Mr. Goldsmith has an undergraduate degree in Accounting from Queens College and received his Juris Doctor from St. John's University School of Law. He received a LL.M. in Taxation from New York University School of Law.

F. Warren McFarlan

Mr. McFarlan was appointed as a Director of the Company in December 2004. He also serves on the Board of Directors of Computer Sciences Corporation and Li & Fung Limited. Since 1973, he has been a professor at Harvard Business School. In this position, he has had a significant role in introducing materials on Management Information Systems to all major programs at the Harvard Business School since the first course on the subject was offered in 1962. He has also been a long-time teacher in the Advanced Management Program: International Senior Managers Program, Delivering Information Services Program, and several of the Social Sector programs. He currently teaches in the second-year course entitled Managing in the Information Age. During his long tenure at Harvard Business School, Mr. McFarlan has served in many capacities, most recently as Senior Associate Dean and director of Harvard's Asia-Pacific Initiative from 2000 to 2004. From 1995 to 2000, he was Senior Associate Dean and Director of External Relations. From 1991 to 1995, he was Senior Associate Dean and Director of Research. From 1979 to 1980, he was Chairman of all executive education programs. From 1975 to 1978, he was Chairman of the Advanced Management Program. In 1973, shortly after his appointment to full professor, Mr. McFarlan, along with four other faculty members, was sent to Switzerland to set up Harvard Business School's International Senior Management Program. Mr. McFarlan earned his A.B. from Harvard University in 1959 and his M.B.A. and D.B.A. from the Harvard Business School in 1961 and 1965, respectively.

Douglas T. Tansill

Mr. Tansill was appointed as Lead Director of the Company's Board of Directors in December 2004, and has served as a Director of the Company since October 2003. Mr. Tansill is a private investor and financial consultant and has been associated with Cove Harbor Partners, LLC since 2000. He also serves on the Board of Directors of Niagara Corporation. From 1986 to 1994, Mr. Tansill was a Managing Director of Kidder Peabody, Inc. and served on the Board of Directors of Kidder Peabody Group, Inc. In 1994, he became a Managing Director of PaineWebber Incorporated and subsequently served as an Advisory Director there and from 2000 to 2002 as an Advisor to UBS Warburg. Mr. Tansill received a B.A. in Economics from Trinity College, Hartford, Connecticut and an M.B.A. from Harvard University.

Stephen C. Wood

Mr. Wood was appointed Director of the Company in December 2001. Mr. Wood is currently President and Chief Executive Officer of Datergity Corporation, a privately-held data security company based in Bellevue, Washington. He also serves as Chairman of the Board of

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Wireless Services Corporation, where he has worked since April 1996. Until May 1996, Mr. Wood was President and Chief Executive Officer of Notable Technologies, LLC. From 1993 through 1994, Mr. Wood served as Vice President of Information Broadcasting for McCaw Development Corporation located in Kirkland, Washington. Until February 1993, he was President of Starwave Corporation, a company he formed in 1991 with Microsoft Corporation co-founder Paul G. Allen to develop and market data and information products. From 1986 through 1991, Mr. Wood served in several executive positions at Asymetrix Corporation, a software development and marketing firm founded by Mr. Allen. From 1980 until 1985, Mr. Wood was in charge of building a microcomputer software development organization for Datapoint Corporation in Austin, Texas, after serving in research and development and marketing positions. Mr. Wood began his career in 1976 when he became the sixth employee of Microsoft Corporation, where he was general manager from 1977 to 1980. Mr. Wood holds a B.S. in Computer Engineering from Case Western University and an M.S. in Electrical Engineering from Stanford University.

Meetings and Committees of the Board of Directors

There were 12 meetings of the Board during 2005. All of the directors attended at least 75 percent of the aggregate of all meetings of the Board and of the committees of the Board on which they served. The Company does not have a formal policy regarding director attendance at annual meetings of stockholders, however, it is expected, absent good reason, that all directors will be in attendance. All of the Company's directors who were directors at the time of the 2005 Annual Meeting attended the meeting.

Audit Committee

The Audit Committee, which held 13 meetings during 2005, acts on behalf of the Board to oversee all material aspects of the Company's reporting, control and audit functions. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders and on Company processes for the management of the business/financial risk and for compliance with significant applicable legal, ethical and regulatory requirements. The Board of Directors has determined that Messrs. von Meiss, Goldsmith, McFarlan and Tansill are audit committee financial experts as described in Item 401(h) of Regulation S-K. In addition, the Board has determined that each member of the Audit Committee is independent, as independence is defined in Section 121A of the listing standards for the American Stock Exchange. The Audit Committee is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Mr. von Meiss is Chairman of the Audit Committee and serves with Messrs. Goldsmith, McFarlan, Tansill and Wood.

Compensation Committee

The Compensation Committee, which held two meetings during 2005, administers the 2004 Restricted Stock Plan, the 2001 Stock Option Plan, establishes the compensation of the Chief Executive Officer, and sets policy for compensation of all executive officers and outside directors (directors who are also employees are not compensated for their service on the Board). The Compensation Committee is also responsible for the administration of four other stock option plans from which no new grants are currently being made. Mr. Wood is Chairman of the Compensation Committee and serves with Messrs. Goldsmith, McFarlan, Tansill and von Meiss.

Director Nomination Policy

The Company does not currently have a standing Nominating Committee or a formal Nominating Committee Charter. Currently, a majority of the independent members of the Board (as determined by the Board as required by the American Stock Exchange listing standards), rather than a nominating committee, approves or recommends those persons to be nominated. The Board believes that the current method of nominating directors is appropriate because it complies with the American Stock Exchange listing standards.

