INVESTOOLS INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

FOR QUARTER ENDED June 30, 2007

Commission File Number: 000-52012

INVESTOOLS INC.

(Exact name of Registrant as specified in its charter)

Delaware	**76-0685039**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
45 Rockefeller Plaza, Suite 2012, New York, New York	**10111**
(Address of principal executive offices)	(Zip Code)

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

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 x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Common Stock: 65,599,796 as of August 9, 2007

INVESTOOLS INC. AND SUBSIDIARIES
Report on Form 10-Q
Quarter Ended June 30, 2007

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

INVESTOOLS INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2007	**December 31, 2006**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,132	$ 52,923
Marketable securities	2,792	22,141
Accounts receivable, net of allowance ($338 and $74)	20,843	5,885
Receivable from clearing brokers	8,881	
Income tax receivable	8,376	
Deferred tax asset	7,234	
Other current assets	7,391	10,056
Total current assets	86,649	91,005
Long-term restricted cash	382	377
Goodwill	207,235	18,085
Intangible assets, net of accumulated amortization ($9,861 and $4,154)	139,185	2,936
Software development cost, net of accumulated depreciation ($1,937 and $274)	20,622	12,584
Furniture and equipment, net of accumulated depreciation ($6,929 and $4,790)	8,237	5,253
Other long-term assets	21,982	1,397
Total assets	$ 484,292	$ 131,637
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of deferred revenue	$ 137,747	$ 120,919
Other current liabilities	22,471	15,958
Accounts payable	12,466	4,388
Accrued payroll	9,196	4,870
Accrued tax liabilities	8,219	9,602
Current portion of capitalized lease obligations	198	180
Current portion of notes payable	17,500	
Total current liabilities	207,797	155,917
Long-term portion of deferred revenue	43,514	38,656
Capitalized lease obligations	425	500
Notes payable	105,000	
Deferred income taxes	12,955	
Other long-term accrued liabilities	56	215
Total liabilities	369,747	195,288
Stockholders equity (deficit):		
Common stock $0.01 par value (65,593 and 45,264 shares issued and outstanding, respectively)	656	453
Additional paid-in capital	322,000	128,115
Accumulated other comprehensive income		3
Accumulated deficit	(208,111)	(192,222)
Total stockholders equity (deficit)	114,545	(63,651)
Total liabilities and stockholders equity (deficit)	$ 484,292	$ 131,637

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESTOOLS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 Restated	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 Restated
Revenue	$ 77,617	$ 43,447	$ 132,474	$ 86,121
Costs and expenses				
Cost of revenue	37,293	35,851	69,898	64,550
Selling expense	16,895	12,166	36,365	24,506
General and administrative expense	15,425	8,608	37,075	16,676
Special charges	838	2,624	965	2,990
Total costs and expenses	70,451	59,249	144,303	108,722
Income (loss) from operations	7,166	(15,802)	(11,829)	(22,601)
Other (expense) income				
Interest expense	(2,309)	(17)	(3,777)	(31)
Interest income	209	604	861	964
Other	7		6	2
Other (expense) income	(2,093)	587	(2,910)	935
Net income (loss) before income taxes and cumulative effect of accounting change	5,073	(15,215)	(14,739)	(21,666)
Income tax provision	1,117	28	1,150	56
Net income (loss) before cumulative effect of accounting change	3,956	(15,243)	(15,889)	(21,722)
Cumulative effect of accounting change				48
Net income (loss)	$ 3,956	$ (15,243)	$ (15,889)	$ (21,674)
Net income (loss) per common share:				
Basic	$ 0.06	$ (0.34)	$ (0.26)	$ (0.48)
Diluted	$ 0.06	$ (0.34)	$ (0.26)	$ (0.48)
Weighted average common shares outstanding basic	65,379	45,067	60,368	44,943
Weighted average common shares outstanding diluted	68,416	45,067	60,368	44,943

The accompanying notes are an integral part of these condensed consolidated financial statements.

