

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

INTERNATIONAL ASSETS HOLDING CORP
Form 10QSB
February 19, 2002

U.S. Securities and Exchange Commission
Washington D.C. 20549

Form 10-QSB

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

For the quarterly period ended December 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

Commission File Number 33-70334-A

INTERNATIONAL ASSETS HOLDING CORPORATION

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

Delaware

59-2921318

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

220 East Central Parkway, Suite 2060
Altamonte Springs, FL 32701

(Address of principal executive offices)

(407) 741-5300

(Issuer's telephone number)

Former Address: 250 Park Avenue South, Suite 200, Winter Park, FL 32789

(Former name, former address and former fiscal year, if changed since
last report)

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 .

The number of shares outstanding of Common Stock was 2,374,376 as of February 11, 2002.

Transitional small business disclosure format Yes No

INDEX

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets as of December 31, 2001 and September 30, 2001

Condensed Consolidated Statements of Operations for the Three Months ended December 31, 2001 and 2000

Condensed Consolidated Statements of Cash Flows for the Three Months ended December 31, 2001 and 2000

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis or Plan of Operation

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

Signatures

2

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

	December 31
Assets	2001
-----	----
Cash	\$ 331,184
Cash and cash equivalents, deposited with clearing organization	1,788,243
Receivable from clearing organization, net	128,314
Other receivables	12,934
Loans to officers	124,960
Securities owned, at market value	7,014,984
Deferred income tax asset, net	1,330,288
Property and equipment, at cost:	
Equipment, furniture and leasehold improvements	607,581
Less accumulated depreciation and amortization	(419,440)
Net property and equipment	----- 188,141
Software development, net of accumulated amortization of \$565,809 in December 2001 and \$491,995 in September 2001	479,988
Prepaid expenses and other assets, net of accumulated amortization of \$2,000 in December 2001 and \$177,000	

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

in September 2001

122,483

Total assets

\$11,521,519
=====

See accompanying notes to condensed consolidated financial statements.

3

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets, Continued
(Unaudited)

Liabilities and Stockholders' Equity

Liabilities:

Foreign currency sold, but not yet purchased
Securities sold, but not yet purchased, at market value
Accounts payable
Accrued employee compensation and benefits
Accrued expenses
Payable to Joint Venture
Other liabilities

Total liabilities

Stockholders' equity:

Preferred stock, \$.01 par value. Authorized 3,000,000
shares; issued and outstanding -0- shares
Common stock, \$.01 par value. Authorized 8,000,000
shares; issued and outstanding 2,374,376 shares in December
2001 and 2,294,376 shares in September 2001
Additional paid-in capital
Retained deficit

Total stockholders' equity

Total liabilities and stockholders' equity

See accompanying notes to condensed consolidated financial statements.

4

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

Condensed Consolidated Statements of Operations
For the Three Months Ended December 31, 2001 and 2000
(Unaudited)

	2001

Revenues:	
Net dealer inventory and investment gains	\$ 1,019,755
Commissions (note 2)	401,212
Management and investment advisory fees (note 2)	6,292
Interest and dividends	28,936
Loss from joint venture	-
Other	1,816

Total revenues	1,458,011

Expenses:	
Compensation and benefits	\$ 733,579
Clearing and related expenses	439,942
Promotion	36,787
Occupancy and equipment rental	138,935
Communications	41,805
Interest	519
Professional fees	46,834
Insurance	43,246
Depreciation and amortization	111,578
Technology	37,535
Other expenses	70,378

Total expenses	1,701,138

Loss before gain on sale of retail activity and income taxes	(243,127)
Gain on sale of retail activity (note 2)	413,009

Income (loss) before income taxes	169,882
Income tax expense (benefit)	67,201

Net income (loss)	\$ 102,681
	=====
Earnings (loss) per share:	
Basic	0.04
	=====
Diluted	\$ 0.04
	=====
Weighted average number of common shares outstanding:	
Basic	2,310,898
	=====
Diluted	2,311,500
	=====

=====

See accompanying notes to condensed consolidated financial statements.