The Board has, by resolution, adopted a director nomination policy. The purpose of the policy is to describe the process by which candidates for inclusion in the Company's recommended slate of director nominees are selected. The director nomination policy is administered by the Board.

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Candidates for Board membership must possess the background, skills and expertise to make significant contributions to the Board, to the Company and its stockholders. Desired qualities to be considered include substantial experience in business or administrative activities; breadth of knowledge about issues affecting the Company; and ability and willingness to contribute special competencies to Board activities. The independent members of the Board also consider whether members and potential members are independent under the American Stock Exchange listing standards. In addition, candidates should possess the following attributes: personal integrity; absence of conflicts of interest that might impede the proper performance of the responsibilities of a director; ability to apply sound and independent business judgment; sufficient time to devote to Board and Company matters; ability to fairly and equally represent all stockholders; reputation and achievement in other areas; independence under rules promulgated by the Securities and Exchange Commission (SEC) and the American Stock Exchange listing standards; and diversity of viewpoints, background and experiences.

The Board of Directors intends to review the director nomination policy from time to time to consider whether modifications to the policy may be advisable as the Company's needs and circumstances evolve, and as applicable legal or listing standards change. The Board may amend the director nomination policy at any time.

Communications with Directors

The Board of Directors welcomes communications from its stockholders and other interested parties and has adopted a procedure for receiving and addressing those communications. Stockholders and other interested parties may communicate any concerns they may have about the Company directly to either the full Board of Directors or one or more directors by mailing their communications to the Company at the following address: [Director], INVESTTools Inc., 13947 South Minuteman Drive, Draper, Utah 84020, Attention: Corporate Secretary (Board Matters) or email investor.relations@investtools.com. The Corporate Secretary promptly will forward all stockholder communications and other communications from interested parties unopened to the intended recipient.

Shareholder Nominations

The Board will consider director candidates recommended by stockholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources. The Company's Bylaws, as amended, provide that in making recommendations for director nominees for the annual meeting of stockholders, the Board of Directors will consider any written recommendations of director candidates by stockholders received by the Secretary of the Company no later than 90 days before the anniversary of the previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to, or delayed by more than 60 days after such anniversary date, notice must be received by the 10th day following the date that public disclosure of the date of the annual meeting is given to stockholders. Recommendations must be mailed to INVESTTools Inc., 13947 South Minuteman Drive, Draper, Utah 84020, Attention: Corporate Secretary, and include all information regarding the candidate as would be required to be included in a proxy statement filed pursuant to the proxy rules promulgated by the SEC if the candidate were nominated by the Board of Directors (including such candidate's written consent to being named in the proxy statement as a nominee and to serving as a director if elected). The stockholder giving notice must provide (i) his or her name and address, as they appear on the Company's books, and (ii) the class and number of shares of the Company which are beneficially owned by such stockholder. The Company may require any proposed nominee to furnish such other information it may require to be set forth in a stockholder's notice of nomination which pertains to the nominee.

Advisory Board

In 2003, the Company formed an Advisory Board to assist the Company in identifying the best partners and opportunities to expand INVESTTools' leadership in investor education. The Advisory Board does not vote at Board of Directors meetings and consists of Andrew H. Forrester and John B. Babcock, Jr.

John B. Babcock, Jr.

Mr. Babcock is the former President and Chief Executive Officer of BPI Communication, Inc., a VNU Business Media company, publisher of 21 magazines and related websites and databases including Billboard, The Hollywood Reporter, Adweek and Mediaweek. Mr. Babcock was also Publisher and President of Billboard and Adweek magazines, respectively and a founding Publisher of Digital Review magazine. In addition, he has held senior operational and development positions with Dun & Bradstreet and Ziff Davis. Mr. Babcock has also served on the Board of Directors of American Business Media, Audit Bureau of Circulation and The American Advertising Federation, The Country Music Association, the American Radio and Television Society, and currently serves on the Board of Directors of Boston Proper, Inc., a mail-order and online retailer of women's apparel. Mr. Babcock received a B.A. from Yale University.

Andrew H. Forrester

Mr. Forrester is a founding member of Cove Harbor Partners, an investment firm engaged in advising and investing in small capitalization companies. Prior to establishing Cove Harbor Partners, Mr. Forrester was Senior Managing Director of Bankers Trust Company, where he served for 30 years in various positions. Mr. Forrester's other affiliations include having served as member of the Board of Directors of Atlas Freighter Leasing Inc., Managing Member of The Quanomica Co. L.L.C., and the Board of Fellows of Trinity College. Mr. Forrester received his M.B.A from New York University and his B.A. from Trinity College.

Executive Officers

As of April 21, 2006, the following persons were the executive officers of the Company:

Name	Age	Position
Lee K. Barba	55	Chairman of the Board and Chief Executive Officer
Ida K. Kane	36	Senior Vice President and Chief Financial Officer
Paul A. Helbling	52	Senior Vice President, Chief Administrative Officer and Corporate Secretary
Ainslie J. Simmonds	36	Senior Vice President and Chief Marketing and Product Development Officer
Dale C. Ainge	46	Senior Vice President, Student Acquisition and Fulfillment

Information concerning the business experience of Mr. Barba is provided under the section entitled Nominees for Director.

