

U.S. Securities and Exchange Commission

Washington D.C. 20549

Form 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended September 30, 2004

Commission File Number 000-23554

INTERNATIONAL ASSETS HOLDING CORPORATION

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-2921318
(IRS Employer
Identification No.)

220 East Central Parkway, Suite 2060
Altamonte Springs, Florida 32701
(Address of principal executive offices)

(407) 741-5300
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.01 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 .

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$22,037,729

State the aggregate market value of the voting and non-voting equity held by non-affiliates computed by reference to the last sale price of such stock as of December 15, 2004: \$22,838,328.

The issuer had 7,095,276 outstanding shares of common stock as of December 15, 2004.

INTERNATIONAL ASSETS HOLDING CORPORATION
2004 FORM 10-KSB
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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company’s control, including adverse changes in economic, political and market conditions, losses from the Company’s market-making and trading activities arising from counterparty failures and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of federal and state securities laws and the impact of changes in technology in the securities and commodities brokerage industries. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business, future market conditions, there can be no assurances that the Company’s actual results will not differ materially from any results expressed or implied by the Company’s forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that any forward-looking statements are not guarantees of future performance.

ITEM 1. DESCRIPTION OF BUSINESS

Overview

International Assets Holding Corporation and its subsidiaries (the “Company”) form a financial services group focused on select international securities and commodities markets. We commit our capital and expertise to market-making and trading of international financial instruments, currencies and commodities. The Company’s activities are currently divided into four functional areas — international equities market-making, international debt capital markets, foreign exchange/commodities trading and asset management.

The Company was formed in October, 1987 and has four wholly-owned operating subsidiaries; INTL Trading, Inc. (“INTL Trading”), a National Association of Securities Dealers (“NASD”) member broker-dealer, INTL Global Currencies Limited (“INTL Global Currencies”), INTL Assets, Inc. (“INTL Assets”) and IAHC Bermuda, Ltd. (“IAHC Bermuda”). The Company also owns a 50.1% limited liability company interest in INTL Consilium LLC, an investment advisory firm (“INTL Consilium”).

The Company provides execution to wholesale customers from offices in New York, London and Florida in the following products:

- unlisted American Depositary Receipts (ADRs) and common shares of more than 8,000 companies organized in more than 20 countries

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- more than 100 currencies
- debt securities of more than 500 issuers organized in more than 30 countries.
- commodities (primarily precious metals), futures and over-the-counter (“OTC”) derivative products.

The Company provides these services to a diverse group of wholesale customers including major investment banks, commercial banks, brokers, institutional investors, corporations, charities and governmental organizations throughout the world.

The Company’s internet address is www.intlassets.com. The Company’s annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, statements of changes in beneficial ownership and press releases are available in the Investor Relations section of this website. The Company’s website also includes the Company’s Code of Ethics, which governs the Company’s directors, officers and employees, and other information regarding the Company’s corporate governance.

Business Strategy

The Company seeks to deploy its capital and expertise in financial markets that exhibit one or more of the following characteristics:

- Niche markets not adequately covered by major brokerage firms and financial institutions
- Markets requiring specialized expertise
- Primarily trading oriented activities
- Markets primarily serving wholesale clients
- Markets with a significant international component

The Company currently operates in four business segments that fulfill the goals of its business strategy – international equities market-making, international debt capital markets, commodities/foreign exchange trading and asset management. The Company continues to evaluate other market niches for expansion opportunities.

International Equities Market-Making

The Company is a leading U.S. market-maker in select foreign securities, including unlisted ADRs and foreign common shares. The Company conducts these activities through INTL Trading, which provides execution services and liquidity to national broker-dealers, regional broker-dealers and institutional investors. The Company focuses on those international equities for which the Company can provide clients with competitive execution and superior service due to its

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expertise and experience. The Company also utilizes its proprietary technology, including internet technology, to achieve these goals.

The Company makes markets in approximately 200 ADRs and foreign ordinary shares traded in the over-the-counter (“OTC”) market. In addition, the Company will, on request, make prices in more than 8,000 other ADRs and foreign common shares. As a market-maker, the Company provides trade execution services by offering to buy shares from, or sell shares to, broker-dealers and institutions. The Company displays the prices at which it is willing to buy and sell these securities and adjusts its prices in response to market conditions. When acting as principal, the Company commits its own capital and derives revenue from the difference between the prices at which the Company buys and sells shares. The Company also earns commissions by executing trades on an agency basis.

International Debt Capital Markets

The Company actively trades in a wide variety of international debt instruments. The Company also invests in international debt instruments on a proprietary basis and arranges international debt transactions. The Company commenced these activities in the second quarter of 2003 and they have grown steadily since that time.

The Company trades and invests in international bonds, including both investment grade and higher yielding emerging market bonds. The Company generally focuses on smaller issues, such as emerging market sovereign, corporate and bank bonds that trade internationally on an OTC basis.

The Company provides competitive execution in these bonds to smaller institutional and private banking clients. The Company’s staff has substantial experience in this market, which allows the Company to offer customers superior execution capability. When acting as a principal, the Company commits its own capital to buy and sell bonds. The Company derives revenue from the difference between the purchase and sale prices. The Company also earns commissions by executing trades on an agency basis.

The Company periodically invests its own capital in select international bonds. The Company derives revenue from interest received and the difference between the purchase and sale prices.

The Company periodically identifies opportunities to arrange, purchase or sell debt transactions on behalf of issuers. These transactions generally involve negotiable emerging market debt instruments that have limited liquidity and exhibit one or more of the following characteristics:

- Related to a specific commercial transaction
- Initially payable to a specific lender or creditor (sometimes the Company)
- Absence of published pricing

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- Absence of standard documentation
- Absence of established settlement procedures

The transactions are generally evidenced by promissory notes, bills of exchange, loan agreements, accounts receivable and other types of debt instruments.

The Company may use its capital to purchase these instruments from emerging market debtors or their creditors. Due to the limited liquidity of these instruments, the Company may hold them for an indeterminate period of time before selling them. These instruments are typically sold to international banks and financial institutions. The Company derives revenue from interest received and the difference between the purchase and sale prices.

In other transactions, the Company may earn a fee for introducing borrowers and lenders or advising borrowers on capital raising transactions.

Foreign Exchange/Commodities Trading

Foreign Exchange Trading

The Company established its foreign exchange trading business in July 2003. The scope of this business expanded significantly in July 2004 when the Company purchased the specialist foreign exchange trading business owned by Global Currencies Limited. The combined activities now operate as INTL Global Currencies Limited.

The Company primarily trades select illiquid currencies of developing countries. The Company's target clients are financial institutions, multi-national corporations, governmental and charitable organizations operating in these developing countries. In addition, the Company executes trades based on the foreign currency flows inherent in the Company's other international securities activities.

The Company primarily acts as a principal in buying and selling foreign currencies on a spot basis. The Company derives revenue from the difference between the purchase and sale prices.

The Company periodically holds foreign currency positions for longer periods to create liquidity for clients or generate proprietary earnings.

Commodities Trading

The Company established its precious metals trading business in July 2003. The Company currently has relationships with a number of small and medium-sized precious metals producers and provides them with a full range of precious metals trading and hedging capabilities. The Company plans to expand its relationships to include consumers, recyclers and investors.

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When acting as a principal, the Company commits its own capital to buy and sell precious metals on a spot and forward basis. The Company derives revenue from the difference between the purchase and sale prices.

The Company assists its clients in protecting the value of their future production by selling them put options on an OTC basis. The Company also provides clients with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by effecting offsetting OTC options with market counterparties or through the purchase or sale of commodities futures traded through the COMEX division of the New York Mercantile Exchange.

The Company also takes periodic proprietary positions by buying commodities or related options. However, the Company does not sell uncovered commodity options. The Company derives revenue from these proprietary activities through the difference between the purchase and sale prices or between premiums received and paid.

Asset Management

The Company established its asset management business in May 2004. This business is operated through INTL Consilium, LLC, an asset management joint venture, organized by the Company and an unaffiliated third party. The Company received a 50.1% interest in exchange for a \$500,000 capital contribution. INTL Consilium is registered as an investment adviser with the U.S. Securities and Exchange Commission ("SEC"). In July 2004, INTL Consilium launched the Emerging Market Absolute Return Fund, which had over \$55 million in assets under management on September 30, 2004. The Company's strategy is to build the asset management business by applying an absolute return philosophy to niche markets in which the Company has significant expertise and experience. INTL Consilium is seeking to add additional products based on this strategy.

Competition

The international financial markets are highly competitive and rapidly evolving. In addition, these markets are dominated by firms with significant capital and personnel resources that are not currently available to the Company. The Company expects these competitive conditions to continue in the future. The Company's strategy is to focus on smaller niche markets that may be less attractive to its larger competitors and that require specialized expertise. The Company believes that it can compete successfully with other financial intermediaries in these niches based on the Company's expertise and quality of service.

The Company's activities are impacted, and will continue to be impacted, by investor interest in the international financial markets served by the Company. International securities in these markets compete with a wide range of alternative investment instruments. The Company seeks to counterbalance changes in demand in specified markets by undertaking activities in multiple uncorrelated markets.

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Technology has increased competitive pressures on intermediaries in international financial markets by improving dissemination of information and facilitating the development of alternative execution mechanisms. In the equity markets, electronic communication networks (“ECNs”) compete with market-makers like the Company. ECNs provide a neutral forum in which third parties display and match their orders, but do not commit capital or provide liquidity to the marketplace. ECNs and similar alternative execution mechanisms provide the greatest benefit for markets in highly liquid securities. Similar execution mechanisms also exist in the foreign exchange market. The Company competes by focusing on niche markets for less liquid instruments and using its capital to enhance liquidity for clients.

Administration and Operations

The Company employs operations personnel to supervise and, for certain products, complete the clearing and settlement of transactions.

INTL Trading’s securities transactions are cleared through Pershing LLC, a wholly owned subsidiary of The Bank of New York. INTL Trading does not hold client funds or directly clear or settle securities transactions.

The Company’s administrative staff manages the Company’s internal financial controls, accounting functions, office services and compliance with regulatory requirements.

Governmental Regulation

The Company’s activities, particularly in the securities markets, are subject to significant governmental regulation. The regulatory environment in which the Company operates is subject to frequent change and these changes directly impact the Company’s business and operating results. The U.S.A. Patriot Act of 2001 and the Sarbanes-Oxley Act of 2002 have placed additional regulatory burdens and compliance costs on the Company.

The securities industry in the United States is subject to extensive regulation under federal and state securities laws. The Company is required to comply with a wide range of requirements imposed by the SEC, state securities commissions and the NASD. These regulatory bodies are charged with safeguarding the integrity of the financial markets and with protecting the interests of investors in these markets.

Broker-dealers such as INTL Trading are subject to regulation covering all aspects of their activities, including trade practices, capital structure, record retention and the conduct of their officers, supervisors and registered employees. Failure to comply with any of these requirements could result in administrative or court proceedings, censure, fines, issuance of cease-and-desist orders, the suspension or disqualification of a broker-dealer, its officers, supervisors or registered representatives.

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Net Capital Requirements

The Company's broker-dealer subsidiary, INTL Trading, is subject to the net capital requirements imposed by SEC Rule 15c3-1 under the Securities Exchange Act of 1934. These requirements are intended to ensure the financial integrity and liquidity of broker-dealers. They establish both minimum levels of capital and liquid assets. The net capital requirements prohibit the payments of dividends, redemption of stock, the prepayment of subordinated indebtedness and the making of any unsecured advances of loans to any stockholder, employee or affiliate, if such payment would reduce the broker-dealer's net capital below required levels.

The net capital requirements restrict the ability of INTL Trading to make distribution to the Company. They also restrict the ability of INTL Trading to expand its business beyond a certain point without the introduction of fresh capital.

During the 2004 fiscal year, INTL Trading maintained net capital which exceeded the minimum levels required by SEC Rule 15c3-1.

Risks Affecting the Company's Business

The Company faces a variety of risks that could adversely impact its financial condition and results of operations.

The Company seeks to mitigate the market and credit risks arising from its financial trading activities through an active risk management program. The principal objective of this program is to limit trading risk to an acceptable level while maximizing the return generated on the risk assumed. The Company has a risk committee which is responsible for developing and implementing the Company's risk management policies. The risk committee establishes limits for each product area based on the estimated value at risk and monitors compliance with these limits. The risk committee reports to the Audit Committee of the Board of Directors.

The risks faced by the Company include the following:

Fluctuations in revenues due to changes in economic, political and market conditions

The securities business generally is, by its nature, volatile. It is directly affected by numerous national and international factors that are beyond the Company's control, including:

- economic, political and market conditions;
- the availability of short-term and long-term funding and capital;
- the level and volatility of interest rates;
- legislative and regulatory changes; and
- currency values and inflation.

Any one or more of these factors may contribute to reduced levels of activity in the securities markets generally, which could result in lower revenues from the Company's market-making and trading activities. Any reduction in revenues or any loss resulting from these factors could have a material adverse effect on the Company's business, financial condition and operating results.

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Specifically, the Company's revenues may decrease due to a decline in market volume, prices or liquidity. Declines in the volume of securities and commodities transactions and in market liquidity generally result in lower revenues from market-making activities. Lower price levels of securities and commodities also may result in reduced trading activity and reduce the Company's revenues from market-making transactions. Lower price levels also can result in losses from declines in the market value of securities and commodities held in inventory. Sudden sharp declines in market values of securities and commodities can result in:

- illiquid markets;
- declines in the market values of securities and commodities held in inventory;
- the failure of buyers and sellers of securities and commodities to fulfill their settlement obligations; and
- increases in claims and litigation.

Any decline in market volume, price or liquidity could have a material adverse effect on the Company's business, financial condition and operating results.

Unexpected losses from market-making and trading activities

The Company conducts its market-making and trading activities predominantly as a principal, which subjects its capital to significant risks. These activities involve the purchase, sale or short sale for the Company's own account of financial instruments, including equity and debt securities, commodities and foreign exchange. These activities are subject to a number of risks, including risks of price fluctuations and rapid changes in the liquidity of markets.

These risks may limit the Company's ability to either resell financial instruments it purchased or to repurchase securities it sold in these transactions. In addition, the Company may experience difficulty borrowing financial instruments to make delivery to purchasers to whom it sold short, or lenders from whom it has borrowed. From time to time, the Company has large position concentrations in securities of a single issuer or issuers in specific countries and markets. This concentration could result in higher trading losses than would occur if the Company's positions and activities were less concentrated.

The success of the Company's market-making activities depends on:

- the price volatility of specific securities;
- the Company's ability to attract order flow;
- the skill of the Company's personnel;
- the availability of capital; and
- general market conditions.

To attract market-making and trading business, the Company must be competitive in:

- providing enhanced liquidity to the Company's customers;
- the efficiency of the Company's order execution;

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- the sophistication of the Company's trading technology; and
- the quality of the Company's customer service.

In the Company's role as a market-maker and trader, the Company attempts to derive a profit from the difference between the prices at which it buys and sells financial instruments. However, competitive forces often require the Company to:

- match the quotes other market-makers display; and
- hold varying amounts of securities in inventory.

By having to maintain inventory positions, the Company is subjected to a higher degree of risk. Although inventory risk management controls are in place, the Company may not be able to manage its inventory risk successfully. Accordingly, the Company may experience significant losses, which could materially adversely affect its business, financial condition and operating results.

Unexpected losses due to counterparty failures

As a market maker of OTC and listed securities, the majority of the Company's securities transactions are conducted as principal with broker-dealer counterparties located in the United States. The Company clears its securities transactions through an unaffiliated clearing broker. The Company's clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

The Company is responsible for self-clearing its foreign exchange and commodities activities and in addition takes principal risk to counterparties in these activities.

The Company's policy is to monitor the credit standing of the counterparties with which it conducts business. Nevertheless, one or more of these counterparties will default on their obligations. If any do, the Company's business, financial condition and operating results could be materially adversely affected.

Loss of key personnel

From time to time, other companies in the securities industry have experienced losses of sales and trading professionals. The level of competition to attract these professionals is intense. As a result, the Company may lose professionals due to increased competition or other factors in the future. The loss of a sales and trading professional, particularly a senior professional with broad industry expertise, could have a material adverse affect on the Company's business, financial condition and operating results.

Increased competition

The Company derives substantially all of its revenues from market-making and trading activities. The market for these services, particularly market-making services through electronic

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communications networks, is rapidly evolving and intensely competitive. The Company expects competition to continue and intensify in the future. The Company competes primarily with wholesale, national and regional broker-dealers as well as electronic communications networks. The Company competes primarily on the basis of its expertise and quality of service.

A number of the Company's competitors have significantly greater financial, technical, marketing and other resources than the Company has. Some of them may:

- offer alternative forms of financial intermediation as a result of technological changes and greater availability of information;
- offer a wider range of services and products than the Company offers;
- have greater name recognition; and
- have more extensive customer bases.

These competitors may be able to respond more quickly to new or evolving opportunities and customer requirements. They may also be able to undertake more extensive promotional activities and offer more attractive terms to customers. Recent advances in computing and communications technology are substantially changing the means by which market-making services are delivered, including more direct access on-line to a wide variety of services and information. This has created demand for more sophisticated levels of customer service. Providing these services may entail considerable cost without an offsetting increase in revenues. In addition, current and potential competitors have established or may establish cooperative relationships or may consolidate to enhance their services and products. New competitors or alliances among competitors may emerge and they may acquire significant market share.

As a result of the foregoing, the Company's ability to compete effectively with current or future competitors is subject to significant uncertainty.

Regulatory changes

The securities industry is subject to extensive regulation under both federal and state laws. In addition, the SEC, the NASD, other self-regulatory organizations, commonly referred to as SROs, and state securities commissions require strict compliance with their respective rules and regulations. These regulatory bodies are responsible for safeguarding the integrity of the securities markets and protecting the interests of participants in those markets. As a securities broker/dealer, the Company is subject to regulation concerning certain aspects of its business, including:

- trade practices;
- capital structure;
- record retention; and
- the conduct of the Company's directors, officers and employees.

Failure to comply with any of these laws, rules or regulations could result in adverse consequences. The Company and certain of its officers and employees, have, in the past, been subject to claims arising from acts in contravention of these laws, rules and regulations. These

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claims have resulted in the payment of fines and settlements. The Company and its officers and other employees may, in the future, be subject to similar claims. An adverse ruling against the Company or its officers and other employees could result in the Company's or its officers and other employees being required to pay a substantial fine or settlement and could result in suspension or expulsion. This could have a material adverse effect on the Company's business, financial condition and operating results.

The regulatory environment in which the Company operates is subject to change. New or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities, SROs or the NASD could have a material adverse effect on the Company's business, financial condition and operating results. Changes in the interpretation or enforcement of existing laws and rules by these governmental authorities, SROs and the NASD could also have a material adverse effect on the Company's business, financial condition and operating results.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often directly affect securities firms. The Company cannot predict what effect any such changes might have. The Company's business, financial condition and operating results may be materially affected by both regulations that are directly applicable to the Company and regulations of general application. The Company's level of trading and market-making activities can be affected not only by such legislation or regulations of general applicability, but also by industry-specific legislation or regulations.

Liability for violations of federal and state securities laws

Many aspects of the Company's business involve substantial risks of liability. A market-maker is exposed to substantial liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC and the NASD. The Company is also subject to the risks of litigation and claims that may be without merit. As the Company would defend actively any such litigation, significant legal expenses could be incurred. An adverse resolution of any future lawsuits or claims against the Company could have a material adverse effect on its business, financial condition and operating results.

Dependence on technology and communications systems

The Company's market-making and trading activities depend on the integrity and performance of the computer and communications systems supporting them. Extraordinary trading volumes or other events could cause the Company's computer systems to operate at an unacceptably low speed or even fail. Any significant degradation or failure of the Company's computer systems or any other systems in the trading process could cause customers to suffer delays in trading. These delays could cause substantial losses for customers and could subject the Company to claims from customers for losses. It is possible that the Company's network protections may not work properly. The Company's systems may also fail as a result of:

- a tornado, hurricane, fire or other natural disasters;

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- power or telecommunications failure;
- acts of God;
- computer hacking activities;
- terrorism; or
- war.

Any computer or communications system failure or decrease in computer systems performance that causes interruptions in the Company's operations could have a material adverse effect on its business, financial condition and operating results.

Dependence on a limited group of customers

Historically, a small number of customers have accounted for a significant portion of the Company's revenues in each business area. The Company expects a significant portion of the future demand for each of its market-making and trading services to remain concentrated within a limited number of customers. None of these customers are obligated contractually to use the Company's market-making or trading services. Accordingly, these customers may direct their trading activities to other market-makers or trading at any time. The loss of or a significant reduction in demand for the Company's services from any of these customers could have a material adverse effect on the Company's business, financial condition and operating results.

Employees

At September 30, 2004, the Company had 51 employees. Six of these employees had managerial responsibilities, 29 were traders and 16 had administrative and operational duties, in such areas as accounting, operations, compliance and technology.

ITEM 2. DESCRIPTION OF PROPERTY

The Company leases approximately 5,100 square feet of office space at 220 E. Central Parkway in Altamonte Springs, Florida. This lease commenced on February 1, 2002 and expires on July 31, 2009. The Company leases approximately 5,300 square feet of office space at 708 Third Avenue in New York, New York. This lease commenced on December 13, 2002, and expires on September 30, 2009. The Company leases approximately 1,500 square feet of office space at Nedbank House, 20 Abchurch Lane, London. This lease commenced on October 1, 2003 and expires on January 31, 2006. The London office space is shared with the previous owners of the foreign exchange business under a shared cost apportionment arrangement. During the 2003 and 2004 fiscal years the Company leased approximately 310 square feet of office space at 1111 Brickell Avenue in Miami, Florida. This lease commenced on December 18, 2002, and expired on January 31, 2004.

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ITEM 3. LEGAL PROCEEDINGS.

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Principal Trading Market

The Company's common stock trades on the NASDAQ SmallCap Market under the symbol "IAAC".

