

INVESTTOOLS INC  
Form 10-K  
March 30, 2004

## 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, 2003

Commission File Number: 0-31226

## INVESTTOOLS 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.)

**5959 Corporate Drive, Suite LL250  
Houston, Texas**

(Address of principal executive offices)

**77036**

(Zip Code)

Registrant's telephone number, including area code:  
**(281) 588-9700**

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to Section 12(g) of the Act:

**None**

**Common Stock, \$.01 par value per share**

(Title of Class)

## Edgar Filing: INVESTTOOLS INC - Form 10-K

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.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange 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, 2003 (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 OTC Bulletin Board of the NASD for such date, was \$5.2 million.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on March 19, 2004, based upon the closing price of the common stock on the American Stock Exchange for such date, was approximately \$94.6 million. The number of shares of the Registrant's common stock converted and outstanding on March 19, 2004 was 42,226,633.

### 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 2, 2004 is incorporated by reference in Part III of the Form 10-K.

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**INVESTTOOLS INC.**  
**FORM 10-K REPORT INDEX**

**PART I**

- ITEM 1.     BUSINESS
- ITEM 2.     PROPERTIES
- ITEM 3.     LEGAL PROCEEDINGS
- ITEM 4.     SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

**PART II**

- ITEM 5.     MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS
- ITEM 6.     SELECTED FINANCIAL DATA
- ITEM 7.     MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- ITEM 7A.    QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
- ITEM 8.     FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
- ITEM 9.     CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
- ITEM 9A.    CONTROLS AND PROCEDURES

**PART III**

- ITEM 10.    DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
- ITEM 11.    EXECUTIVE COMPENSATION
- ITEM 12.    SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
- ITEM 13.    CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
- ITEM 14.    PRINCIPAL ACCOUNTING FEES AND SERVICES

**PART IV**

- ITEM 15.    EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 10-K

**Part I**

**Item 1. Business**

**Operations Overview**

INVESTools Inc. (the Company or INVESTools, <http://www.investools.com>) offers a full range of investor education products and services that provide lifelong learning and support to self-directed investors to help them improve their investment performance. INVESTools has more than 100,000 graduates, and 34,000 subscribers to its Web sites, and has nearly 700,000 records in its student database. The Company teaches basic investing concepts in instructor-led classes, including workbooks and training manuals, investor conferences, one-on-one personal coaching and DVD home-study courses.

The Company's corporate headquarters and principal executive office is located at 5959 Corporate Drive, Suite LL250, Houston, Texas 77036. The Company maintains its operational headquarters at its Provo, Utah facility, from which marketing, sales, product development, business development, brand management, student support and product fulfillment services are primarily conducted.

**Corporate Background**

The Company was incorporated in Delaware on May 21, 2001 and began operations on December 6, 2001, as a result of a merger between ZiaSun Technologies, Inc., a Nevada corporation ( ZiaSun ), and Telescan, Inc., a Delaware corporation ( Telescan ) (the Merger ). Former ZiaSun stockholders acquired an approximate 75% ownership interest in the Company. Telescan stockholders received an approximate 25% ownership interest in the Company. The Merger was accounted for under the purchase method of accounting.

ZiaSun and Telescan each became wholly owned subsidiaries of the Company.

ZiaSun owns 100% of Online Investors Advantage, Inc. ( OIA ). OIA owns 100% of Investor Education California, LLC. OIA also owns 100% of the following dormant companies that have no operations: INVESTools Asia Pacific Pte., Limited ( INVESTools Asia ), INVESTools Hong Kong Ltd. ( INVESTools Hong Kong ), Seminar Marketing Group, Inc. ( SMG ) and Memory Improvement Systems, Inc. ( MIS ). ..

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

## **Business Segments**

The Company's operations currently consist of a single segment, Investor Education, which seeks to fulfill the lifelong education needs of self-directed investors. During the third quarter of 2003, the Company reorganized its management team in support of its core Investor Education business. As the Company's former Publishing and Business Services segment had experienced a steady decline in revenue over the past two years, management determined that such segment was, and continues to be, an insignificant part of the Company's operations.