Ida K. Kane

Ms. Kane was appointed Chief Financial Officer and Senior Vice President of the Company in January 2005. Prior to joining the Company, she served as the Chief Financial Officer and Vice President of Operations for the Organizational Solutions Business Unit of FranklinCovey in Salt Lake City. From 1999 to 2001, Ms. Kane was Partner and Chief Accounting Officer for Encubate Holdings LLC, a venture capital firm. From 1997 to 1999, she served as corporate controller for Equitrac Corporation, a manufacturing company listed on NASDAQ. From 1992 to 1997, Ms. Kane served in various positions with KPMG LLP, including Audit Manager. Ms. Kane became a Certified Public Accountant in 1991. She received her B.A. degree in Business Administration in 1991 and her M.B.A. in 1992 from the University of Miami.

Paul A. Helbling

Mr. Helbling was appointed Chief Administrative Officer of the Company in January 2005, as Senior Vice President in June 2003, and as Corporate Secretary in February 2002. Mr. Helbling served as the Company's Chief Financial Officer from December 2001 until his appointment as Chief Administrative Officer. Prior to joining Telescan in August 1999, he was Vice President of Finance at PCC Flow Technologies, Inc., a subsidiary of Precision Castparts Corporation and a \$350 million manufacturer of pumps and valves in the U.S. and Europe. From 1991 to 1997 Mr. Helbling served as Vice President and Chief Financial Officer of HydroChem Industrial Services, a \$150 million provider of industrial cleaning services to the petrochemical, refining and utility industries. Mr. Helbling became a Certified Public Accountant in 1978, with experience in public accounting and in the contract drilling and oil and gas exploration and production industries. Mr. Helbling holds a B.A. and a M.A. degree from Rice University.

Ainslie J. Simmonds

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Ms. Simmonds was appointed Senior Vice President and Chief Marketing and Product Development Officer in December 2005. Prior to joining the Company, Ms. Simmonds was a Partner at Markitecture LLC, a marketing consulting firm located in Norwalk, Connecticut. From 2000 to 2002, Ms. Simmonds was Vice President of Marketing for Molson USA LLC, a joint venture between Molson Breweries and the Coors Brewing Company. From 1992 to 2000, she served in progressive marketing related positions, including Director of Marketing, for Campbell Soup Company's North American operations. Ms. Simmonds received her B.A. degree in Business Administration with honors in 1992 from the University of Western Ontario and her M.B.A. in 1997 from Harvard University.

Dale C. Ainge

Mr. Ainge was appointed as Senior Vice President of the Company in January 2005. Prior to serving in his current position, Mr. Ainge served as the Company's Vice President of Finance and Accounting from January 2004 to December 2004. Before joining the Company, Mr. Ainge served as Executive Vice President and Chief Financial Officer of Interactive Learning Systems, Inc., a start-up technology company. From 2000 to 2001 he served as Chief Financial Officer and Corporate Secretary of Infopia, Inc., an internet service company. From 1999 to 2000 Mr. Ainge served as Chief Financial Officer and Chief Operating Officer of North Sky, Inc., an Internet services company. From 1995 to 1999 Mr. Ainge served in various capacities, including President and Chief Operating officer, at CallWare Technologies, Inc., a software development company. From 1989 to 1995 he served as Director of Accounting and Financial Reporting for Geneva Steel, a \$500 million manufacturing company. Mr. Ainge became a Certified Public Accountant in 1986, when he began his career at Arthur Andersen & Co. He holds B.A. and M.A. degrees in accounting and finance from Brigham Young University.

SUMMARY COMPENSATION TABLE

The following table reflects all forms of compensation for services to the Company for the years ended December 31, 2005, 2004, and 2003, of the individual serving as the Company's Chief Executive Officer during 2005, and the Company's four other most highly compensated executive officers who were serving the Company at the end of 2005 (the Named Executives.)

Name	Year	Annual Compensation		Long Term Compensation		All other compensation (1)
		Salary	Bonus	Restricted Stock Awards (\$)	Securities Underlying Options (#)	
Lee K. Barba <i>Chief Executive Officer</i>	2005	\$ 425,000	\$ 425,000		250,000	\$ 6,193
	2004	406,234	350,000		250,000	6,068
	2003	350,000	190,000	75,000	250,000	10,567
Ida K. Kane (2) <i>Chief Financial Officer</i>	2005	\$ 207,692	\$ 115,000		120,000	\$ 5,910
	2004					
	2003					
Paul A. Helbling <i>Chief Administrative Officer</i>	2005	\$ 185,000	\$ 75,000		20,000	\$ 5,894
	2004	182,628	92,500			3,548
	2003	181,667	31,110	16,990	100,000	10,364
Ainslie J. Simmonds (3) <i>Chief Marketing and Product Development Officer</i>	2005	\$ 9,231	\$ 35,000		100,000	
	2004					
	2003					
Nelson A. Gonzalez (4) <i>Senior Vice President Inside Sales and Student Support</i>	2005	\$ 179,730	\$ 62,500		20,000	\$ 5,926
	2004	136,971			125,000	660
	2003					
Dale C. Ainge <i>Senior Vice President Student Acquisition and Fulfillment</i>	2005	\$ 178,385	\$ 75,000		70,000	\$ 5,850
	2004	124,923	65,000		5,000	750
	2003					

(1) Comprises (i) matching 401(k) contributions the Company made during the year, and (ii) insurance premiums paid by the Company on various medical and disability benefit plans.

(2) Ms. Kane's employment with the Company began January 17, 2005. Therefore, the amounts reflected in 2005 are for a partial year.