Sales Prices

The following table sets forth, for the periods indicated, the range of high and low sales prices for the common stock as reported by NASDAQ. These prices do not include retail mark-ups, mark-downs, or commissions and represent prices between dealers and not necessarily actual transactions.

	<u>High</u>	<u>Low</u>
Fiscal Year 2003		
First Quarter (Oct. 2002 – Dec. 2002)	\$ 2.54	\$0.53
Second Quarter (Jan. 2003 – Mar. 2003)	3.00	1.79
Third Quarter (Apr. 2003 – Jun. 2003)	2.36	1.90
Fourth Quarter (Jul. 2003 – Sept. 2003)	3.86	2.00
Fiscal Year 2004		
First Quarter (Oct. 2003 – Dec. 2003)	\$ 6.88	\$2.59
Second Quarter (Jan. 2004 – Mar. 2004)	12.20	5.02
Third Quarter (Apr. 2004 – Jun. 2004)	10.00	5.95
Fourth Quarter (Jul. 2004 – Sept. 2004)	10.10	6.94

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Dividends

The Company has never declared any cash dividends on its common stock, and does not currently have any plans to pay dividends on its common stock in the future. The payment of cash dividends in the future is subject to the discretion of the Board of Directors and will depend on the Company's earnings, financial condition, capital requirements and other relevant factors.

Holdings

As of September 30, 2004, there were approximately 140 shareholders of record of the Company's common stock, according to the records maintained by the Company's transfer agent. As of September 30, 2004 the Company estimates that there were approximately 580 beneficial owners of the Company's common stock.

Equity Compensation Plan Information

The following table presents information regarding the Company's equity compensation plans at September 30, 2004:

<u>Plan Category</u>	<u>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders	1,282,006 shares	\$ 2.37	364,650 shares
- Stock Option Plan			
- Warrants ⁽¹⁾	200,000 shares	\$ 6.00	
Equity compensation plans not approved by security holders	—	—	—
Total	1,482,006 shares	2.86	364,650 shares

⁽¹⁾ On March 12, 2004 the Company issued \$12,000,000 in principal amount of the Company's 7% convertible subordinated notes. As part of the underwriting agreement the placement agent received 200,000 warrants at a \$6.00 strike price. These warrants expire three years in March 2007. In certain circumstances, the Company can force exercise thereof.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Results of Operations

The Company's principal activities include market-making and trading in international financial instruments, currencies and commodities, and asset management. The markets in which the Company operates are highly competitive and volatile. The Company has little or no control over many of the factors which affect its operations. As a result, the Company's earnings are subject to potentially wide fluctuations. The Company seeks to counteract many of these influences by focusing on niche, uncorrelated markets and, when possible, linking the Company's expenses to revenues.

The Company's activities have changed significantly over the past two fiscal years due to the following developments.

- In the first quarter of 2003, the Company appointed new management and raised approximately \$3,400,000 in additional capital.
- In the second quarter of 2003, the Company began trading and related activities in international debt capital markets.
- In the fourth quarter of 2003, the Company began trading precious metals and foreign exchange.
- In the second quarter of 2004, the Company raised \$12,000,000 from the issuance of the Company's 7% convertible subordinated notes.
- In the third quarter of 2004, the Company and an unrelated third party formed INTL Consilium, an asset management firm. The Company received a 50.1% interest in INTL Consilium exchange for a \$500,000 capital contribution.
- In the fourth quarter of 2004, the Company acquired INTL Global Currencies, a specialist foreign exchange trading business, based in London.
- In the fourth quarter of 2004, the Company exercised its right to convert the outstanding 7% subordinated notes into 2,086,923 shares of the Company's common stock.

The Company believes that it has made significant progress in its effort to build a diversified financial services firm focusing on niche markets. During the last two years, the Company has successfully acquired or established businesses in key product areas and geographic locations. The Company's activities are currently divided into international equities market-making, international debt capital markets, foreign exchange/commodities trading and asset management. Although most of the Company's revenues over the past two fiscal years were generated by international equity market-making, growth in other areas is producing an increasingly balanced and diversified revenue stream. As a result, the Company believes that it is now less vulnerable to cycles in individual product areas. For example, the relative weakness in earnings from international securities during the second half of the year was partially offset by improved foreign exchange earnings. The Company believes that its strategy of linking expenses to revenues also helps to lessen the negative impact of adverse market conditions which occur periodically in international securities and finance markets.

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The Company is currently focused on increasing revenue and market share for each of its established business activities. The Company anticipates greater rate of growth in international debt trading, foreign exchange/commodities trading and asset management given the earlier stage of their development.

Fiscal Year 2004 Compared to Fiscal Year 2003

The following table reflects the principal components of the Company's revenue as a percentage of total revenue for fiscal year 2004 and fiscal year 2003.

	<u>Fiscal Year Revenue</u>	<u>% of Total Revenue</u>	<u>Fiscal Year Revenue</u>	<u>% of Total Revenue</u>	<u>% Change</u>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2003 - 2004</u>
Trading revenue (Net dealer inventory and investment gains)	\$21,407,000	97%	\$ 9,537,000	88%	125%
Commissions	904,500	4%	1,125,000	10%	-20%
Interest income	167,000	Less than 1%	53,000	Less than 1%	216%
Dividend income (expense), net	(400,000)	-2%	(22,000)	Less than -1%	n.m.
Loss from asset management joint venture	(41,000)	Less than -1%	0	0%	n.m.
Other revenues	702	n.m.	106,000	1%	n.m.
Total revenue	\$22,038,000	100%	\$10,798,000	100%	104%

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The following table reflects the sources of the Company's revenues as a percentage of the Company's total revenue for fiscal year 2004 and fiscal year 2003.

	Fiscal Year Revenue	% of Total Revenue	Fiscal Year Revenue	% of Total Revenue	% Change
	2004	2004	2003	2003	2003 - 2004
Equity market making	\$ 16,709,000	76%	\$ 7,675,000	71%	118%
Debt capital markets	2,622,000	12%	1,933,000	18%	36%
Foreign exchange/commodities	2,560,000	12%	1,017,000	9%	152%
Other	147,000	n.m.	173,000	2%	-15%
Total Revenue	\$22,038,000	100%	\$10,798,000	100%	104%

The following table reflects the principal components of the Company's expenses as a percentage of the Company's total expenses in fiscal year 2004 and fiscal year 2003.

	Fiscal Year	% of Total	Fiscal Year	% of Total	% Change from 2003 to 2004
	2004	2004	2003	2003	2003 - 2004
Compensation and benefits	\$ 8,490,000	50%	\$4,321,000	46%	97%
Clearing and related expenses	5,879,000	35%	2,405,000	26%	144%
Wholesale commissions	20,000	n.m.	438,000	5%	-95%
Occupancy and equipment rental	503,000	3%	438,000	5%	15%
Professional fees	419,000	2%	438,000	5%	-4%
Depreciation and amortization	186,000	1%	362,000	4%	-49%
Business development	472,000	3%	263,000	3%	80%
Insurance	362,000	2%	233,000	2%	56%
Other expenses	603,000	4%	380,000	4%	59%
Total non-interest expenses	\$16,934,000	100%	\$9,279,000	100%	83%

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Net Income. The Company generated net income of \$2,525,000 for 2004, which equates to \$0.41 per diluted share. This compares to a net income \$1,264,000, or \$0.33 cents per diluted share, for 2003.

Total Revenue. The Company's total revenue increased 104% to \$22,038,000 for 2004 compared to \$10,798,000 for 2003.

International Equity Marketing-Making - Revenue grew from \$7,675,000 in 2003 to \$16,709,000 in 2004. The growth in equity market-making revenue in 2004 was due to significantly improved equity market conditions worldwide during the first half of the fiscal year, increased marketing of the Company's market-making capabilities to institutional clients and a higher level of ADR conversions. Equity market-making revenue includes the trading profits earned by the Company before the related expense deduction for ADR conversion fees. These ADR fees are included in the statement of operations as clearing and related expenses. Equity market-making revenue increased from 71% of total revenue in 2003 to 76% of total revenue in 2004 reflecting the strong performance during the first half of the fiscal year.

International Debt Capital Markets - The Company began international debt capital markets activities in the second quarter of 2003. Revenue increased from \$1,933,000 in 2003 to \$2,622,000 in 2004. This increase was a result of both a full year of operations and improved marketing efforts. However, due to relatively higher growth in other areas, debt capital markets revenue fell from 18% of total revenue in 2003 to 12% in 2004.

Foreign Exchange/Commodities Trading - The Company began trading in foreign exchange and precious metals in the fourth quarter of 2003. The Company expanded its foreign exchange trading activities through an acquisition in the fourth quarter of 2004. Revenue increased from \$1,017,000 in 2003 to \$2,560,000 in 2004. This increase is a result of growing customer relationships and volumes, particularly through the acquisition in the fourth quarter. Foreign exchange/commodities revenue increased from 9% of total revenue in 2003 to 12% in 2004.

Trading Revenue (Net Dealer Inventory and Investment Gains). The Company generated trading revenue of \$21,407,000 in 2004, compared to \$9,537,000 for 2003. The increase in trading revenue reflected improved market conditions during the first half of the fiscal year, the successful development of wholesale client relationships and expansion in foreign exchange/commodities trading. Trading revenue increased from 88% of total revenue in 2003 to 97% in 2004.

Commission Revenue. The Company generated commission revenue of \$904,000 in 2004, compared to \$1,125,000 in 2003. Commission revenue fell from 10% of total revenue in 2003 to 4% in 2004 reflecting growth in market-making rather than wholesale brokerage.

Interest Income. The Company's 2004 interest income was \$167,000 compared to \$53,000 in 2003. The increase was due to higher cash balances over the period resulting from the proceeds of the private placement and an increase in financial instruments sold, not purchased due to increased ADR conversion activities. Offsetting expense arising from the increased financial

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instruments sold, not purchased, held with the Company's clearing firm is separately reported under interest expense.

Dividend Income (Expense). The Company's 2004 dividend income (expense), net was (\$400,000) compared to (\$22,000) for 2003. Dividend income (expense) is generated when the Company holds long (short) equity positions over a dividend declaration date. The significant increase in dividend expense arose from certain arbitrage transactions, which generated partially offsetting revenue incorporated in "Net dealer inventory and investment gains".

Loss From Asset Management Joint Venture. The Company recognized a loss of \$41,000 on the asset management joint venture formed during the third quarter of 2004. The loss reflects the startup costs associated with this new joint venture.

Other Revenues. The Company recognized \$1,000 in other income in 2004, compared to \$106,000 in 2003. Other revenues include a payment of \$100,000 received in 2003 under settlement of an arbitration.

Interest Expense. The Company's interest expense increased to \$731,000 for 2004, compared to \$44,000 in 2003. The expense in 2004 consisted of \$378,000 of interest on the \$12.0 million in 7% convertible notes issued by the Company in March 2004, \$95,000 of interest from demand bank loans and \$174,000 of interest on financial instruments sold, not yet purchased balances, due to the increase in ADR conversion activity.

Total Non-Interest Expenses. The Company's total non-interest expenses increased by approximately 83% to \$16,934,000 in 2004, compared to \$9,279,000 in 2003. This increase was directly attributable to the expansion of the Company's business, which resulted in higher personnel, clearing and business development costs.

Compensation and Benefits. The Company's compensation and benefit expense increased from \$4,321,000 in 2003 to \$8,490,000 in 2004. The increase was a result of both higher staff levels and higher performance based compensation due to increased revenues and profitability.

Clearing and related expenses. Clearing and related expenses increased from \$2,405,000 for 2003 to \$5,879,000 for 2004. The increase was primarily due to the growth in trading activity and the number of trades processed, increased foreign settlement fees and increased ADR conversion fees. The increased foreign settlement fees related to changes in the composition of the equity trading activities. Total ADR fees increased from \$667,000 in 2003 to \$3,155,000 in 2004. The increase in ADR fees includes several large equity trading transactions in the first quarter of 2004.

Wholesale Commissions. The Company incurs commission expense from certain wholesale debt transactions and foreign exchange transactions. Wholesale commissions decreased from \$438,000 in 2003 to \$20,000 in 2004. The decrease reflects a reduction in these types of wholesale debt transactions and the Company's preference to act as a principal rather than a wholesale broker.

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Occupancy and Equipment Rental. Occupancy and equipment rental expense increased from \$438,000 in 2003 to \$503,000 in 2004. This increase in rent expense is primarily due to increased equipment rental, primarily information services, for the additional employees.

Professional Fees. Professional fees principally consist of legal, taxation and accounting fees. These fees decreased from \$438,000 in 2003 to \$419,000 in 2004 due to the resolution of certain previously pending arbitration and legal proceedings.

Depreciation and Amortization. Depreciation and amortization decreased from \$362,000 in 2003 to \$186,000 in 2004. The decline is due to capitalized software development costs which were fully amortized in the first quarter of 2004. This decline has been partially offset by increased depreciation expense arising from the purchase of fixed assets for the Company's New York and Florida offices.

Business Development Expense. Business development expense increased from \$263,000 in 2003 to \$472,000 in 2004. This increase relates to expanded marketing efforts to further develop the Company's new and expanded activities.

Insurance Expense. Insurance expense increased from \$233,000 in 2003 to \$362,000 in 2004. The increase was primarily due to increases in the cost of health insurance caused by higher staff levels and increased cost per employee. In addition, the Company acquired key man term life insurance on certain executives.

Other Operating Expenses. Other operating expenses increased from \$380,000 in 2003 to \$603,000 in 2004. The increase was primarily related to expenses arising from the Company's growth, including the acquisition in the fourth quarter of 2004.

Tax Expense. The Company recognized income tax expense of \$1,848,000 in 2004 compared with \$211,000 in 2003. The Company's effective income tax rate was approximately 42% in 2004 compared with 14% in 2003. The effective tax rate in 2003 was unusually low as a result of the Company's ability to recognize the full potential value of its then existing deferred tax asset. The reversal of the deferred tax asset valuation allowance resulted in a tax benefit of \$363,000 in 2003. The calculated federal and state tax expense before this benefit was \$575,000 (39% of income before income tax). The Company has fully utilized its federal net operating loss carryforwards and partially utilized the Company's state net operating loss carryforwards, due to continued ongoing profitability. The net deferred tax asset as of September 30, 2004 was \$332,000 and relates to various timing differences and state operating loss carryforwards, compared to \$329,000 as of September 30, 2003.

Net Income. As a result of the foregoing factors, the Company had net income of \$2,525,000 during 2004, compared to net income of \$1,264,000 during 2003. During the second half of the 2004 fiscal year, market conditions deteriorated compared to conditions during the 2003 fiscal year and the first half of the 2004 fiscal year. This deterioration adversely affected the profitability of the Company's equity market making and debt activities. This impact was

partially offset in the fourth quarter as a result of the incremental revenue due to the Global Currencies acquisition.

Liquidity and Capital Resources

A substantial portion of the Company's assets are liquid. The majority of the assets consist of inventories of financial instruments, which fluctuate depending on the level of customer business. At September 30, 2004, approximately 88% of the Company's assets consisted of cash, cash equivalents, and receivables from brokers, dealers and clearing organization, customer receivables and marketable financial instruments. All assets are financed by the Company's equity capital, short-term borrowings from financial instruments sold, not yet purchased, demand loan payable and other payables.

The Company's ability to receive distributions from INTL Trading, the Company's broker-dealer subsidiary, is restricted by regulations of the SEC and the NASD. The Company's rights to receive distributions from its subsidiaries are also subject to the rights of the subsidiaries' creditors, including customers of INTL Trading.

INTL Trading is subject to the net capital requirements of the SEC and the NASD relating to liquidity and net capital levels. At September 30, 2004, INTL Trading had regulatory net capital of \$3,577,000, which was \$2,596,000 in excess of its minimum net capital requirement on that date. INTL Trading's net capital at September 30, 2004 included two subordinated loans made by the Company to INTL Trading. A loan for \$500,000 was made on January 31, 2003, has a scheduled repayment date of February 28, 2005, and an interest rate of 3%. A second loan for \$2,500,000 was made on June 5, 2004, has a scheduled date of June 5, 2005, and an interest rate of 3%. INTL Trading is not obligated to repay the loans at scheduled maturity if repayment would cause INTL Trading to violate its net capital requirements. If this occurs, INTL Trading's obligation to repay the loan is deferred until these requirements can be satisfied. These inter-company loans, and the related interest income and income expense, have been eliminated from the consolidated balance sheet and statements of operations of the Company as of September 30, 2004.

The Company's assets and liabilities may vary significantly from period to period because of changes relating to customer needs and economic and market conditions. The Company's total assets at September 30, 2004 and September 30, 2003, were \$67,720,000 and \$17,337,000, respectively. The Company's operating activities generate or utilize cash resulting from net income or loss earned during each period and fluctuations in its assets and liabilities. The most significant fluctuations arise from changes in the level of customer activity and changes in the inventory of financial instruments resulting from proprietary arbitrage trading strategies dictated by prevailing market conditions.

In addition to normal operating requirements, capital is required to satisfy financing and regulatory requirements. The Company's overall capital needs are continually reviewed to ensure that its capital base can appropriately support the anticipated capital needs of its operating subsidiaries. The excess regulatory net capital of the Company's broker-dealer

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subsidiary may fluctuate throughout the year reflecting changes in inventory levels and balance sheet composition.

In March 2004, the Company completed a private placement of \$12,000,000 of 7% convertible notes. These notes were converted to common shares in August, 2004.

In July 2004 the Company completed the acquisition of the foreign exchange business of Global Currencies Limited. The Company paid total cash consideration of \$4,594,000 plus an additional \$1,472,000 through the issuance of 150,000 common shares of the Company that were valued at \$9.81 as of the date of the purchase. The cash payments consisted of \$1,000,000 cash premium paid to the sellers, \$3,577,375 for the value of the net assets received, less \$50,000 related to fixed asset amounts and stamp duty adjustments. In addition, the Company paid \$67,000 for legal and accounting related fees.

The Company is obligated to make certain earn-out payments to the sellers. In particular, the Company is obligated to pay the sellers an amount equal to 20% of the gross foreign exchange trading profits generated by the Company during the 30 months ending on December 31, 2006 (up to a maximum of \$4.0 million). Additionally, the Company is obligated to pay the sellers 10% of the gross foreign exchange trading profits in excess of \$10.0 million per year for the 12 months ended June 30, 2005 and June 30, 2006, and 10% of such profits in excess of \$5.0 million for the 6 months ended December 31, 2006.

The Company funded the acquisition from its existing working capital. The incremental working capital was previously generated from the issuance by the Company of \$12,000,000 of convertible subordinated notes in March 2004. The Company anticipates that the additional contingent purchase consideration will be funded from working capital.

Cash Flows

The Company's cash and cash equivalents increased from \$7,067,000 at September 30, 2003 to \$21,084,000 at September 30, 2004.

The major sources of cash were:

- \$19,315,000 from net broker payables and receivables
- \$11,002,000 net cash received from the issuance of \$12,000,000 in convertible subordinated notes
- \$3,232,000 from demand bank loans payable
- \$2,525,000 net income for 2004
- \$924,000 from increased accrued compensation and benefits payable
- \$558,000 from increased accounts payable, accrued expenses and income taxes payable
- \$338,000 from the exercise of stock options

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The major uses of cash were:

- \$11,883,000 increase in net customer receivables and payables
- \$4,594,000 net payment related to the Global Currencies acquisition
- \$4,024,000 net increase in the Company's financial instruments position (financial instruments owned, foreign currency sold, not yet purchased and financial instruments owned, not yet purchased).
- \$3,000,000 investment in a fund managed by INTL Consilium
- \$500,000 investment in INTL Consilium, an asset management joint venture
- \$254,000 purchases of fixed assets and leasehold improvements

Certain Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S.A. (see Summary of Significant Accounting Policies in the Consolidated Financial Statements). The Company believes that of its significant accounting policies, those described below involve a high degree of judgment and complexity. These critical accounting policies require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of the Company.

Valuation of Financial Instruments. Substantially all financial instruments are reflected in the consolidated financial statements at fair value or amounts that approximate fair value. These financial interests include: cash, cash equivalents, and financial instruments purchased under agreements to resell; deposits with clearing organizations; financial instruments owned; and financial instruments sold but not yet purchased. Unrealized gains and losses related to these financial instruments are reflected in net earnings. Where available, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. In some cases, even though the value of a security is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value.

Deferred Tax Asset and Liability. The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company also establishes valuation allowances when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is

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more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of September 30, 2004, based upon the projections for future taxable income, management believes it is more likely than not that the Company will realize the full benefits of these deductible differences and net operating loss carryforward. The amount of the net operating loss carryforward is \$26,000 as of September 30, 2004.

Off Balance Sheet Arrangements

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer. In addition, the Company has sold financial instruments that it does not currently own and will therefore be obligated to purchase such financial instruments at a future date. The Company has recorded these obligations in the consolidated financial statements at September 30, 2004 at market values of the related financial instruments (totaling \$12,310,543). The Company will incur losses if the market value of the financial instruments increases subsequent to September 30, 2004. The total of \$12,310,543 includes \$1,519,891 for options and futures contracts, which represent a liability to the Company based on their market value as of September 30, 2004.

Effects of Inflation

Because the Company's assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. Increases in the Company's expenses, such as compensation and benefits, clearing and related expenses, occupancy and equipment rental, due to inflation, may not be readily recoverable from increasing the prices of services offered by the Company. In addition, to the extent that inflation results in rising interest rates or has other adverse effects on the securities markets and on the value of the securities held in inventory, it may adversely affect the Company's financial position and results of operations.

ITEM 7. FINANCIAL STATEMENTS

The Company's consolidated financial statements are set forth on pages F-1 through F-37

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of September 30, 2004, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

ITEM 8B OTHER INFORMATION

Not applicable

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

Information with respect to this item will be contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders.

ITEM 10. EXECUTIVE COMPENSATION

Information with respect to this item will be contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders, which is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information with respect to this item will be contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders, which is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to this item will be contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders, which is incorporated herein by reference.