## **Business Strategy**

The Company's objective is to empower individual investors to achieve their goals by establishing the INVESTTools Method - a unique integration of disciplined processes, Web-based tools, instruction techniques and support as the most widely recognized, adopted and endorsed approach to investor education. By leveraging strategic partnerships to gain market share for the INVESTTools Method, growing the lifetime value of the student and creating a culture of execution within the Company, management believes that the Company's financial condition will continue to be strengthened.

### ***Establish the INVESTTools Method***

Currently the Company has approximately 34,000 subscribers and more than 100,000 graduates, which indicates that the INVESTTools Method is among the most widely adopted investor education systems in the world. In 2003, the Company continued to penetrate the investor education market using its existing branded and cooperative marketing partnerships with the BusinessWeek Group of the McGraw-Hill Companies (<http://www.toolbox.businessweek.com/>); CNBC, which is owned by National Broadcasting Corporation (<http://www.cnbc.com>); MIT Financial (<http://moneyintraining.com>); and Peter Lowe International, Inc. (<http://www.lifewin.com>), among others. Through increased brand involvement in the Company's marketing and products, the Company has been able to reach new students with varied demographic profiles, extend the delivery formats through which the Company's products are offered and further expand the range of content offered to students. In 2004, the Company plans to continue pursuing an increased market share through new partners and distribution channels with the INVESTTools Method formula, as well as streamline its products across relationships for improved source recognition.

*Grow the Lifetime Value of the Student*

In 2003, the Company introduced its lifetime value of the student strategy. The strategy sought to expand the length of time a student participated in INVESTools investor education programs and increase the quantity of products for the student while maintaining product excellence. Through a process that involved: (i) implementing a series of friendly, time-sensitive communications with students throughout their life cycle with the Company; (ii) taking a more proactive approach to student retention and (iii) educating staff members in how to empower students for results, the Company experienced growth in subscription renewals and additional product sales during the year. These results, combined with more than 100,000 current graduates, prove not only that the Company can retain students, but that it can also fulfill their needs for additional or lifelong learning. In 2004, the Company plans to further increase the average life cycle and average sales per graduate through a variety of alumni-focused marketing campaigns.

*Create a Culture of Execution*

Since the merger in 2001, the Board of Directors has successfully brought together diverse corporate cultures and refocused the management team in order to effectuate the continued growth of the Company. In 2003, Michael Goldsmith, a managing director with Wealth and Tax Advisory Services, Inc., a subsidiary of Hong Kong and Shanghai Banking Corp, and Douglas Tansill, a private investor and financial consultant with nearly 40 years of investment banking experience, joined the Company's Board of Directors. In addition, Andrew Forrester, a founding member of Cove Harbor Partners, and John Babcock, Jr., former President and Chief Executive Officer of BPI Communication, Inc., were appointed to the newly created Advisory Committee of the Board of Directors. In 2004, the Board of Directors will utilize the Advisory Committee to continue to shape the INVESTools Method by periodically reviewing and approving changes to the concept and the Company's overall business plan.

**Product and Service Offerings**

The Company's premier product is its proprietary InvestorToolbox Web site (<<http://www.investortoolbox.com>>), which serves as the platform for all of the Company's investor education programs. Generally, investors are introduced to the InvestorToolbox Web product through a free Introduction to Online Investing preview event. Attendees of the preview event are given an invitation to attend a more comprehensive instructor-led workshop or purchase an in-depth home study program, both of which include a six-month subscription to the InvestorToolbox Web site.

The Company seeks to offer investors a full range of investor education products that provide lifelong learning. As such, workshops and home study programs are typically bundled with personalized, one-on-one coaching sessions, which are spread out over several months. Following completion of the personal training sessions, graduates are offered continuing education courses to build upon what they have learned. The Company continues to develop and introduce additional continuing education courses in order to maintain a broad investor education program for the Company's alumni. Products are offered under the BusinessWeek, CNBC, Success Magazine and INVESTools brands.

