INTERNATIONAL ASSETS HOLDING CORP
Form 10QSB/A
May 23, 2005
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U.S. Securities and Exchange Commission

Washington D.C. 20549

Form 10-QSB/A

(Amendment No. 1)

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

For the quarterly period ended December 31, 2004

Commission File Number 000-23554

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)

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 ¨.

The issuer had 7,272,319 outstanding shares of common stock as of February 11, 2005.

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RESTATEMENT

The Company is filing this Form 10-QSB/A to reflect the restatement of the Company s financial statements for the fiscal quarters ended December 31, 2003 and 2004. The restatement relates to the Company s accounting for: (a) the Company s office leases; (b) the beneficial conversion feature embedded in the $12,000,000 7% convertible notes issued by the Company in March 2004 and converted in August 2004; and (c) the effect on income tax of interest paid by the Company to the holders of the 7% convertible notes during fiscal 2004.

The restatement corrects an error in the application of accounting principles with respect to the accounting for certain office leases. In the past, while the benefits of certain periods of free or reduced rental have been spread across the lease terms, the Company has not properly allocated scheduled rent escalations across the lease terms. The restatement increases rent expense to spread scheduled rent escalations on a straight-line basis over the contractual lease terms. The restatement will increase rental expense for the fiscal quarters ended December 31, 2003 and 2004 by $2,526 and $7,911, respectively

The restatement also reflects a correction with respect to the accounting for the Company s issuance of $12,000,000 in convertible notes in March 2004 and the subsequent conversion of those notes into common stock in August 2004. At the time the conversion feature of these notes became effective, the fair value of the Company s common stock was greater than the conversion price of $5.75 per share. Under generally accepted accounting principles, the Company was required to account for this beneficial conversion feature, which was valued at $2,483,000, through the recording of an asset entitled debt discount and a corresponding increase in additional paid-in capital. The discount should have been amortized over the life of the notes and, upon conversion, the remaining balance of the discount should have been written off, with both charged to the consolidated statements of operations as interest expense. In August 2004, all of the notes were converted into shares of the Company s common stock. The Company has restated its financial statements for the fiscal year ended September 30, 2004 to address this issue. The restatement includes a change from the treasury method to the if-converted method for calculation of the dilutive effect of the convertible notes on earnings per share. This restatement has in turn required changes to the Company s balance sheets as of December 31, 2004 and September 30, 2004 contained in this Form 10-QSB.

Additionally, the Company had previously treated the interest paid to holders of the 7% notes for the period between their issuance in March 2004 and their conversion in August 2004 as deductible for income tax purposes. The Company has now concluded that there was insufficient certainty that the Internal Revenue Service would recognize this interest, amounting to $378,243, as deductible. The restatement adjusted for this by increasing the income tax expense by $154,096 for the year ended September 30, 2004 and increasing income taxes payable by a corresponding amount. This restatement has in turn required changes to the Company s balance sheets as of December 31, 2004 and September 30, 2004 contained in this Form 10-QSB.

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Unrelated to the restatements, the Company has also modified certain other items of its previously filed Form 10-QSB to provide additional disclosure. These modifications are contained in the following sections of this Form 10-QSB/A:

Item 1 Financial Statements

Notes to the Condensed Consolidated Financial Statements in notes

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Item 2 - Management s Discussion and Analysis or Plan of Operation