(3) Ms. Simmonds' employment with the Company began December 8, 2005. Therefore, the amounts reflected in 2005 are for a partial year.

(4) Mr. Gonzalez resigned effective March 17, 2006.

Stock Options

The following tables set forth information relating to the Named Executives with respect to (i) stock options granted in 2005, and (ii) the total number of exercised options through 2005 and the value of the unexercised in-the-money options at the end of 2005.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year(1)	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term	
					5%	10%
Lee K. Barba	250,000	25.0%	\$ 5.18	12-06-2015	\$ 814,419	\$ 2,063,896
Ida K. Kane	100,000 20,000	10.0% 2.0%	\$ 3.89 \$ 5.18	01-16-2015 12-06-2015	\$ 244,640 \$ 65,153	\$ 619,966 \$ 165,112
Paul A. Helbling	20,000	2.0%	\$ 5.18	12-06-2015	\$ 65,153	\$ 165,112
Ainslie J. Simmonds	100,000	10.0%	\$ 5.14	12-07-2015	\$ 323,252	\$ 819,184
Nelson A. Gonzalez (2)	20,000	2.0%	\$ 5.18	12-06-2015	\$ 65,153	\$ 165,112
Dale C. Ainge	50,000 20,000	5.5% 2.0%	\$ 3.84 \$ 5.18	01-12-2015 12-06-2015	\$ 120,748 \$ 65,153	\$ 305,999 \$ 165,112

(1) Based upon 999,500 options granted to employees in 2005.

(2) Mr. Gonzalez resigned effective March 17, 2006. The unvested option for 20,000 shares granted during 2005 was cancelled at that time.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND**FISCAL YEAR END OPTION VALUES**

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Lee K. Barba		\$	1,628,127	1,112,500	\$ 7,167,111	\$ 4,172,250
Ida K. Kane				120,000		155,400

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Paul A. Helbling	224,627	70,000	1,014,476	264,400
Ainslie J. Simmonds		100,000		26,000
Nelson A. Gonzalez (1)	31,250	113,750	106,250	323,150
Dale C. Ainge	1,250	73,750	3,913	94,138

(1) Mr. Gonzalez resigned effective March 17, 2006. At that time, an option was partially vested for 62,500 shares, which he subsequently exercised. Remaining unvested and out-of-the money options for 82,500 shares were cancelled.

Director Fees

The Lead Director and outside directors are paid \$4,000 and \$3,000, respectively, plus out of pocket expenses, for each meeting of the Board of Directors or committee meeting they attend in person. With the exception of the Lead Director and committee chairs, outside directors are paid \$1,000 for each telephonic Board of Directors or committee meeting in which they participate. The Lead Director is paid \$1,500 for each telephonic Board of Directors or committee meeting in which he participates, and each committee chair is paid \$1,250 for each telephonic committee meeting in which he participates as chair. Directors may also receive a restricted stock award upon appointment to the Board of Directors and an annual stock option award. Directors fees are determined by resolution of the Compensation Committee. In December 2005, each of the outside directors received 7,500 stock options as compensation for their service in fiscal year 2006.

In December 2005, each Advisory Board member received 1,500 shares of stock restricted from sale for one year as compensation for their service in fiscal year 2005. No cash fees were paid to Advisory Board members during 2005.

Report From the Compensation Committee Regarding Executive Compensation

The Compensation Committee of the Board of Directors consists of Messrs. Wood, Goldsmith, McFarlan, Tansill, and von Meiss.

The goal of the Compensation Committee is to develop compensation policies to attract and retain highly qualified officers, directors and senior managers whose skills are critical to the long-term success of the Company. Such policies are intended to reward and motivate individual and team performance with the common goal of maximizing total stockholder return.

Components of executive compensation include base salary, incentive bonus and stock options. Salary levels for executive officer positions reflect the duties and levels of responsibilities inherent in the position. Salaries of executive officers are reviewed annually and the primary criteria influencing salary adjustments are the individual's performance, experience, contribution to the Company and the competitive marketplace for executive talent. In addition, cash bonus awards for the executive officers are considered annually and are paid out of the Company's Management Incentive Bonus Plan. Stock options are also used by the Company as a long-term incentive and allow executives the opportunity to acquire and build an ownership interest in the Company.

As a result of annual reviews for 2005, a majority of the executive officers, including the Chief Executive Officer, received cash bonus awards under the Management Incentive Bonus Plan, and stock options under the INVESTools 2001 Stock Option Plan. In general, bonus amounts were determined based on individual performance, how specific challenges were met during the year, and other strategic issues. In the case of the Chief Executive Officer, the Compensation Committee based bonus amounts on the following criteria and factors:

the financial performance of the Company, specifically in terms of revenue transaction volume, total revenue amounts, profit margins, cash flows, and earnings before interest, taxes, depreciation, and amortization (EBITDA);

the performance of the Company's stock price;

the Company's ability to respond to changes in markets, competition, and technology, as demonstrated by changes to sales and distribution strategies, and the development of new products and services; and

the Chief Executive Officer's ability to attract and retain a strong management team.

As one of the factors in determining executive compensation, the Compensation Committee considers the anticipated tax treatment to the Company and to the executive officers of various types of compensation and benefits. From time to time, interpretations of and changes in the tax laws affect the deductibility of compensation. The Compensation Committee currently does not anticipate that compensation paid to the executive officers in 2006 will exceed the amounts specified as deductible pursuant to Section 162(m) of the Internal Revenue Code.