5

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended December 31, 2001 and 2000
(Unaudited)

Cash flows from operating activities:

Net income (loss)
Adjustments to reconcile net income (loss) to net
cash provided by (used in) operating activities:
 Depreciation and amortization
 Deferred income taxes
 Gain on sale of retail activity
 Disposal of property and equipment
 included in gain on sale of retail activity
 Loss from Joint Venture
 Tax benefit from disqualifying dispositions of
 incentive stock options
Cash provided by (used in) changes in:
 Receivable from clearing organization, net
 Other receivables
 Securities owned, at market value
 Income taxes receivable
 Prepaid expenses and other assets
 Foreign currency sold, but not yet purchased
 Securities sold, but not yet purchased, at market value
 Payable to clearing organization, net
 Accounts payable
 Accrued employee compensation and benefits
 Accrued expenses
 Payable to Joint Venture
 Other liabilities

Net cash provided by (used in) operating activities

Cash flows from investing activities:

Proceeds from sale of retail activity
Cost of total assets on sale of retail activity
Collections from loans to officers
Costs of additional property, equipment and software
 development

Net cash provided by (used in) investing activities

(continued)

6

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Statements of Cash Flows, Continued
 For the Three Months Ended December 31, 2001 and 2000
 (Unaudited)

	2001

Cash flows from financing activities:	
Sale of common stock with sale of retail activity	80,00

Net cash provided by financing activities	80,00

Net increase (decrease) in cash and cash equivalents	1,108,12
Cash and cash equivalents at beginning of period	1,011,30

Cash and cash equivalents at end of period	\$2,119,42
	=====
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 51
	=====
Supplemental disclosure of noncash financing activities:	
During the three months ended December 31, 2000 the Company paid for software development services by issuance of 12,283 common shares.	
	=====

7

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

December 31, 2001 and 2000
 (Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions and requirements of Form 10-QSB and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of Management, such financial statements reflect all adjustments (consisting of normal recurring items) necessary for a fair statement of the results of operations, cash flows and financial position for the interim periods presented. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These condensed consolidated financial statements should be

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2001, filed on Form 10-KSB (SEC File Number 33-70334-A).

Current Subsidiaries:

As used in this Form 10-QSB, the term "Company" refers, unless the context requires otherwise, to International Assets Holding Corporation and its four wholly owned subsidiaries; INTLTRADER.COM, INC. ("ITCI"), International Asset Management Corp. ("IAMC"), International Financial Products, Inc. ("IFP") and OffshoreTrader.com Ltd. ("OTCL"). All significant intercompany balances and transactions have been eliminated in consolidation.

Former Subsidiaries and Joint Venture Sold in December 2001:

On November 1, 2001 International Assets Advisory Corporation entered into a merger with IAAC, LLC, a wholly owned subsidiary of International Assets Holding Corporation. IAAC, LLC was a Florida limited liability company formed by International Assets Holding Corporation in July 2001 for the purpose of the anticipated merger that occurred on November 1, 2001. IAAC, LLC was the surviving entity of the merger. Upon effectiveness of the merger, the name of the surviving entity became International Assets Advisory, LLC. The Company sold all of its membership interests in International Assets Advisory, LLC on December 13, 2001.

On November 1, 2001 Global Assets Advisors, Inc. entered into a merger with Global Assets Advisors, LLC, a wholly owned subsidiary of International Assets Holding Corporation. Global Assets Advisors, LLC was a Florida limited liability company formed by International Assets Holding Corporation in July 2001 for the purpose of the anticipated merger that occurred on November 1, 2001. Global Assets Advisors, LLC was the surviving entity of the merger. The Company sold all of its membership interests in Global Assets Advisors, LLC on December 13, 2001.

8

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

On December 13, 2001 the Company sold its 50% interest in International Assets New York, LLC, a 50/50 Joint Venture with Lakeside Investments, LLC of New York.