*InvestorToolbox Web Site* - The Company's InvestorToolbox Web site gives investors access to the investment tools needed to execute the strategies taught in the Company's workshop, home study and personal training programs. The site has proprietary features that are not accessible on other financial Web sites, including more than 50 pre-built stock searches, comparative reports, market indicators, market commentary and portfolio tracking features. An initial six-month subscription to the site (valued at \$299) is included with the purchase price of a workshop or home study program. At the end of the initial six-month subscription, graduates are offered renewals for a fee, which depends on the length of the renewal period and whether additional products are purchased. Currently, the Company offers six-month, 12 month, 24 month and 36 month renewals.

*Preview Event* - INVESTTools offers a free event that introduces attendees to basic investing concepts and provides a broad overview of the financial market. Depending on the brand under which the event is marketed, participants may receive a premium for *attending*. Attendees are offered an invitation to attend a more intensive workshop or purchase an in-depth home study program, both of which are typically bundled with one-on-one coaching sessions with a personal trainer.

*Workshops* - The Company offers one and two-day, domestic and international instructor-led investing workshops that cover topics ranging from basic investing principles to advanced strategies, such as cash flow analysis and options strategies. Classes provide investors with hands on experience using the Company's proprietary InvestorToolbox Web site, as well as *future* access to one-on-one coaching sessions with a personal trainer. Prices for the Company's workshops range from \$995 to \$3,999.

*Home Study Programs* - INVESTTools offers several of its courses, including basic investing principles, cash flow strategies and its popular personal coaching line of products, in a DVD at home study format. These one and two-day programs are made available to preview attendees who are unable to attend the instructor-led workshops, as well as to workshop graduates seeking to expand their investment knowledge base. Prices for the Company's home study programs range from \$995 to \$7,999.

*Personal Training System (PTS)* - The Company's PTS line of products offer investors personalized, one-on-one coaching on a variety of subjects, including online investing and cash flow strategies. The Company is currently developing a personalized advanced options course, as well. Through these interactive sessions, investors are accountable to a personal trainer, which enables them to learn at their own pace and successfully apply what they are learning. PTS sessions are typically offered over a three-month period and include unlimited support by phone and email during the same time period. Prices for the courses range from \$999 to \$2,499 depending upon how they are bundled.

*Masters Program* - In 2004, the Company introduced its new Masters Program, which combines home study courses and personal training sessions to give the serious student comprehensive access to a multitude of the Company's products at one price. As part of the program, students receive extended personal training sessions for both the online investing and cash flow strategies courses (including telephone and email hotline access), an advanced options course, 24 month InvestorToolbox access and a 12 month unlimited workshop VIP pass. Prices for the Masters Program range from \$4,999 to \$7,999.

*Continuing Education* - INVESTTools continuously challenges alumni of the Company's investor education programs to build upon the skills learned through free weekly email newsletters and daily market commentary, as well as through advanced home study course offerings. Advanced courses currently available include Advanced Options, Bear Market Game Plan, LEAPS Strategies, Mutual Fund and OEX Strategies and Spread Trading. Prices for the courses range from \$299 to \$2,499.

## **Marketing Strategy**

Revenue is derived from: (i) the initial sale of the Company's products and services as a result of marketing efforts across a multitude of student acquisition mediums, which include, but are not limited to, radio, television, print, email and direct marketing campaigns, as well as telemarketing efforts; and (ii) the additional sale of products and services to graduates as a result of continued interaction with the Company, including weekly newsletters, periodic email communications and hotline access to personal trainers and instructors. In 2003, with the assistance of Service Enhancement Systems, Inc., a California corporation operating under the assumed name 360 Group ( 360 Group ), a direct marketing firm, the Company continued to refine its student acquisition process and built a new marketing database of nearly 700,000 prospects and students in an effort to increase the student retention rate and expand product cross-sell opportunities. As a result, the Company experienced growth in initial and additional product sales, increased the number of subscribers to its platform Web site, InvestorToolbox.com, and achieved increasing Web site renewal rates.