The compensation for the Chief Executive Officer is generally determined using the same evaluation criteria used for other officers and managers of the Company. The Chief Executive Officer has entered into an employment agreement with the Company as discussed in detail below. In accordance with the agreement, the Chief Executive Officer received a base salary in 2005 of \$425,000. The Chief Executive Officer has met Board of Directors and Compensation Committee expectations with respect to the growth and development of the Company and therefore bonus of \$425,000 was appropriate.

By the Compensation Committee:
Stephen C. Wood, Chairman

Michael H. Goldsmith
F. Warren McFarlan

Douglas T. Tansill

Hans von Meiss

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee of the Board of Directors of the Company was, during 2005, an officer or employee of the Company or any of its subsidiaries, or was formerly an officer of the Company or any of its subsidiaries or had any relationship requiring disclosure by the Company. During 2005, no executive officer of the Company served as (i) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on the Compensation Committee of the Board of Directors, (ii) a director of another entity, one of whose executive officers served on the Compensation Committee of the Board of Directors, or (iii) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a director of the Company.

Employment Agreements

In December 2004, the Company entered into a new employment agreement with Mr. Barba. Pursuant to the agreement, Mr. Barba serves as Chief Executive Officer and receives \$425,000 per year as base salary. Mr. Barba also received a stock option grant to purchase 250,000 shares of the Company's common stock, which vests in four equal annual installments beginning in March 2005, at an exercise price of \$2.22 per share, which equaled the market price on the date of grant. Mr. Barba participates in the Company's Management Incentive Bonus Plan, as well as the Company's benefit plans. Mr. Barba is reimbursed for routine business and entertainment expenses. The agreement includes a covenant not to compete for 24 months after termination from the Company. In the event of termination due to death or disability, Mr. Barba, or his estate, would receive (i) his salary and (ii) an amount equal to one-half of his then base salary to which he was entitled as of the date of termination and all unpaid amounts under any employee benefit plans (the "Accrued Amounts"), and (iii) all options would vest immediately and expire in one year. In addition, in the event of termination due to disability, Mr. Barba will also receive an amount equal to one-half of his target bonus for the year in which the disability occurs. In the event of termination within 24 months of a change of control (as defined in the Agreement), Mr. Barba will receive (i) the Accrued Amounts, and (ii) a lump sum payment equal to two times the sum of (x) Mr. Barba's base salary for the year in which such termination occurs and (y) the greater of (A) Mr. Barba's target bonus in the year of termination and (B) the actual bonus earned by Mr. Barba in the year immediately preceding such termination. In addition, Mr. Barba would receive an additional bonus for any additional taxes the package would trigger. Mr. Barba would also be eligible to continue to participate in any employee benefit plans and programs offered to him under his employment agreement for a period of two years from the date of such termination. If Mr. Barba is terminated without cause or resigns due to a constructive termination or due to the Company's breach of his employment agreement, Mr. Barba is entitled (i) to receive the Accrued Amounts, and (ii) for a period equal to the longer of two years and the period of time remaining under his employment agreement, an amount equal to his base salary for the year of termination and the greater of (x) his target bonus in the year of the termination and (y) the actual bonus earned by Mr. Barba in the year immediately preceding such termination. Mr. Barba will also be eligible to continue to participate in any Company benefit plans for a period of two years from the date of termination, if permitted, or he will be compensated for the fair value of benefits Mr. Barba would not be able to participate in. In addition, Mr. Barba will become fully vested in the stock options granted pursuant to his employment agreement as of the date of termination, and he must exercise such options within three months. Mr. Barba's employment agreement will terminate March 4, 2007, but may be extended for up to two additional one year periods.

In January 2005, the Company entered into an employment agreement with Ms. Ida Kane. Pursuant to the agreement, Ms. Kane serves as Chief Financial Officer and receives \$225,000 per year as base salary. Beginning in 2006, Ms. Kane's salary may be increased or decreased by the Company in its sole discretion at any time upon 30 days' written notice. Ms. Kane also received a one-time sign-on bonus in the amount of \$15,000 and a stock option grant to purchase 100,000 shares of the Company's common stock, which vests in four equal annual installments beginning in January 2006, at an exercise price of \$3.89 per share, which equaled the market price on the date of grant. Ms. Kane is entitled to receive an annual bonus up to a maximum of 35% of her base salary as determined in the sole discretion of the Company, provided that she meets performance goals as established by the Company in its sole discretion. Ms. Kane participates in the Company's benefit plans and is reimbursed for routine business expenses. The agreement includes a covenant not to compete and a covenant not to solicit or interfere for six months after termination from the Company. In the event of termination due to death, Ms. Kane, or her estate, will receive any compensation due that would otherwise have been payable through the date of death. In the event of termination due to disability, Ms. Kane will receive severance payments equal to three months' base salary. In the event of a change of control (as defined in the agreement) within the first three years of Ms. Kane's employment such that Ms. Kane no longer reports to Mr. Barba or the then current Chief Executive Officer of the Company as a result of a change of control, Ms. Kane shall have the right to resign within 30 days following the change of control and be entitled to

receive a cash severance benefit in an

amount equal to six months' base salary. If Ms. Kane is terminated without cause, she is entitled to severance compensation in an amount equal to the greater of (i) six months' base salary or (ii) the severance pay to which she would be entitled to under a severance pay plan, if any, in effect at the time of her termination without cause.

