

INTERNATIONAL ASSETS HOLDING CORP

Form 10KSB

December 20, 2006

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# **U.S. Securities and Exchange Commission**

**Washington D.C. 20549**

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## **Form 10-KSB**

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**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 30, 2006**

**Commission File Number 000-23554**

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# **INTERNATIONAL ASSETS HOLDING CORPORATION**

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

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**Delaware**  
**(State of incorporation)**

**220 East Central Parkway, Suite 2060**

**Altamonte Springs, Florida 32701**

**(Address of principal executive offices)**

**(407) 741-5300**

**(Issuer's telephone number)**

**59-2921318**  
**(IRS Employer Identification No)**

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

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

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

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None

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

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. ☐

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

State issuer's revenues for its most recent fiscal year: \$102,761,000

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, 2006: \$154,784,561.

The issuer had 7,938,433 outstanding shares of common stock as of December 15, 2006.

## DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III is incorporated by reference to portions of the Registrant's Proxy Statement for the 2007 Annual Meeting of Shareholders which will be filed with the Securities and Exchange Commission by January 19, 2007.

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**INTERNATIONAL ASSETS HOLDING CORPORATION**

**2006 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, foreign exchange and commodities dealing and trading industries. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business and 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 markets. We commit our capital and expertise to market-making and trading of financial instruments, currencies and commodities, and to asset management. The Company's activities are currently divided into five functional areas - international equities market-making, international debt capital markets, foreign exchange trading, commodities trading and asset management.

The Company was formed in October 1987 and during the 2006 fiscal year conducted operations through five wholly-owned operating subsidiaries: INTL Trading, Inc. (INTL Trading), a securities broker-dealer and member firm of the National Association of Securities Dealers (NASD), INTL Global Currencies Limited (INTL Global Currencies), INTL Commodities, Inc. (INTL Commodities), INTL Holding (U.K.) Limited (INTL Holding (U.K.)) and INTL Assets, Inc. (INTL Assets). During the 2006 fiscal year the Company conducted its asset management business through INTL Consilium LLC (INTL Consilium), in which the Company holds a 50.1% interest. The Company accounted for its interest in INTL Consilium under the equity method until August 31, 2006. Since that date, the Company has consolidated its interest in INTL Consilium.

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

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

more than 100 currencies

debt securities of more than 500 sovereign and corporate issuers organized in over 30 countries

physical commodities (base and precious metals) and related 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](http://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 that are not adequately covered by major brokerage firms and financial institutions because they are too labor-intensive or because the opportunity is not large enough

markets that require specialized expertise

markets that are primarily trading-oriented

markets that primarily serve wholesale customers

markets that have a significant international component

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

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Each of the Company's businesses is highly volatile and can change due to a variety of factors which are both outside of management's control and not readily predictable. To address this volatility, the Company has sought to diversify into a number of uncorrelated businesses.

As a financial intermediary in these niche businesses, the Company's primary focus is to recruit experienced individuals who bring with them knowledge and relationships in these businesses and to ensure that costs are linked to revenues to limit the possibility of losses. Management evaluates the profitability of each area before and after direct trading and compensation costs and periodically reviews the net contribution made relative to committed capital resources.

## **Trading Revenues**

In the Company's business, purchases of individual securities, currencies, commodities or derivative instruments may be from single or multiple customers or counterparties. They may be covered by a matching sale to a customer or counterparty or may be aggregated with other purchases to provide liquidity intraday, for a number of days or, in some cases, particularly the base metals business, even longer periods of time (during which periods market values may fluctuate). Sales of individual securities, currencies, commodities or derivative instruments may also be to single or multiple customers or counterparties. They may be made from inventory, they may be covered by a simultaneous and matching purchase in the market or they may represent a short sale and be covered by a later purchase in the market.

While the Company is able to track the number and dollar amount of individual transactions with each customer, this information is not a reliable indicator of revenues because it is not necessarily proportional to revenues or profitability. Depending on the nature of the instrument traded, market conditions and timing of a transaction, revenues and profitability may differ widely from trade to trade and from customer to customer.

## **International Equities Market-Making**

The Company is a leading U.S. market-maker in select foreign securities, including unlisted ADRs, foreign common shares and OTC domestic bulletin board stocks. 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 in which the Company can use its expertise and experience to provide customers with competitive execution and superior service. The Company also utilizes its proprietary technology, including internet technology, to achieve these goals.

The Company makes markets in approximately 400 ADRs and foreign ordinary shares traded in the OTC market, and in approximately 120 domestic bulletin board and Nasdaq stocks. 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

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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.