(2) Sale of Certain Operations

On December 13, 2001 the Company sold its two wholly-owned subsidiaries, International Assets Advisory, LLC and Global Assets Advisors, LLC, and its 50% membership interest in International Assets New York, LLC (IANY) to Lakeside Assets, LLC. In connection with the disposition transaction, Lakeside Assets, LLC also purchased 80,000 shares of the Company's common stock. The Company received total proceeds of \$907,240 for these sale transactions. The Company allocated \$827,240 of the proceeds to the sale of the two wholly owned subsidiaries and the 50% interest in IANY. The Company allocated \$80,000 of the proceeds to the sale of common shares. The Company had a book basis of \$414,231 related to the sale of the two wholly owned subsidiaries and IANY. The \$413,009 gain on sale of retail activity recorded for the three months ended December 31, 2001 was determined by deducting the book basis of \$414,231 from the sales proceeds of \$827,240.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

Commission revenues from retail private client securities brokerage activity amounted to \$401,212 and \$909,282 for the three months ended December 31, 2001 and 2000, respectively. Though certain costs associated with this activity are distinct and clearly identifiable; many are not and management has not historically operated, monitored or specifically allocated expenses to this activity in such a manner as to determine profitability by activity. In the same sale transaction, International Assets Holding Corporation agreed to sell its money management activity, which had revenues from management and investment advisory fees of \$6,292 and \$40,712 for the three months ended December 31, 2001 and 2000, respectively. The money management activity was primarily related and tied into the retail private client activity including the same sales staffing, operations and research support. It was separated for purposes of securities licensing and regulation.

(3) Reclassifications

Certain prior period amounts have been reclassified to conform to current quarter presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

9

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(4) Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share for the three months ended December 31, 2001 and 2000 have been computed by dividing net income (loss) by the weighted average number of common shares outstanding.

Diluted earnings per share for the three months ended December 31, 2001 has been computed by dividing net income by the weighted average number of common shares and dilutive potential common shares outstanding. The weighted average number of net common shares that would be issued upon the exercise of dilutive options, assuming the proceeds are used to repurchase shares pursuant to the treasury stock method, for the three months ended December 31, 2001, is 602 shares. Options to purchase 532,434 shares of common stock were excluded from the calculation of diluted earnings per share for the three months ended December 31, 2001, because their exercise prices exceeded the average market price of common shares for the period.

Diluted loss per share for the three months ended December 31, 2000 is the same as the basic loss per share because of the anti-dilutive impact of the potential common shares, due to the net loss for each of the periods. No options to purchase shares of common stock were considered in the calculation of diluted loss per share for the three months ended December 31, 2000 because of the anti-dilutive impact of the potential common shares, due to the net loss for the period.

For the Three Months Ended December 31,

2001

2000

Diluted Earnings (Loss) Per Share

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

Numerator:		
Net income (loss)	\$ 102,681	\$ (596,435)
Denominator:		
Weighted average number of common shares outstanding	2,310,898	2,215,035
Weighted average number of net common shares that would be issued upon exercise of dilutive options assuming the proceeds are used to repurchase shares pursuant to the treasury stock method.	602	-
Weighted average number of common shares and dilutive potential common shares outstanding	<u>2,311,500</u>	<u>2,215,035</u>
Diluted earnings (loss) per share	\$.04	\$ (0.27)

10

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(5) Securities Owned and Securities Sold, But Not Yet Purchased, at market value

Securities owned and Securities sold, but not yet purchased at December 31, 2001 and September 30, 2001 consist of trading and investment securities at quoted market values as follows:

	Owned	Sold, but not yet purchased
	-----	-----
December 31, 2001:		
Common stock and American Depositary Receipts	886,598	678
Foreign ordinary stock paired with its respective American Depositary Receipt	5,946,648	5,941
Corporate and municipal bonds	53,234	
Foreign government obligations	2,480	
Unit investment trusts, mutual funds and other investments	126,024	
Total	<u>\$ 7,014,984</u>	<u>6,619</u>
September 30, 2001:		
Common stock and American Depositary Receipts	1,203,294	694
Foreign ordinary stock paired with its respective American Depositary Receipt	4,618,006	4,619
Corporate and municipal bonds	68,949	
Foreign government obligations	3,954	
Unit investment trusts, mutual funds and other investments	117,736	
Total	<u>\$ 6,011,939</u>	<u>5,313</u>

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

(6) Receivable From and Payable to Clearing Organization

Amounts receivable from and payable to clearing organization at December 31, 2001 and September 30, 2001 consist of the following:

	Receivable -----	Payable -----
December 31, 2001:		
Open transactions, net	\$ 147,086	-
Clearing fees and related charges payable	-	18,772
	-----	-----
	\$ 147,086	18,772
	=====	=====
September 30, 2001:		
Open transactions, net	\$ 926,703	-
Clearing fees and related charges payable	-	23,722
Commission income receivable	31,783	-
	-----	-----
	\$ 958,486	23,722
	=====	=====

As these amounts are short-term in nature, the carrying amount is a reasonable estimate of fair value.