INVESTOOLS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30, 2007	2006 Restated
Cash flows from operating activities:		
Net loss	$ (15,889)	$ (21,674)
Reconciling adjustments:		
Depreciation and amortization	8,660	2,316
Deferred taxes	767	56
Stock compensation expense	11,534	491
Amortization of exclusivity rights	1,620	
Amortization of debt issuance costs	451	
Provision for sales return reserve	588	545
Provision for lease termination	136	213
Provision for (recovery of) bad debt	264	(35)
Loss (gain) on sale of assets	21	(10)
Impairment of capitalized software development		1,464
Loss on marketable securities	4	
Changes in operating assets and liabilities, net of the effect of acquired businesses:		
Accounts receivable	(13,669)	461
Receivable from clearing brokers	(4,533)	
Income tax receivable	44	
Other assets	3,111	(1,659)
Accounts payable	(4,813)	1,248
Deferred revenue	22,289	45,795
Accrued payroll	426	328
Other liabilities	(6,870)	600
Accrued tax liabilities	(12)	1,770
Net cash provided by operating activities	4,129	31,909
Cash flows from investing activities:		
Purchases of marketable securities		(23,403)
Proceeds from the sale or maturity of marketable securities	19,811	2,500
Proceeds from the sale of equipment	25	10
Payments for capitalized software development costs	(3,801)	(3,473)
Purchases of furniture and equipment	(1,777)	(1,999)
Cash paid in business acquisitions, net of cash received	(158,641)	
Net cash used in investing activities	(144,383)	(26,365)
Cash flows from financing activities:		
Payments on capital leases	(91)	(70)
Payments on note payable	(2,500)	
Changes in long-term restricted cash	(5)	4,717
Proceeds from note payable	125,000	
Payment of debt issuance costs	(4,539)	
Repurchase of stock		(1,360)
Proceeds from exercise of stock options	598	672
Net cash provided by financing activities	118,463	3,959
Increase (decrease) in cash and cash equivalents	(21,791)	9,503
Cash and cash equivalents:		
Beginning of period	52,923	11,466
End of period	$ 31,132	$ 20,969

Supplemental disclosures of cash flow information:				
Cash paid for interest	$	3,865	$	31
Supplemental non-cash disclosures:				
Equipment financed with capital lease obligations	$	34	$	183
Licensing contracts financed with vendors	$		$	350
Software development, and furniture and equipment costs financed through accounts payable and other liabilities	$	2,241	$	
See Note 3 for additional information about the merger with thinkorswim				

The accompanying notes are an integral part of these condensed consolidated financial statements.

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INVESTOOLS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Investools Inc. and its wholly-owned subsidiaries (the Company or Investools). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 included in the Company s Annual Report on Form 10-K.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (SEC) and do not include all the information and footnotes required by accounting principles generally accepted in the United States. However, in the opinion of management, the information furnished reflects all adjustments, consisting of normal recurring adjustments, which are necessary to make a fair presentation of financial position and operating results for the interim periods. The results of operations for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Restatement of 2006 Financial Statements

In February 2007, the Company determined that during the year ended December 31, 2006 certain deferred revenue related to workshops and homestudies had not been appropriately recognized as revenue during the period the workshop was attended, or homestudy delivered. The Company also discovered an error in accrued sales taxes that was recorded in the quarter ended March 31, 2006. Additionally, certain immaterial errors were identified which related to the year ended December 31, 2005. These have also been recorded in the first quarter of 2006.

The Company has accordingly restated operating results for each of the first three quarters of 2006 to appropriately reflect recognition of the additional revenue earned. In addition, the Company restated operating results for sales tax accrued in the first quarter of 2006. The aggregate impact of the restatement in the accompanying Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2006 is an increase in revenue recognized under generally accepted accounting principles (GAAP) of $5.1 million and $9.0 million, respectively, an increase in selling expense of zero and $0.5 million, respectively, and a reduction to net loss of $5.1 million and $8.5 million, respectively. These adjustments also resulted in related changes to long-term deferred tax assets, short-term deferred tax liabilities, current and long-term deferred revenue, accrued sales taxes, the reserve for sales returns, and accumulated deficit. There was no impact from the restatement on net cash provided by operating activities, net cash used in investing activities, or net cash provided by financing activities. Further explanations of the restated financial statements can be found in the audited consolidated financial statements for the year ended December 31, 2006 included in the Company s Annual Report on Form 10-K.