While the Company's customers are other broker-dealers and institutions, the business tends to be driven by the needs of the private clients of those broker-dealers and institutions. The size of private client trades may be uneconomical for the in-house international equities trading desks of our customers to execute. The Company is able to provide execution of smaller trades at profitable margins.

### **International Debt Capital Markets**

The Company trades actively in a wide variety of international debt instruments. The Company also invests in international debt instruments on a proprietary basis and structures 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 internationally on an OTC basis.

The Company provides competitive execution in these bonds to smaller institutions and private banks. 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 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, structure, purchase or sell debt transactions on behalf of issuers. These transactions generally involve negotiable emerging market debt instruments that typically are related to specific commercial transactions, have limited liquidity and price discovery, an absence of standard documentation and an absence of established settlement procedures. The transactions may be 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. The Company focuses on private debt placements for corporations and financial institutions based in Eastern Europe, Latin America and the Caribbean.

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### **Foreign Exchange Trading**

The Company primarily trades select, illiquid currencies of developing countries. Covering over 100 currencies, the Company has an extensive global correspondent network that provides access to these currencies at competitive rates. The Company's target customers are financial institutions, multi-national corporations, governmental and charitable organizations operating in and transferring funds to these developing countries. In addition, the Company executes trades based on the foreign currency flows inherent in the Company's other international 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 to generate proprietary earnings.

### **Commodities Trading**

The Company's precious metals activities encompass gold, silver and platinum group metals. The Company has relationships with a number of small and medium-sized precious metals producers, refiners, recyclers and consumers, and provides them with a full range of precious metals trading and hedging capabilities.

The Company assists its precious metals customers in protecting the value of their future production by selling them put options on an OTC basis. The Company also provides customers 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 expanded its commodities business significantly at the beginning of the 2006 fiscal year, when it commenced trading base metals for physical delivery. The principal base metal traded by the Company during 2006 was lead, which is sold to manufacturers, mainly of automotive and industrial batteries. The Company purchases lead for resale either in the form of finished lead or in the form of used automotive or industrial batteries which are then recycled to produce lead. The Company has established a new subsidiary in Mexico, which is expected to become operational in calendar 2007, to facilitate the purchase and sale of lead in that country.

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



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The Company generally mitigates the price risk associated with base metals held in inventory through the use of derivatives. This price risk mitigation does not generally qualify for hedge accounting under generally accepted accounting principles ( GAAP ). In such situations, unrealized gains in inventory are not recognized under GAAP, but unrealized gains and losses in related derivative positions are recognized under GAAP. As a result, the Company's reported commodities trading earnings are subject to volatility. Lead prices have been volatile during the 2006 fiscal year. In particular, there were significant price increases in the second and fourth quarters (the quarters ended March 31, 2006 and September 30, 2006 respectively). The value of lead inventory at September 30, 2006 was stated at cost of \$15.3 million, compared with a market value of \$21.3 million.

The Company also takes periodic proprietary positions by buying commodities or related 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's asset management business is operated through INTL Consilium, a joint venture organized by the Company and an unaffiliated third party. The Company has a 50.1% interest in INTL Consilium. Until July 31, 2006 the Company accounted for its interest in INTL Consilium on the equity method. From August 1, 2006, when the Company made a subordinated loan of \$1 million to INTL Consilium, it concluded that INTL Consilium should be treated as a variable interest entity and that its interest should be consolidated in accordance with FASB Interpretation No. 46(R) ( FIN 46(R) ).

INTL Consilium is registered as an investment adviser with the U.S. Securities and Exchange Commission ( SEC ). 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.

In July 2004 INTL Consilium launched the Emerging Market Absolute Return Fund, which had over \$138 million in assets under management on September 30, 2006. In January 2006 INTL Consilium purchased the management contract of a convertible arbitrage fund and employed its managers, who are based in London. The fund has been renamed the INTL Consilium Convertible Arbitrage Fund. Assets under management at September 30, 2006 were \$6.8 million. In November 2005 INTL Consilium was appointed by American Express Bank Asset Management Company as investment sub-adviser for one of the portfolios of American Express World Express Funds. Assets under management for American Express Bank were over \$359 million at September 30, 2006. Total assets under management at September 30, 2006 amounted to \$505 million.

The Company announced on October 31, 2006 that a new subsidiary, INTL Capital Limited ( INTL Capital ), domiciled in Dubai, in the United Arab Emirates, had been granted a license by the Dubai Financial Service Authority to operate as an authorized firm from the Dubai International Financial Centre. INTL Capital will manage the INTL Trade Finance Fund Limited, a Cayman Island company established to invest primarily in global trade finance-related assets.