11

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(7) Leases

Until January 31, 2002 the Company occupied leased office space of approximately 13,815 square feet at 250 Park Avenue South, Winter Park, Florida. The expiration date of the office lease was May 31, 2001. The Company had received two extensions from the landlord to remain in the Winter Park location until December 31, 2001, on a month-to-month basis. The Company occupied the Winter Park space during the month of January 2002 under the terms of the hold-over provision in the lease.

The Company has executed a new lease for office space of approximately 5,100 square feet at 220 E. Central Parkway, Altamonte Springs, Florida. The commencement date was February 1, 2002, with six months free rent, and a seven-year term to July 31, 2009.

The Company is obligated under various noncancelable operating leases for the rental of its office facilities and certain office equipment. Rent expense associated with operating leases amounted to \$20,737 and \$96,082 for the three months ended December 31, 2001, and 2000, respectively. The future minimum lease payments under noncancelable operating leases are as follows:

Fiscal Year (12 month period) Ending September 30,

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

2002	83,200
2003	150,000
2004	128,900
2005	128,900
2006	129,200
Thereafter	318,300

Total future minimum lease payments \$938,500

(8) Stock Option Plan

During the three months ended December 31, 2001, 140,000 options were granted to employees and directors. In addition, 251,675 options were forfeited due to the termination of former employees of the Company or its subsidiaries. The total options forfeited included approximately 172,000 options related to former employees that were part of the sale of the retail brokerage operation. As of December 31, 2001 the Company had 552,434 options outstanding. As further described in footnote 11, an additional 22,000 options were issued on January 3, 2002.

12

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

Incentive Stock Options (Granted during the three months ended
December 31, 2001)

Options Granted	Grant Date	Exercise Price	Expiration Date	Exercisable
50,000	10/05/01	\$0.90	10/05/11	(a)
25,000	10/05/01	\$0.99	10/05/11	(a)
20,000	12/22/01	\$0.60	12/22/11	(a)
95,000				

Nonqualified Stock Options (Granted during the three months ended
December 31, 2001)

Options Granted	Grant Date	Exercise Price	Expiration Date	Exercisable
45,000	10/05/01	\$0.90	10/05/11	(a)

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

- (a) 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.

As the strike price on the date of grant for each option was equal to the fair market value of a share of common stock on that date, the Company did not recognize any compensation cost associated with such grants.

(9) Commitments and Contingent Liabilities

The Company is party to certain litigation as of December 31, 2001, which relates primarily to matters arising in the ordinary course of business. Management of the Company anticipates that the final resolution of these items will not have a material adverse effect on the Company's consolidated financial statements.

(10) Subsequent Events

On January 3, 2002 the Company issued the following stock options.

Incentive Stock Options

Options Granted -----	Grant Date -----	Exercise Price -----	Expiration Date ----	Exercisable -----
22,000	01/03/02	\$0.65	01/03/12	(a)

- (a) Exercisable at 33.3% after year one, 33.3% after year two and 33.4% after year three.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Certain statements in this discussion may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate and securities

13

market fluctuations, competition from within and from outside the investment brokerage industry, new products and services in the investment brokerage industry, changing trends in customer profiles and changes in laws and regulation applicable to the Company. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurances that the actual results, performance or achievement of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

The Company's principal operating activities, market-making and trading in international securities are highly competitive and extremely volatile. The earnings of the Company are subject to wide fluctuations since many factors over which the Company has little or no control, particularly the overall volume of trading and the volatility and general level of market prices, may significantly affect its operations.

Results of Operations:

On December 13, 2001 the Company sold its full service private client retail brokerage and money management activities. Accordingly, these activities will no longer be a source of revenues or expense for the Company after December 13, 2001. While the revenues (commissions and management and investment advisory fees) and certain costs associated with the business activities which have been sold are readily identifiable, many costs associated with these activities are not. The costs that are not identifiable were included in prior legal entity financial statements combined with other business activities that were operated together for previous strategic, regulatory and synergistic purposes.