2. Summary of Significant Accounting Policies

Except as described in the following paragraphs, there have been no changes in significant accounting policies from those included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2006.

As a result of the February 15, 2007 merger with thinkorswim Group, Inc. (thinkorswim), the Company has several new significant accounting policies. The following paragraphs update the significant accounting policies disclosed in Note 2 of Notes to Consolidated Financial Statements included in the Company s Annual Report filed on Form 10-K for the year ended December 31, 2006.

Use of Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires

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management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities and the reported amounts of sales return reserve, revenues and expenses. Management believes the most significant estimates and assumptions are associated with the valuation of intangibles, goodwill, taxes, deferred revenue, and the reserve for sales returns. If the underlying estimates and assumptions upon which the financial statements are based change in future periods, actual amounts may differ from those included in the Condensed Consolidated Financial Statements.

Receivables from Clearing Brokers

Receivables from clearing brokers consists of cash deposits and receivables from revenues earned, net of expenses incurred, from customer transactions conducted through the clearing brokers.

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are carried at market value and recorded on a trade date basis. The Company does not actively trade securities for its own benefit. Securities sold, not yet purchased represent obligations of the Company to make future delivery of specified securities and correspondingly create an obligation to purchase securities at prevailing market prices. Equities and options included in securities owned and securities sold, not yet purchased generally result from trade corrections.

Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* , on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement 109, *Accounting for Income Taxes* , and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The adoption of FIN 48 did not have a material effect on the financial statements as of the adoption date and as of June 30, 2007. As a result, there was no cumulative effect related to adoption. As of January 1, 2007, the Company had no unrecognized tax benefits.

The Company is continuing its practice of recognizing interest and/or penalties related to income tax matters as a component of tax expense in the Condensed Consolidated Statements of Operations.

Tax years 2003 through 2006 and 2002 through 2006 are subject to examination by federal and state taxing authorities, respectively. The Company is currently under examination by the Internal Revenue Service for the tax years ended December 31, 2004 and 2005. It is likely the examination phase of the audit will conclude in 2007. The Company expects the audit to be concluded without a material impact to the financial statements.

Tax expense, in the amount of $1.2 million, was recorded in the second quarter of 2007 and relates to the use of a portion of our net operating losses (NOLs) which created deferred tax expense that was not offset by the related release of valuation allowance on those NOLs. The tax benefit resulting from valuation release was credited to goodwill instead of tax expense, since the valuation allowance on those NOLs was originally established in purchase accounting.

Sales Taxes

The Company records taxes collected from customers on a net basis, excluded from revenues.

Revenue Recognition

As a result of the merger with thinkorswim in February 2007, the Company has two segments: the Investor Education segment and thinkorswim segment. The following paragraphs summarize the revenue recognition policies for each reporting segment.

Investor Education Segment

The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* , and EITF No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* . Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: (i) persuasive evidence of

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an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the price to the buyer is fixed or determinable; and (iv) collectibility is reasonably assured.

The Company sells its products separately and in various bundles that contain multiple deliverables that include on-demand coaching services, website subscriptions, educational workshops, online courses, along with other products and services. In accordance with EITF 00-21, sales arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (i) the product has value to the customer on a standalone basis; (ii) there is objective and reliable evidence of the fair value of undelivered items; and (iii) delivery or performance of any undelivered item is probable and substantially in our control. The fair value of each separate element is generally determined by prices charged when sold separately. In certain arrangements, Investools offers these products bundled together at a discount. The discount is allocated pro rata to each element based on the relative fair value of each element when fair value support exists for each element in the arrangement. If fair value of all undelivered elements in an arrangement exists, but fair value does not exist for a delivered element, then revenue is recognized using the residual method. Under the residual method, the fair value of undelivered elements is deferred and the remaining portion of the arrangement fee (after allocation of 100 percent of any discount to the delivered item) is recognized as revenue. The Company provides some limited rights of return in connection with its arrangements. The Company estimates its returns based on historical experience and maintains an allowance for estimated returns, which has been reflected as an accrued liability. Each transaction is separated into its specific elements and revenue from each element is recognized according to the following policies:

Product	**Recognition policy**
Workshop/workshop certificate	Deferred and recognized as the workshop is provided or certificate expires
Home study	Recognized upon delivery of home study materials to the customer
Online course	Deferred and recognized over the estimated subscription period
Coaching sessions	Deferred and recognized as services are delivered, or on a straight-line basis over the subscription period
Website subscription and renewals	Deferred and recognized on a straight-line basis over the subscription period
Data licenses	Recognized monthly based on data usage

Throughout 2006, the Company introduced certain online courses. The terms and conditions of those online courses provide customers with access to and the ability to take these courses on an unlimited basis as long as they have an active website subscription. As the Company currently does not have sufficient historical usage data related to how these online courses are utilized, revenue is being recognized over the estimated expected customer life. However, as historical usage patterns become evident, the Company will recognize revenue consistent with the actual usage patterns.

thinkorswim Segment

The types of revenues associated with thinkorswim include brokerage commissions, interest and dividends and other brokerage related revenue. Revenues for commissions and other brokerage related are recorded on a trade date basis. Interest and dividend revenues are recorded when earned.

Accounting Pronouncements Issued Not Yet Adopted

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements* . SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS 157 is effective for fiscal years that begin after November 15, 2007. The Company is currently evaluating the potential effect of SFAS 157 on its financial statements.

In February 2007, FASB Statement No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities* was released. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for the Company beginning January 1, 2008. The Company is currently evaluating the potential effect of SFAS 159 on its financial statements.

Reclassifications

Certain amounts in the June 30, 2006 Condensed Consolidated Financial Statements have been reclassified to conform to the current period s presentation. Additionally, in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2006, approximately $3.5 million related to payments for capitalized software development costs have been reclassified from purchases of furniture and equipment to conform to the current period s presentation. In the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2007, approximately $4.5 million of debt issuance costs relating to the period ending March 31, 2007 were reclassified from Cash flows from operating activities to Cash flows from financing activities. In the Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 certain payroll related costs were reclassified from General and administrative expense to Selling expense and Cost of revenue to conform to the current period s presentation. These reclasses resulted in a decrease of approximately $0.8 million in General and administrative expense and increases of $0.5 million and $0.3 million to Cost of revenue and Selling expense, respectively.

3. Acquisitions

In September 2006, the Company and thinkorswim, a Delaware corporation, entered into an Agreement and Plan of Merger pursuant to which Investools would acquire 100% of the outstanding stock of thinkorswim. On February 15, 2007, the Company s wholly-owned subsidiary, Atomic Acquisition Corp., merged with and into thinkorswim, and the results of thinkorswim s operations have been included in the Condensed Consolidated Financial Statements since that date. thinkorswim shareholders received net merger consideration of $170.0 million in cash and 19.1 million shares of stock valued at $8.75 per share. The total purchase price of $368.2 million included cash of $190.0 million, shares of common stock worth $167.2 million, and $11.0 million in direct acquisition costs. In connection with the merger, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Inc. provided the Company a senior secured term loan of $125 million to fund a portion of the cash purchase price.

As part of the Merger Agreement, Investools agreed to issue up to a maximum of 728,608 additional shares of common stock to thinkorswim shareholders in the event the stock s average trading price fell below $8.75 per share during the twenty-day period prior to certain dates subsequent to the Merger (with an $8.00 floor on such share price). The various dates are those on which specific groups of thinkorswim shareholders are first permitted to sell Investools shares, or portions thereof, that they received as merger consideration. The potential dates specified fall between six months and six years after the Merger closes. At the time the Merger was announced, the fair market value of Investools stock was $8.59. Because the additional shares are contingently issuable if the price falls below $8.75 per share, the value of the portion of the purchase price attributable to the issuance of common stock has been increased to $8.75 per share in accordance with EITF No. 97-15, *Accounting for Contingency Arrangements Based on Security Prices in a Purchase Business Combination* .

