INTERNATIONAL ASSETS HOLDING CORP
Form 10QSB
February 14, 2006

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, 2005

Commission File Number 000-23554

INTERNATIONAL ASSETS HOLDING CORPORATION

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

Delaware	**59-2921318**
(State of incorporation)	**(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)

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 x No ¨.

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

The issuer had 7,564,886 outstanding shares of common stock as of February 10, 2006.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	December 31, 2005	September 30, 2005
	(unaudited)	
Assets		
Cash	$ 15,035,975	$ 6,614,476
Cash and cash equivalents deposited with brokers, dealers and clearing organization	8,620,068	13,627,410
Receivable from brokers, dealers and clearing organization	8,852,981	3,609,560
Receivable from customers	15,545,362	15,648,128
Financial instruments owned, at fair value	50,233,676	71,376,387
Physical commodities inventory, at cost	1,035,574	
Trust certificates, at cost	24,539,348	24,539,348
Investment in asset management joint venture	763,662	676,660
Investment in INTL Consilium sponsored fund, at fair value	3,319,998	3,270,431
Deferred income tax asset, net	90,942	82,285
Fixed assets and leasehold improvements at cost, net of accumulated depreciation and amortization	595,301	563,995
Intangible assets, net of accumulated amortization	204,167	233,333
Goodwill	6,062,883	6,053,423
Other assets	1,030,872	723,716
Total assets	$ 135,930,809	$ 147,019,152
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 142,980	$ 189,609
Financial instruments sold, not yet purchased, at fair value	71,411,248	92,015,989
Payable to banks under loans and overdrafts	18,618,898	12,847,382
Payable to brokers, dealers and clearing organization	6,155,418	4,372,162
Payable to customers	4,193,848	3,205,989
Accrued compensation and benefits	1,798,927	2,059,189
Accrued expenses	430,884	418,115
Income taxes payable	1,276,192	1,152,521
Deferred acquisition consideration payable	1,962,160	2,352,700
Other liabilities	268,700	333,592
Total liabilities	106,259,255	118,947,248
Stockholders equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued or outstanding		
Common stock, $.01 par value. Authorized 12,000,000 shares; issued and outstanding 7,457,253 shares at December 31, 2005 and 7,425,936 shares at September 30, 2005	74,572	74,259
Additional paid-in capital	28,603,859	28,050,077
Retained earnings (deficit)	993,123	(52,432)
Total stockholders equity	29,671,554	28,071,904
Total liabilities and stockholders equity	$ 135,930,809	$ 147,019,152

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

For the Three Months ended December 31, 2005 and 2004

(Unaudited)

	2005	2004
		as restated
Revenues:		
Sales of physical commodities	$ 11,812,908	$
Net dealer inventory and investment gains	6,941,887	5,840,271
Equity in income from asset management joint venture	87,002	39,358
Other	207,680	205,670
Total revenues	19,049,477	6,085,299
Cost of sales of physical commodities	10,719,576	
Operating revenues	8,329,901	6,085,299
Interest expense	528,504	176,912
Net revenues	7,801,397	5,908,387
Non-interest expenses:		
Compensation and benefits	3,398,992	2,608,481
Clearing and related expenses	1,606,908	1,429,839
Occupancy and equipment rental	253,727	173,135
Professional fees	164,481	121,938
Depreciation and amortization	89,132	74,446
Business development	170,931	178,009
Insurance	214,354	132,407
Other	220,722	196,201
Total non-interest expenses	6,119,247	4,914,456
Income before income tax expense and minority interest	1,682,150	993,931
Income tax expense	636,595	375,327
Income before minority interest	1,045,555	618,604
Minority interest in income of consolidated entity		6,437
Net income	$ 1,045,555	$ 612,167
Earnings per share:		
Basic	$ 0.14	$ 0.09
Diluted	$ 0.13	$ 0.08
Weighted average number of common shares outstanding:		
Basic	7,438,507	7,085,836

Diluted	8,127,099	7,998,299

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the Three Months Ended December 31, 2005 and 2004

(Unaudited)