In February of 2004, the Company acquired 360 Group for \$5.5 million in a combination of stock and cash. As a result of the acquisition, the Company immediately: (i) gained control of a critical strategic asset, thereby providing the Company with the ability to build, constantly upgrade and exploit its extensive student database and (ii) acquired 22 talented professionals, including key additions to the executive management team. Going forward, the Company will continue to refine its creative development, student analysis and venue mapping strategies to further reduce student acquisition costs, increase lead flow and increase net income.



## Competition

Technology has generated significant growth in education markets and acceptance of for-profit involvement in the improvement of education is now a mainstream concept. However, only recently has the education market begun to emerge as a true industry. Broadly defined, the education industry covers a full range of cradle to grave, for-profit and non-profit educational products and services that are delivered through both traditional and technology-based channels and includes such disparate elements as early childhood education, corporate training and lifelong learning. The Company believes that its mission to fulfill the lifelong education needs of self-directed investors most accurately falls within the confines of the education industry.

Of the \$105 billion for-profit sector, (1) which has grown rapidly for most of the past decade, it is estimated that the nearly \$17 billion market for post-secondary education is expected to be the fastest growing sector in the industry for the next several years. (2) Related to the market for investor education, since more than half of all U.S. households, an estimated 53 million, own equity securities, 48% of which were initially purchased inside employer retirement plans, (3) the Company believes that a significant opportunity exists to educate the public about how to make good investment decisions. A recent Harris Interactive / Securities Industry Association survey (4) confirmed the Company's belief, citing that as more investment related information has become available to the public through the Internet, and with increasing cases of corporate accounting fraud and financial mismanagement, investors continue to look to the securities industry to educate them about how to make better investments.

Generally, competitive factors within the educational market include the range and depth of course offerings, the quality of instructors and trainers, the quality of reference materials provided in connection with course studies and the cost of the educational process. The Company is aware of several companies that provide some level of investor education in a similar delivery format. However, the Company believes that the range and depth of its course offerings and its exclusive license agreements with BusinessWeek and CNBC for branded investor education offerings, combined with the Company's database

of nearly 700,000 prospects and students, more than 100,000 graduates and greater than 34,000 subscribers provide the Company with a considerable competitive advantage.

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- (1) KnowledgeQuest Education Group LLC, 2002
  - (2) School Reform News, August 2002
  - (3) ICI/SIA Study, Equity Ownership in America, 2002
  - (4) Harris Interactive Annual SIA Investor Survey, November 2003

### **Intellectual Property**

The Company has been awarded and seeks to maintain a number of patents in the United States in order to protect its proprietary base technology. The Company has also registered and received approval with respect to a number of trademarks in the United States and in foreign countries. Although management believes that the Company's patents and trademarks provide adequate protection for the proprietary aspects of the Company's technology and business operations, management cannot assure that such patents and trademarks will 1) be of substantial protection or commercial benefit to the Company; 2) afford the Company adequate protection from competing products; or 3) not be challenged or declared invalid.

The Company attempts to protect its trade secrets and other proprietary information with product development partners, employees and consultants through nondisclosure agreements, contract provisions and through copyright, patent, trademark and trade secret laws. With respect to technologies that the Company licenses to third parties for use in specific applications or platforms, the Company relies on licensing agreements to ensure additional protection related to the source code of the Company's products as a trade secret and as an unpublished copyright work. Management believes that the Company's products, trademarks and other proprietary rights do not infringe on the proprietary rights of third parties, and management is not aware of any current infringement claims against the Company.