The purchase price has been preliminarily allocated to tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The excess purchase price over the fair value of tangible and intangible assets and liabilities assumed was recorded as goodwill. The fair values of intangible assets were based upon a third party valuation of identifiable intangible assets acquired, including useful lives. The following table summarizes the preliminary allocation of the purchase consideration (in thousands):

Purchase Price Allocation:	
Current assets	$ 57,251
Property and equipment	2,411
Intangible assets:	
Customer relationships	93,400
Trade name	16,100
Non-compete agreements	2,500
Technology	28,950
Goodwill	190,283
Deferred tax assets	48,533
Other long-term assets	8,529
Total assets acquired	447,957
Current liabilities	(25,392)
Deferred tax liability related to value assigned to intangibles	(54,385)
Total liabilities assumed	(79,777)
Net assets acquired	$ 368,180

The fair values assigned to the assets acquired and liabilities assumed have not been finalized and are subject to change pending the receipt of additional information necessary to finalize the purchase price allocation. Of the total value assigned to intangible assets, $16.1 million was allocated to trade names, which are not subject to amortization. The customer relationships, non-compete agreements, and technology have estimated useful lives of 11 to 13.5 years, 3 years, and 7 years, respectively.

In connection with the merger with thinkorswim, certain employees and consultants of thinkorswim have the opportunity to participate in a retention bonus pool which equals, in the aggregate, $20 million conditioned upon continued employment. The bonuses will be paid in equal annual installments over the three-year period following the closing of the Merger. Such amounts are being expensed over the retention period of three years. The first payment is expected to be made in February 2008. The accrual for retention bonuses is included in the Condensed Consolidated Balance Sheets within Accrued payroll.

In addition, the Company granted certain employees and consultants of thinkorswim options to purchase 2,255,563 shares of Common Stock which vests over four years, under the Company s 2001 Stock Option Plan, half with an exercise price equal to the fair market value of the underlying Common Stock at the time of grant, and half with an exercise price equal to 150% of such fair market value.

In connection with the acquisition approximately $8.5 million has been placed in escrow pending the resolution of various contingencies involving legal and tax-related matters. When the resolution of the contingencies are determinable beyond a reasonable doubt, this amount will be recorded as goodwill. Subsequent to the purchase date such payments totaled $15,000 as of June 30, 2007. The escrow amount is included in the Condensed Consolidated Balance Sheets within Other long-term assets.

The following table contains unaudited actual results of operations for the three months ended June 30, 2007 and pro forma results of operations for the six months ended June 30, 2007 and the three and six months ended June 30, 2006. The pro forma results of operations give pro forma effect as if the merger had occurred on January 1, 2006, after giving effect to certain adjustments including the amortization of the intangible assets, interest expense, tax adjustments, and assumes the purchase price has been allocated to the assets purchased and the liabilities assumed based on their values at the date of purchase. The effect of the change in fair value of the interest rate swap (See Note 12) has not been included in the following pro forma results of operations. The following unaudited pro forma results of operations are presented for illustrative purposes only, and are not necessarily indicative of the operating results that would have occurred had the transaction been consummated for the dates indicated. Furthermore, such unaudited pro forma results of operations are not necessarily indicative of future operating results of the combined companies, due to changes in operating activities following the purchase, and should not be construed as representative of the operating results of the combined companies for any future dates or periods.