The Company has reported a gain on the sale of retail activity of \$413,009 for the three months ended December 31, 2001. The gain is based on sale proceeds of \$827,240 less the book cost basis of \$414,231, for the transaction costs and for the book value of the assets that were included in the sale of this business activity.

As of December 31, 2001 the Company had 21 full time employees. All of these employees devote 100% of their business time to the Company with the exception of three employees that are presently engaged in a cost sharing arrangement with the new owners of International Assets Advisory, LLC.

Three Months Ended December 31, 2001 as Compared to
the Three Months Ended December 31, 2000

The Company's revenues were derived primarily from trading revenue (net dealer inventory and investment gains) as well as commissions earned on the sale of securities. For the three months ended December 31, 2001, 70% of the Company's revenues were derived from trading revenue and 28% of revenues were derived from commissions. Total revenues increased 3% to \$1,458,011 for the three months ended December 31, 2001 from \$1,420,272 for the same period in 2000.

14

Trading revenue (net dealer inventory and investment gains) increased by approximately 154% to \$1,019,755 for the three months ended December 31, 2001 from \$402,217 in 2000. This increase in trading revenue was due in large measure to our trading department's ongoing efforts to provide reliable market making for our trading clients with high quality customer service and trade execution in the international securities trading market. The Company has been successful in developing new clients as well as retention of existing trading clients.

Trading revenues for the quarter ended December 31, 2000 were reduced from prior levels due to the complete shutdown and loss of trading revenue for the period December 19, 2000 until December 27, 2000. The increase in trading revenues for the quarter ended December 31, 2001 comes after the Company had to rehire and rebuild the entire trading department since the disruption of the Company's trading operations caused by the abrupt departure of the Company's head of capital markets and his related recruitment of the entire trading department to his own firm in December

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

2000. This matter was previously discussed in the Company's 10-QSB for the period ended December 31, 2000 as well as its Form 8-K filed as of December 29, 2000.

Commission revenues decreased by approximately 56% to \$401,212 for the quarter ended December 31, 2001 from \$909,282 in 2000. Commission revenues for the quarter ended December 31, 2001 include commissions earned for the period October 1, 2001 through December 13, 2001. On December 13, 2001 the Company sold its membership interests in International Assets Advisory, LLC. These commission revenues will no longer be a source of revenue for the Company after December 13, 2001 due to the sale of this business.

Revenues from management and investment advisory fees decreased by approximately 85% to \$6,292 for the three months ended December 31, 2001. These revenues from management and investment advisory fees will no longer be a source of revenues for the Company after December 13, 2001 due to the sale of this business.

Interest and dividend revenue decreased by 64% to \$28,936 for the three months ended December 31, 2001 from \$79,719 in 2000. This decrease is primarily due to lower balances of interest producing assets, including money market balances and fixed income investments as well as decreased interest returns on these short-term liquid assets during the December 2001 quarter compared to 2000.

Loss from joint venture was \$0 for the quarter ended December 31, 2001 compared to \$9,872 for 2000. The loss from joint venture ended in March 2001 when the Company wrote off its investment in joint venture in accordance with the equity method of accounting. The loss from the Company's joint venture represented the Company's 50% share of the operating loss from the activity of International Assets New York, LLC, a 50/50 joint venture with Lakeside Investments, LLC of New York. On December 13, 2001 the Company's interest in International Assets New York, LLC was sold.

15

The major expenses incurred by the Company relate to direct costs of its securities operations such as compensation and benefits, clearing and related expense, occupancy and equipment rental expense and technology expense. Total expenses decreased by approximately 27% to \$1,701,138 in the three months ended December 31, 2001, from \$2,344,213 for the same period in 2000. This decrease in total expenses is mainly related to reductions in compensation and benefits, promotions, communications, professional fees, technology and other operating expenses. The decrease in total expenses reflects the anticipated restructuring related to the sale of the retail brokerage activity and the related cost reductions the Company began to implement in August 2001.