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### **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 markets 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 markets served by the Company. The instruments traded 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.

Technology has increased competitive pressures on intermediaries in financial markets by improving dissemination of information, making markets more transparent and facilitating the development of alternative execution mechanisms. In the debt trading markets, TRACE, the trade reporting system introduced by the National Association of Securities Dealers (the NASD), has had reduced spreads and profitability. 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 customers.

### **Administration and Operations**

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

Prior to December 1, 2005, INTL Trading's securities transactions were cleared through Pershing LLC, a wholly-owned subsidiary of The Bank of New York. On December 1, 2005, INTL Trading began clearing through Broadcort, a division of Merrill Lynch, Pierce, Fenner & Smith, Inc. This change has had a significantly beneficial impact on costs in the Company's securities businesses. INTL Trading does not hold customer funds or directly clear or settle securities transactions.

In the foreign exchange and commodities trading businesses the Company records all transactions in a proprietary trading system and employs operations staff to settle all transactions.

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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.

In November 2005, the Company's broker-dealer subsidiary, INTL Trading, received approval from the Financial Services Authority in the United Kingdom to open a branch office in London. INTL Trading's activities are thus also subject to regulation in the United Kingdom.

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.

### **Foreign Operations**

The Company operates in a number of foreign jurisdictions. These include the Company's existing operations in the United Kingdom, together with the Company's new operations in Dubai (commenced in October 2006) and in Mexico (where a subsidiary has been established but operations have not yet commenced).

### **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 or loans to any stockholder, employee or affiliate, if such payment would reduce the broker-dealer's net capital below required levels.

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

During the 2006 fiscal year, INTL Trading maintained net capital which substantially exceeded the minimum levels required by SEC Rule 15c3-1.

## **Risks Affecting the Company**

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

The risks faced by the Company include the following:

During the fiscal year ended September 30, 2006, the Company had net income of \$3.5 million, compared with a net income of \$2.6 million in 2005 and a net loss of \$(118,000) in the 2004.

The improvement of the Company's operating results in the 2006 and 2005 fiscal years is due to a substantial increase in our revenues. This increase was in turn due to improved market conditions, better marketing of our services and the establishment of new areas of business. The Company's management intends to seek to grow our revenues in the future by utilizing its capital resources to support the expansion of our market-making and trading activities.

Although the Company believes that it will be able to increase revenues in the future, the Company's ability to achieve this goal as well as consistent profitability is subject to uncertainty due to the nature of its businesses and the markets in which it operates. In particular, the Company's revenues and operating results may fluctuate significantly in the future because of the following factors:

Volatility in the securities and commodities markets in which the Company operates;

Changes in the volume of the Company's market making and trading activities;

Changes in the value of the Company's securities positions and the Company's ability to manage related risks;

The Company's ability to manage personnel, overhead and other expenses;

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Changes in execution and clearing fees;

The addition or loss of sales or trading professionals;

Changes in requirements; and

General economic and political conditions;

Although the Company is continuing its efforts to diversify the sources of our revenues, it is likely that its revenues and operating results will continue to fluctuate substantially in the future and such fluctuations could result in losses. These losses could have a material adverse affect on the Company's business, financial condition and operating results.

***The manner in which the Company accounts for its lead business may increase the volatility of the Company's reported earnings.***

The Company's net income is subject to volatility due the manner in which the Company reports its base metals business. Inventory for the base metals business is valued at the lower of cost or market value. The Company generally mitigates the price risk associated with base metals held in inventory through the use of derivatives. This price risk mitigation does not generally qualify for hedge accounting under accounting principles generally accepted in the United States. In such situations, any unrealized gains in inventory are not recognized under GAAP, but unrealized gains and losses in related derivative positions are recognized under GAAP. As a result, the Company's reported earnings from this business are subject to greater volatility than the earnings from our other businesses.

***The Company may be subject to substantial fluctuations in revenues due to changes in economic, political and market conditions.***

The markets in financial instruments, currencies and commodities are, by their nature, generally volatile. They are 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

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legislative and regulatory changes

currency values and inflation

Any one or more of these factors may contribute to reduced levels of activity in the 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.