### **Regulatory Compliance**

With the exception of the general requirement that the Company and its subsidiaries be registered or qualified to do business in the United States and any foreign countries in which the Company operates, the products and services provided through the use of the Company's technology currently are not subject to the approval of any government regulatory body. However, certain foreign countries may require that the Company register with their respective securities and investments commission or similar regulatory body prior to conducting investment-related seminars or workshops. The Company has registered with the Australian Securities and Investments Commission and has a compliance officer residing in Australia.

The Company is subject to numerous federal and state laws and regulations designed to protect consumers, including laws governing consumer privacy and fraud, the collection and use of consumer data, telemarketing and other forms of solicitation. Noncompliance with these laws and regulations can subject the Company to fines or various forms of civil or criminal prosecution, any of which could have an adverse effect on its financial condition and results of operations.

***Consumer Protection and Telemarketing Matters***

The telemarketing rules adopted by the Federal Communications Commission pursuant to the Federal Telephone Consumer Protection Act and the Federal Telemarketing Sales Rule issued by the Federal Trade Commission (both of which were amended in 2003 to establish a National Do Not Call Registry) govern the Company's telephone sales practices. In addition, many states have adopted statutes and regulations targeted at direct telephone sales activities. The Company has reviewed its marketing and sales practices and has made modifications to ensure compliance. The Company will continue to monitor regulatory guidelines to ensure compliance.

The CAN-SPAM act of 2003 was signed into law by the President on December 16, 2003 and went into effect on January 1, 2004. Otherwise known as The Controlling the Assault of Non-Solicited Pornography and Marketing Act it requires unsolicited commercial email messages to be labeled and to include opt-out instructions and the sender's physical address. It prohibits the use of deceptive subject lines and false headers in such messages. The Company has reviewed its email marketing practices and has made modifications to ensure compliance. The Company will continue to monitor regulatory guidelines to ensure compliance.

***SEC Filings***

The Company files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (SEC) within established deadlines. Any document the Company files with the SEC may be viewed or copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. The Company's SEC filings are also available to the public through the SEC's Web site located at <http://www.sec.gov>. The Company will voluntarily provide electronic or paper copies of its filings free of charge upon request.

The Company maintains a corporate Web site at <http://www.investtools.com>, on which investors may access free of charge the Company's annual report on Form 10-K, quarterly reports on Form 10-Q and amendments to those reports as soon as is reasonably practicable after furnishing such material with the SEC.

## Human Resources

At December 31, 2003, the Company had 287 employees. There were 275 full time employees in all functions of the Company and 12 part time employees, primarily in administrative and sales functions. The Company also had 19 persons under contract primarily in educational services. Key Company personnel are covered by employment and confidentiality agreements. No persons employed by the Company, either full time or on a contract basis, are covered by a collective bargaining agreement and the Company has never experienced a work stoppage due to protesting or related activities. Management considers relations with the Company's personnel to be good.

## Item 2. Properties

The Company's corporate headquarters are located in Houston, Texas. In December 2002, the Company entered into a temporary lease agreement for the Houston facility beginning May 1, 2003 that can be terminated by either party with 90 days written notice.

The Company's main operations are located in leased facilities in Provo, Utah and the Company has leased office space in New York, New York and the San Francisco Bay area.

In March 2003, the Company ceased operation of its wholly owned subsidiary INVESTools California, vacated its lease, and terminated the remaining employees. The Company also ceased operation of its wholly owned subsidiaries INVESTools Asia and INVESTools Hong Kong, vacated its lease in Singapore and terminated all of the employees.

The following table shows the amount of square footage of the Company's leased facilities and monthly rent as of December 2003:

City	Square Feet Rented	Monthly Rent as of December 2003
Provo (combined)	39,489	\$ 42,232
San Francisco Bay Area	2,155	4,852
Houston	9,495	6,000
New York	280	6,660
	51,419	\$ 59,744

In December 2003, the Company entered into an agreement to sublease space in Provo, Utah. The agreement was for approximately three years and the Company is receiving rent of approximately \$11,000 per month.