ITEM 13. EXHIBITS

- 3.1 Certificate of Incorporation, as amended (incorporated by reference from Form 10-QSB, as filed with the SEC on May 17, 2004).
- 3.2 By-laws (incorporated by reference from the Company's Registration Statement on Form SB-2 (No. 33-70334-A), filed with the SEC on February 2, 1994).
- 10.1 International Assets Holding Corporation Stock Option Plan (incorporated by reference from the Company's Registration Statement on Form SB-2 (No. 33-70334-A), filed with the SEC on February 2, 1994).
- 10.2 Amendment dated December 28, 1995, to International Assets Holding Corporation Stock Option Plan (incorporated by reference from the Registration Statement on Form S-8 (No. 333-10727), filed with the SEC on August 23, 1996).
- 10.3 Amendment dated October 28, 1998, to International Assets Holding Corporation Stock Option Plan (incorporated by reference from Company's Proxy Statement on Form 14A, filed with the SEC on January 15, 1999).
- 10.4 Amendment dated June 9, 2000, to International Assets Holding Corporation Stock Option Plan (incorporated by reference from the Company's Proxy Statement on Form 14A, filed with the SEC on January 12, 2001).
- 10.5 Employment Agreement, entered into as of October 1, 2002, between the Company and Diego J. Veitia (incorporated by reference from the Company's Form 10-KSB, as filed with the SEC on December 30, 2002).
- 10.6 Consulting Agreement, entered into as of September 1, 2002, between the Company and Veitia and Associates, Inc. (incorporated by reference from Form 10-KSB, as filed with the SEC on December 30, 2002).
- 10.7 Employment Agreement, entered into as of October 1, 2002, between the Company and Edward R. Cofrancesco (incorporated by reference from Form 10-KSB, as filed with the SEC on December 30, 2002).
- 10.8 Employment Agreement, dated October 22, 2002, by and between the Company, and Sean O'Connor (incorporated by reference from Form 8-K, as filed with the SEC on October 24, 2002).
- 10.9 Employment Agreement, dated October 22, 2002, by and between the Company, and Scott Branch (incorporated by reference from Form 8-K, as filed with the SEC on October 24, 2002).
- 10.10 Registration Rights Agreement, dated October 22, 2002, by and between the Company, and Sean O'Connor (incorporated by reference from Form 8-K, as filed with the SEC on October 24, 2002).

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- 10.11 First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company, and Sean O'Connor (incorporated by reference from Form 8-K, as filed with the SEC on December 10, 2002).
- 10.12 Registration Rights Agreement, dated October 22, 2002, by and between the Company, and Scott Branch (incorporated by reference from Form 8-K, as filed with the SEC on October 24, 2002).
- 10.13 First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company, and Scott Branch (incorporated by reference from Form 8-K, as filed with the SEC on December 10, 2002).
- 10.14 Registration Rights Agreement, dated October 22, 2002, by and between the Company, and John Radziwill (incorporated by reference from Form 8-K, as filed with the SEC on October 24, 2002).
- 10.15 First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company, and John Radziwill (incorporated by reference from Form 8-K, as filed with the SEC on December 10, 2002).
- 10.16 Fully Disclosed Clearing Agreement, entered into November 15, 2002, between the Company and the Pershing Division of Donaldson, Lufkin & Jenrette Securities Corporation (incorporated by reference from Form 10-QSB, as filed with the SEC on February 14, 2003).
- 10.17 International Assets Holding Corporation 2003 Stock Option Plan (incorporated by reference from the Company's Proxy Statement on Schedule 14A, filed on January 14, 2003).
- 10.18 Amendment to International Assets Holding Corporation 2003 Stock Option Plan (incorporated by reference from the Company's Proxy Statement on Form 14A, filed with the SEC on February 11, 2004).
- 10.19 International Assets Holding Corporation Form of 7% Convertible Subordinated Note (incorporated by reference from the Company's Form 8-K, filed with the SEC on March 4, 2004).
- 10.20 International Assets Holding Corporation Form of Warrant (incorporated by reference from the Company's Form 10-QSB filed with the SEC for the quarter ended March 31, 2004).
- 10.21 Acquisition Agreement dated as of June 25, 2004, by and among International Assets Holding Corporation, Global Currencies Limited, and the shareholders of Global Currencies (Holdings) Limited (incorporated by reference from the Company's Form 8-K, filed with the SEC on July 1, 2004).

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- 10.22 Employment Agreement, dated October 11, 2004, by and between the Company, and Jonathan C. Hinz (incorporated by reference from Form 8-K, as filed with the SEC on October 14, 2004).
- 10.23 Employment Agreement, effective December 1, 2004, by and between the Company, and Brian T. Sephton (incorporated by reference from Form 8-K, as filed with the SEC on November 24, 2004).
- 10.24* Operating Agreement dated May 7, 2004, by and between the Company and Consilium Investment Capital, Inc.
- 14.1 International Assets Holding Corporation Code of Ethics (incorporated by reference from the Company 's Form 10-KSB filed with the SEC for the fiscal year ended September 30, 2003).
- 21* List of the Company's subsidiaries.
- 23.1* Consent of KPMG to the incorporation by reference to Form S-8.
- 23.2* Consent of KPMG to the incorporation by reference to Form S-3.
- 31.1* Certification of Chief Executive Officer, pursuant to Rule 13a – 14(a).
- 31.2* Certification of Chief Financial Officer, pursuant to Rule 13a – 14(a).
- 32.1* Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed as part of this report.

Schedules and Exhibits Excluded

All schedules and exhibits not included are not applicable, not required or would contain information which is included in Consolidated Financial Statements, Summary of Significant Accounting Policies, or the Notes to the Consolidated Financial Statements.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item will be contained in the Proxy Statement for the 2005 Annual Meeting of Shareholders, which is incorporated herein by reference.



KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
International Assets Holding Corporation:

We have audited the accompanying consolidated balance sheets of International Assets Holding Corporation and subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Assets Holding Corporation and subsidiaries as of September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Tampa, Florida
December 12, 2004

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2004 and 2003

	2004	2003
Assets		
Cash	\$ 3,523,604	1,755,072
Cash and cash equivalents deposited with brokers, dealers and clearing organization	17,560,863	5,311,500
Receivables from brokers, dealers and clearing organization	7,699,450	2,513,369
Receivables from customers	12,358,412	144,271
Financial instruments owned, at market value	18,805,625	6,144,899
Income taxes receivable	57,881	—
Investment in asset management joint venture	459,075	—
Investment in INTL Consilium sponsored fund	3,020,805	—
Deferred income tax asset, net	332,429	329,457
Fixed assets and leasehold improvements at cost, net of accumulated depreciation and amortization	465,023	295,680
Software development, net of accumulated amortization of \$1,035,501 and \$979,957 at September 30, 2004 and 2003, respectively	—	55,544
Goodwill	2,774,945	—
Other assets	661,641	787,511
Total assets	\$67,719,753	17,337,303
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 343,657	130,156
Foreign currency sold, not yet purchased, at market value	2,829,597	308,031
Demand loan payable	10,447,417	—
Financial instruments sold, not yet purchased, at market value	12,310,543	6,195,149
Payable to brokers, dealers and clearing organization	9,272,857	1,700
Payable to customers	4,665,183	—
Accrued compensation and benefits	2,102,055	1,177,848
Accrued expenses	848,643	182,452
Income taxes payable	112,917	—
Other liabilities	37,519	43,639
Total liabilities	42,970,388	8,038,975
Commitments and contingent liabilities		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; no shares issued or outstanding at September 30, 2004 and 2003	—	—
Common stock, \$.01 par value. Authorized 12,000,000 shares; issued and outstanding 7,069,076 shares and 4,702,384 shares at September 30, 2004 and 2003, respectively	70,691	47,024
Additional paid-in capital	24,685,139	11,783,124
Retained deficit	(6,465)	(2,531,820)
Total stockholders' equity	24,749,365	9,298,328
Total liabilities and stockholders' equity	\$67,719,753	17,337,303

See accompanying notes to consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
Years ended September 30, 2004 and 2003

	2004	2003
Revenues:		
Net dealer inventory and investment gains	\$21,407,230	9,537,067
Commissions, net	903,507	1,124,513
Interest income	167,305	52,875
Dividend income (expense), net	(400,090)	(22,115)
Equity in loss from asset management joint venture	(40,925)	—
Other	702	106,097
Total revenues	22,037,729	10,798,437
Interest expense	730,670	43,682
Net revenues	21,307,059	10,754,755
Non-interest expenses:		
Compensation and benefits	8,490,377	4,321,490
Clearing and related expenses	5,878,596	2,405,011
Wholesale commissions	20,066	438,068
Occupancy and equipment rental	502,633	438,111
Professional fees	418,538	437,997
Depreciation and amortization	185,769	362,341
Business development	472,409	263,033
Insurance	362,253	232,571
Other	603,324	380,439
Total non-interest expenses	16,933,965	9,279,061
Income before income tax expense	4,373,094	1,475,694
Income tax expense	1,847,739	211,309
Net income	\$ 2,525,355	1,264,385
Earnings per share:		
Basic	\$ 0.50	0.34
Diluted	\$ 0.41	0.33
Weighted average number of common shares outstanding:		
Basic	5,090,304	3,688,892
Diluted	6,111,223	3,862,761

See accompanying notes to consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended September 30, 2004 and 2003

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Total stockholders' equity
Balances at September 30, 2002	\$ —	23,756	8,026,131	(3,796,205)	—	4,253,682
Sale of preferred stock through private placement	21,875	—	3,413,696	—	—	3,435,571
Conversion of preferred stock to common stock	(21,875)	21,875	—	—	—	—
Issuance of common stock for finders fee services	—	441	74,559	—	—	75,000
Acquisition of 8,208 common shares	—	—	—	—	(8,200)	(8,200)
Retirement of 8,208 common shares held in treasury	—	(82)	(8,118)	—	8,200	—
Exercise of incentive stock options	—	534	111,606	—	—	112,140
Exercise of nonqualified stock options	—	500	124,500	—	—	125,000
Nonqualified stock option expense for consultant	—	—	40,750	—	—	40,750
Net income	—	—	—	1,264,385	—	1,264,385
Balances at September 30, 2003	—	47,024	11,783,124	(2,531,820)	—	9,298,328
Issuance of warrants for placement agent services	—	—	893,121	—	—	893,121
Conversion of subordinated notes payable to common stock	—	20,869	10,166,855	—	—	10,187,724
Issuance of common stock in connection with acquisition of INTL Global Currencies	—	1,500	1,470,000	—	—	1,471,500
Exercise of incentive stock options	—	1,018	269,199	—	—	270,217
Exercise of nonqualified stock options	—	280	67,973	—	—	68,253
Nonqualified stock option expense for consultant	—	—	34,867	—	—	34,867
Net income	—	—	—	2,525,355	—	2,525,355
Balances at September 30, 2004	\$ —	70,691	24,685,139	(6,465)	—	24,749,365

See accompanying notes to consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net income	\$ 2,525,355	1,264,385
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	185,769	362,341
Amortization of debt issuance costs	78,824	—
Deferred income taxes	(2,972)	211,309
Equity in loss from asset management joint venture	40,925	—
Amortization of stock option expense for consultant	34,867	40,750
Unrealized investment gain from investment in INTL Consilium sponsored fund	(20,805)	—
Loss on disposals of fixed assets	—	14,589
Cash provided by (used in) changes in operating assets and liabilities:		
Receivable from brokers, dealers and clearing organization	10,123,615	(3,536,397)
Receivable from customers	(8,450,764)	(144,271)
Financial instruments owned, at market value	(12,660,726)	(372,227)
Income taxes receivable	(57,881)	—
Other assets	125,870	(467,886)
Foreign currency sold, not yet purchased	2,521,566	292,258
Financial instruments sold, not yet purchased, at market value	6,115,394	398,329
Accounts payable	213,501	48,621
Payable to brokers, dealers and clearing organization	9,191,412	—
Payable to customers	(3,432,505)	—
Accrued compensation and benefits	924,207	937,776
Accrued expenses	264,684	72,569
Income taxes payable	79,754	—
Other liabilities	(6,120)	(6,047)
Net cash provided by (used in) operating activities	7,793,970	(883,901)
Cash flows from investing activities:		
Proceeds from sale of property	—	4,750
Investment in asset management joint venture	(500,000)	—
Investment in INTL Consilium sponsored fund	(3,000,000)	—
Payments related to acquisition of INTL Global Currencies	(4,594,440)	—
Principal collections of loans to officers	—	21,468
Purchase of property, equipment and software development	(254,057)	(298,859)
Net cash used in investing activities	(8,348,497)	(272,641)
Cash flows from financing activities:		
Issuance of convertible subordinated notes payable, net of debt issuance costs settled in cash of \$997,706	11,002,293	—
Cost of fractional shares related to conversion of convertible subordinated notes to common stock	(272)	—
Increase in demand loan payable	3,231,931	—
Sale of preferred stock, net of costs of acquisition	—	3,510,571
Exercise of stock options	338,470	237,140
Acquisition of common shares related to terminated 401k and Retirement Savings Plan participants	—	(8,200)
Net cash provided by financing activities	14,572,422	3,739,511
Net increase in cash and cash equivalents	14,017,895	2,582,969
Cash and cash equivalents at beginning of year	7,066,572	4,483,603
Cash and cash equivalents at end of year	\$ 21,084,467	7,066,572

(Continued)

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Cont.

Years ended September 30, 2004 and 2003

	2004	2003
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 651,846	43,682
Income taxes paid	\$ 1,840,315	—
Supplemental disclosure of noncash investing activities:		
Estimated fair value of assets and (liabilities) acquired in acquisition of INTL Global Currencies:		
Receivable from brokers, dealers and clearing organization	\$ 15,309,696	—
Receivable from customers	3,763,377	—
Fixed assets	45,511	—
Payable to brokers, dealers and clearing organization	(79,745)	—
Payable to customers	(8,097,688)	—
Demand loan payable	(7,215,486)	—
Accrued expenses	(115,127)	—
Income taxes payable	(33,163)	—
Total net assets acquired	\$ 3,577,375	—
Additional goodwill in connection with acquisition of INTL Global Currencies	\$ 286,380	—
Supplemental disclosure of noncash financing activities:		
Issuance of warrants for placement agent services	\$ 893,121	—
Conversion of subordinated notes to common stock, net of debt issuance costs of \$1,812,004	\$ 10,187,724	—
Issuance of common stock related to INTL Global Currencies acquisition	\$ 1,471,500	—
Conversion of preferred stock to common stock	\$ —	21,875
Issuance of common stock for finders fee services	\$ —	75,000
Retirement of 8,208 common shares held in treasury	\$ —	8,200

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ASSETS HOLDING CORPORATION
AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

September 30, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of International Assets Holding Corporation and its subsidiaries (the Company). The Company's subsidiaries are INTL Trading, Inc. (INTL Trading), INTL Assets, Inc., INTL Holdings (U.K.) Limited, INTL Global Currencies Limited (INTL Global Currencies) and IAHC (Bermuda) Ltd.

All significant intercompany balances and transactions have been eliminated in consolidation.

INTL Trading, Inc. is registered as a broker-dealer under the Securities Exchange Act of 1934. Most of its securities transactions are cleared through Pershing LLC on a fully disclosed basis.

INTL Assets, Inc. holds most of the physical assets of the Company. It also engages in international debt transactions.

INTL Holdings (U.K.) Limited is a U.K. holding company that owns 100% of INTL Global Currencies Limited (INTL Global Currencies). INTL Global Currencies operates a foreign exchange trading business.

IAHC (Bermuda) Ltd. maintains a proprietary international fixed income securities portfolio managed by the Company's fixed income traders.

International Assets Holding Corporation engages in precious and base metals trading, foreign exchange trading, trade finance and financial structuring advice.

The Company also owns a 50.1% limited liability company interest in INTL Consilium, LLC (INTL Consilium), an investment advisory firm that focuses on the emerging market asset class. INTL Consilium is accounted for using the equity method of accounting.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and cash deposits with brokers, dealers and clearing organization. Cash deposits with clearing organization consist of cash, foreign currency and money market funds stated at cost, which approximates fair value. The money market funds earn interest at varying rates on a daily basis. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company is subject to concentration of credit risk because a substantial portion of the Company's cash and cash equivalents are maintained at a single financial institution.

(Continued)

**INTERNATIONAL ASSETS HOLDING CORPORATION
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Notes to the Consolidated Financial Statements
September 30, 2004 and 2003

(d) Foreign Currency

The value of a foreign currency, including a foreign currency sold, not yet purchased, is converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of business as of September 30, 2004 and 2003. For foreign currency transactions completed during the fiscal year, the foreign exchange rate in effect at the time of the transaction is utilized.

(e) Financial Instruments

As of September 30, 2004 and 2003, the carrying value of the Company's financial instruments including cash, cash equivalents and cash deposits with clearing organization, receivables, accounts payable and accrued expenses approximate their fair values, based on the short-term maturities of these instruments. Additionally, the carrying value of financial instruments owned and any financial instruments and foreign currency sold, not yet purchased, approximate their fair values at September 30, 2004 and 2003 because they are based on market prices.

(f) Valuation of Financial Instruments and Investments

Each listed security is valued at the last reported sale price on the day of valuation. Listed securities not traded on an exchange that day, and other securities that are traded in the over-the-counter market, are valued at the market's current bid price for securities owned and current asked price for securities sold, not yet purchased. The value of a foreign security is determined in the national currency of the principal exchange on which the security is traded, which value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect following the close of such exchange.

Limited partnership ownership interest is recorded at fair value, which has been determined by management. This limited partnership ownership interest is held for the Company's investment purposes and is not held for sale to the Company's customers.

Investment in INTL Consilium sponsored fund is valued at the net asset value provided by the fund's administrator as of the date of valuation.

(g) Revenue Recognition

The revenues of the Company are derived principally from realized and unrealized trading income in securities purchased or sold for the Company's account. Realized and unrealized trading income (net dealer inventory and investment gains) are recorded on a trade date basis. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur. Securities owned and securities sold, not yet purchased are stated at market value with related changes in unrealized appreciation or depreciation reflected in net dealer inventory and investment gains. Interest income is recorded on the accrual basis and dividend income is recognized on the ex- dividend date.

Other assets and other revenue as of September 30, 2003 include \$100,000, related to the settlement of legal matters that was collected in October 2003.

**INTERNATIONAL ASSETS HOLDING CORPORATION
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Notes to the Consolidated Financial Statements
September 30, 2004 and 2003

(h) Depreciation and Amortization

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the estimated period of benefit to be received from the assets, which ranges from three to seven years.

Software development costs for internally developed software are capitalized in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1: *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, when management authorizes and commits to funding the project and it is probable that the project will be completed and the software will be used to perform its intended functions. Costs of software that have reached that stage of functionality are amortized using the straight-line method over the estimated period of benefit to be received from these costs, which ranges from two to three years.

The Company assesses the recoverability of its capitalized software development costs on an ongoing basis in accordance with SFAS No. 144. The Company adopted SFAS No. 144 on October 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as software development costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated or amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(i) Advertising

The Company expenses costs of advertising as incurred and has included these expenses as business development expenses in the accompanying consolidated statements of operations. Advertising costs for the years ended September 30, 2004 and 2003 were \$9,312 and \$5,062, respectively.

(j) Income Taxes

The Company files consolidated Federal and state income tax returns.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is

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Notes to the Consolidated Financial Statements
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recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized.

(k) Stock-Based Employee Compensation

In October 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 123, *Accounting for Stock-Based Compensation*, which generally permits entities to recognize as expense over the vesting period the fair value of all stock-based awards calculated on the date of grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of APB Opinion No. 25, which provides that compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price and pro forma disclosures as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

If the Company had determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income and earnings per share would be reflected in the pro forma amounts indicated below:

		2004	2003
Net income	As reported	\$2,525,355	1,264,385
	Pro forma	\$1,992,597	1,028,068
Basic earnings per share	As reported	\$ 0.50	0.34
	Pro forma	\$ 0.39	0.28
Diluted earnings per share	As reported	\$ 0.41	0.33
	Pro forma	\$ 0.33	0.27

Pro forma net income reflects only options granted from 1996 to 2004. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' expected life of upto 8.5 years and compensation cost for options granted prior to October 1, 1995 is not considered.

(l) Basic and Diluted Earnings Per Share

Basic earnings per share have been computed by dividing net income by the weighted average number of common shares outstanding.

Options to purchase 19,200 and 879,284 shares of common stock were excluded from the calculation of diluted earnings per share for years ended September 30, 2004 and 2003, respectively, because the exercise prices of these options exceeded the average market price of the common stock for the period (anti-dilutive).

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September 30, 2004 and 2003

	2004	2003
Diluted earnings per share		
Numerator:		
Net income	\$2,525,355	1,264,385
Denominator:		
Weighted average number of:		
Common shares outstanding	5,090,304	3,688,892
Dilutive potential common shares outstanding	1,020,919	173,869
	<u>\$6,111,223</u>	<u>3,862,761</u>
Diluted earnings per share	\$ 0.41	0.33

(m) Effects of Recently Issued Accounting Standards

On October 13, 2004, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) on EITF issue 04-10, *Determining Whether to Aggregate Operating Segments that do not meet the Quantitative Thresholds*. The task force concluded that operating segments that do not meet the quantitative thresholds established by Statement of Financial Accounting Standard (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, can be aggregated only if aggregation is consistent with the objective and basic principles of SFAS No. 131, the segments have similar economic characteristics, and the segments share a majority of the aggregation criteria listed in SFAS No. 131. This EITF becomes applicable for fiscal years ending after October 13, 2004. The Company does not believe that the EITF will have a material effect on its segment disclosures under SFAS No. 131.

On March 9, 2004, the SEC issued Staff Accounting Bulletin (SAB) No. 105, *Application of Accounting Principles to Loan Commitments*. SAB No. 105 applies to those loan commitments that are accounted for as derivatives in accordance with paragraph three of SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* and contains specific guidance on measuring those loan commitments at fair value. Additionally, it requires registrants to disclose their accounting policies related to loan commitments accounted for as derivatives, including the methods and assumptions used to estimate the fair value of the commitments, as well as any associated hedging strategies. SAB No. 105 is effective for new loan commitments entered into subsequent to March 31, 2004. The Company adopted SAB 105 with no material impact on its consolidated financial statements.