(in thousands, except per share data)	**Three Months Ended June 30, 2007**	**2006**	**Six Months Ended June 30, 2007**	**2006**
Revenue	$ 77,617	$ 58,406	$ 142,591	$ 114,268
Net income (loss)	$ 3,956	$ (19,823)	$ (16,593)	$ (31,147)
Net income (loss) per share:				
Basic	$ 0.06	$ (0.31)	$ (0.25)	$ (0.49)
Diluted	$ 0.06	$ (0.31)	$ (0.25)	$ (0.49)

4. Capitalized Software Development Costs

For internal use software the Company complies with The American Institute of Certified Public Accountants (AICPA) Statement of Position No. 98-1 (SOP 98-1), *Accounting For Cost of Computer Software Developed or Obtained for Internal Use* , and EITF No. 00-2, *Accounting for Website Development Costs* . In accordance with SOP 98-1, software development costs incurred as part of an approved project plan that result in additional functionality to internal use software are capitalized and amortized on a straight-line basis over the estimated useful life of the software. During the three and six months ended June 30, 2007 and 2006, the Company capitalized $4.7 million and $8.9 million and $0.4 million and $1.9 million, respectively, of software development costs related to the implementation of the Company s integrated enterprise resource planning and customer relationship management software solution, internal use software for the development of the Investor Toolbox website and software and website assets developed for internal use by thinkorswim.

Amortization of software developed for internal use begins when the internal use software is ready for its intended use, and is calculated on a straight-line basis over the estimated life of the product. The Investor Toolbox application was placed in service during the latter part of 2006, the integrated enterprise resource planning software was placed in service in March 2007. The software and website assets developed for internal use by thinkorswim were placed in service on various dates throughout the quarter. The customer relationship management software is expected to be placed in service in the third quarter of 2007. Amortization expense during the three and six months ended June 30, 2007 was approximately $0.6 million and $1.3 million, respectively. There was no amortization expense during the three and six month periods ended June 30, 2006.

5. Marketable Securities

The Company invests excess cash in marketable securities, primarily government backed securities with maturities ranging from five to 19 months. At June 30, 2007 and December 31, 2006, the cost of these securities was $2.8 million and $22.1 million, respectively. The Company has classified these marketable securities as available for sale under Statement of Financial Accounting Standards No. 115 (SFAS 115), *Accounting for Certain Investments in Debt and Equity Securities.* Accordingly, the securities are recorded at fair value and any unrealized gains or losses are included in accumulated other comprehensive income within Stockholders equity (deficit) in the Condensed Consolidated Balance Sheets. Gains are recognized when realized and are recorded in the Company s Condensed Consolidated Statement of Operations in other income. Losses are recognized as realized or when management has determined an other-than-temporary decline in fair value has occurred. There were $400 and $4,000 of realized losses recognized in the three and six months ended June 30, 2007, respectively, and no realized gains or losses recognized in the three and six months ended June 30, 2006, respectively. Certain of these securities were purchased at a discount or premium, which are being amortized into interest income over the maturity of the security. The Company recognized interest income of $0.1 million and $0.6 million in the three-month periods ended June 30, 2007 and 2006 and $0.3 million and $0.8 million in the six-month periods ended June 30, 2007 and 2006. The market value of these marketable securities, reflected in the balance sheet at June 30, 2007 and December 31, 2006, were $2.8 million and $22.1 million, respectively. Gross unrealized holding gains were $400 at June 30, 2007 and $3,000 at December 31, 2006.

6. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are composed of the following at June 30, 2007 (in thousands):

	Securities Owned	Securities Sold, Not Yet Purchased
Options	$ 199	$ 149
Equities and other	785	998
	$ 984	$ 1,147

Securities owned and securities sold, not yet purchased are included in Other current assets and Other current liabilities, respectively, within the Condensed Consolidated Balance Sheets.

7. Inventories

Inventories are stated at the lower of cost or market value (using the first-in, first-out method). The Company s inventories consist of manuals and DVDs that comprise the Company s educational products. At June 30, 2007 and December 31, 2006, $0.5 million and $0.1 million, respectively, in net inventories were included as part of Other current assets within the Condensed Consolidated Balance Sheets.

8. Acquired Intangibles

Amortizable Intangibles

Amortizable acquired intangibles with finite lives as of June 30, 2007 and December 31, 2006 were as follows (in thousands):

As of June 30, 2007	As of December 31, 2006