In December 2005, the Company entered into an employment agreement with Ms. Ainslie J. Simmonds. Pursuant to the agreement, Ms. Simmonds serves as Chief Marketing and Product Development Officer. Under the terms of the agreement, Ms. Simmonds receives: (i) an annual base salary of \$200,000, (ii) an annual discretionary bonus up to a maximum of 35% of her base salary for achieving certain performance goals as established by the Company, (iii) a one time sign-on bonus of \$35,000 and (iv) 100,000 options to purchase the Company's common stock vested at 25% per year based on an exercise price of \$5.14 per share, which represents the market price on the date of grant. With respect to termination provisions under the agreement, for termination without cause, the Company shall have the right to terminate Ms. Simmonds' employment by providing 30 days written notice, in which case the Company shall provide Ms. Simmonds with severance compensation in an amount equal to the greater of (i) six months' base salary, less applicable taxes or (ii) the severance pay to which Ms. Simmonds would be entitled under a severance pay plan, if any, in effect at the time of Ms. Simmonds' termination without cause. In the event that a change of control of the Company occurs within the first three years of Ms. Simmonds' employment, such that Ms. Simmonds is terminated as a result of the change of control event, Ms. Simmonds shall be entitled to receive a cash severance benefit in an amount equal to nine months' base salary, less applicable taxes.

Equity Compensation Plan Information

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

Plan Category	Equity Compensation Plans			
	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)	4,052,193	4,602,193	\$2.35	2,247,125 2,797,125
Equity compensation plans not approved by stockholders				
Total	4,052,193	4,602,193	\$2.35	2,247,125 2,797,125

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

*Performance Graph***COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN**

The following graph summarizes the total stockholder return on an investment of \$100.00 over the last five years for the Company and its predecessor accounting entity, ZiaSun Technologies, Inc. through December 31, 2005. The return is compared to the Russell 2000 Stock Index, and a Peer group consisting of the following companies selected on the basis of the similarity in the nature of their education business: Apollo Group, Inc., Career Education Corp., Corinthian Colleges, Inc., DeVry Inc., Education Management Corp., ITT Educational Services, Inc., and Strayer Education, Inc. Cumulative total return values are based on annual total return values which assume reinvestment of dividends. The stockholder return shown on the graph below is not necessarily indicative of future performance.

	2000	2001	2002	2003	2004	2005
INVESTools Inc.	\$ 100	\$ 52	\$ 20	\$ 142	\$ 301	\$ 478
Peer group	\$ 100	\$ 129	\$ 150	\$ 262	\$ 262	\$ 236
Russell 2000 Index	\$ 100	\$ 101	\$ 79	\$ 115	\$ 135	\$ 139

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than ten percent of the Company's common stock (collectively, "Filing Persons") to file with the SEC initial reports of ownership (Form 3), reports in changes of ownership (Form 4), and annual reports of ownership (Form 5). All Filing Persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

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To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company and upon certain other representations made, all transactions were reported on a timely basis by the Company's Filing Persons during 2005.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, as of April 21, 2006, with respect to the number of shares of Company common stock beneficially owned by (1) each director and/or Named Executive individually, (2) all executives and directors of the Company as a group and (3) each stockholder known by the Company to be the beneficial owner of more than 5% of the Company's common stock. The number of shares does not include shares allocated to the person's account through the Company's 401(k) plan. Except as noted below, each stockholder has sole voting and investment power with respect to the shares shown.

Owners	Number of Shares Beneficially Owned (1)	Percent of Class
Common Stock		
Lee K. Barba	3,098,656(2)	6.6%
Ida K. Kane	30,000	*
Paul A. Helbling	468,361	1.0%
Ainslie J. Simmonds		*
Dale C. Ainge	15,000	*
Douglas T. Tansill	150,500	*
Stephen C. Wood	75,508(3)	*
Hans von Meiss	449,278(4)	1.0%
Michael H. Goldsmith	94,167	*
F. Warren McFarlan	22,500	*
All executive officers and directors as a group (10 persons)	4,403,970	9.4%
Springhouse Capital, LP (6) <i>520 Madison Avenue, 35th Floor New York, New York, 10022</i>	3,858,900	8.6%
Momentum Media, Inc. (5) <i>69-12 Gutierrez Street Sunset Valley Mansion Angeles City 2009 Pampanga, Philippines</i>	2,299,980	5.1%

* Less than 1%

(1) Each of the share amounts for the directors and officers includes options to purchase additional shares, which are exercisable within the next 60 days, as follows: Lee K. Barba, 1,690,627; Paul A. Helbling, 224,627; Ida K. Kane, 25,000; Dale C. Ainge, 15,000; Michael H. Goldsmith, 27,500; Hans von Meiss, 27,500; Stephen C. Wood, 14,162; F. Warren McFarlan, 7,500; and Douglas T. Tansill, 27,500.

(2) Includes 469,999 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members, and 700,000 shares held in a Grantor Retained Annuity Trust.

(3) Includes 166 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members.

(4) Includes 226,333 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members.

(5) Based on stockholder list dated April 17, 2006, provided by U.S. Stock Transfer Corporation, the Company's Transfer Agent.

(6) Based on information submitted to the Company by Brian Gaines. Mr. Gaines is the Managing Member of Springhouse Asset Management, LLC which is the General Partner of Springhouse Capital, LP.