	2005	2004
		as restated
Cash flows from operating activities:		
Net income	$ 1,045,555	$ 612,167
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and loss on disposals	89,132	74,446
Deferred income taxes	(8,657)	(78,532)
Equity in income from asset management joint venture	(87,002)	(39,358)
Amortization of stock option expense for consultants	2,846	
Unrealized investment gain from INTL Consilium Sponsored Fund	(49,567)	(45,310)
Changes in operating assets and liabilities:		
Receivable from brokers, dealers and clearing organization	(5,243,421)	(11,400,466)
Receivable from customers	238,057	(624,813)
Financial instruments owned, at fair value	21,142,711	1,672,153
Physical commodities inventory, at cost	(1,035,574)	
Other assets	(307,156)	(220,980)
Financial instruments sold, not yet purchased, at fair value	(20,740,032)	2,714,992
Accounts payable	(46,629)	(135,890)
Payable to brokers, dealers and clearing organization	1,783,256	(1,478,208)
Payable to customers	987,859	11,468,320
Accrued compensation and benefits	(260,262)	(167,271)
Accrued expenses	12,769	(123,979)
Income taxes payable	484,452	380,539
Other liabilities	(64,892)	337,298
Net cash provided by (used in) operating activities	(2,056,555)	2,945,108
Cash flows from investing activities:		
Payments related to acqusition of INTL Global Currencies	(400,000)	
Purchase of fixed assets and leasehold improvements	(91,272)	(62,318)
Net cash used in investing activities	(491,272)	(62,318)
Cash flows from financing activities:		
Payable to banks under loans and overdrafts	5,771,516	(3,943,753)
Exercise of stock options	190,468	71,872
Net cash provided by (used in) financing activities	5,961,984	(3,871,881)
Net increase (decrease) in cash and cash equivalents	3,414,157	(989,091)
Cash and cash equivalents at beginning of period	20,241,886	21,084,467
Cash and cash equivalents at end of period	$ 23,656,043	$ 20,095,376
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 515,043	$ 176,912

Income taxes paid	$ 150,000	$ 73,320
Supplemental disclosure of noncash investing activities:		
Assumption of trust certificates, at cost, net of partial releases, with related financial instruments sold, not yet purchased, at market value and receivable from customers	$	$ 29,739,902

See accompanying notes to condensed consolidated financial statements.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

December 31, 2005

(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 read in conjunction with the Company s audited consolidated financial statements for the fiscal year ended September 30, 2005, contained in the Company s Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005 filed with the Securities and Exchange Commission.

Revenues Reported on Gross Basis

In accordance with the guidelines provided in EITF Issue No. 99-19, the Company has determined that revenues of the Company s physical base metals trading business, which commenced in October 2005, should be reported on a gross basis, with the corresponding cost of sales shown separately. This matter is discussed further in note 18, under the heading Commodities Trading .

Current Subsidiaries and Operations

As used in this Form 10-QSB, the term Company refers, unless the context requires otherwise, to International Assets Holding Corporation and its subsidiaries on a consolidated basis. The Company s subsidiaries are INTL Trading, Inc. (INTL Trading), INTL Commodities, Inc. (INTL Commodities), INTL Assets, Inc. (INTL Assets), INTL Holding (U.K.) Limited, INTL Global Currencies Limited (INTL Global Currencies) and IAHC (Bermuda) Ltd. The Company also owns a 50.1% interest in INTL Consilium, LLC (INTL Consilium), an investment advisory firm that focuses on the emerging market asset class. INTL Consilium is accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company operates as a wholesale international financial firm in five business segments international equities market making, international debt capital markets, foreign exchange trading, commodities trading and asset management. The majority of the trading and market-making activities are undertaken as principal in order to provide our institutional customers with efficient execution and liquidity in these markets. Periodically the Company may take proprietary positions in these markets. 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;

trades actively in a wide variety of international debt instruments and arranges international debt transactions;

trades select illiquid currencies of developing countries;

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

provides a full range of trading and hedging capabilities in select precious metals and base metals to producers, refiners, recyclers and consumers, including trading of physical metals; and

through INTL Consilium, provides investment advisory services.