On March 31, 2004, the FASB ratified the consensus reached by the EITF in issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* on the guidance to be used in determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This consensus ratified by the FASB on March 31, 2004 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, the guidance contained in paragraphs 10 - 20 of EITF 03-1, related to determining whether an impairment is other-than-temporary and measuring the related impairment loss, has been delayed by FASB Staff Position

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(FSP) EITF Issue 03-1-1, *Effective Date of Paragraphs 10 - 20 of EITF Issue No. 03-1*. The Company does not believe that adopting the provisions of paragraphs 10 - 20 of this EITF will have a material effect on its consolidated financial statements.

The FASB had previously ratified in November 2003, the disclosure requirements of EITF 03-1 related to investments with unrealized losses that have not been recognized as other-than-temporary impairments. The disclosures must include the amount of unrealized losses, the related fair value of the investments with unrealized losses, and must be “segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.” The disclosure requirements were implemented with no material impact on its consolidated financial statements.

On March 31, 2004 the FASB ratified the consensus reached by the Emerging Issues Task Force on EITF Issue 03-16, *Accounting for Investments in Limited Liability Companies*. This EITF issue requires “that an investment in a Limited Liability Company (LLC) that maintains a “specific ownership account” for each investor - similar to a partnership capital account structure - should be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in an LLC should be accounted for using the cost method or the equity method.” These requirements are applicable for reporting periods beginning after June 15, 2004. The adoption of EITF 03-16 did not have a material impact on the Company’s consolidated financial statements.

In December 2003, the SEC issued SAB No. 104, *Revenue Recognition*. SAB No. 104 revises or rescinds portions of the interpretative guidance included in SAB No. 101, *Revenue Recognition in Financial Statements*, in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. SAB No. 101, which was issued in December 1999, provides guidance on the recognition, presentation, and disclosure of revenues in the financial statements of SEC registrants. The provisions of SAB No. 104 did not have a material impact on the Company’s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. The statement specifies how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement was effective for financial instruments entered into or modified after May 31, 2003 and was effective for pre-existing instruments as of the Company’s fourth quarter of 2003. However, the effective date of certain provisions of SFAS No. 150 for certain mandatorily redeemable financial instruments has been deferred by FSP FAS 150-3. Under this FSP, certain mandatorily redeemable shares are subject to the provisions of SFAS No. 150 for the first fiscal period beginning after December 15, 2004. Other mandatorily redeemable shares are deferred indefinitely but may be subject to classification or disclosure provisions of the Statement. Adoption of the applicable provisions of SFAS No. 150 did not have a material effect on the Company’s financial condition or results of operations. Additionally, the Company does not expect that the deferred provisions will have a material effect on its financial condition or results of operations.

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In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, which provides guidance on the consolidation of certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Such entities are referred to as variable interest entities (VIE's). FIN 46 requires that a VIE be consolidated by a business enterprise if that enterprise is deemed to be the primary beneficiary of the VIE. FIN 46 was effective January 31, 2003 for the Company with respect to interest in VIE's that were obtained after that date. With respect to interests in VIE's existing prior to February 1, 2003, the FASB issued Interpretation No. 46 (revised December 2003) (FIN 46R), which provides technical corrections and extended the effective date of FIN 46 to the first reporting period that ended after March 15, 2004. The issuance of FIN 46(R) had no material impact on the Company's consolidated financial statements or on its adoption of FIN 46 effective July 1, 2003. The Company has identified one immaterial VIE with an incremental impact on total assets of less than 1% of total assets. The Company has decided not to consolidate this VIE due to its immaterial impact.

(n) Investment in Joint Venture

The investment in joint venture is accounted for under the equity method of accounting. Under this method, the Company's investment in the joint venture is recorded at cost and adjusted by the Company's share of the contributions, distributions and undistributed earnings or losses of the joint venture.

(o) Goodwill

Goodwill represents the excess of costs over fair value of assets of the business acquired. The Company adopted the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*, on July 9, 2004 with the acquisition of INTL Global Currencies. Pursuant to Statement No. 142, goodwill acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement No. 142.

(p) Reclassification

Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

(2) Agreements for Sale of Preferred Stock and Change in Management

On October 22, 2002, the Company entered into three Share Subscription Agreements (the Subscription Agreements) with three individual investors for the sale of common shares and preferred shares. On December 6, 2002, the Company and three investors amended the Subscription Agreements to provide for the purchase of only shares of Series A preferred stock and the parties completed the transaction on the same date. Under the terms of the amended agreements, the Company sold 2,187,500 Series A preferred shares at \$3,510,571 in cash from the transaction, after deducting transaction costs of \$208,179 paid in cash. The Company also paid an additional \$75,000 in transaction costs through the issuance of 44,117 shares of the Company's common stock. The Subscription Agreements provided that the Series A preferred shares

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would be converted into shares of the Company's common stock upon the approval of the Company's shareholders. The Company's shareholders approved the conversion on February 28, 2003. On the same day, the 2,187,500 Series A preferred shares were converted into common shares on a one-for-one basis.

Pursuant to the Subscription Agreements, the Company agreed to appoint each of the new investors to its Board of Directors and the Company also agreed to appoint one of the new investors as Chief Executive Officer and another as President. The Company has entered into employment agreements with both of these individuals. In connection with the transactions contemplated by the Subscription Agreements, the shareholders also approved a new stock option plan and an amendment of the Company's Certificate of Incorporation to require the vote of at least 75% of the Company's shareholders to remove or change the Company's Chairman of the Board.

(3) Issuance of Convertible Subordinated Notes, Conversion of Subordinated Notes in Common Shares and related Debt Issuance Costs

On March 12, 2004, the Company issued \$12,000,000 in principal amount of the Company's 7% convertible subordinated notes (the Notes) due December 31, 2014. The Notes were issued at par. The Notes carried interest at the rate of 7% per annum, payable semi-annually on June 30 and December 31 of each year. The conversion features of the Notes were approved by the shareholders on March 26, 2004. The Notes were convertible by the holders at any time prior to the maturity date of December 31, 2014 into shares of the Company's common stock at a conversion price of \$5.75 per share. The Company was authorized to cause the outstanding principal balance of the Notes to be converted, in whole or in part, into shares of common stock at any time during the 90 days following the occurrence of all of the following three events: (i) the closing price of the common stock exceeding \$8.00 per share (proportionately adjusted to reflect adjustments to conversion price) for 20 consecutive days; (ii) the Company filing a registration statement under the Securities Act to register the issuance of the common stock pursuant to the conversion of the Notes; and, (iii) such registration statement being declared effective by the SEC.

On August 13, 2004, the Company converted the outstanding Notes into shares of the Company's common stock because the Company had fulfilled the necessary conditions set forth in the Notes allowing for such conversion. As a result of the conversion, the Company issued 2,086,923 shares of common stock to the holders of the Notes, in exchange for the cancellation of \$12,000,000 in outstanding debt.

Debt issuance costs of \$1,890,828 were incurred in connection with the issuance of the Notes. This total included \$997,706 of costs settled in cash for commissions, placement agent fees, professional fees and state filing fees. This total also included \$893,121 for the Black-Scholes valuation (\$6.00 strike price, 3 year life, risk free rate 2.27%) for the 200,000 warrants issued to the placement agent for placement agent services. Prior to the conversion, the total debt issuance costs were being amortized over the life of the Notes (through December 31, 2014) and charged to interest expense. Upon conversion of the Notes debt issuance costs (\$1,812,004) were charged to additional paid in capital as part of the capitalization of the newly issued 2,086,923 common shares.

(4) Investment in Asset Management Joint Venture

On May 11, 2004, the Company entered into an agreement with Consilium Investment Capital, Inc. (CIC) of Fort Lauderdale, Florida to form INTL Consilium, LLC. (INTL Consilium). INTL Consilium is an

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investment management firm which primarily provides investment advice with respect to emerging market securities. In June 2004 the Company made a capital contribution of \$500,000 and CIC contributed \$100,000 to INTL Consilium. The Company's total capital contribution was allocated as \$100,401 share capital and \$399,599 excess capital. The excess capital contribution was made by the Company in recognition of the asset management skills and relationships contributed by CIC. The excess capital contribution has a liquidation preference of three years. The Company is entitled to receive 50.1% of the profits and losses of INTL Consilium. The Company and CIC each hold two seats on the board of directors of INTL Consilium. Two principals of CIC actively manage this business. The Company has assessed the joint venture using the consolidation criteria in FASB Interpretation No. 46R and concluded INTL Consilium is not a variable interest entity. Accordingly, the Company assessed the consolidation criteria established by EITF 96-16 by reviewing the voting rights of each investee of INTL Consilium and due to certain specified operating matters that require board approval concluded to use the equity method of accounting for its investment in INTL Consilium.

For the fiscal year ended September 30, 2004, the Company has recorded a loss of \$40,925 for its 50.1% of the joint venture's loss for the period.

INTL Consilium, LLC

Condensed Statement of Operations

For the period from inception May 11, 2004 through September 30, 2004

(Unaudited)

Revenues:	
Management and investment advisory fees	\$ 164,473
Interest	1,963
Other	930
	<hr/>
Total revenues	167,366
	<hr/>
Non-interest expenses:	
Compensation and benefits	172,148
Occupancy and equipment rental	12,290
Professional fees	13,887
Depreciation	839
Business development	22,942
Insurance	13,487
Other	13,458
	<hr/>
Total non-interest expenses	249,051
	<hr/>
Net loss	\$ (81,685)
	<hr/>

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INTL Consilium, LLC
Condensed Balance Sheet
September 30, 2004
(Unaudited)

Assets	
Cash	\$340,691
Management and investment advisory fees receivable	64,794
Investment in INTL Consilium sponsored fund	103,778
Property and equipment, net	6,711
Other assets	5,006
	<hr/>
Total assets	\$520,980
	<hr/>
Liabilities and Members' Equity	
Liabilities	\$ 2,665
Members' equity:	
Common stock	200,401
Excess capital contribution	399,599
Retained deficit	(81,685)
	<hr/>
Total liabilities and members' equity	\$520,980
	<hr/>

(5) Investment in INTL Consilium Sponsored Fund

Investment in INTL Consilium sponsored fund of \$3,020,805 consists of an investment in a hedge fund managed by INTL Consilium. The fund primarily invests in emerging market debt securities. The Company owns 50.1% of the investment manager of the hedge fund, INTL Consilium, through a joint venture agreement (Note 4). The Company invested \$3,000,000 in the fund in July 2004. The investment is carried at the net asset valuation provided by the hedge fund's recordkeeping administrator as of the end of the period. Investment withdrawals require ninety days' written notice to the manager of the fund as well as additional limitations on the amount of withdrawal. The manager may waive the withdrawal limitations in its sole discretion.

(6) Acquisition of the Foreign Exchange Business of Global Currencies Limited

On July 9, 2004 the Company completed the acquisition of the foreign exchange business of Global Currencies Limited through the purchase of all the shares of INTL Holdings (U.K.) Limited. INTL Holdings (U.K.) Limited is a U.K. holding company that owns 100% of INTL Global Currencies Limited (INTL Global Currencies). The Company made cash payments of \$4,594,440 and issued 150,000 common shares of the Company valued at \$1,471,500 as of the date of the purchase. The cash payments consisted of \$1,000,000 cash premium paid to the sellers, \$3,577,375 for the value of the net assets received, less

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negotiation differences of \$49,982 related to fixed asset amounts and stamp duty adjustments. In addition, the Company paid \$67,047 for legal and accounting related fees.

The Company is obligated to make certain earn-out payments to the sellers. In particular, the Company is obligated to pay the Sellers an amount equal to 20% of the gross foreign exchange trading profits generated by the Company during the 30 months ending on December 31, 2006 (up to a maximum of \$4.0 million). Additionally, the Company is obligated to pay the Sellers 10% of the gross foreign exchange trading profits in excess of \$10.0 million per year for the 12 months ended June 30, 2005 and June 30, 2006, and 10% of such profits in excess of \$5.0 million for the 6 months ended December 31, 2006.

The Company funded the acquisition from its existing working capital, which includes amounts previously generated from the Company's issuance of \$12,000,000 of Notes in March 2004.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain assets; thus, the allocation of the purchase price is subject to refinement.

Receivable from brokers, dealers and clearing	\$ 15,309,696
Receivable from customers	3,763,377
Fixed assets	45,511
Total assets	19,118,584
Payable to brokers, dealers and clearing organizations	79,745
Payable to customers	8,097,688
Demand loan payable	7,215,486
Accrued expenses	115,127
Income taxes payable	33,163
Total liabilities	15,541,209
Total net assets acquired	\$ 3,577,375

(7) Goodwill

The purchase price paid by the Company for the acquisition of the foreign exchange business of Global Currencies Limited exceeded the net asset value received by \$2,488,565. This amount was treated as goodwill. The Company has accrued additional goodwill under the earnout provisions of the purchase agreement.

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The goodwill related to the INTL Global Currencies acquisition is as follows:

Cash premium paid to sellers	\$1,000,000
Cash paid for net assets received	3,577,375
Negotiation differences for fixed assets and stamp duty	(49,982)
Legal and accounting fees	67,047
Value of 150,000 common shares at \$9.81 per share	1,471,500
	<hr/>
Total payments of cash and shares	6,065,940
Less: Fair value of net assets received	3,577,375
	<hr/>
Initial goodwill	2,488,565
Additional goodwill under earnout based on foreign exchange revenues from July 9, 2004 through September 30, 2004	286,380
	<hr/>
Total goodwill as of September 30, 2004	<u>\$2,774,945</u>

The additional goodwill will be calculated for each period as each earnout payment is earned and an adjustment will be recorded to goodwill. The additional payments will be due one year after the closing date of July 9, 2004 and each six months thereafter, until December 2006.

(8) Commission Revenue

Commission revenues of \$903,507 and \$1,124,513 reported for the years ended September 30, 2004 and 2003, were primarily related to introducing broker fees that the Company received in connection with its wholesale debt trading activities.

	2004	2003
Wholesale commission revenue	\$1,616,851	1,472,475
Amounts paid to wholesale third party	(713,344)	(348,900)
	<hr/>	<hr/>
Net wholesale commission revenue	903,507	1,123,575
Other	—	938
	<hr/>	<hr/>
Total commission revenue, net	<u>\$ 903,507</u>	<u>1,124,513</u>

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(9) Software Development Costs

Software development costs that have been capitalized are amortized over a period ranging from two to three years. The Company's software development efforts relate to software systems used internally for the Company's Internet based trading systems.

	<u>2004</u>	<u>2003</u>
Balance beginning of year, net	\$ 55,544	282,718
Dispositions	—	—
Amortization expense	(55,544)	(227,174)
Balance end of year, net	<u>\$ —</u>	<u>55,544</u>

(10) Related Party Transactions

In March 2004, the Company issued \$12,000,000 in principal amount of the Company's 7% convertible subordinated notes (the Notes). Executive officers and directors of the Company participated in the offering and purchased \$1,282,500 of the Notes. In August 2004, the Company converted the outstanding notes into common shares. At conversion, the Notes owned by the officers and directors were converted into 223,042 common shares. In March 2004, the shareholders approved the issuance of the common shares upon the conversion of the Notes, including the issuances to the Company's executive officers and directors. See note 3 for additional information regarding the issuance and conversion of the Notes.

In July 2004, a major outside shareholder of the Company invested \$50,000,000 in a hedge fund managed by INTL Consilium.

On August 28, 2000, the Company made a loan to an executive officer of the Company evidenced by a \$66,000 promissory note. The note was initially due on August 27, 2001, and was subsequently extended. The note bore interest at 6.27 percent per annum. On March 31, 2003, the then remaining loan balance was paid in full.

On August 9, 2002, the Board of Directors of the Company entered into a list broker agreement between Veitia & Associates (V&A) and the Company regarding the management and leasing of the Company's list rental access, for the period October 1, 2002 to December 13, 2004. V&A will receive 90% of any proceeds generated by V&A from this agreement. V&A is a company solely owned and controlled by the Company's Executive Chairman. During the year ended September 30, 2004 and 2003, V&A received \$8,730 and \$7,030, respectively, under this agreement.

In November 2002, the Company made a \$20,000 contribution to a not-for-profit foundation established by the Executive Chairman of the Company. The sole purpose of the foundation is to make charitable contributions, primarily in the form of education scholarships.

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(11) Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Market Value

Financial instruments owned and financial instruments sold, not yet purchased at September 30, 2004 and 2003 consisted of trading and investment securities at market values as follows:

	<u>Owned</u>	<u>Sold, not yet purchased</u>
September 30, 2004:		
Common stock and American Depository Receipts	\$ 1,546,117	1,401,367
Foreign ordinary stocks, paired with their respective American Depository Receipts	8,851,358	8,935,260
Corporate and municipal bonds	2,085,122	—
Foreign government obligations	1,529,410	454,025
Negotiable instruments (promissory notes)	2,905,812	—
Options and futures	1,762,052	1,519,891
Commodities	55,076	—
U.S. Government obligations	17,194	—
Other investments	53,484	—
	<u>\$ 18,805,625</u>	<u>12,310,543</u>
	<u>Owned</u>	<u>Sold, not yet purchased</u>
September 30, 2003:		
Common stock and American Depository Receipts	\$ 1,395,065	2,223,180
Foreign ordinary stocks, paired with their respective American Depository Receipts	2,615,667	2,687,873
Corporate and municipal bonds	1,594,522	813,975
Options and futures	400,342	183,603
Commodities	22,594	—
Foreign government obligations	57,128	276,266
Other investments	59,581	10,252
	<u>\$ 6,144,899</u>	<u>6,195,149</u>

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(12) Interest Income and Interest Expense

	<u>2004</u>	<u>2003</u>
Interest income and interest expense:		
Interest income	\$ 167,305	52,875
Interest expense:		
On-demand bank lending for foreign exchange business	\$ 95,282	—
Short securities trading position balances	174,369	43,682
Convertible subordinated notes payable	378,243	—
Amortization of debt issuance costs	78,824	—
Other	3,952	—
Interest expense	<u>\$ 730,670</u>	<u>43,682</u>

(13) Dividend Income and Expense, net

	<u>2004</u>	<u>2003</u>
Dividend income (expense), net:		
Dividend income	\$ 198,352	84,172
Dividend expense	(598,442)	(106,287)
Dividend expense, net	<u>\$(400,090)</u>	<u>(22,115)</u>

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(14) Receivables From and Payable to Brokers, Dealers and Clearing Organization

Amounts receivable from and payable to brokers, dealers and clearing organization at September 30, 2004 and 2003 consisted of the following:

	<u>Receivables</u>	<u>Payable</u>
September 30, 2004:		
Open securities transactions with clearing organization, net	\$ —	6,314,652
Securities clearing fees and related charges payable with clearing organization, net	—	58,402
Introducing fee receivable	147,235	—
Open foreign currency transactions	7,552,215	2,899,803
	<u>\$7,699,450</u>	<u>9,272,857</u>
September 30, 2003:		
Open securities transactions with clearing organization, net	\$1,406,405	—
Securities clearing fees and related charges payable with clearing organization, net	(19,737)	—
Introducing fee receivable	155,238	—
Open foreign currency transactions	971,463	—
Open metals transactions	—	1,700
	<u>\$2,513,369</u>	<u>1,700</u>

Receivables and payables to brokers, dealers and clearing organization result from open trading activities between the Company and other financial institutions including banks, securities broker-dealers, market-makers and counter-parties. Receivables and payables to certain organizations are reported net, when a right of setoff exists with the broker, dealer or clearing organization.

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(15) Receivable From and Payable to Customers

Amounts receivable from and payable to customers at September 30, 2004 and 2003 consisted of the following:

	<u>Receivables</u>	<u>Payable</u>
September 30, 2004:		
Open transactions - foreign currency trading	\$ 11,018,572	4,613,146
Margin deposits held - metals trading	—	11,036
Advance payment - other debt structures	—	41,000
Pledge receivable - metals trading	1,339,840	—
	<u>\$ 12,358,412</u>	<u>4,665,182</u>
September 30, 2003:		
Open transactions - foreign currency trading	\$ 19,271	—
Fee receivable - other debt originations	125,000	—
	<u>\$ 144,271</u>	<u>—</u>

Receivables and payables to customers result from open trading activities between the Company and its customers which are not financial institutions or broker-dealers. Receivables and payables to certain customer organizations are reported net, when a right of setoff exists with the customer.

(16) Other Assets

Other assets at September 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Other receivables	\$ 32,651	128,001
Deposit with clearing organization	500,000	500,000
Prepaid expenses and other assets	128,990	159,510
	<u>\$661,641</u>	<u>787,511</u>

(17) Demand Loan Payable

At September 30, 2004, INTL Global Currencies had a multi-currency on-demand overdraft facility of up to \$7,000,000 with one U.K. bank. The overdraft facility provides a right of set-off between amounts borrowed in one or more currencies against positive balances in one or more other currencies. Amounts borrowed bear interest at the London Interbank Offered Rates (LIBOR) for each currency plus 2%. The overdraft facility is guaranteed by International Assets Holding Corporation. At September 30, 2004, the net borrowings INTL Global Currencies exceeded the credit facility limit by \$3,447,417. This excess borrowing is guaranteed by a cross-lending guarantee from the former owner of the foreign exchange trading business of INTL Global Currencies. The former owner of the foreign exchange business is not obligated by any written agreement to provide access to this additional credit and the guarantee is

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expected to cease before December 31, 2004. In October 2004, the Company obtained additional on-demand overdraft facilities from two U.S. banks totaling \$4,000,000.