Certain Relationships and Related Transactions

In the past, as part of the normal course of business, some members of the Board of Directors have proposed business alliances between the Company and companies with which they are associated. In the opinion of management, each of these transactions or arrangements was entered into on terms as favorable to the Company as could have been obtained in transactions or arrangements with unaffiliated third parties. However, at this time no such arrangements or alliances exist.

Audit Committee Report

The Audit Committee of the Board of Directors consists of Messrs. von Meiss, Goldsmith, McFarlan, Tansill and Wood. The duties and responsibilities of the Audit Committee are set forth in a written charter adopted by the Board of Directors. Each of the members of the Audit Committee is independent, as defined in Section 121A of the listing standards for the American Stock Exchange.

Management is responsible for the Company's internal controls and the financial reporting process. In accordance with standards of the Public Company Accounting Oversight Board (United States), the Company's independent registered public accountants are responsible for performing audits of management's assessment of the effectiveness of the Company's internal controls over financial reporting, and of the Company's consolidated financial statements, and to issue reports thereon. It is the Audit Committee's responsibility to monitor these processes.

In this context, the Audit Committee has reviewed and discussed with the Company's independent registered public accountants the overall scope and plans for the independent audits. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Discussions about the Company's audited financial statements included the independent registered public accountants' judgments about the quality, not just the acceptability of the application of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with the independent registered public accountants other matters required by Statement on Auditing Standards (SAS) No. 61, *Communication with Audit Committees*, as amended by SAS No. 90, *Audit Committee Communications*.

The Company's independent registered public accountants provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed the independent registered public accountants' independence with management and the independent registered public accountants. In addition, the Audit Committee considered whether any non-audit consulting services provided by the independent registered public accountants' firm could impair the auditor's independence and concluded that such services have not impaired the independent registered public accountants' independence.

Based on the Audit Committee's discussion with management and the independent registered public accountants and the Audit Committee's review of the representations of management and the report of the independent registered public accountants to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC.

By the Audit Committee:
Hans von Meiss, Chairman

Michael H. Goldsmith

F. Warren McFarlan

Douglas T. Tansill

Stephen C. Wood

Code of Business Conduct and Ethics

The Board of Directors of the Company adopted a Code of Business Conduct and Ethics governing its Chief Executive Officer, Chief Financial Officer, its other executive officers and the Board of Directors. The Company's Code of Business Conduct and Ethics is available on the Company's corporate website at <http://www.investools.com> on the Investor Relations page under Corporate Governance. The Company intends to disclose on its website any waivers or amendments to its Code of Business Conduct and Ethics within five business days of such action.

(2) APPROVAL OF AMENDMENT TO 2001 STOCK OPTION PLAN

On April 12, 2006, the Compensation Committee recommended to the Board of Directors that the stockholders approve an amendment to the Company's 2001 Stock Option Plan (the Plan) to increase the number of shares of Common Stock available for issuance thereunder from 6,000,000 to 8,000,000 shares. Attached to this Proxy Statement as Appendix A is a copy of the Plan, as amended and approved by the Board of

Directors, and as submitted to the stockholders for their approval.

Proposed Amendment

On April 12, 2006, the Board approved the amendment to 2001 Stock Option Plan, subject to approval of the Company's stockholders at the Annual Meeting, increasing the number of shares of Common Stock available for issuance under the Plan from 6,000,000 to 8,000,000 shares (the Amendment). The Board of Directors believes that approval of the Amendment will allow the Company to continue to provide key employees and directors with a proprietary interest in the growth and performance of the Company while aligning the interests of management with those of the Company's stockholders. Approval of the Amendment will also allow the Company to continue to have flexibility in structuring compensation arrangements to attract and retain key employees and directors for the Company.

General

The Board of Directors believes that the growth of the Company depends significantly upon the efforts of its key employees and directors and that such individuals are best motivated to put forth maximum effort on behalf of the Company if they own an equity interest in the Company. In accordance with this philosophy, in December 2001, the Board adopted, and the stockholders approved, the Plan. The purpose of the Plan is to further the interests of the Company, its subsidiaries and its stockholders by providing incentives in the form of stock options to key employees and directors who contribute to the success and profitability of the Company and its subsidiaries.

The Plan provides for the grant to employees and directors of the Company (or its subsidiaries) of options to purchase shares of the Company's Common Stock. The Plan is administered by the Compensation Committee of the Board of Directors (the Committee), which has complete discretion to select the optionees and to establish the terms and condition of each option, subject to the provision of the Plan. Options granted under the Plan may be incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or nonstatutory stock options.

Shares Subject to the Plan

Currently, a total of 8,000,000 shares of Common Stock (including 2,000,000 shares subject to stockholder approval at the Annual Meeting) have been reserved for issuance under the Plan. If any option granted under the Plan expires or terminates for any reason without having been exercised in full, then the unpurchased shares subject to that option will once again be available for additional option grants. As of April 17, 2006, options to acquire 3,655,500 shares of Common Stock had been granted under the Plan at exercises prices ranging from \$0.20 to \$5.18 per share, or a weighted average per share exercise price of \$1.84 per share.

Proportionate adjustments may be made to the number, class and/or kind of shares for which options are authorized to be granted under the Plan, the number, class or kind of shares then subject to options previously granted under the Plan, the price per share payable upon exercise of each option outstanding under the Plan and/or any other affected term of an option, in the discretion of the Board, in the event of any reclassification, recapitalization, stock dividend, stock split, combination or exchange of shares, rights offering, or other similar transaction or event. To the extent deemed equitable and appropriate by the Board, and subject to any required stockholder action, any option granted under the Plan will pertain to the securities and other property to which a holder of the number of shares of stock covered by the option would have been entitled to receive in connection with such event.