(2) Restatement

In May 2005, the Company restated its financial statements for, *inter alia*, the quarter ended December 31, 2004. The restatement, as it affected the results for the quarter ended December 31, 2004, related to the accounting for certain operating leases. Previously, while the benefits of certain periods of free or reduced rent had been spread across the lease terms, the Company had not properly allocated scheduled rent escalations across the lease terms. The restatement increased rent expense to spread scheduled rent escalations on a straight-line basis over the contractual lease terms, in accordance with FAS 13, *Accounting for Leases*. As a result of this restatement, rental expense for the fiscal quarter ended December 31, 2004 was increased by $7,911.

The restatement had no effect on cash flow for the quarter ended December 31, 2004. The table below gives a comparison between the affected amounts as previously reported and as restated.

	Quarter Ended Dec. 31, 2004 previously reported	Quarter Ended Dec. 31, 2004 restatement adjustment	Quarter Ended Dec. 31, 2004 as restated
Occupancy and equipment rental	165,224	7,911	173,135
Non-interest expenses	4,906,545	7,911	4,914,456
Income (loss) before income taxes	1,001,842	(7,911)	993,931
Income tax expense	378,550	(3,223)	375,327
Income before minority interest	623,292	(4,688)	618,604
Net income (loss)	616,855	(4,688)	612,167
Net income (loss) per share - basic	$ 0.09		$ 0.09
Net income (loss) per share - diluted	$ 0.08		$ 0.08

(3) Stock-Based Employee Compensation

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

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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

For the three months ended December 31,		**2005**	**2004**
			as restated
Net income	As reported	$ 1,045,555	$ 612,167
Pro forma option compensation expense	Pro forma	$ (156,433)	$ (117,923)
Net income	Pro forma	$ 889,122	$ 494,244
Basic earnings per share	As reported	$ 0.14	$ 0.09
	Pro forma	$ 0.12	$ 0.07
Diluted earnings per share	As reported	$ 0.13	$ 0.08
	Pro forma	$ 0.11	$ 0.06

(4) <u>Effects of Recent Accounting Pronouncements and Interpretations</u>

There have been no accounting pronouncements or interpretations since the date of preparation of the Company s consolidated financial statements for the fiscal year ended September 30, 2005 that have had an effect on the Company.

(5) <u>Basic and Diluted Earnings per Share</u>

Basic earnings per share for the three months ended December 31, 2005 and 2004 have been computed by dividing net income by the weighted average number of common shares outstanding.

Options to purchase 126,750 and 53,600 shares of common stock were excluded from the calculation of diluted earnings per share for the three months ended December 31, 2005 and 2004, respectively, because the exercise prices of these options exceeded the average market price of the common stock for the period (i.e. they were anti-dilutive).

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

For the three months ended December 31,	**2005**	**2004**
		as restated
Diluted earnings per share		
Numerator:		
Net income	$ 1,045,555	$ 612,167
Denominator:		
Weighted average number of:		
Common shares outstanding	7,438,507	7,085,836
Dilutive potential common shares outstanding	688,592	912,463
	8,127,099	7,998,299
Diluted earnings per share	$ 0.13	$ 0.08

(6) Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentation.

(7) Investment in Asset Management Joint Venture

The Company is the owner of a 50.1% interest in INTL Consilium, with the remaining 49.9% owned by Consilium Investment Capital, Inc. (CIC). The Company is entitled to receive 50.1% of the profits and losses of INTL Consilium. The Company and CIC are each entitled to appoint two of the four directors of INTL Consilium. Two principals of CIC actively manage the business of INTL Consilium. The Company has assessed the joint venture using the consolidation criteria in FIN 46R and concluded that INTL Consilium is not a variable interest entity. Accordingly, the Company assessed the consolidation criteria established by EITF 96-16 by reviewing the voting rights of each investor in INTL Consilium and, due to certain specified operating matters that require board approval, concluded that its investment in INTL Consilium should be accounted for utilizing the equity method of accounting.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

For the quarters ended December 31, 2005 and 2004 the Company recorded revenue of $87,002 and $39,358, respectively, representing the Company s equity in the net income of INTL Consilium. Below are the unaudited condensed statements of operations of INTL Consilium for the quarters ended December 31, 2005 and 2004, and the condensed balance sheets at December 31, 2005 and September 30, 2005.