Specifically, the Company's revenues may decrease due to a decline in market volumes, prices, the difference between purchase and selling prices or liquidity. Declines in the volume of securities, currencies or commodities transactions and in market liquidity generally result in lower revenues from market-making activities. Lower price levels of securities, currencies or 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, currencies or commodities held in inventory. Sudden sharp declines in market values of securities, currencies or commodities can result in:

illiquid markets

declines in inventory values

the failure of buyers and sellers of securities, currencies and commodities to fulfill their settlement obligations

increases in claims and litigation

Any decline in market volumes, prices, the difference between purchase and selling prices or liquidity could have a material adverse effect on the Company's business, financial condition and operating results.

***The Company may incur 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 currencies. 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 either to resell financial securities, currencies or commodities it purchased or to repurchase securities, currencies or commodities it sold in these transactions. In addition, the Company may experience difficulty borrowing these assets 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

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specific countries and markets, or in a particular currency or commodity. Such a 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 primarily depends on:

price volatility

the Company's ability to attract order flow

the skill of the Company's personnel

the availability of capital

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

the sophistication of the Company's trading technology

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 securities, currencies or commodities. However, competitive forces often require the Company to:

match the quotes of other market-makers

hold varying amounts of securities in inventory

By having to maintain inventory positions, the Company is subjected to a high 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.

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### ***The Company's substantial indebtedness could adversely affect its financial condition.***

As of September 30, 2006, the Company's total consolidated indebtedness to lenders was approximately \$33.5 million, including \$27.0 million in senior subordinated convertible notes issued on September 20, 2006. The Company's indebtedness could have important consequences including:

increasing the Company's vulnerability to general adverse economic and industry conditions;

requiring that a portion of the Company's cash flow from operations be used for the payment of interest on its debt, thereby reducing the ability to use the Company's cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements;

limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;

limiting the Company's flexibility in planning for, or reacting to, changes in its businesses and the securities industry;

restricting the Company's ability to pay dividends or make other payments; and

placing the Company at a competitive disadvantage to its competitors that have less indebtedness.

The Company may be able to incur additional indebtedness in the future, including secured indebtedness. If new indebtedness is added to current indebtedness levels, the related risks that the Company now faces could intensify.

### ***The Company may have difficulty managing its growth.***

During the 2005 and 2006 fiscal years the Company experienced significant growth in its business. Operating revenues grew from \$22.0 million in the 2004 fiscal year to \$35 million in 2006. To support this growth, we added 27 new employees during the 2005 fiscal year and a net 12 employees in 2006. In addition, INTL Consilium, which has been consolidated with effect from August 1, 2006, employed ten people at September 30, 2006.

This growth has required and will continue to require the Company to increase its investment in management personnel, financial and management systems and controls, and facilities. In the absence of continued revenue growth, the costs associated with expected growth would cause operating margins to decline from current levels. In addition, the Company is and will continue to be highly dependent on the effective and reliable operation of communications and information systems.

The scope of procedures for assuring compliance with applicable rules and regulations has changed as the size and complexity of the Company's business has increased. In response, the Company has implemented and continues to revise formal compliance procedures.



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The Company cannot ensure that it will be able to manage its growth successfully. An inability to do so could have a material adverse effect on the Company's business, financial condition and operating results.

### ***The Company may incur unexpected losses due to counterparty failures and credit concentration risks associated with the Company's clearing broker and custodians.***

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. Substantially all of the Company's equity and debt securities are held by this 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 most of its commodities activities and in addition takes principal risk to counterparties in these activities. All of the Company's receipts or deliveries of metals or other commodities and the settlement of exchange traded options are effected through clearing institutions or independent third parties. Any metals or other physical commodities positions are held by third party custodians.

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 may default on their obligations. If any do, the Company's business, financial condition and operating results could be materially adversely affected.

In the Company's equity, debt and commodities trading businesses the Company relies on the ability of its clearing broker to adequately discharge its obligations on a timely basis. The Company also depends on the solvency of its clearing broker and custodians. Any failure by the clearing broker to adequately discharge its obligations on a timely basis, or insolvency of the clearing broker or custodian, or any event adversely affecting the Company's clearing broker or custodians, could have a material adverse effect on its business, financial condition and operating results.

### ***The Company depends on its ability to attract and retain key personnel.***

From time to time, other companies in the financial services 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.

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### ***The Company is subject to intense 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 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 and banks, 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 may 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

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.

### ***The Company is subject to extensive government regulation.***

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. INTL Trading has established a branch in the United Kingdom that is subject to regulation by the United Kingdom Financial Services Authority. 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

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capital structure

record retention

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 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.

***The Company is subject to risks relating to potential liability for violations of 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. Since 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.