Compensation and benefits expense decreased by \$412,306 or 36% to \$733,579 for the three months ended December 31, 2001 from \$1,145,885 in 2000 due to lower commission expense caused by lower commission revenues and a decrease in base salaries due to an overall reduction in the number of employees. Included in the total \$733,579 compensation and benefits expense for 2001 is \$165,854 related to commission expense that will no longer be an ongoing expense for the Company after December 13, 2001, due to the sale of the related retail private client activity. Additional expense reductions are also currently expected to result from decreased administrative salaries and fringe benefits expense due to the reductions in headcount related to the sale on December 13, 2001.

Clearing and related expenses increased 48% to \$439,942 in the three months

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

ended December 31, 2001, up from \$298,265 in 2000. Approximately half of this increase is related to an increase in the clearing cost related to the volume increase in the number of trades processed. The other half of the increase is related to increased costs for American Depositary Receipt (ADR) conversions due to the necessity of these conversions as a trading strategy to facilitate liquidity within the Company's overall investment portfolio. Also, included in the total \$439,942 clearing and related expenses for 2001 is \$34,693 related to retail private client activities that will no longer be an ongoing expense for the Company after December 13, 2001, due to the sale of the related activity.

Total promotion expense decreased by approximately 86% to \$36,787 for the three months ended December 31, 2001 compared to \$268,566 for 2000. This decrease is primarily due to decreases in retail promotional activity, public relations, and travel and entertainment due to cost saving initiatives undertaken. Future promotion expense will be determined by incremental promotions that are undertaken to support the Company's current and ongoing operations.

Occupancy and equipment rental expense increased by 7% to \$138,935 for the three months ended December 31, 2001 from \$129,463 in 2000. Increases in rental expense were related to the Company's leased office space. As of February 1, 2002 the Company relocated to a new, smaller and less costly leased office space. Offsetting a portion of this savings will be the need for two new equipment leases

16

for phone systems and network connectivity. The net savings from this relocation are currently anticipated to be over \$150,000 on an annualized basis.

Communications expense decreased by \$29,813, or 42% to \$41,805 for the three months ended December 31, 2001 from \$71,618 for the three months ended December 31, 2000. This decrease is due to reduced telephone, postage and printing expense related to the corresponding decreases in operating revenue. Management currently anticipates that there will be additional decreases in communications expense after December 2001 due to the sale of the retail private client activity on December 13, 2001.

Professional fees decreased by approximately 32% to \$46,834 for the three months ended December 31, 2001 as compared to \$69,144 in 2000.

Depreciation and amortization expense increased approximately 22% to \$111,578 for the three months ended December 31, 2001 as compared to \$91,580 in 2000. The increase in 2001 is due to higher amortization expense associated with capitalized system development costs for INTLTRADER.COM.

Technology expense was down approximately 39% to \$37,535 for the three months ended December 31, 2001 from \$61,463 in 2000 as new technology enhancements to increase the quote system and trading platform's capacity for future growth were primarily completed by December 2000 for INTLTRADER.COM.

Other operating expenses decreased approximately 56% to \$70,378 for the three months ended December 31, 2001 as compared to \$160,091 in 2000.

The Company has reported a loss before gain on sale of retail activity and income taxes of \$243,127 for the three months ended December 31, 2001 compared to a loss of \$923,941 for 2000. The gain on the sale of retail activity is \$413,009 for the three months ended December 31, 2001. The gain

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

is based on sales proceeds of \$827,240 less the book cost basis of \$414,231, for the transaction costs and the book value of the assets that were included in the sale of this business activity.

The Company has reported net income of \$102,681 for the three months ended December 31, 2001 compared to a net loss of \$596,435 for the three months ended December 31, 2000.

Liquidity and Capital Resources

Substantial portions of the Company's assets are liquid with the majority of the assets consisting of securities inventories which fluctuate depending on the levels of customer business. At December 31, 2001, approximately 80% of the Company's assets consisted of cash, cash equivalents and marketable securities. All assets are financed by the Company's equity capital, short-term borrowings from securities sold, not yet purchased and other payables.

17

Distributions to the Company from its registered broker-dealer subsidiary, the Company's primary source of liquidity, are restricted as to amounts which may be paid by applicable law and regulations. The Net Capital Rules are the primary regulatory restrictions regarding capital resources. The Company's rights to participate in the assets of any subsidiary are also subject to prior claims of the subsidiary's creditors, including customers of the broker-dealer subsidiary.