INTL Consilium, LLC

Condensed Statements of Operations

For the quarters ended December 31	**2005**	**2004**
Total revenues	$ 485,612	$ 271,983
Expenses	311,954	193,424
Net income	$ 173,658	$ 78,559

Condensed Balance Sheets

	December 31, 2005	**September 30, 2005**
Assets		
Cash	$ 230,313	$ 213,863
Management and investment advisory fees receivable	731,191	574,019
Investment in INTL Consilium sponsored fund	302,812	297,193
Property and equipment, net	33,991	27,166
Other assets	62,717	33,437
Total assets	$ 1,361,024	$ 1,145,678
Liabilities and Members Equity		
Liabilities:		
Accounts payable	$ 79,106	$ 34,955
Accrued compensation and benefits	155,645	158,109
Total liabilities	234,751	193,064
Members equity	1,126,273	952,614
Total liabilities and members equity	$ 1,361,024	$ 1,145,678

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(8) Goodwill and Intangible Assets

The Company acquired the foreign exchange business of INTL Global Currencies Limited in 2004. The purchase price paid by the Company for the acquisition exceeded the net asset value received by $2,488,565. Of this amount, $350,000 was allocated to intangible assets and the balance of $2,138,565 was treated as goodwill. The Company has accrued additional goodwill of $3,924,318 under the earn-out provisions of the purchase agreement. As of December 31, 2005, the Company has paid $1,962,158 of the additional goodwill. The balance of the additional goodwill accrual of $1,962,160 is reported as deferred acquisition consideration payable in the Company s consolidated balance sheets.

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

Cash premium paid to sellers	$ 1,000,000
Cash paid for net assets received	3,577,375
Negotiation differences for fixed assets and stamp duty	(49,982)
Legal and accounting fees	67,047
Value of 150,000 common shares at $9.81 per share	1,471,500
Total payments of cash and shares	6,065,940
Less: Fair value of net assets received	3,577,375
Less: Intangible assets identified by independent valuation	350,000
Initial goodwill	2,138,565
Additional goodwill under earnout	3,924,318
Total goodwill	$ 6,062,883

The additional goodwill will be calculated for each period as each earn-out payment is earned and an adjustment will be recorded to goodwill. The first two earn-out installments of $1,562,158 and $400,000 were paid in August 2005 and November 2005, respectively. The third earn-out installment of $400,000 is due on or by March 1, 2006. Four additional minimum payments of $390,540 each are due on or by May 30, 2006, August 29, 2006, November 29, 2006 and March 1, 2007. These quarterly payments have a maximum ceiling of $400,000. Further payments may be due, calculated at 10% of revenues exceeding $10,000,000 in the annual period ending June 30, 2006, and 10% of revenue exceeding $5,000,000 in the six month period ending December 31, 2006.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

The intangible assets identified by an independent valuation related to the INTL Global Currencies acquisition are as follows:

	December 31, 2005	September 30, 2005
Intangible assets		
Noncompete agreement	$ 150,000	$ 150,000
Trade name	100,000	100,000
Customer base	100,000	100,000
Total intangible assets	350,000	350,000
Less: Amortization of intangible assets	145,833	116,667
Intangible assets, net	$ 204,167	$ 233,333

The intangible assets are amortized over their useful lives of three years.

(9) Related Party Transactions

One of the Company s principal shareholders has made an investment, valued at approximately $97,000,000 as of December 31, 2005, in a hedge fund managed by INTL Consilium. An executive of this shareholder is a director of the Company.