At September 30, 2004, the U.S. dollar equivalent of the components of the net borrowing under the overdraft facility with a single financial institution by currency were as follows:

	Positive balance (overdraft) U.S. dollar equivalent
United States Dollar	\$ (5,549,965)
Euro	(2,826,520)
United Kingdom Pound Sterling	(2,202,841)
Swiss Franc	(76,697)
Norwegian Krona	441
Danish Krona	196
Swedish Krona	5,770
Indian Rupee	(511,067)
Indonesian Rupiah	2,452
Japanese Yen	175
Canadian Dollar	698,967
Mexican Peso	4,244
South African Rand	12,325
Namibian Dollar	(4,897)
	<hr/>
Demand loan payable	\$(10,447,417)

(18) Financial Instruments with Off-Balance Sheet Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer. In addition, the Company has sold financial instruments that it does not currently own and will therefore be obligated to purchase such financial instruments at a future date. The Company has recorded these obligations in the consolidated financial statements at September 30, 2004 at market values of the related financial instruments (totaling \$12,310,543). The Company will incur losses if the market value of the financial instruments increases subsequent to September 30, 2004. The total of \$12,310,543 includes \$1,519,891 for options and futures contracts, which represent a liability to the Company based on their market value as of September 30, 2004.

(19) Capital and Cash Reserve Requirements

INTL Trading is subject to the net capital rules imposed by the Securities and Exchange Commission under SEC Rule 15c3-1. This rule requires maintenance of minimum net capital of an amount equal to the greater of \$100,000, 6-2/3 percent of aggregate indebtedness, or \$2,500 for each security in which a market is made with a bid price over \$5 and \$1,000 for each security in which a market is made with a bid price of \$5 or less with a ceiling of \$1,000,000. Rule 15c3-1 also requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1. As of September 30, 2004, the Company had excess net capital of

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\$2,596,370, a ratio of aggregate indebtedness to net capital of 1.44 to 1 and a percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d) of 29%.

INTL Trading is exempt from the customer reserve requirements and providing information relating to possession or control of securities pursuant to SEC Rule 15c3-3 because INTL Trading meets the exemption set forth in SEC Rule 15c3-3(k)(2)(ii).

(20) Leases

The Company leases approximately 5,100 square feet of office space at 220 E. Central Parkway in Altamonte Springs, Florida. This lease commenced on February 1, 2002 and expires on July 31, 2009. The Company leases approximately 5,300 square feet of office space at 708 Third Avenue in New York, New York. This lease commenced on December 13, 2002, and expires on September 30, 2009. The Company leases approximately 1,500 square feet of office space at Nedbank House, 20 Abchurch Lane, London. This lease commenced on October 1, 2003 and expires on January 31, 2006. The London office space is shared with the previous owners of the foreign exchange business under a shared cost apportionment arrangement. During the 2003 and 2004 fiscal years the Company leased approximately 310 square feet of office space at 1111 Brickell Avenue in Miami, Florida. This lease commenced on December 18, 2002, and expired on January 31, 2004.

The Company is obligated under various noncancelable operating leases for the rental of office facilities, service obligations and certain office equipment. The expense associated with operating leases amounted to \$604,326 and \$480,467 for the years ended September 30, 2004 and 2003, respectively. The expense associated with the operating leases and service obligations are reported in the statements of operations in occupancy and equipment rental, clearing and related and other expenses.

Future minimum lease payments under noncancelable operating leases as of September 30, 2004 are as follows:

Year ending September 30,	
2005	\$ 720,300
2006	401,500
2007	327,400
2008	328,000
2009	303,100
Thereafter	700
	<hr/>
Total future minimum lease payments	\$2,081,000

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(21) Income Taxes

Income tax expense for the years ended September 30, 2004 and 2003 consisted of:

	Current	Deferred	Total
2004:			
United States	\$ 1,287,795	(2,227)	1,285,568
United Kingdom	79,754	—	79,754
State and local	483,162	(745)	482,417
	<u>\$ 1,850,711</u>	<u>(2,972)</u>	<u>1,847,739</u>
2003:			
United States	\$ —	180,424	180,424
State and local	—	30,885	30,885
	<u>\$ —</u>	<u>211,309</u>	<u>211,309</u>

Total income tax expense for the years ended September 30, 2004 and 2003 differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before income taxes as a result of the following:

	2004		2003	
	Amount	% of pretax income	Amount	% of pretax income
Computed "expected" tax expense	\$1,486,852	34.0%	\$ 501,736	34.0%
(Decrease) increase in income tax expense resulting from:				
State income taxes, net of Federal income tax benefit	318,395	7.3%	53,568	3.6%
Meals and entertainment expenses not deductible for tax purposes	23,339	0.5%	13,119	0.9%
Memberships	5,379	0.1%	4,416	0.3%
Foreign income	11,498	0.3%	—	0.0%
Other, net	2,276	0.1%	1,691	0.1%
Changes in valuation allowance	—	0.0%	(363,221)	(24.6%)
	<u>\$1,847,739</u>	<u>42.3%</u>	<u>\$ 211,309</u>	<u>14.3%</u>

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Deferred income taxes as of September 30, 2004 and 2003 reflect the impact of “temporary differences” between amounts of assets and liabilities for financial statement purposes and such amounts as measured by tax laws. The temporary differences give rise to deferred tax assets and liabilities, which are summarized below as of September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Gross deferred tax liabilities:		
Accumulated depreciation and amortization	\$ (41,879)	(15,131)
Software development costs	—	(20,901)
	<u>(41,879)</u>	<u>(36,032)</u>
Gross deferred tax assets:		
Securities inventory allowance	34,050	13,044
Investment in limited partnership	953	4,004
Nonqualified stock option expense	19,326	—
Compensation bonus accrual	256,357	173,380
Net operating loss carryforward	26,042	173,372
Alternative minimum tax carryforward	37,580	—
Other	—	1,689
	<u>374,308</u>	<u>365,489</u>
Valuation allowance	—	—
	<u>374,308</u>	<u>365,489</u>
Net deferred tax asset	<u>\$ 332,429</u>	<u>329,457</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of September 30, 2004, based upon the projections for future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and net operating loss carryforward, net of the recorded valuation allowance.

The total amount of undistributed earnings of INTL Global Currencies the Company’s foreign subsidiary, for income tax purposes, was approximately \$186,100 at September 30, 2004. It is the Company’s intention to reinvest undistributed earnings of its foreign subsidiary and thereby indefinitely postpone its remittance. Accordingly, no provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of the foreign subsidiary were paid as dividends to the Company. It is not practicable to calculate the unrecognized deferred tax liability on those earnings.

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At September 30, 2004, the Company had net operating loss carryforwards for state of Florida income tax purposes which begin to expire in the fiscal year ending 2021. In addition, as described in note 2, Agreements for Sale of Preferred Stock and Change in Management, the Company has entered into three share subscription agreements. In some cases these types of transactions may cause a limitation on the availability of the net operating loss carryforward.

(22) Employee Benefit Plan

Effective January 1, 2003, the Company implemented a Savings Incentive Match Plan for Employees IRA (SIMPLE IRA). All employees are eligible to participate in the SIMPLE IRA upon the later of (a) the plan's effective date (January 1, 2003) or (b) the employee's date of hire. Eligible employees may elect to contribute up to a maximum of \$9,000 (\$10,500 if over age 50) for 2004. The Company is required to provide an employer match of the employee's elective deferral on a dollar-for-dollar basis not to exceed the lesser of 3% of the employee's compensation or \$9,000 for 2004 (\$10,500 if over age 50). Each employee is 100% vested in both the employee and employer contributions at all times. For the years ended September 30, 2004 and 2003, the employer match was \$142,988 and \$64,845, respectively.

(23) Stock Options and Warrants

The International Assets Holding Corporation 2003 Stock Option Plan (the 2003 Plan) was adopted by the Board of Directors of the Company on December 19, 2002 and approved by the Company's stockholders on February 28, 2003. The 2003 Plan expires on December 19, 2012. The International Assets Holding Corporation Stock Option Plan (the 1993 Plan) was adopted by the Board of Directors of the Company and approved by the Company's stockholders on January 23, 1993 and expired on January 23, 2003. The 1993 Plan and the 2003 Plan (collectively the Plans) permit the granting of stock options to employees, directors and consultants of the Company. Stock options granted under the Plans may be "incentive stock options" meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, or nonqualified stock options, which do not meet the requirements of Section 422. As of September 30, 2004, a total of 1,000,000 shares of the Company's common stock have been authorized for issuance pursuant to options granted under the 2003 Plan. The Company was authorized to issue up to 1,339,300 shares of the Company's common stock at the time that the 1993 Plan expired on January 23, 2003.

The Plans are administered by the Company's Board of Directors or a committee thereof. The Plans give broad powers to the Board of Directors to administer and interpret the Plans, including the authority to select the individuals to be granted options and to prescribe the particular form and conditions of each option. All options are granted at an exercise price equal to the fair market value or 110% of the fair market value of the Company's common stock on the date of the grant. Awards may be granted pursuant to the 2003 Plan through December 19, 2012, unless the Board of Directors at its sole discretion elects to terminate the 2003 Plan earlier. The Company is not authorized to grant additional options under the 1993 Plan because it expired on January 23, 2003.

At September 30, 2004, there were 364,650 additional shares available for grant under the 2003 Plan. Using the Black-Scholes option-pricing model, the per share weighted average fair values of stock options granted during 2004 and 2003, where the exercise price equals the market price of the stock on the grant date, were \$1.28 and \$.95, respectively. The per share weighted average fair value of stock options granted during 2003 where exercise price was greater than the market price on the grant date was \$1.22. No

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options were granted during 2004 where the exercise price was greater than the market price on the date of grant.

The following weighted average assumptions were used:

	<u>2004</u>	<u>2003</u>
Exercise price equal to the market price on grant date:		
Expected risk-free interest rate	1.36%	2.94%
Expected life	.88 Years	4.87 years
Expected volatility	91.0%	91.4%
Exercise price greater than the market price on grant date:		
Expected risk free interest rate	—	3.25%
Expected life	—	5.7 years
Expected volatility	—	92.1%

Stock option activity during the fiscal years ended September 30, 2004 and 2003 was as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>
Outstanding at September 30, 2002	527,224	\$ 2.40
Granted	957,000	2.31
Exercised	(103,400)	2.29
Forfeited	(26,974)	7.88
Expired	(25,690)	3.76
Outstanding at September 30, 2003	1,328,160	2.21
Granted	230,000	5.87
Exercised	(129,769)	2.67
Forfeited	(3,335)	1.30
Expired	(143,050)	6.26
Outstanding at September 30, 2004	1,282,006	\$ 2.37

At September 30, 2004 the range of exercise prices and weighted average remaining contractual life of outstanding options was \$0.60 – \$11.63 and 7.03 years, respectively.

At September 30, 2004 and 2003, the number of options exercisable was 640,581 and 336,322, respectively, and the weighted average exercise price of those options was \$2.23 and \$2.14, respectively.

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Incentive Stock Options

As of September 30, 2004, options outstanding under qualified incentive stock options, including their grant date, exercise price and expiration date, were as follows:

Options outstanding	Grant date	Exercise price	Expiration date	Exercisable
26,378	December 28, 1995	\$ 2.09	December 28, 2005	A
2,194	December 11, 1996	\$ 2.51	December 11, 2006	B
83,930	November 2, 1998	\$ 1.38	November 2, 2008	C
10,000	November 2, 1998	\$ 1.25	November 2, 2008	A
5,450	December 9, 1999	\$ 7.17	December 9, 2009	B
3,750	March 10, 2000	\$ 11.63	March 10, 2010	A
20,000	December 22, 2000	\$ 2.13	December 22, 2010	D
25,000	March 9, 2001	\$ 3.44	March 9, 2011	E
50,000	March 9, 2001	\$ 3.13	March 9, 2011	E
3,000	March 9, 2001	\$ 3.13	March 9, 2011	D
40,000	October 5, 2001	\$ 0.90	October 5, 2011	D
25,000	October 5, 2001	\$ 0.99	October 5, 2011	D
20,000	December 22, 2001	\$ 0.60	December 22, 2011	D
11,668	January 3, 2002	\$ 0.65	January 3, 2012	E
14,000	April 11, 2002	\$ 1.40	April 11, 2012	E
20,000	December 6, 2002	\$ 1.30	December 6, 2012	D
285,000	December 6, 2002	\$ 2.50	December 6, 2012	D
74,087	December 6, 2002	\$ 1.30	December 6, 2012	E
198,253	March 7, 2003	\$ 2.50	March 7, 2013	D
26,668	May 20, 2003	\$ 2.25	May 20, 2013	C
33,500	November 14, 2003	\$ 4.75	November 14, 2007	E
10,000	April 16, 2004	\$ 7.50	April 16, 2008	F
987,878				

- (A) Exercisable at 20% per year beginning one year from the date of grant.
- (B) Exercisable at 20% per year beginning three years from the date of grant.
- (C) Exercisable at 30% after year one, 30% after year two and 40% after year three.
- (D) Exercisable at 33.3% after year one, 33.3% after year two and 33.4% after year three. These options are 100% exercisable upon a change in control of the Company.
- (E) Exercisable at 33.3% after year one, 33.3% after year two and 33.4% after year three.
- (F) Exercisable at 33% after year one, 33% after year two and 34% after year three.

As of September 30, 2004 and 2003, qualified incentive stock options covering 475,983 and 251,050 shares respectively, were exercisable. During the year ended September 30, 2004 and 2003, incentive stock options covering 101,769 and 53,400 shares were exercised with a weighted average exercise price of \$2.66 and \$2.10, respectively.

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Nonqualified Stock Options

As of September 30, 2004, options outstanding under nonqualified options, including their grant date, exercise price and expiration date, were as follows:

<u>Options outstanding</u>	<u>Grant date</u>	<u>Exercise price</u>	<u>Expiration date</u>	<u>Exercisable</u>
11,990	July 20, 1998	\$ 2.40	July 20, 2008	A
11,990	January 6, 1999	\$ 1.25	January 6, 2009	A
10,900	June 4, 1999	\$ 6.65	June 4, 2009	A
22,500	March 9, 2001	\$ 3.13	March 9, 2011	B
45,000	October 5, 2001	\$ 0.90	October 5, 2011	C
156,748	March 7, 2003	\$ 2.50	March 7, 2013	C
25,000	May 1, 2003	\$ 2.50	December 31, 2004	D
10,000	May 11, 2004	\$ 6.51	May 11, 2008	E
<hr/>				
294,128				

- (A) Exercisable at 20% per year beginning one year from the date of grant.
- (B) Exercisable at 33.3% after year one, 33.3% after year two and 33.4% after year three.
- (C) Exercisable at 33.3% after year one, 33.3% after year two and 33.4% after year three. These options are 100% exercisable upon a change in control of the Company.
- (D) Exercisable at 50% on September 30, 2003 and 50% on September 30, 2004.
- (E) Exercisable at 33% after year one, 33% after year two and 34% after year three.

As of September 30, 2004 and 2003, non-qualified options covering 164,598 and 85,272 shares, respectively, were exercisable. During the years ended September 30, 2004 and 2003, non-qualified options covering 28,000 and 50,000 shares were exercised with a weighted average price of \$2.71 and \$2.50, respectively.

Warrants

In 2004, the Company issued warrants covering 200,000 shares of common stock to the placement agent for the Company's offering of \$12,000,000 in Notes. The warrants are exercisable by the holder at any time prior to June 30, 2007. The Company may, at its option, require the warrant-holder to exercise all or any of the warrants in the event that all of the following conditions are fulfilled: (i) the closing price of the Company's common stock exceeds \$9.00 per share for a period of twenty (20) consecutive trading days; (ii) the Company files a registration statement under the Securities Act of 1933, as amended, to register the resale of the shares of common stock issuable upon the exercise of the warrants; and (iii) such registration statement is declared effective by the Securities and Exchange Commission. The warrants will be exercisable at an exercise price equal to \$6.00, subject to customary adjustment provisions. The conversion rights of the warrants were approved by the shareholders on March 26, 2004.

The Black-Scholes valuation of the warrants as of March 2004 was \$893,121 (\$6.00 strike price, 3 year life, risk free interest rate 2.27%) for the 200,000 warrants issued to the placement agent for placement

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agent services. In March 2004, this \$893,121 value was charged to debt issuance costs and amortized over the life of the convertible subordinated notes (through December 31, 2014) and charged to interest expense. In August 2004, upon conversion of the subordinated notes to common shares, the unamortized balance was charged to additional paid in capital.

As of September 30, 2004, warrants outstanding, including their grant date, exercise price and expiration date, were as follows:

Warrants outstanding	Grant date	Exercise price	Expiration date	Exercisable
142,083	March 2, 2004	\$ 6.00	July 30, 2007	A
57,917	March 12, 2004	\$ 6.00	July 30, 2007	A
200,000				

(A) 100% exercisable on date of grant.

(24) Preferred Stock

The Company is authorized to issue 5,000,000 shares of its preferred stock at a par value of \$.01 per share. As of September 30, 2004 and 2003, no preferred shares are outstanding and the Board of Directors has not yet determined the specific rights and privileges of these shares.

(25) Commitments and Contingent Liabilities

In November 2002, INTL Trading entered into a fully disclosed clearing agreement with Pershing LLC (Pershing). In January 2003, the Company began trading fixed income securities under this agreement. In April 2003, the Company began clearing its equity securities under this agreement. The agreement requires the Company to pay a termination fee if the Company terminates the agreement. The termination fee would be \$100,000 if the Company were to terminate in the first year; \$50,000 if the Company were to terminate in the second year; and reasonable and documentable deconversion-related expenses if the Company were to terminate in the third year or thereafter.

The Company has entered into three individual employment agreements with its Chief Executive Officer, President and Chief Operating Officer. The employment agreements for the Chief Executive Officer and the President each have an effective date of October 22, 2002 and terminate on October 21, 2005. The employment agreement for the Chief Operating Officer has an effective date of October 1, 2002 and terminates on September 30, 2005. Under the terms of the employment agreements, each officer will receive specified annual compensation and have the right to receive bonuses. The bonuses will be determined by the Board of Directors by taking into account the consolidated pre-tax earnings of the Company. In the event of termination of the agreements by the Company other than for cause, or if the executive resigns as a result of a breach by the Company, each agreement provides for payments to the relevant officer of an amount equal to 100% of his total compensation for the remaining term of the agreement or 6 months if longer, following the date of termination. The Company is also required to provide life insurance, medical insurance, disability insurance, retirement and other benefits comparable to those provided by comparable companies to their senior executive officers.

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The Company has entered into an employment agreement with its Executive Chairman effective October 1, 2002 and terminating on September 30, 2005. In the event of termination of the employee agreement by the Company other than for cause, or if the executive resigns as a result of a breach by the Company, the agreement provides for payments to the Executive Chairman in an amount equal to 100% of his total compensation for the remaining term of the agreement or 6 months if longer, following the date of termination. The Company is also required to provide life insurance, medical insurance, disability insurance, retirement and other benefits comparable to those provided by comparable companies to their senior executive officers. The Company has also entered into a consulting agreement with Veitia and Associates (V&A) for the additional services required from the Executive Chairman (who served as chief executive officer prior to October 22, 2002). V&A is a company solely owned by the Executive Chairman of the Company. The consulting agreement has a term from September 1, 2002 through August 31, 2005. Under the terms of this agreement, the Executive Chairman will receive specified comprehensive annual compensation, certain general employee benefits, a monthly automobile allowance, monthly membership dues and reimbursement for personal income tax preparation fees. V&A will assume certain other business expenses incurred by the executive that previously had been reimbursed by the Company. The Company may award bonuses to the Executive Chairman from time to time as determined by the Board of Directors. In the event of termination of the consulting agreement by the Company other than for cause, or if the consultant resigns as a result of a breach by the Company, the agreement provides for payments to the Executive Chairman in an amount equal to 100% of the maximum compensation for the remainder of the term.

(26) Quarterly Financial Information (Unaudited)

	<u>December 31, 2003</u>	<u>March 31, 2004</u>	<u>June 30, 2004</u>	<u>September 30, 2004</u>
2004:				
Total revenues	\$ 5,328,626	6,368,934	4,627,179	5,712,990
Interest expense	24,068	134,054	305,587	266,961
Net revenues	5,304,558	6,234,880	4,321,592	5,446,029
Non-interest expenses	4,028,530	4,656,411	3,504,574	4,744,450
Income before income taxes	1,276,028	1,578,469	817,018	701,579
Net income	772,352	882,443	434,152	436,408
Net income per share - basic	0.16	0.19	0.09	0.07
Net income per share - diluted	0.14	0.15	0.07	0.06

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	December 31, 2002	March 31, 2003	June 30, 2003	September 30, 2003
2003:				
Total revenues	\$ 2,040,937	1,602,944	2,546,728	4,607,828
Interest expense	193	639	13,711	29,139
Net revenues	2,040,744	1,602,305	2,533,017	4,578,689
Non-interest expenses	1,693,052	1,729,412	2,342,357	3,514,240
Income (loss) before income taxes	347,692	(127,107)	190,660	1,064,449
Net income (loss)	210,367	(83,648)	115,268	1,022,398
Net income (loss) per share - basic	0.09	(0.03)	0.03	0.22
Net income (loss) per share - diluted	0.09	(0.03)	0.02	0.21

(27) Segment Analysis

International Assets Holding Corporation and its subsidiaries form a financial services group focused on select international securities and commodities markets. The Company's activities are currently divided into four functional areas — international equities market-making, international debt capital markets, foreign exchange/commodities trading and asset management. During May 2004, the Company expanded into the asset management business through its 50.1% investment in INTL Consilium. The Company's asset management activities will not be separately reported until certain asset and revenue levels are achieved (see note 4).

International Equities Market-Making:

Through INTL Trading, the Company acts as a wholesale market-maker in select foreign securities including unlisted American Depositary Receipts (ADRs) and foreign ordinary shares. INTL Trading provides execution and liquidity to national broker-dealers, regional broker-dealers and institutional investors.