Stock Option Terms

Options granted under the Plan may not be exercised more than 10 years after the date of grant and the Committee may set a shorter option period. Options may be granted under the Plan only until December 3, 2011.

If an optionee ceases continuous service for the Company for cause, all options held by the optionee shall lapse immediately following the last day that the optionee is employed by the Company or the effective date of the termination of his services to the Company. If an optionee ceases continuous service for the Company for any reason other than cause, death, disability, or retirement on or after the age of 65 of the optionee, all options held by the optionee will lapse at the earlier of the end of the option period or ten days following the last day that the optionee is

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employed by the Company or the effective date of the termination of his services to the Company; *provided, however*, the options may be exercised only as to those shares that have vested as of the termination date. In the case of death of the optionee, the beneficiaries designated by the optionee shall have one year from the optionee's demise or to the end of the option period, whichever is earlier, to exercise the option; *provided, however*, the option may be exercised only as to those shares that have vested at the time the optionee died. If the optionee retires on or after attaining age 65, the option shall lapse at the earlier of the end of the option period or three months after the date of retirement; *provided, however*, the option may be exercised only as to those shares that have vested on the retirement date. In the event of termination of continuous service due to total and permanent disability (within the meaning of Section 422 of the Code), the option shall lapse at the earlier of the end of the option period or twelve months after the date of such termination; *provided, however*, the option may be exercised only as to those shares that have vested at the time the optionee became disabled.

The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock as of the date of grant (110% of the fair market value if the grant is to an employee who owns more than 10% of the total combined voting power of all classes of capital stock of the Company). The Code currently limits to \$100,000 the aggregate value of Common Stock for which incentive stock options may first become exercisable in any calendar year under the Plan or any other option plan adopted by the Company. Nonstatutory stock options may be granted under the Plan at an

exercise price of not less than the par value of the Common Stock on the date of grant. The maximum number of shares with respect to which options (incentive or nonstatutory) may be granted each calendar year to an optionee is 2,000,000. On April 17, 2006, the closing price for the Common Stock on the American Stock Exchange was \$8.17 per share.

Unless otherwise provided by the Committee, an option granted under the Plan vests as to $\frac{1}{4}$ of the total number of shares covered by the option during each 12-month period commencing 12 months after the date of grant of the option. The Board, may in its discretion and subject to applicable law, provide for the exercise of options either as to an increased percentage of shares per year or as to all remaining shares.

Transferability

An option granted under the Plan is not transferable otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, and may be exercised during the lifetime of an optionee only by him. The Committee may grant options that are transferable, without payment of consideration, to immediate family members of an optionee or to trusts or partnerships for such family members. The Committee may also amend outstanding options to provide for such transferability.

Amendment of the Plan

The Committee may amend the Plan or condition or modify options awarded under the Plan in response to changes in securities or other laws or rules, regulations or regulatory interpretations applicable to the Plan or to comply with stock exchange rules or requirements without approval of the stockholders. The Committee may, from time to time, terminate or modify the Plan in any respect; *provided, however*, that, any amendment, whether with or without the approval of the stockholders, that alters the terms or provisions of an option granted before the amendment (unless the alteration is expressly permitted under the Plan) will be effective only with the consent of the optionee to whom the option was granted.

Awards to be Granted

As of April 17, 2006, approximately 500 employees were eligible to be considered for the grant of options under the Plan. The grant of options to key employees and directors under the Plan is entirely in the discretion of the Committee. The Committee has no outstanding grants of options to purchase Common Stock and no grants are under consideration at the present time.

Federal Income Tax Consequences

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Under existing federal income tax provisions, a participant who receives stock options that are subject to restrictions that create a substantial risk of forfeiture (within the meaning of Section 83 of the Code) will not normally realize any income, nor will the Company normally receive any deduction for federal income tax purposes, in the year such option is granted.

When a nonstatutory stock option granted pursuant to the Plan is exercised, the optionee will realize ordinary income measured by the difference between the aggregate fair market value of the shares of Common Stock on the exercise date and the aggregate purchase price of the shares of Common Stock as to which the option is exercised, and, subject to Section 162(m) of the Code, the Company will be entitled to a deduction in the year the option is exercised equal to the amount the optionee is required to treat as ordinary income.

An optionee generally will not recognize any income upon the exercise of any incentive stock option, but the excess of the fair market value of the shares at the time of exercise over the option price will be an item of adjustment, which may, depending on particular factors relating to the optionee, subject the optionee to the alternative minimum tax imposed by Section 55 of the Code. An optionee will recognize capital gain or loss in the amount of the difference between the exercise price and the sale price on the sale or exchange of stock acquired pursuant to the exercise of an incentive stock option, provided the optionee does not dispose of such stock within either two years from the date of grant or one year from the date of exercise of the incentive stock option (the required holding periods). An optionee disposing of such shares before the expiration of the required holding period will recognize ordinary income generally equal to the difference between the option price and the fair market value of the stock on the date of exercise. The remaining gain, if any, will be capital gain. The Company will not be entitled to a federal income tax deduction in connection with the exercise of an incentive stock option, except where the optionee disposes of the Common Stock received upon exercise before the expiration of the required holding periods.

The foregoing does not purport to be a complete summary of the federal income tax considerations that may be relevant to holders of options or to the Company. It also does not reflect provisions of the income tax laws of any municipality, state or foreign country in which an op