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

Financial instruments owned and financial instruments sold, not yet purchased, at December 31, 2005 and September 30, 2005 consisted of trading and investment financial instruments at market values as follows:

	Owned	Sold, not yet purchased
December 31, 2005:		
Common stock and American Depository Receipts	$ 3,196,748	$ 2,913,188
Foreign ordinary stocks, paired with their respective American Depository Receipts	18,124,272	18,202,023
Corporate and municipal bonds	4,355,940	279,594
Foreign government obligations	842,594	1,594,343
Negotiable instruments (promissory notes)	7,812,476	
U.S. Treasury Bonds under total return swap transactions		24,693,379
Options and futures	13,135,097	13,227,471
Commodities	2,736,100	10,501,250

Other investments	30,449	
	$ 50,233,676	$ 71,411,248

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

	Owned	Sold, not yet purchased
September 30, 2005:		
Common stock and American Depository Receipts	$ 2,638,594	$ 4,155,632
Foreign ordinary stocks, paired with their respective American Depository Receipts	28,707,227	28,918,901
Corporate and municipal bonds	3,872,620	254,916
Foreign government obligations	1,183,256	2,479,050
Negotiable instruments (promissory notes)	7,776,735	
U.S. Treasury Bonds under total return swap transactions		24,558,088
Options and futures	3,338,381	3,181,690
Commodities	23,822,912	28,450,818
U.S. Government obligations		16,894
Other investments	36,662	
	$ 71,376,387	$ 92,015,989

(11) <u>Physical Commodities Inventory</u>

The Company commenced physical base metals trading activities during the quarter ended December 31, 2005 and at the end of this quarter had physical base metals inventory of $1,035,574. Physical commodities inventory is valued at the lower of cost or market value, determined using the specific identification weighted average price method.

(12) <u>Trust Certificates and Total Return Swap</u>

During the quarter ended December 31, 2004, the Company entered into a series of financial transactions (the Transactions) with an unaffiliated financial institution in Latin America for a transaction fee. These Transactions involved three distinct and simultaneous steps:

a) the acquisition by the Company of beneficial interests (Trust Interests) in certain trusts (the Trusts) in exchange for the assumption of a liability to deliver securities, at a transaction value of $29,739,902. This step did not require any prior purchase or delivery of securities by the Company. The Trusts were previously established by the financial institution to hold a variety of real estate assets;

b) the entry into a repurchase agreement under the terms of which the Company notionally repurchased these undelivered securities for cash, at a price of $29,739,902;

c) the entry into a total return swap (TRS) agreement.

i) Under the TRS agreement the Company received, on a notional basis, the cash amount of $29,739,902 as collateral for the potential liability of the financial institution to the Company.

ii) Receivables or payables arising from the TRS should leave the Company unaffected by any changes in the values of the Trust Interests or securities deliverable.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

iii) When the Transactions terminate in November 2007 the Company intends to sell the Trust Interests at their then prevailing market values. As part of the Transactions, the gain or loss arising from the change in market value of the Trust Interests will be passed to the financial institution.

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

The initial transaction value was $29,739,902. During September 2005 the Company sold Trust Interests for $5,200,554, the price at which they were acquired, and released a proportionate share of the securities referred to in b) above from the repurchase arrangement.

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

The net result is that the Company reports the effects of a) above as an increase in assets of $24,539,348 (represented by the Trust Interests), and the assumption of a liability to deliver securities. Over time, as the values of the Trust Interests and securities deliverable may change, the Company will experience equal and offsetting changes in the values of the TRS receivables or payables. Although the Transactions will temporarily increase the Company s assets and liabilities until termination, the Company expects that the only impact of the transactions on the Company s net cash flow will be the Company s receipt of fee revenue.

The total fees received and to be received on the Transactions, as well as the associated variable compensation payable, are spread on a straight-line basis over the terms of the Transactions. Non-refundable fees received but not yet recognized as revenue, amounting to $146,956, appear as a liability on the Condensed Consolidated Balance Sheets as at December 31, 2005 under Other liabilities . Non-recoverable costs incurred in connection with the Transactions but not yet recognized as expenses, amounting to $44,087, appear as an asset under Other assets at the same date.