International Debt Capital Markets:

The Company actively trades a wide variety of international debt instruments. The Company also invests in international debt instruments on a proprietary basis and arranges international debt transactions. The Company trades and invests in international bonds, including both investment grade and higher yielding emerging market bonds. The Company generally focuses on smaller issues, such as emerging market sovereign, corporate and bank bonds that trade worldwide on an over-the-counter basis. Through its customer relationships, the Company periodically identifies opportunities to arrange, purchase or sell debt transactions that fall outside the parameters of established financial markets. These transactions generally involve negotiable emerging market debt and may be documented by promissory notes, bills of exchange, loan agreements, accounts receivable and other types of debt instruments.

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Foreign Exchange/ Commodities Trading:

The Company trades select illiquid currencies of developing countries. The Company's target customers are financial institutions, multi-national corporations, governmental and charitable organizations operating in these developing countries. In addition, the Company executes trades based on the foreign currency flows inherent in the Company's existing international securities activities. The Company primarily acts as a principal in buying and selling foreign currencies on a spot basis. The Company derives revenue from the difference between the purchase and sale prices. The Company periodically holds foreign currency positions for longer periods to create liquidity for customers or generate proprietary earnings potential.

The Company provides a full range of trading and hedging capabilities to select producers, consumers, recyclers and investors in precious metals and some base metals. Acting as a principal, the Company commits its own capital to buy and sell the metals on a spot and forward basis.

Other:

All other transactions that do not relate to the operating segments above are classified as 'Other'. As of September 30, 2004, certain cash accounts and balances were maintained to support administrative as well as all of the operating segments. These multi-segment assets were allocated to 'Other'. Revenue reported for 'Other' also includes interest income.

Segment data includes the profitability measure of net contribution by segment. Net contribution includes revenue less direct clearing and clearing related charges and variable trader compensation. This measure of profitability is a key measure for management reporting at the Company. Inter-segment revenues, charges, receivables and payables are eliminated between segments. Information concerning operations in these segments of business is as follows:

	2004	2003
Revenues:		
International equities market-making	\$ 16,709,000	7,675,000
International debt capital markets	2,622,000	1,933,000
Foreign exchange/commodities trading	2,560,000	1,017,000
Other	147,000	173,000
Total	\$ 22,038,000	10,798,000
Net contribution:		
(Revenue less clearing and related and variable trader bonus compensation):		
International equities market-making	\$ 8,737,000	4,432,000
International debt capital markets	1,910,000	994,000
Foreign exchange/commodities trading	1,981,000	695,000
Total	\$ 12,628,000	6,121,000

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	2004	2003
Total assets:		
International equities market-making	\$ 22,216,000	9,538,000
International debt capital markets	8,734,000	2,670,000
Foreign exchange/commodities trading	30,912,000	2,513,000
Other	5,858,000	2,616,000
	<u>67,720,000</u>	<u>17,337,000</u>
Total	\$ 67,720,000	17,337,000
Reconciliation of net contribution to income before income tax expense:		
Net contribution allocated to segments	\$ 12,628,000	6,121,000
Fixed costs not allocated to operating segments	8,255,000	4,645,000
	<u>4,373,000</u>	<u>1,476,000</u>
Income before income tax expense	\$ 4,373,000	1,476,000

(28) Subsequent Events

Beginning in October 2004, the Company entered into a series of financial transactions (the Transactions) with an unaffiliated financial institution in Latin America for a transaction fee. These transactions involved three distinct and simultaneous steps:

- a) the acquisition by the Company of a beneficial interest (Trust Interest) in certain trusts (the Trusts) in exchange for the assumption of a liability to deliver securities, at a transaction value of \$22,800,000. This step did not require any prior purchase or delivery of securities by the Company. The Trusts were previously established by the financial institution to hold a variety of assets;
- b) entry into a repurchase agreement in terms of which the Company notionally repurchased these undelivered securities for cash, at a price of \$22,800,000. This leaves the Company with an asset of securities receivable under the repurchase agreement;
- c) entry into a total return swap (TRS) agreement.
 - i) In terms of the TRS agreement the Company notionally received cash of \$22,800,000 as collateral for the potential liability of the financial institution to the Company. This leaves the Company with a liability to return the collateral to the financial institution to the extent required by the swap agreement.
 - ii) There is provision in the TRS agreement for an offsetting arrangement that should leave the Company unaffected by any changes in the values of the Trust Interest or securities deliverable. This gives rise to a matching TRS receivable and TRS payable.
 - iii) When the Transactions terminate in November 2007 the Company intends to sell the Trust Interest at the then prevailing market value. As part of the Transactions, the gain or loss arising from the change in market value of the Trust Interest will be passed to the financial institution.

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- iv) The Company has obtained legal advice on the Transactions and believes that the TRS agreement has been structured in such a way as to fully offset any changes in the value of the Trust Interest against its liability to deliver certain securities to the financial institution.

In terms of FIN 39 the nominal payment and receipt of an equal amount of cash as described in b) and c) i) above have a net effect of zero on the Company's cash position, represent transactions with a single counterparty and may therefore be offset. In terms of FIN 39 the asset of securities receivable under the repurchase agreement in b) may be offset against the collateral liability of the Company in c) ii), since they involve an asset and liability position with a single counterparty.

The net result is that the Company reports the effects of a) above: an increase in assets of \$22,800,000, being the Trust Interest, and the assumption of a liability to deliver \$22,800,000 of securities. Over time, as the value of the Trust Interest changes, the Company will show an increase or decrease in the value of the TRS receivable, offset by a decrease or increase in the value of the TRS payable.

The Company intends to enter into additional similar transactions with the same financial institution that should increase the aggregate amounts of both related assets and liabilities to \$26,100,000.

Although the Transactions will temporarily increase the Company's assets and liabilities until termination, the Company expects that the only net cash flow will be the Company's receipt of fee revenue.

In November 2004, a major outside shareholder of the Company increased its investment in a hedge fund managed by INTL Consilium from \$50,000,000 to \$75,000,000. Also, in November 2004, an affiliated member of the major shareholder was elected to the Board of Directors of the Company.

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.24	Operating Agreement dated May 7, 2004, by and between the Company and Consilium Investment Capital, Inc.
21	List of the Company's subsidiaries.
23.1	Consent of KPMG to the incorporation by reference to Form S-8.
23.2	Consent of KPMG to the incorporation by reference to Form S-3.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a – 14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a – 14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

OPERATING AGREEMENT
OF
INTL CONSILIUM, LLC
(A Florida Limited Liability Company)

THIS OPERATING AGREEMENT is made and entered into as of the 7th day of May, 2004, by and among INTL CONSILIUM, LLC, a Florida limited liability company (the "Company"), CONSILIUM INVESTMENT CAPITAL, INC., a Florida corporation ("CIC"), JONATHAN M. BINDER ("Binder"), CHARLES T. CASSEL, III ("Cassel"), INTERNATIONAL ASSETS HOLDING CORPORATION, a Delaware corporation ("IAHC"), SEAN O'CONNOR ("O'Connor"), and SCOTT BRANCH ("Branch").

RECITALS:

- A. The Company was organized as a Florida limited liability company on or about May 11, 2004.
- B. The parties to this Agreement have elected to enter into this Agreement in order to set forth the terms under which the Company will operate.

AGREEMENT:

ARTICLE 1
DEFINITIONS

1.1 Capitalized Terms. The following capitalized terms used in this Agreement have the meanings set forth below:

"Act" means the Florida Limited Liability Company Act, as the same may be amended from time to time.

"Affiliate" means any Person who directly or indirectly controls, is controlled by, or is under common control with another Person.

“Agreement” means this Operating Agreement as it may be amended from time to time.

“Articles of Organization” means the Articles of Organization of the Company filed with the Florida Secretary of State in accordance with the Act, as such articles may be amended from time to time.

“Bankruptcy” or “Bankrupt” means, with respect to any Member, a Member’s making an assignment for the benefit of creditors, becoming a party in any manner to any liquidation or dissolution action or proceeding with respect to such Member or any bankruptcy, reorganization, insolvency, or other proceeding for the relief of financially distressed debtors with respect to such Member, or a receiver, liquidator, custodian, or trustee being appointed for such Member or a substantial part of such Member’s assets and, if any of the same occur involuntarily, the same not being dismissed, stayed, or discharged within 90 business days; or the entry of an order for relief against such Member under Title 11 of the United States Code or any state bankruptcy or insolvency proceeding. A Member will be deemed Bankrupt if the Bankruptcy of such Member will have occurred.

“Board of Directors,” “Board,” or “Directors” means those individuals elected to serve as Directors by the Members pursuant to the term of this Agreement. Directors need not be Members. For purposes of this Agreement, the term “Director” is equivalent to the term “Manager” as used in the Act.

“Capital Account” means, as to any Member, the capital account maintained for each Member in accordance with Section 5.1 of this Agreement.

“Capital Contribution” means, as to each Member, the amount of capital contributed by such Member in accordance with Article 4 of this Agreement. Any reference in this Agreement to the Capital Contribution of a Member will include the Capital Contributions made by any predecessor in interest of such Member in respect of the relevant interest of such Member in the Company.

“Code” means the Internal Revenue Code of 1986, as amended.

“Consent of the Members” means the written consent, approval, ratification, or affirmative vote of Members holding two-thirds (2/3) or more of all outstanding Shares.

“Entity” means a Person other than a natural person and includes, without limitation, corporations (both non-profit and other corporations), partnerships (both limited, limited liability, general), trusts, joint ventures, limited liability companies, and unincorporated associations.

“Excess Capital Contribution”, in the case of any Member, shall mean a Capital Contribution by that Member that exceeds the dollar amount of any other Member’s Capital Contribution in exchange for an equivalent number of Shares (pro-rated if necessary). For

example, if the Company has two Members, each owning fifty percent (50%) of the Company's Shares, and the first Member has made a \$10 Capital Contribution and the second Member has made a \$100 Capital Contribution, the second Member is deemed hereunder to have made a \$90 Excess Capital Contribution.

"Fiscal Year" has the meaning set forth in Section 7.4 of this Agreement.

"GAAP" means accounting principles generally accepted in the U.S.A., consistently applied.

"Members" means CIC and IAHC, and all other Persons admitted as additional or substitute Members pursuant to this Agreement, so long as they remain Members.

"Member's Equity" means the allocable share of profits and losses of the Company to each Member in accordance with each Member's ownership interest (*i.e.*, Shares) in the Company.

"Managing Director(s)" means the individual Director(s) who are responsible for managing the day-to-day business of the Company.

"Officers" means the individual(s) serving as the Compliance Officer, Secretary, Treasurer and Accountant, and such other officers as the Board of Directors may from time to time authorize.

"Person" means any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns to such Person as the context may require.

"Shares", in accordance with Section 4.1(a) of this Agreement, means the limited liability company interests of a Member in the Company at any particular time, including the right of such Member to any and all benefits to which a Member may be entitled under this Agreement, together with the obligation of such Member to comply with all of terms and provisions of this Agreement.

"Treasury Regulations" means the regulations of the U.S. Department of the Treasury promulgated under the Code, as such Treasury Regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Transfer" has the meaning given to such term in Section 9.1 of this Agreement.

ARTICLE 2 ORGANIZATIONAL MATTERS

2.1 Formation. The Company has been formed as a limited liability company pursuant to the provisions of the Act. The rights and duties of the Members, and the affairs of the

Company, will be governed by the provisions of this Agreement, the Company's Articles of Organization, and the Act.

2.2. Execution of Certificates, Etc. From time to time, the Members will execute such certificates, qualifications to do business, fictitious name certificates, or similar filings in such jurisdictions as the Board of Directors may determine from time to time to be necessary or appropriate in connection with the conduct of the business of the Company or to provide notification of the limitation of liability of Members under applicable law.

2.3 Name. The name of the Company will initially be "INTL CONSILIUM, LLC."

2.4 Principal Office. The principal office of the Company will be located at 1525 South Ocean Drive, Fort Lauderdale, Florida 33316, or such other location as the Board of Directors may from time to time determine.

2.6 Other Offices. The Company may have such other offices as the Board of Directors may from time to time determine.

2.7 Term. The existence of the Company will continue indefinitely, until such time as the Company is dissolved in accordance with the terms of this Agreement or the Act.

2.8 Registered Agent and Registered Office. The initial registered agent and registered office of the Company is Corporation Company of Miami, c/o William G. McCullough, 201 South Biscayne Boulevard, Suite 1600, Miami, Florida 33131.

2.9 Change of Registered Agent or Registered Office. The registered agent and the registered office of the Company may be changed from time to time at the direction of the Board of Directors.

ARTICLE 3 PURPOSE AND POWERS

3.1 Purpose of the Company. The Company is organized for the purposes of (i) providing investment advisory services to registered and unregistered mutual funds and hedge funds and otherwise engaging in an asset management business; and (ii) engaging in any other lawful business, trade, profession, or activity permitted under the Act.

3.2 Powers. The Company will have all powers of a limited liability company under the Act and the power to do all things necessary or convenient to accomplish its purposes as set forth in Section 3.1.

ARTICLE 4
SHARES; CAPITAL CONTRIBUTIONS; FINANCING PROVISIONS

4.1 Shares.

(a) The Members' interests in the Company (referred to in this Agreement as the "Shares") will initially consist entirely of common interests having equal voting rights. Subject to the provisions of Section 4.3, the Company may in the future issue preferred or non-voting interests in the Company.

(b) The number of Shares outstanding as of the date of this Agreement and the holders of such Shares are set forth on Schedule 1 to this Agreement. The Company will amend Schedule 1 from time to time to reflect changes in the Persons holding the Shares and changes in the number of outstanding Shares.

(c) The holders of the Shares will be the Members and will be subject to the terms and conditions of, and will have the rights and duties set forth in, this Agreement.

4.2 Capital Contributions. The Capital Contributions made to the Company by the Members are set forth on Schedule 1 to this Agreement. The Company will amend Schedule 1 from time to time to reflect additional Capital Contributions made to the Company.

4.3 Additional Capital Contributions; Right of First Refusal on Issuance of Additional Shares.

(a) No Member will be required to make any additional Capital Contributions for any purpose (including but not limited to the purpose of funding the Company's indemnification obligations under Section 6.8).

(b) In the event that the Board determines that it is in the best interests of the Company to raise additional capital, the Board may sell additional Shares (the "Additional Shares"). However, the decision to sell Additional Shares, the number of Additional Shares to be sold, and the price and terms of the sale of the Additional Shares, shall require the prior unanimous written consent of all Members. Assuming the prior unanimous written consent of all Members is obtained, such sale of Additional Shares shall be conducted on the following terms:

(i) The Company will offer each of the holders of the outstanding Shares the right to acquire such holder's pro rata portion of the Additional Shares (on the basis of their ownership of Shares) on the price and terms approved by the Board with the prior unanimous written consent of all Members. In the event that any of the holders do not subscribe to purchase their pro rata portion of the Additional Shares, the remaining Additional Shares will be offered to those holders who did subscribe to purchase their pro rata portion.

(ii) In the event that all of the Additional Shares are not acquired by the existing holders of the Shares, then the Company may sell the remaining Additional Shares to one or more third party investors approved by the Board of Directors.

(iii) Each purchaser of the Additional Shares must agree to be bound by the terms and conditions of this Agreement as a condition to the purchase of such Additional Shares. The holder of the Additional Shares will have the same rights and duties under this Agreement as each other holder of Shares.

(c) With the prior unanimous written consent of all Members, the Board may sell and/or issue an additional class of shares with limited powers and/or rights pursuant to a separate agreement to be drafted at the direction of the Board, but approved in advance by prior unanimous written Consent of all Members.

4.4 Financing Arrangements. In addition to any capital contributions IAHC may make hereunder, IAHC may fund any short-term working capital requirements of the Company by extending loans to the Company. Each such loan will bear interest at the applicable federal rate in effect at the time the loan is extended, as published periodically by the Internal Revenue Service. The amounts, timing, and additional terms of such loans are subject to agreement between the Company and IAHC, to be reflected in mutually acceptable documentation.

ARTICLE 5 CAPITAL ACCOUNTS; ALLOCATIONS; DISTRIBUTIONS

5.1 Capital Accounts. The Company will establish, maintain, and adjust each Member's Capital Account in accordance with the Code and the Treasury Regulations, including, without limitation, (i) the adjustments permitted or required by Code Section 704(b) and, to the extent applicable, the principles expressed in Code Section 704(c); and (ii) the adjustments required to maintain Capital Accounts in accordance with the "substantial economic effect test" set forth in the Treasury Regulations under Code Section 704(b). Subject to the foregoing, each Member's Capital Account will be credited with (a) the amounts of such Member's Capital Contribution, and (b) such Member's share of profits, gains, and credits of the Company, and charged with (c) such Member's share of losses, deductions, costs, and expenses of the Company, and (d) the amount of cash or value of all actual and deemed distributions of cash or other property distributed from the Company to such Member pursuant to this Agreement.

5.2 Allocations of Profits and Losses.

(a) For each Fiscal Year, items of income, gain, loss, deduction, and credit of the Company will be allocated, for federal, state, and local income tax purposes, among the Members in accordance with the amounts that are distributed to the Members or would have been distributed to the Members if distributions had been made in accordance with the provisions of Section 5.3, provided that such allocations are in accordance with the principles of Sections 704(b) and 704(c) of the Code and in conformity with regulations promulgated thereunder. To the extent practicable, allocations will be made on an aggregate, rather than item-by-item, basis.

(b) Subject to the foregoing, the Board of Directors will be authorized to determine, in its absolute and uncontrolled discretion, all questions as to the profits and losses reportable by the

Company in its federal, state, and local income tax returns, and the share thereof allocable to each Member and which each Member will be required to report in its individual income tax return with respect to the Company, including making of any elections or revocations thereof as permitted by any of the provisions of the federal, state, or local income tax laws. Notwithstanding the foregoing, the Board of Directors will ensure that each Member's precontribution gain with respect to property contributed by such Member will be allocated to such Member.

(c) In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Section 1.704-1(b), items of Company income and gain will be specifically allocated to such Member in an amount and manner sufficient to eliminate the deficit balances, if any, in the Member's Capital Account created by such adjustments, allocations, or distributions as quickly as possible. Any special allocations of items of income or gain pursuant to this subparagraph (c) will be taken into account in computing subsequent allocations of profits and loss so that the net amount of any items so allocated, to the extent possible, will be equal to the net amount that would have been allocated to the Member pursuant to the provisions of Section 5.2 if such unexpected adjustments, allocations, or distributions had not occurred. The provisions of this Section 5.2(c) will not affect the allocation to any Member that acquires its Shares subsequent to the special allocation required by this Section 5.2(c).

(d) In the event that any Member, at any time, by reason of the application of Treasury Regulations Section 1.752-2(a), is deemed to bear the economic risk of loss for a liability of the Company, Section 5.2(a) will be amended to the extent necessary to ensure that all losses and deductions of the Company attributable to such liability are allocated among the Members in accordance with the principles of Sections 752 and 704 of the Code and the applicable regulations thereunder.

(e) The Company's "tax matters" Member shall be empowered, upon written advice of the Company's legal counsel or tax accountants, to make such corrective allocations of profits and loss as may be necessary from time to time as a result of errors, requirements of taxing authorities, or other causes.

5.3 Distributions.

(a) The Company will make distributions to the Members at the times and in the aggregate amounts set forth below:

(i) To the extent equal or greater amounts are not distributed by the Company pursuant to Section 5.3(a)(ii), the Company will make distributions (the "Tax Distributions") to the Members in an amount sufficient to cover the aggregate anticipated federal and state income tax liabilities of the Members (or their equity holders if the Members are not directly taxable) on the estimated income of the Company. For purposes of calculating such distributions, the Company will base the distributions on the highest marginal federal and state income tax rates applicable to the Members. To the extent practicable, the Company will make the distributions required by this section to the Members within 105 days after the end of each

calendar year, based on the estimated income of the Company for such calendar year, and in connection with the liquidation of the Company.

(ii) The Company will make additional distributions to the Members at such times and in such amounts as may be approved by the Board of Directors. Without limiting the foregoing, the parties anticipate that the aggregate Member's Equity of the Company remaining after (a) payment of the Management Bonus in accordance with Section 6.9 and (b) retention of a reserve in an amount equal to six (6) months' projected aggregate operating costs and expenses, will be distributed to the Members on a fiscal quarterly basis.

(iii) The Company will make distributions to the Members in connection with the liquidation of the Company, as provided by Section 10.3.

(b) Except as provided in Section 10.3, the Company will allocate all distributions among the Members in proportion to their respective ownership of Shares.

5.4 Return of Capital. Except for distributions required by Section 5.3 or in connection with the dissolution and liquidation of the Company, no Member has the right to demand a return of such Member's Capital Contribution (or the balance of such Member's Capital Account). Further, no Member has the right (i) to demand and receive any distribution from the Company in any form other than cash or (ii) to bring an action of partition against the Company or its property.

5.5 Limitations on Distributions. Notwithstanding any other provisions of this Article 5, the Company will not make any distributions of money or property unless: (i) after such distribution is made, the fair market value of the Company's assets exceeds its total liabilities; and (ii) such distribution does not otherwise contravene any provision of law applicable to the Company.

ARTICLE 6 MANAGEMENT OF THE COMPANY; LIABILITY; INDEMNIFICATION

6.1 Control of Business. Subject to Section 6.4 below and the provisions of the Act, (i) the business and affairs of the Company will be managed or under the direction of the Board of Directors, and (ii) the power to act for and bind the Company will be vested exclusively in the Board of Directors, subject to the authority of the Board of Directors to delegate powers and duties to the Officers as set forth in this Agreement.

6.2 Board of Directors.

(a) The Company will have four (4) Directors, two (2) of whom will be appointed by CIC, and two (2) of whom will be appointed by IAHC. By executing this Agreement, CIC appoints Binder and Cassel to serve as Directors of the Company, and IAHC appoints O'Connor and Branch to serve as Directors of the Company. The number of Directors of the Company may be increased or decreased from time to time with the Consent of the Members.