### Item 3. **Legal Proceedings**

From time to time the Company is involved in certain legal actions arising from the ordinary course of business. It is the opinion of management that such litigation will be resolved without a material adverse effect on the Company's financial position or results of operations.

On March 4, 2003, a foreign national filed a complaint in the San Diego Superior Court against ZiaSun Technologies, Inc., a wholly-owned subsidiary of the Company ( ZiaSun ). The complaint alleges that certain individuals, who are not parties in the lawsuit, persuaded the plaintiff to purchase shares of ZiaSun common stock and the complaint also alleges a failure to deliver a stock certificate. ZiaSun does not have any ownership or control of the third party brokerage house from whom plaintiff claims to have purchased stock. The plaintiff is seeking unspecified damages for the alleged fraud in the sale of the stock. The Company believes that it has good defenses to the alleged claims and intends to vigorously defend against this lawsuit.

On July 9, 2003, the Company was served with a lawsuit that was filed on June 4, 2003 by Integris/Millennium Joint Venture, LLC in the Superior Court of California, County of San Mateo. The lawsuit names INVESTTools California, Telescan, and INVESTTools Inc. as defendants. The plaintiff alleges that in April 2003, INVESTTools California breached a lease agreement by abandoning the leasehold premises and failing to pay monthly rent to the plaintiff. The lawsuit also alleges fraudulent transfer and waste against all the defendants. The plaintiff is seeking damages for rent owed for the remainder of the lease term and for miscellaneous cleanup, repair and storage costs. The plaintiff is also seeking the seizure of the alleged fraudulently transferred assets and punitive damages. **The trial court entered judgment in favor of INVESTTools Inc., dismissing each of Plaintiff's claims against INVESTTools Inc., after concluding that INVESTTools Inc. is not subject to California's jurisdiction.** The Company intends to vigorously defend the claims asserted against the remaining defendants. The matter is set for dispositive motion on April 19, 2004 and the Company remains confident that the matter will be dismissed prior to trial.

The Company is not aware of pending claims or assessments, other than as described above, which may have a material

adverse impact on the Company's financial position or results of operation.

## Item 4. Submission of Matters to a Vote of Stockholders

During the fourth quarter of 2003, there were no matters submitted to a vote of the stockholders.

### Part II

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

### The Company

The Company's common stock is traded on the American Stock Exchange under the symbol IED. The following table sets forth, for the periods indicated, the high and low sales prices. Prior to December 9, 2003, the Company's common stock traded on the OTC Bulletin Board.

	Company Common Stock	
	High	Low
<u>2003</u>		
Quarter ended March 31	\$ 0.39	\$ 0.17
Quarter ended June 30	0.34	0.14
Quarter ended September 30	1.37	0.15
Quarter ended December 31	1.80	0.59
<u>2002</u>		
Quarter ended March 31	\$ 0.71	\$ 0.25
Quarter ended June 30	0.51	0.25
Quarter ended September 30	0.51	0.08
Quarter ended December 31	0.40	0.06

On March 19, 2004, the closing price of the Company's common stock as reported by the American Stock Exchange was \$2.24. As of March 19, 2004, the Company had 884 stockholders of record, and believes it has approximately 9,000 beneficial holders.

**Dividend Policy**

The Company has never declared a cash dividend on its common stock. The Board of Directors currently intends to retain all earnings for use in the Company's business, and therefore, does not anticipate paying any cash dividends on its common stock in the foreseeable future. The declaration of dividends, if any, in the future would be subject to the discretion of the Board of Directors, which may consider factors such as the Company's results of operations, financial condition, capital needs and acquisition strategy, among other things. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's consolidated financial statements and the notes thereto.

In accordance with the agreement pursuant to which the stock was issued, on May 15, 2002, the 120,000 outstanding shares of the Company's Series A Convertible Preferred Stock converted into 1,666,667 shares of Company common stock. Accrued dividends of \$75,000 were converted into 41,667 shares of common stock.

**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2003 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 remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	