(13) <u>Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk</u>

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer and proprietary trading in the foreign exchange and commodities trading business. The Company has sold financial instruments that it does not currently own and will therefore be obligated to purchase such financial instruments at a future date. The Company has recorded these obligations in the consolidated financial statements at December 31, 2005 at market values of the related financial instruments (totaling $71,411,248). The Company will incur losses if the market value of the financial instruments increases subsequent to December 31, 2005. The total of $71,411,248 includes $13,227,471 for options and futures contracts, which represent a liability of the Company based on their market value as of December 31, 2005.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

Listed below is the fair value of trading-related derivatives as of December 31, 2005 and September 30, 2005. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	December 31, 2005 Assets	December 31, 2005 Liabilities	September 30, 2005 Assets	September 30, 2005 Liabilities
Interest Rate Derivatives	$ 9,525	$	$ 29,525	$
Foreign Exchange Derivates	47,899	42,676	17,127	
Commodity Price Derivatives	13,077,673	13,184,795	3,291,729	3,181,690
Total	$ 13,135,097	$ 13,227,471	$ 3,338,381	$ 3,181,690

Options and futures contracts held by the Company result from its customer market-making and proprietary trading activities in the foreign exchange/commodities trading business segment. The Company assists its commodities clients in protecting the value of their future production (precious or base metals) by selling them put options on an OTC basis. The Company also provides its commodities clients with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by effecting offsetting OTC options with market counterparties or through the purchase or sale of commodities futures traded through the COMEX division of the New York Mercantile Exchange. The risk mitigation of offsetting options is not within the documented hedging designation requirements of FAS 133.

These derivative contracts are traded along with cash transactions because of the integrated nature of the markets for such products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies.

In the normal course of business, the Company purchases and sells financial instruments and foreign currency as either principal or agent on behalf of its customers. If either the customer or counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the market value of the financial instrument or foreign currency is different from the contract value of the transaction.

The majority of the Company s transactions and, consequently, the concentration of its credit exposure is with customers, broker-dealers and other financial institutions. These activities primarily involve collateralized and uncollateralized arrangements and may result in credit exposure in the event that the counterparty fails to meet its contractual obligations. The Company s exposure to credit risk can be directly impacted by volatile financial markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counterparties financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(14) Payable to Banks Under Loans and Overdrafts

At December 31, 2005, the Company had five lines of credit with three commercial banks totaling $45,000,000. Four of the credit facilities are secured by certain assets. Total interest expense related to these facilities was approximately $228,400 for the quarter ended December 31, 2005. The interest rate terms for these facilities range from 1.25% to 2.75% over the London Interbank Offered Rates (LIBOR) (approximately 4.3% at December 31, 2005).

In addition, the Company has a $5,000,000 line of credit with one commercial bank for the exclusive purpose of issuing letters of credit. This line of credit requires a 20% cash margin deposit and requires the security of the assets covered by the letter of credit. Letters of credit issued under this line of credit totaled $1,400,000 at December 31, 2005.

At December 31, 2005 the Company had the following credit facilities:

Maximum Amount	Borrowing at December 31, 2005	Security	Maturity
$10,000,000	$ 5,317,375	Certain foreign exchange assets	March 31, 2006
8,000,000	4,000,000	Unsecured	March 31, 2007
10,000,000		All assets of INTL Commodities	On demand
7,000,000	2,101,523	Certain commodities assets	On demand
10,000,000	7,200,000	Certain trade finance assets	On demand
$45,000,000	$ 18,618,898		

INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

At December 31, 2005 and September 30, 2005, the U.S. dollar equivalent of the components of the net borrowing under the overdraft facilities were as follows:

	December 31, 2005 Positive balance (overdraft) U.S. dollar equivalent	September 30, 2005 Positive balance (overdraft) U.S. dollar equivalent
Payable to Banks: banks:		
Lines of credit		
Australian Dollar	$	$ (10,298)
Danish Krone	(3,984)	(135,145)
Euro	(1,315,614)	(1,174,949)
Hong Kong Dollar	(102,145)	
Singapore Dollar	(12,868)	
South African Rand		(314,563)
Swiss Francs	(2,962,155)	(441,627)
United Kingdom Pound Sterling	(920,609)	
United States Dollar	(13,301,523)	(7,770,737)
Total payable under lines of credit	$ (18,618,898)	$ (9,847,319)
Overdraft facility with one U.S. Bank United States Dollar	$	$ (3,000,000)
Overdraft with other financial institutions Danish Krone		(63)
Overdraft subtotal	$	$ (3,000,063)
Total payable to banks under loans and overdrafts	$ (18,618,898)	$ (12,847,382)