INTLTRADER.COM, a wholly owned registered securities broker subsidiary, is subject to the requirements of the SEC and the NASD relating to liquidity and net capital levels. At December 31, 2001, INTLTRADER.COM had adjusted net capital of \$1,673,927, which was \$1,336,927 in excess of its minimum net capital requirement at that date.

The Company's total assets and liabilities and the individual components thereof 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 December 31, 2001 and September 30, 2001, were \$11,521,519 and \$10,733,698, respectively. The Company's operating activities generate or utilize cash resulting from net income or loss earned during the period and fluctuations in its assets and liabilities. The most significant fluctuations have resulted from changes in the level of customer activity and securities inventory changes 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 the operating subsidiaries. The excess regulatory net capital of the Company's broker-dealer subsidiary may fluctuate throughout the year reflecting changes in inventory levels and/or composition and balance sheet components.

In the opinion of management, the Company's existing capital and cash flow from operations will be adequate to meet the Company's capital needs for at least the next twelve months in light of known and reasonably estimated trends. At this time additional private financing is being sought for trading capital, technology, staffing and promotional efforts based upon the Company's strategic plan. This plan has an operational emphasis on technology driven international securities order flow. In conjunction with the Company's strategic plan, the Company has engaged UBS Warburg as its financial advisor to arrange and negotiate a private placement of securities

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

issued by the Company or to find a strategic partner. UBS Warburg has been engaged to use its best efforts in connection with a private placement and does not have any obligation to purchase any securities issued by the Company or to provide financing of any kind to the Company.

CASH FLOWS

For the three months ended December 31, 2001, cash and cash equivalents increased by \$1,108,126 since the end of the last fiscal year ending September 30, 2001. Funds provided by operating activities were \$613,588 for the period ending December 31,

18

2001. During the three months ended December 31, 2001, the Company had cash provided by investing activities of \$414,538. Financing activities included \$80,000 provided by the sale of common stock with the sale of the retail brokerage activity.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to certain litigation as of December 31, 2001, which relates primarily to matters arising in the ordinary course of business. Management of the Company anticipates that the final resolution of these items will not have a material adverse effect on the Company's consolidated financial statements.

On January 4, 2001 the Company filed an arbitration matter with the NASD regarding several breaches (including but not limited to raiding, unfair competition and misappropriation of trade secrets) related to the sudden departure, on December 19, 2000, of the head of the foreign trading desk and his related recruitment of the entire Company's trading staff. This arbitration claim was filed against the broker/dealer who became the employer of the recruited employees, two principals of the broker/dealer, two affiliated securities firms of the broker/dealer and four principals of the parent firm. On March 14, 2001 the broker/dealer who became the employer and two of its principals responded and filed a counterclaim against the Company. On March 19, 2001 the two affiliated securities firms of the broker/dealer also filed a counterclaim as well as a claim for attorney's fees. The Company disputes the counterclaims and intends to vigorously defend them. The NASD arbitration for this matter has been scheduled for the week beginning April 29, 2002.

The foregoing discussion contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve various risks and uncertainties with respect to current legal proceedings. Although the Company believes that its expectation with respect to the forward-looking statements is based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurances that the actual results, performance or achievement of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

19

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a). Exhibits

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10QSB

None

b). Form 8-K

The Company filed one report on Form 8-K during the three months ended December 31, 2001. On December 27, 2001 the Company announced on Form 8-K that the Company sold, on December 13, 2001, its two wholly-owned subsidiaries, International Assets Advisory, LLC and Global Assets Advisors, LLC, and its 50% membership interest in International Assets New York, LLC to Lakeside Assets, LLC. In connection with the disposition transaction, Lakeside Assets, LLC also purchased 80,000 shares of the Company's common stock.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL ASSETS HOLDING CORPORATION

Date 02/18/2002

/s/ Diego J. Veitia

Diego J. Veitia
President and Chief Executive Officer

Date 02/18/2002

/s/ Jonathan C. Hinz

Jonathan C. Hinz
Chief Financial Officer and Treasurer