(b) At any time and from time to time, CIC may terminate the service as Director of any person appointed by CIC to serve in such capacity, and IAHC may terminate the service as Director of any person appointed by IAHC to serve in such capacity. In the event Binder or Cassel (or any replacement) ceases to serve as a Director of the Company voluntarily or due to death, incapacity, termination by CIC, or any other reason, then CIC may appoint a replacement Director ("Replacement Director"), who shall be deemed substituted for purposes of paragraph 6.2(a) for whichever such person has ceased to serve as Director. In the event O'Connor or Branch (or any replacement) ceases to serve as a Director of the Company voluntarily or due to death, incapacity, termination by IAHC, or any other reason, then IAHC may appoint a Replacement Director, who shall be deemed substituted for purposes of paragraph 6.2(a) for whichever such person has ceased to serve as Director. Any termination of a Director and/or appointment of a Replacement Director hereunder shall be made by written notice from the party taking the action to the Company and the Company's other Members. If a Director ceases serving, then the party (*i.e.*, CIC or IAHC) responsible for appointing the Replacement Director shall have one hundred eighty (180) days to appoint the Replacement Director. During the 180-day period, the remaining Director for that party (and/or a representative of that party designated by the party in writing, if there are no remaining Directors [*e.g.*, the two Directors appointed by the respective party cease to be Directors at or about the same time via death or otherwise]) shall exercise the authority of the Director(s) to be replaced. If a Replacement Director is not appointed by CIC or IAHC, as the case may be, within 180-day period, the size of the Board of Directors will be deemed to be reduced accordingly, and the remaining Director(s) of the Company will be deemed to be all of the Company's Directors. Finally, any Replacement Director must agree to execute and be bound by this Agreement, including but not limited to the restrictions set forth in Section 6.12 of this Agreement.

(c) In the event that the Board of Directors does not approve any resolution because the same number of Directors voted for the resolution as voted against the resolution, then the Board of Directors will be deemed to have a deadlock with respect to the matter addressed by the resolution. In such event, the approval or disapproval of the matter will be determined by Consent of the Members. The provisions of this Section 6.2(c) will not supercede the provisions of Section 6.4.

(d) Without limitation, the following matters will require approval of the Board of Directors:

- (i) establishment or amendment of the Company's annual operating budget;
- (ii) allocation of the Management Bonus in accordance with Section 6.9;
- (iii) capital expenditures in excess of \$5,000;

(iv) the entering into of any leases or contracts having a term of greater than one (1) year and/or requiring aggregate expenditures or investments by the Company in excess of \$10,000;

(v) any incurrence of indebtedness by the Company in excess of \$10,000, excluding normal trade credit;

(vi) the waiver or modification of any material contractual right of the Company;

(vii) hiring or setting the compensation of executive officers;

(viii) the Company's establishment or sponsorship of a new mutual fund or other investment vehicle;

(ix) the entering into or amendment of any contract for the performance by the Company of investment advisory services, asset management services, portfolio advisory services, or similar services for any third party;

(x) the entering into or amendment of any contract with any third party for the distribution, offer, or sale of mutual fund shares or other investment vehicles interests;

(xi) the entering into or amendment of any contract with any third party for the provision of administrative services, portfolio management systems, sub-advisory services, or other administrative services or systems with respect to any mutual fund or other investment vehicle; and

(xii) any operating costs and expenses during any fiscal year or quarter in excess of those provided for in the Company's then current annual operating budget;

(e) The Board of Directors will establish the Company's Investment Committee, which shall be responsible for establishing the Company's investment policies and strategies and overseeing the activities of the Company's portfolio managers. Initially, the members of the Investment Committee will consist of Binder, Cassel, and O'Connor; provided, however, that the composition of the Investment Committee, as well as its functions, may be amended at any time by the Board of Directors.

6.3 Managing Director(s). Unless otherwise determined by unanimous written consent of the Members, the Company shall have at least one, but no more than two, Managing Director(s), who may be, but is not required to be, a Member, Director, person and/or entity. The Managing Director(s) shall manage and control the day-to-day operations of the business and

affairs of the Company pursuant to a management agreement, and to do all things necessary or convenient to carry out the business and affairs of the Company, subject in all cases to the authority of the Board of Directors and the limitations set forth in Section 6.4 of this Agreement. The Managing Director(s) shall have the duties set forth in this Section 6.3 and such other duties as may be assigned to him, her or it from time to time by the Board of Directors. The Managing Director(s) shall be appointed by unanimous written consent of the Members, and initially shall be Binder and Cassel, who each will be required to execute an initial management agreement approved by the Board of Directors. Any Managing Director of the Company may be terminated by unanimous consent of the Company's Directors (not counting, for such purposes, any Director who, in his capacity as Managing Director, is facing termination pursuant to this provision).

6.4 Limitation of Authority of the Board of Directors and Officers. Notwithstanding the general authority of the Board of Directors under Sections 6.1 and 6.2, the following matters will require the prior Consent of the Members:

(a) the merger or consolidation of the Company with or into any other entity;

(b) the sale, exchange, or other transfer of all or substantially all of the assets of the Company;

(c) a change in the name of the Company;

(d) the adoption or alteration of any branding or other trademark, service mark, or similar symbol or emblem identifying the Company or its products or services (all of which the parties intend to utilize the mark "INTL" or otherwise reflect an association with IAHC);

(e) the dissolution of the Company;

(f) any pledge of assets by the Company;

(g) any incurrence of indebtedness by the Company in excess of \$25,000;

(h) any investment of the Company's own funds in investment instruments other than U.S. bank deposits and money market instruments;

(i) initiation or settlement of litigation or arbitration; and

(j) the waiver or modification of, or the granting of any approval in respect of, any contractual obligation of any party in favor of the Company with respect to non-competition, non-solicitation, confidentiality, or similar matters.

6.5 Performance of Duties by Directors, Managing Directors and Officers.

(a) The Directors, Managing Directors and Officers will perform their duties in good faith, in a manner reasonably believed by them to be in the best interests of the Company, and with such care as an ordinarily prudent person in a like position would use under similar circumstances. In performing their duties, the Directors and Officers will be entitled to rely upon information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by:

(i) one or more Directors, Managing Directors, Officers and/or agents of the Company whom they reasonably believe to be reliable and competent in the matters presented; or

(ii) counsel, public accountants, and/or other Persons as to matters which they reasonably believe to be within such Persons' professional or expert competence.

(b) The Directors, Managing Directors and/or Officers will not be considered to be acting in good faith if they have knowledge concerning the matter in question that would cause such reliance described in the preceding paragraph to be unwarranted.

6.6 Limitations on Liability of Members, Directors, Managing Directors and Officers. No Members, Directors, Managing Directors and/or Officers of the Company will have any liability to the Company or the Members for any losses sustained or liabilities incurred as a result of any act or omission of such Person if the conduct of the Person (i) did not constitute actual fraud or willful misconduct, (ii) did not amount to a breach of this Agreement or any other written agreement between such Person and the Company or any Member, and (iii) was not unlawful.

6.7 Liability to Third Parties. The debts, obligations, and liabilities of the Company, whether arising in contract, tort, or otherwise, will be solely the debts, obligations, and liabilities of the Company, and the Members, Directors, Managing Directors and/or Officers will not be obligated personally for any such debt, obligation, or liability by reason of acting as a Member, Director, Managing Director and/or Officer of the Company.

6.8 Indemnification.

(a) To the maximum extent permitted by law, the Company will defend, indemnify, and hold harmless the Members, Directors, Managing Directors, and/or Officers and the employees and agents of the Company (each, an "Indemnitee") from and against any and all losses, claims, demands, costs, damages, liabilities, and expenses of any nature (including attorneys' fees and disbursements), judgments, fines, settlements, penalties, and other expenses actually and reasonably incurred by the Indemnitee, by reason of the fact that the Indemnitee is or was a Member, Director, Managing Director and/or Officer of the Company or is or was an employee or agent of the Company, arising out of or incidental to the business of the Company, provided that: (i) the Indemnitee's conduct did not constitute actual fraud or willful misconduct; (ii) the action is not based on a breach of this Agreement; and (iii) the Indemnitee's conduct was not unlawful. The

termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere, or its equivalent, will not, in and of itself, create a presumption that the Indemnitee acted in a manner contrary to that specified above.

(b) Expenses incurred by an Indemnitee in defending any claim, demand, action, suit, or proceeding subject to this Section will be paid by the Company as incurred throughout the pendency of such claim, demand, action, suit, or proceeding, so long as the Indemnitee provides the Company an undertaking acceptable to the Company to repay such amount(s) if it ultimately is determined that such Person is not entitled to be indemnified as authorized in this Section.

(c) The indemnification provided by this Section will be in addition to any other rights to which the Indemnitee may be entitled under any agreement, as a matter of law or equity, or otherwise, and will inure to the benefit of the successors, assigns, heirs, personal representatives, and administrators of the Indemnitee.

6.9 Management Bonus. So long as Binder and/or Cassel are Managing Director(s) of the Company, and without limiting the Company's obligations to pay salaries to Binder and Cassel pursuant to applicable employment arrangements in their capacity as Managing Director(s), the Company shall pay the Managing Director(s) (and such other officers of similar seniority and/or authority as determined by the Board of Directors, but in no event including Nancey McMurtry or Jonathan C. Hinz) a management bonus (the "Management Bonus") in an aggregate amount equal to fifteen percent (15%) of the Company's net pre-tax earnings as of the end of each fiscal quarter; provided that the Company's Member's Equity, as determined in accordance with GAAP, are positive as of the end of such fiscal quarter; and provided further that the payment of such Management Bonus would not cause such Member's Equity as of the end of such fiscal quarter, as determined in accordance with GAAP, to be negative. Any modification of the amount and/or conditions for receiving the Management Bonus, if any, shall be pursuant to the prior Consent of the Members.

6.10 Officers. The Company will have the following Officers and such other Officers as the Board of Directors may from time to time appoint:

(a) Compliance Officer. The Compliance Officer, who shall initially be Nancey McMurtry, will be responsible for establishing and implementing the Company's legal and regulatory compliance program. The Compliance Officer will be responsible for monitoring changes in laws and regulations applicable to the Company and for updating the Company's compliance program as necessary. The Compliance Officer will have such other powers and perform such other duties as the Board of Directors may from time to time assign to her.

(b) Secretary. The Secretary, who shall initially be Nancey McMurtry, will attend all meetings of the Members and the Board of Directors and will keep true and accurate records of such meetings. The Secretary will give notice of all meetings of the Members or the Board of Directors. The Secretary will have such other powers and perform such other duties as the Board of Directors may from time to time assign to her.

(c) Treasurer/Accountant. The Treasurer/Accountant, who initially shall be Jonathan C. Hinz, will keep and maintain or cause to be kept and maintained accurate and complete books and records of accounts for the Company. Subject to the authority of the Board of Directors, the Treasurer/Accountant will manage and oversee all monetary assets of the Company including cash, short-term investments, and money market funds. The Treasurer/Accountant will have such other powers and perform such other duties as the Board of Directors may from time to time assign to him.

(d) Responsibility for Costs of Officers and Authority. Payment of any and all compensation, costs and/or expenses associated with Nancey McMurtry and Jonathan C. Hinz (and any other Officers of the Company who, while serving as Officers of the Company are full-time employees of IAHC or any subsidiary of IAHC other than the Company) shall be the sole responsibility and/or obligation of IAHC. Further, except as explicitly authorized by the Board of Directors or a Managing Director, the Officers shall have no actual and/or apparent authority to enter into agreements of any kind on behalf of the Company and/or otherwise obligate and/or bind the Company.

(e) Removal of Officers. The Board of Directors shall have the authority to remove any Officer.

6.11 Other Expenses. IAHC shall be responsible for all expenses relating to its own accounting, auditing and compliance needs, even if such expenses are affected incrementally through its ownership interest in the Company.

6.12 Unfair Competition and Non-Competition. IAHC, CIC, Binder, Cassel, O'Connor, Branch, and/or all Subsequent Directors, as defined in Section 9.2(e) (collectively, "Restrictive Covenant Parties"), shall agree as follows:

6.12.1 Covenant Against Unfair Competition.

(a) The Restrictive Covenant Parties acknowledge that pursuant to their positions and/or involvement with the Company, their involvement with the Company is unique and extraordinary and, as a result, the Restrictive Covenant Parties will be in possession of confidential information relating to the business practices of the Company. The term "confidential information" shall mean any and all information (verbal and written) relating to the Company or any of its subsidiaries, affiliates or clients, or any of their respective activities, other than such information which can be shown by the Restrictive Covenant Parties to be in the public domain (such information not being deemed to be in the public domain merely because it is embraced by more general information which is in the public domain) other than as the result of breach of the provisions of this Section 6.12.1, including but not limited to information relating to: trade secrets, personnel lists, client lists and prospects, financial information, research, investment strategies and objectives, investment methodologies, investment performance, services used, pricing, product sourcing, marketing strategies and methods, and other proprietary information. The Restrictive Covenant Parties agree that they will not, during or at any time after the termination of their involvement with the Company, directly or indirectly, use, communicate, disclose or disseminate

to any person, firm or corporation any confidential information regarding the clients, customers or business practices of the Company acquired by the Restrictive Covenant Parties during their involvement with the Company, without the prior written consent of the Company; provided, however, that the Restrictive Covenant Parties understand that they will be prohibited from misappropriating any trade secret at any time during or after the termination of their involvement with the Company.

6.12.2 Non-Competition. The Restrictive Covenant Parties agree that during their involvement with the Company and for a period of two (2) years following the termination of their involvement with the Company (for any reason, except that if the Company is dissolved and/or otherwise ceases to engage in business, the non-competition provisions of this subparagraph 6.12.2 shall not apply and shall be otherwise null and void), they will not, for their own account or jointly with another, directly or indirectly, for or on behalf of any individual, partnership, corporation, or other legal entity, as principal, agent or otherwise:

(a) own, control, manage, engage in, be employed by, work as an independent contractor for, consult with, or otherwise participate in, a business other than the Company, wherever located, engaged in the provision of asset management, portfolio management, and/or investment management or advisory services to dedicated emerging market funds (the "Business"); and/or

(b) directly or indirectly, solicit or induce, and/or in any manner attempt to solicit or induce, any person employed by the Company or any of its subsidiaries or affiliates (including, for these purposes, IAHC) to leave such employment, whether or not such employment is pursuant to a written contract and whether or not such employment is at will, or hire any person who has been employed by the Company or any of its subsidiaries or affiliates at any time during the six (6) month period preceding the termination of the Restrictive Covenant Party's involvement with the Company.

6.12.3 The Restrictive Covenant Parties recognize the importance of the covenants contained in this Section 6.12 and acknowledges that, in view of the Restrictive Covenant Parties' interest in and/or involvement with the Company, the worldwide nature of the Company's activities, the projected expansion of the Company's business, and the potential ability of a competitor located anywhere in the world to harm the Company's interests, the restrictions imposed herein are: (i) reasonable as to scope, time and area; (ii) necessary for the protection of the Company's legitimate business interests, including without limitation, the Company's trade secrets, goodwill, and its relationship with customers and suppliers; and (iii) not unduly restrictive of any the Restrictive Covenant Parties' rights as an individual and/or entity. The Restrictive Covenant Parties acknowledge and agree that the covenants contained in this Section 6.12 are essential elements of this Agreement and that but for these covenants, the Company would not have agreed to enter into this Agreement. Such covenants shall be construed as agreements independent of any other provision of this Agreement. The existence of any claim or cause of action against the Company by the Restrictive Covenant Parties, whether predicated on the breach of this Agreement or otherwise, shall not constitute a defense to the enforcement by Company of the covenants contained in this Section 6.12.

6.12.4 If the Restrictive Covenant Parties commit a breach or threaten to commit a breach of any of the provisions of this Section 6.12, the Company shall have the right and remedy, in addition to any others that may be available, at law or in equity, to have the provisions of this Section 6.12 specifically enforced by any court having equity jurisdiction, through injunctive or other relief, it being acknowledged that any such breach or threatened breach will cause irreparable injury to the Company, the amount of which will be difficult to determine, and that money damages will not provide an adequate remedy to the Company.

6.12.5 If any covenant contained in this Section 6.12, or any part thereof, is hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenants, which shall be given full effect, without regard to the invalid portions, and any court having jurisdiction shall have the power to reduce the duration, scope and/or area of such covenant and, in its reduced form, said covenant shall then be enforceable. If the Restrictive Covenant Parties breach the covenants set forth in this Section 6.12, the running of the non-compete period described herein (but not their obligation) shall be tolled for so long as such breach continues. The provisions of this Section 6.12 shall survive the expiration and termination of this Agreement, and the termination of the Restrictive Covenant Parties' involvement with the Company hereunder.

ARTICLE 7 BOOKS, RECORDS, ACCOUNTING, AND REPORTS

7.1 Company Funds. Subject to Section 6.4(l) of this Agreement, the funds of the Company that are not currently being utilized in the Company's business will be deposited in such bank accounts, or invested in such interest-bearing or non-interest-bearing investments, as will be determined by the Board of Directors. Such funds will not be commingled with the funds of any other Person.

7.2 Checks, Drafts, Orders for Payment. All checks, drafts, or orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Company will be signed by such Officers or other agents of the Company and in such manner as the Board of Directors will from time to time determine.

7.3 Financial Reports. The Company will prepare and distribute to the Members as soon as practicable after the end of each fiscal quarter and each Fiscal Year of the Company an unaudited balance sheet as at the end of such period, and an unaudited profit and loss statement for the period ended. Moreover, the Company, CIC, Binder, and Cassel will cooperate fully in any audit or related inquiry undertaken by IAHC's auditors or other advisers at IAHC's discretion in connection with IAHC's preparation of consolidated financial statements and the preparation and maintenance of IAHC's books and records and required regulatory filings.

7.4 Fiscal Year. The Fiscal Year of the Company will end on September 30.

7.5 Tax Matters Member. International Assets Holding Corporation will be the “tax matters” Member within the meaning of Section 6231 of the Code.

7.6 Tax Returns. The Directors will cause all tax returns for the Company to be prepared and timely filed with the appropriate authorities and, as soon as practicable after the end of each fiscal year, will provide to the Members such information as will be necessary for the preparation by the Members of their federal income tax returns.

7.7 Books and Records. The Company will maintain appropriate books and records with respect to the Company’s business. The books and records will include (i) the Company’s books of account; (ii) a current and past list of the full name and last known mailing address of each Member and each Officer and Director not a Member of the Company (all Officers and Directors will be identified as such on the records); (iii) a copy of the Company’s Articles of Organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any certificate of amendment has been executed; (iv) copies of the Company’s federal, state, and local income tax returns and reports, if any, for the three most recent years; (v) an executed copy of this Agreement as in effect and all amendments thereto; (vi) recent financial statements of the Company for the three most recent years; and (vii) copies of such other material instruments and documents as the Officers may execute on behalf of the Company. Such books and records will be kept at the principal office of the Company. Each Member will have the right, during ordinary business hours, to inspect and copy any of such records at the requesting Member’s expense.

7.8 Accounting. The books of the Company for financial reporting purposes will be maintained on a cash basis, omitting footnote disclosure. The Company’s books for purposes of maintaining and determining Capital Accounts will be maintained in accordance with the provisions of this Agreement, Section 704 of the Code and, to the extent not inconsistent therewith, the principles described above for financial reporting purposes.

ARTICLE 8 RIGHTS AND OBLIGATIONS OF MEMBERS

8.1 Limited Liability. No Member will be personally liable for any debts, liabilities, or obligations of the Company; provided that each Member will be responsible (i) for the making of any Capital Contribution required to be made to the Company by such Member pursuant to the terms of this Agreement; and (ii) for the amount of any distributions made to such Member that must be returned to the Company pursuant to the Act.

8.2 Participation in Management. No Member, strictly by virtue of such Member’s status as a Member (as opposed to such Member’s status as an Officer or Director), will take any part in the management or control of the business of the Company nor will any Member, by reason of the Member’s status as such, have any right to transact any business for the Company or any authority or power to sign for or bind the Company. Notwithstanding the foregoing, Members will have the right to approve or disapprove or otherwise consent or withhold consent with respect to

such matters as are specified in this Agreement or the Act; and provided that Members may take such actions on behalf of the Company and execute documents or otherwise bind the Company to the extent, if any, that such powers are delegated to any such Member by the Board of Directors from time to time.

ARTICLE 9 TRANSFERS OF SHARES

9.1 Restrictions on Transfer. No Member shall be permitted to sell, assign, transfer, pledge, hypothecate, mortgage, encumber, or dispose of in any manner (“Transfer”) all or any portion of its Shares except with the prior unanimous written consent of all Members and otherwise in compliance with the terms of this Agreement. Moreover, neither Binder nor Cassel shall Transfer or attempt to Transfer all or any portion of his shares or other ownership interest in CIC (the “CIC Shares”) except in compliance with the terms of Section 9.9 of this Agreement. Any attempted Transfer in violation of this Article 9 will be null and void.

9.2 Permitted Transfers. The Shares of the Members may only be transferred under the following circumstances:

- (a) any Member who is an individual may Transfer all or any of his Shares by way of gift to his spouse, to any of his lineal descendants or ancestors, or to any trust, family limited partnership, or limited liability company for the benefit of such Member, his spouse, or his lineal descendants or ancestors;
- (b) any Member who is an individual may Transfer all or any of his Shares, upon his death, by will or the laws of descent and distribution;
- (c) any Member who is an individual may Transfer all or any of his Shares to any Entity in which the Member owns all of the outstanding equity interests;
- (d) any Member which is an Entity may distribute its Shares to the equity owners of such Member in proportion to each such equity owner’s interest in the Member; or
- (e) any Member may Transfer all or any of its Shares with the prior consent of a majority of the Directors and the Consent of the Members (in each case, with the Member requesting the Transfer abstaining). Any Transfer under this Section 9.2(e) will be subject to the provisions of Sections 9.5 and 9.6.

9.3 Death, Bankruptcy, or Dissolution of a Member. The death, Bankruptcy, or dissolution of a Member will not terminate the Company. In the event of the death, Bankruptcy, or dissolution of a Member, such Member’s successors in interest will succeed to the Member’s Shares and will be responsible for all of the liabilities and obligations of such Member under this Agreement; provided, however, that such successor in interest will have no right to participate in the management of the Company, including any right to vote in any matters to be voted on by the

Members, except with the prior consent of a majority of the Directors and the Consent of the Members (other than the Member whose Shares are being transferred).