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### ***The Company is potentially subject to claims under environmental laws.***

The Company's base metals trading business, active since October 2005, is potentially subject to claims under certain federal, state and foreign environmental laws. To date no such claims have been made against the Company. This is not an indicator of what might happen in the future. The business involves the purchase and sale of base metals such as lead and other potentially hazardous materials. As part of this business, the Company engages third parties located both in the United States and other countries to acquire, store, transport or recycle used automotive and industrial batteries ( "batteries" ) on behalf of the Company. In the event that these third parties fail to comply with federal, state or foreign environmental laws in handling or disposing of these batteries and other hazardous substances used in or arising from the recycling of these batteries, the Company may be exposed to claims for the cost of remediation of any sites impacted by such improper handling and disposal, as well as other related costs. The Company seeks to mitigate this risk by dealing with third parties whom the Company believes to be in compliance with applicable laws and which have established reputations in the industry.

### ***The Company is highly dependent upon its 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

power or telecommunications failure

acts of God

computer hacking activities

terrorism

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.

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*The Company depends significantly on a limited group of customers.*

Based on management's assessment of the Company's business, the Company believes that a small number of its customers account for a significant portion of the Company's revenues in each of its businesses. The Company is unable to measure the level of this concentration because the Company's dealing activities do not permit the Company to quantify revenues generated by each customer. 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 traders 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.

## **Risk Management**

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 defined risk policy which is administered by the Company's risk committee, which reports to the Company's audit committee. The Company has established specific exposure limits for inventory positions in every business, as well as specific issuer limits and counterparty limits. These limits are designed to ensure that in a situation of systemic financial distress and/or the failure of a counterparty and/or default of an issuer, the potential estimated loss will remain within acceptable levels. The audit committee reviews the performance of the risk committee on a quarterly basis to monitor compliance with the established risk policy.

## **Employees**

At September 30, 2006, the Company had 89 employees, of which ten are employed by INTL Consilium, a variable interest entity consolidated for the first time during fiscal 2006. Nine of these employees had managerial responsibilities, 49 were traders and 31 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 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 in New York, New York. This lease commenced on December 13, 2002, and expires on September 30, 2009. The Company leases approximately 3,900 square feet of office space in London. This lease commenced on November 24, 2005 and expires on December 20, 2012. The London office space is shared with the previous owners of the foreign exchange business under a shared cost apportionment arrangement. In October 2006 the Company leased approximately 1,600 square feet of office space in Miami, Florida. This lease commenced on October 12, 2006, and expires on June 19, 2008.

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In January 2005 INTL Consilium, the Company's asset management joint venture that has been consolidated since August 1, 2006 and that previously had been accounted for on the equity method, leased approximately 1,269 square feet in Fort Lauderdale, Florida. The lease commenced on January 5, 2005 and expires on December 7, 2007.

**ITEM 3. LEGAL PROCEEDINGS.**

The Company is not currently a party to any material legal proceedings. In light of the nature of the Company's activities, it is possible that the Company may be involved in material litigation in the future, and such litigation could have a material adverse impact on the Company and its financial condition and results of operations.

**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 is listed on The NASDAQ Stock Market LLC ( "NASDAQ" ), under the symbol IAAC. The Company's stock trades on the NASDAQ Capital Market.

**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.

	High	Low
<b>Fiscal Year 2005</b>		
First Quarter (Oct. 2004 - Dec. 2004)	\$ 8.20	\$ 7.11
Second Quarter (Jan. 2005 - Mar. 2005)	9.99	7.35
Third Quarter (Apr. 2005 - Jun. 2005)	8.10	6.10
Fourth Quarter (Jul. 2005 - Sept. 2005)	8.50	6.06
<b>Fiscal Year 2006</b>		
First Quarter (Oct. 2005 - Dec. 2005)	\$ 9.34	\$ 8.01
Second Quarter (Jan. 2006 - Mar. 2006)	11.68	8.69
Third Quarter (Apr. 2006 - Jun. 2006)	16.70	9.85
Fourth Quarter (Jul. 2006 - Sept. 2006)	28.50	12.09

**Table of Contents****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. 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.

**Holders**

As of September 30, 2006, there were 117 shareholders of record of the Company's common stock, according to the records maintained by the Company's transfer agent. As of September 30, 2006, the Company estimates that there were approximately 3,985 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, 2006:

<b>Plan Category</b>	<b>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) (1)</b>
Equity compensation plans approved by security holders			
- Stock Option Plan	985,931 shares	\$ 4.47	575,568 shares
<b>Total</b>			