9.4 Member Ceasing to be a Member. A Member will cease to be a Member only upon the occurrence of one or more of the following events:

(a) A Transfer of the Member's Shares in accordance with the provisions of this Article 9; or

(b) Withdrawal of a Member from the Company, but only with the consent of a majority of the Directors and the prior unanimous written consent of all Members.

9.5 Right of First Refusal on Dispositions of Shares.

(a) Any holder of Shares (the "Selling Member") will be entitled to sell all or any of its Shares, provided that such sale is made pursuant to a Qualifying Offer (as defined below) and complies with the requirements of Section 9.2(e), this Section 9.5, and Section 9.6 of this Agreement. For avoidance of doubt, the parties acknowledge that (i) no Member may Transfer all or any of its Shares under this Section 9.5 without the prior consent of a majority of the Directors and the Consent of the Members (as provided in Section 9.2(e)), and (ii) the provisions of this Section 9.5 do not apply to any Transfer under Sections 9.2(a), (b), (c), or (d).

(b) For purposes of this Agreement, a "Qualifying Offer" means an offer from an unaffiliated third party (the "Proposed Transferee") to purchase specified Shares (the "Offered Shares") for cash. The Qualifying Offer must be contained in a binding written agreement and be accompanied by financial statements or other evidence reasonably demonstrating the ability of the Proposed Transferee to purchase the Offered Shares.

(c) If a Selling Member desires at any time to sell or otherwise transfer all or any of its Shares pursuant to a Qualifying Offer from a Proposed Transferee, the Selling Member will submit a written offer (the "Offer") to sell such Offered Shares to the other Members. The Offer will: (i) contain the same terms and conditions, including price, as the Qualifying Offer; and (ii) be accompanied by a complete copy of the Qualifying Offer. The Offer will further state (i) that the other Members may acquire, in accordance with the provisions of this Agreement, all of the Offered Shares for the price and upon the other terms and conditions set forth therein, and (ii) that if the other Members elect not to purchase all of the Offered Shares, then such other Members may exercise their rights provided pursuant to Section 9.6 hereof.

(d) The Members other than the Selling Member will have 60 days from the date the Offer was made to elect, in the aggregate, to purchase all, but not less than all, of the Offered Shares.

(e) Each Member that elects to purchase all or any of the Offered Shares will communicate in writing its election to purchase such Offered Shares to the Selling Member and to the other parties hereto, which communication will state the number of the Offered Shares that the

electing party desires to purchase. Such communication will, when taken in conjunction with the Offer, be deemed to constitute a valid, legally binding, and enforceable agreement for the sale and purchase of such number of Offered Shares; provided, however, that if the parties who have the right to purchase Offered Shares under this Section 9.5 do not, in the aggregate, elect to purchase all of the Offered Shares, they may not purchase any of the Offered Shares. In the event that the Members other than the Selling Member, as a group, elect to purchase more than the Offered Shares, then the Offered Shares will be allocated among such other Members in proportion to the number of Shares held by them in the Company. The sale of the Offered Shares will be consummated at the offices of the Company within 45 days following the date the Offer was made.

(f) If the other Members do not elect to purchase all of the Offered Shares, then all, but not less than all, of the Offered Shares may be sold by the Selling Member at any time within 90 days after the date the Offer was made, subject to the provisions of Section 9.6. Any such sale will be to the Proposed Transferee, at not less than the price and upon other terms and conditions, if any, not more favorable to the Proposed Transferee than those specified in the Qualifying Offer. If all of the Offered Shares are not sold within such 90-day period, then the Offered Shares will continue to be subject to the requirement of a prior Offer pursuant to this Section 9.5. If Offered Shares are sold pursuant to this Section 9.5 to any purchaser who is not a party to this Agreement, the purchaser of such Offered Shares will execute a counterpart of this Agreement as a precondition of the purchase of the Offered Shares and any Offered Shares sold to such purchaser will continue to be subject to the provisions of this Agreement.

9.6 Tag Along and Veto Rights. At any time during the sixty (60) day period referenced in Section 9.5(d), any Member may provide written notice to a Selling Member of its intention, in the event rights of first refusal are not exercised pursuant to Section 9.5, to (a) require, as a precondition to any Transfer, that the Selling Member arrange for the sale to the Proposed Transferee of Shares owned by such Member so as to permit such Member to sell the same proportionate part of the Shares held by it as the Selling Member proposes to sell, for the same consideration and otherwise on the same terms and conditions set forth in the Qualifying Offer, or (b) if the Qualifying Offer is for less than 100% of the total outstanding Shares of the Company, to prohibit any sale by the Selling Member and any other Member pursuant to the Qualifying Offer. Any such expression of intention pursuant to this Section 9.6 shall be binding on the Selling Member and all other Members.

9.7 Substituted Members. Any transferee acquiring the Shares of a Member as permitted under this Article will be deemed admitted as a substituted Member with respect to the Shares transferred concurrently with the effectiveness of the Transfer (provided that such transferee, unless already a Member, will, as a condition to such admission, execute a counterpart of this Agreement, agreeing thereby to be bound by all of the terms and conditions hereof), and such substituted Member will be entitled to all of the rights and benefits under this Agreement of the transferor of such Shares, subject to the limitations applicable to successors in interest pursuant to Section 9.3. No purported Transfer of any Shares, or any portion thereof or interest therein, in violation of the terms of this Agreement (including any Transfer occurring by operation of law) will vest the purported transferee with any rights, powers, or privileges hereunder, and no such purported transferee will be deemed for any purposes as a Member hereunder or have any right to

inspect Company records to maintain derivative proceedings, to maintain any action for an accounting, or to exercise any other rights of a Member hereunder or under the Act. Any Transfer in contravention of any of the provisions of this Article 9 will be void *ab initio* and of no effect and will not bind or be recognized by the Company.

9.8 was not utilized

9.9 Transfers of CIC Shares. The CIC Shares may only be transferred under the following circumstances:

- (a) either Binder or Cassel may Transfer all or any of his CIC Shares by way of gift to his spouse, to any of his lineal descendants or ancestors, or to any trust, family limited partnership, or limited liability company for the benefit of such transferor, his spouse, or his lineal descendants or ancestors;
- (b) either Binder or Cassel may Transfer all or any of his CIC Shares, upon his death, by will or the laws of descent and distribution;
- (c) either Binder or Cassel may Transfer all or any of his CIC Shares to any Entity in which such transferor owns all of the outstanding equity interests;
- (d) in the event of Binder's death or permanent incapacity, Binder's CIC Shares may be transferred by Binder or Binder's estate, as the case may be, to Cassel;
- (e) in the event of Cassel's death or permanent incapacity, Cassel's CIC Shares may be transferred by Cassel or Cassel's estate, as the case may be, to Binder; or
- (f) either Binder or Cassel may Transfer all or any of his CIC Shares with the prior consent of a majority of the Directors (not counting, for such purposes, the Director requesting the Transfer) and the written consent of IAHC; provided, however, that any such Transfer shall be subject to a right of first refusal on the part of IAHC to purchase such CIC Shares pursuant to procedures equivalent to those set forth in Section 9.5.

ARTICLE 10 DISSOLUTION

10.1 Events of Dissolution. The Company will dissolve upon the occurrence of any Event of Dissolution. Each of the following will be an "Event of Dissolution":

- (a) The prior Consent of the Members to dissolve the Company; or
- (b) The sale of all or substantially all the assets of the Company and distribution of the proceeds to the Members.

10.2 Effect of Death, Withdrawal, Bankruptcy, or Dissolution of Member. The Company will not dissolve upon the death, withdrawal, Bankruptcy, or dissolution of a Member.

10.3 Liquidation.

(a) Upon dissolution of the Company, the Managing Director(s), or, if there is no Managing Director, such Person as is designated by Members holding a majority of the Shares (the Managing Director(s) or such other Person being herein referred to as the "Liquidator") will proceed to wind up the business and affairs of the Company in accordance with the terms hereof and the requirements of the Act. A reasonable amount of time will be allowed for the period of winding up in light of prevailing market conditions and so as to avoid undue loss in connection with any sale of the assets of the Company. The Liquidator will have all of the rights in connection with the liquidation and termination of the Company that the Board of Directors and the Officers would have had with respect to the assets and liabilities of the Company during the term of the Company, and the Liquidator is hereby expressly authorized and empowered to effectuate the liquidation and termination of the Company and the transfer of any assets and liabilities of the Company. The Liquidator will have the right from time to time, by revocable powers of attorney, to delegate to one or more Persons any or all of such rights and powers and the authority and power to execute documents in connection therewith, and to fix the reasonable compensation of each such Person, which compensation will be charged as an expense of liquidation. The Liquidator is also expressly authorized to distribute the Company's property to the Members, subject to satisfaction of any liens. This Agreement will remain in full force and effect during the period of winding up, except that the Members will not have the right to make withdrawals of capital or additional Capital Contributions or to retire from the Company.

(b) In connection with the winding up of the Company, before the later to occur of the end of the Fiscal Year of the Company or the ninetieth day after the liquidation of the Company within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), the assets of the Company will be distributed as follows:

(i) first, to creditors, including Members that were creditors, to the extent otherwise permitted by law, in satisfaction of liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof);

(ii) next, to any Member that has made an Excess Capital Contribution, to the extent of such Excess Capital Contribution; provided, however, that any such Member shall be entitled to a distribution hereunder in the amount of any Excess Capital Contribution if and only if the Company is liquidated during the first three (3) years after the Company has commenced engaging in business; and

(iii) finally, to all of the Members in accordance with Section 5.3.

(c) If distributions are insufficient to return to any Member the full amount of such Member's Capital Contributions, such Member will have no recourse against any other Member or any Director. No Member will have any obligation to restore, or otherwise pay to the Company,

any other Member, or any third party, the amount of any deficit balance in such Member's Capital Account upon dissolution and liquidation. Following the completion of the winding up of the affairs of the Company and the distribution of its assets, the Company will be deemed terminated and the Liquidator will file articles of dissolution with the Secretary of State of the State of Florida as required by the Act.

(d) Each Member will be furnished with a statement prepared by the Liquidator which will set forth the assets and liabilities of the Company as at the date of complete liquidation, and each Member's share thereof. Upon completion of the liquidation, each Member will cease to be a Member of the Company, and the Liquidator will execute, acknowledge, and cause to be filed articles of dissolution of the Company, pursuant to the Act.

ARTICLE 11 MEETINGS OF DIRECTORS AND MEMBERS

11.1 Meetings of Directors. Meetings of Directors may be held whenever called by any Director or the President.

11.2 Meetings of Members. Meetings of the Members may be held whenever called by the Board of Directors or by the written demand of Members holding at least 25% of the Shares. Any written demand by a Member will state the purpose or purposes of the proposed meeting, and business to be transacted at any such meeting will be confined to the purposes stated in the notice thereof, and to such additional matters as the Board of Directors may determine to be germane to such purposes.

11.3 Place of Meetings. Meetings of the Directors or the Members will be held at the principal office of the Company, or such other place as the Board of Directors will determine.

11.4 Notice of Meetings. Written notice stating the place, day, and hour of any meeting of the Directors or the Members and the purpose or purposes for which the meeting is called shall be delivered by hand-delivery, certified mail (return receipt requested, postage prepaid), and/or nationally recognized overnight courier not less than five (5) nor more than thirty (30) days before the date of the meeting, by or at the direction of the person calling the meeting, to each Director and each Member. Any party may waive notice of any meeting. The attendance of a party at any meeting will constitute a waiver of notice of such meeting except where a party attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened.

11.5 Quorum. At any meeting of the Directors, the presence in person of a majority of the Directors will constitute a quorum. At any meeting of the Members, the presence in person or by proxy of all Members will constitute a quorum.

11.6 Voting.

(a) If a quorum is present at a meeting of Directors, the affirmative vote of a majority of all Directors will constitute the approval of the Directors.

(b) If a quorum is present at a meeting of Members, the Consent of the Members shall be the act of the Members, except where unanimous consent of all Members is explicitly required pursuant to this Agreement.

(c) For the avoidance of doubt, the Members intend that, except as otherwise explicitly provided in this Agreement, actions to be taken and decisions to be made by the Company shall be taken or made with the Consent of the Members, as such phrase is defined in Section 1.1.

11.7 Proxies. At meetings of the Members and any adjournments thereof, a Member may vote in person or by proxy executed in writing by the Member or by its duly authorized attorney-in-fact. Such proxy will be filed with the Board before or at the time of the meeting. No proxy will be valid after sixty (60) days from the date of its execution, unless otherwise provided in the proxy. The burden of proving the validity of any undated, irrevocable, or otherwise contested proxy will rest with the Person seeking to exercise the same.

11.8 Meetings by Telephone. Any Director or Member may participate in any meeting of Directors or Members, as the case may be, by means of a conference telephone or similar communication equipment whereby all Directors or Members participating in such meeting can hear one another. Such participation will constitute attendance in person.

11.9 Record of Meetings. The Company will prepare minutes for each meeting of Directors or Members.

11.10 Action Without a Meeting.

(a) Any action by the Directors which may be taken at any meeting of the Directors may be taken without a meeting, without prior notice, and without a vote, if a consent in writing, setting forth the action to be taken, is signed by all of the Directors.

(b) Any action required to be taken at any meeting of Members or any action which may be taken at any meeting of Members may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is signed by the Members having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all Shares entitled to vote thereon were present and voted.

(c) Any consents under this Section 11.10 may: (i) be signed in counterparts; and (ii) may have faxed signatures, copies of which will be effective when received by the Company. Within 10 days after authorization of any action by the Members by non-unanimous written consent, notice must be given to all Members.

ARTICLE 12
GENERAL PROVISIONS

12.1 Notices. All notices, demands, or other communications to be given or delivered under this Agreement will be in writing and will be deemed given: (i) upon delivery, if personally delivered to the recipient; (ii) five (5) days after mailing, if mailed to the recipient by certified or registered mail, return receipt requested, postage prepaid; and (iii) upon delivery, if sent to the recipient by nationally recognized overnight courier service. All notices, demands, or other communications must be sent as follows: (i) if to a Member, delivered in person or sent to the Member at the address set forth on the signature pages hereto or such other address as the Member may hereafter provide in writing to all other parties hereto; (ii) if to Binder or Cassel, delivered or sent to Binder or Cassel (as the case may be) at the address set forth on the signature pages hereto or such other address as Binder or Cassel (as the case may be) may hereafter provide in writing to all other parties hereto, and (iii) if to the Company, delivered or sent to the Company's principal office.

12.2 Governing Law. This Agreement will be governed by and interpreted in accordance with the laws of the State of Florida, without reference to any principle of conflicts of laws that would result in the application of the laws of any other jurisdiction.

12.3 Headings. The Article and Section headings of this Agreement are for convenience only, do not form a part of this Agreement, and will not in any way affect the interpretation hereof.

12.4 Parties in Interest. Nothing herein will be construed to be to the benefit of or enforceable by any Person not a party to this Agreement, including, but not limited to, any creditor of the Company, other than the Persons entitled to indemnification under Section 6.8.

12.5 Further Assurances. The parties will execute and deliver such further instruments and do such further acts and things as may reasonably be required to carry out the intent and purposes of this Agreement.

12.6 Remedies Cumulative. No remedy conferred upon or reserved to the Company or any Member by this Agreement is intended to be exclusive of any other remedy. Each and every such remedy will be cumulative and will be in addition to any other remedy given to the Company or any Member hereunder or now or hereafter existing at law or in equity or by statute.

12.7 Successors and Assigns. Subject to the restrictions on Transfer set forth in Article 9, this Agreement will bind and inure to the benefit of the parties hereto and their respective successors and assigns.

12.8 Other Business Lines. Subject to the restrictive covenants set forth in Section 6.12 of this Agreement, without limiting the parties' duties to one another pursuant to the Act, the parties agree that nothing in this Agreement shall be deemed to (i) limit the rights of IAHC to engage in other financial and non-financial businesses and to invest in companies other than the Company, or (ii) limit the rights of the Company to expand its activities into additional business lines, subject to the provisions of Article 6.

12.9 Arbitration. Any dispute by and among the parties arising out of and/or relating to this Agreement shall be settled by arbitration in Miami-Dade County, Florida, in accordance with the then current Commercial Rules of Arbitration of the American Arbitration Association. The panel for the arbitration shall consist of three members – one independent arbitrator appointed by CIC, one independent arbitrator appointed by IAHC, and one independent arbitrator appointed by the mutual agreement of the arbitrators appointed by CIC and IAHC. This arbitration provision, however, shall have no effect on and/or limit, restrict or alter in any manner the Company's and/or any party's right and/or ability to seek in a court of competent jurisdiction any relief for the another party's breach(es) of the obligations and/or covenants set forth in Section 6.12 of this Agreement, including but not limited to the equitable relief (e.g., injunctive relief and/or specific performance) expressly referenced therein. IN THE EVENT ANY DISPUTE AMONG THE PARTIES ARISING PURSUANT TO OR IN CONNECTION WITH THIS AGREEMENT IS SUBJECT TO LITIGATION IN A COURT OF LAW (THOUGH THE PARTIES INTEND THAT ALL SUCH DISPUTES WILL BE SETTLED BY ARBITRATION EXCEPT AS OTHERWISE PROVIDED HEREIN), EACH OF THE PARTIES EXPLICITLY WAIVES ANY RIGHT HE OR IT MAY HAVE TO A TRIAL BY JURY.

12.10 Legal Fees. In any dispute arising out of and/or relating to this Agreement, the prevailing party shall be entitled to reimbursement from the non-prevailing party of all reasonable attorney's fees and costs (including reasonable attorney's fees and costs associated with any appeal and/or confirmation and/or enforcement of and/or collection on any arbitration award) associated with such dispute, including but not limited to any fees and costs associated with an arbitration and/or lawsuit.

12.11 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which will constitute one and the same agreement.

12.12 Entire Agreement. The terms and conditions of this Agreement constitutes the entire agreement among the parties concerning the subject matter hereof, and will supersede all previous communications, either oral or written, between the parties hereto, and no agreement or understanding modifying this Agreement will be binding upon any party unless such modification is in writing and signed by such party.

12.13 Amendment.

(a) This Agreement may be amended from time to time with the prior Consent of the Members, except as provided in Section 12.13(b).

(b) Notwithstanding the provisions of Section 12.13(a), no amendment of this Agreement will be effective without the prior written consent of all of the Members if the amendment:

(i) imposes or creates any new or additional liability on any Member or enlarges the obligations of any Member to make contributions to the capital of the Company; or

(ii) alters the allocations of distributions and profits and losses set forth in this Agreement.

220 E. Central Parkway
Suite 2060
Altamonte Springs, FL 32701

/s/ SEAN O'CONNOR
SEAN O'CONNOR

220 E. Central Parkway
Suite 2060
Altamonte Springs, FL 32701

/s/ SCOTT BRANCH
SCOTT BRANCH

SCHEDULE 1

Schedule of Members

<u>Name</u>	<u>Capital Contributions</u>	<u>Shares</u>
CONSILIUM INVESTMENT CAPITAL, INC.	\$ 100,000	499
INTERNATIONAL ASSETS HOLDING CORPORATION	\$ 500,000	501

SUBSIDIARIES OF THE REGISTRANT

<u>Name</u>	<u>Place of Incorporation</u>
IAHC Bermuda, Ltd.	Bermuda
INTL Assets, Inc.	Florida
INTL Global Currencies Limited (formerly known as 'Global Currencies (FX) Limited')	United Kingdom
INTL Holdings (U.K.) Limited (formerly known as 'Global Currencies (Holdings) Limited')	United Kingdom
INTL Trading, Inc.	Florida
INTL Consilium LLC	Florida

Consent of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
International Assets Holding Corporation:

We consent to the incorporation by reference in registration statements (No. 333-108332) on Form S-8 of International Assets Holding Corporation and Subsidiaries of our report dated December 12, 2004, relating to the consolidated balance sheets of International Assets Holding Corporation and Subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years then ended, which report appears in the September 30, 2004, annual report on Form 10-KSB of International Assets Holding Corporation.

KPMG LLP

Tampa, Florida
December 22, 2004

Consent of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
International Assets Holding Corporation:

We consent to the incorporation by reference in registration statements (No. 333-117544) on Form S-3 of International Assets Holding Corporation and Subsidiaries of our report dated December 12, 2004, relating to the consolidated balance sheets of International Assets Holding Corporation and Subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years then ended, which report appears in the September 30, 2004, annual report on Form 10-KSB of International Assets Holding Corporation.

KPMG LLP

Tampa, Florida
December 22, 2004

SECTION 302 CERTIFICATION

I, Sean M. O'Connor, certify that:

1. I have reviewed this Annual Report on Form 10-KSB of International Assets Holding Corporation (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting; and
5. The Issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditors and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have significant role in the Issuer's internal control over financial reporting.

Date: December 17, 2004

/s/ SEAN M. O'CONNOR

Sean M. O'Connor
Chief Executive Officer

SECTION 302 CERTIFICATION

I, Jonathan C. Hinz certify that:

1. I have reviewed this Annual Report on Form 10-KSB of International Assets Holding Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the Annual Report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have significant role in the issuer's internal control over financial reporting.

Date: December 17, 2004

/s/ JONATHAN C. HINZ

Jonathan C. Hinz
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of International Assets Holding Corporation (the "Company") on Form 10-KSB for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean M. O'Connor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: December 17, 2004

/s/ SEAN M. O'CONNOR

Sean M. O'Connor
Chief Executive Officer

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to International Assets Holding Corporation and will be returned by International Assets Holding Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of International Assets Holding Corporation (the "Company") on Form 10-KSB for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan C. Hinz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: December 17, 2004

/s/ JONATHAN C. HINZ

**Jonathan C. Hinz
Chief Financial Officer**

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to International Assets Holding Corporation and will be retained by International Assets Holding Corporation and furnished to the Securities and Exchange Commission or its staff upon request.