Acquisition of Foreign Exchange Business of Global Currencies Limited

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	December 31, 2004 as restated	September 30, 2004 as restated
Assets		
Cash	$ 5,251,059	$ 3,523,604
Cash and cash equivalents deposited with brokers, dealers and clearing organization	14,844,317	17,560,863
Receivable from brokers, dealers and clearing organization	19,099,916	7,699,450
Receivable from customers	12,983,225	12,358,412
Financial instruments owned, at market value	17,133,472	18,805,625
Trust certificates, at cost	29,739,902	
Income taxes receivable		
Investment in asset management joint venture	498,433	459,075
Investment in INTL Consilium sponsored fund	3,501,694	3,020,805
Deferred income tax asset, net	441,370	362,838
Fixed assets and leasehold improvements at cost, net of accumulated depreciation and amortization	482,062	465,023
Intangible assets, net of accumulated amortization of $29,167 at December 31, 2004	320,833	350,000
Goodwill	2,891,858	2,424,945
Other assets	882,621	661,641
Total assets	$ 108,070,762	$ 67,692,281
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable	$ 207,767	$ 343,657
Foreign currency sold, not yet purchased, at market value	4,479,207	2,829,597
Financial instruments sold, not yet purchased, at market value	44,697,526	12,310,543
Bank overdrafts	6,503,664	10,447,417
Payable to brokers, dealers and clearing organization	6,145,039	9,272,857
Payable to customers	16,201,414	4,665,183
Accrued compensation and benefits	1,934,784	2,102,055
Accrued expenses	438,284	562,263
Income taxes payable	414,864	224,396
Deferred acqusition consideration payable	753,293	286,380
Other liabilities	411,990	74,692
Total liabilities	82,187,832	43,119,040
Minority owners interest in consolidated entity	435,579	
Commitments and contingent liabilities		
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 7,110,951 shares at December 31, 2004 and 7,069,076 shares at September 30, 2004	71,110	70,691
Additional paid-in capital	27,430,141	27,168,617
Retained deficit	(2,053,900)	(2,666,067)

Total stockholders equity	25,447,351	24,573,241
Total liabilities and stockholders equity	$ 108,070,762	$ 67,692,281

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

For the Three Months Ended December 31, 2004 and 2003

(Unaudited)

	2004 as restated	2003 as restated
Revenues:		
Net dealer inventory and investment gains	$ 5,840,271	$ 5,050,333
Commissions, net	157,352	245,836
Interest income	49,142	26,947
Dividend income (expense), net	(879)	6,704
Equity in income from asset management joint venture	39,358	
Other	55	(1,194)
Total revenues	6,085,299	5,328,626
Interest expense	176,912	24,068
Net revenues	5,908,387	5,304,558
Non-interest expenses:		
Compensation and benefits	$ 2,608,481	$ 1,939,352
Clearing and related expenses	1,429,839	1,572,178
Wholesale commission expense	10,357	800
Occupancy and equipment rental	173,135	114,744
Professional fees	121,938	94,084
Depreciation and amortization	74,446	83,747
Business development	178,009	80,580
Insurance	132,407	71,331
Other	185,844	74,240
Total non-interest expenses	4,914,456	4,031,056
Income before income taxes and minority interest	993,931	1,273,502
Income tax expense	375,327	502,647
Income before minority interest	618,604	770,855
Minority interest in income of consolidated entity	6,437	
Net income	$ 612,167	$ 770,855
Earnings per share:		
Basic	$ 0.09	$ 0.16
Diluted	$ 0.08	$ 0.14
Weighted average number of common shares outstanding:		
Basic	7,085,836	4,712,981

Diluted	7,998,299	5,400,910

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the Three Months Ended December 31, 2004 and 2003

(Unaudited)

	2004	2003
	as restated	**as restated**
Cash flows from operating activities:		
Net income	$ 612,167	770,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,446	83,747
Deferred income taxes	(78,532)	256,730
Equity in gain from asset management joint venture	(39,358)	
Amortization of stock option expense for consultant		6,188
Unrealized investment gain from INTL Consilium sponsored fund	(45,310)	
Cash provided by (used in) changes in:		
Receivable from brokers, dealers and clearing	(11,400,466)	2,376,841
Receivable from customers	(624,813)	102,630
Other receivables		
Financial instruments owned, at market value	1,672,153	(9,622,122)
Income taxes receivable		
Other assets	(220,980)	(28,230)
Foreign currency sold, not yet purchased, at market value	1,649,610	937,079
Financial instruments sold, not yet purchased, at market value	2,714,992	7,080,482
Accounts payable	(135,890)	(43,142)
Payable to brokers, dealers and clearing	(3,127,818)	408,908
Payable to customers	11,468,320	45,000
Accrued compensation and benefits	(167,271)	(7,883)
Accrued expenses	(123,979)	(33,140)
Income taxes payable	380,539	245,917
Other liabilities	337,298	997
Net cash provided by operating activities	2,945,108	2,580,857
Cash flows from investing activities:		
Purchase of fixed assets and leasehold improvements	(62,318)	(3,976)
Net cash used in investing activities	(62,318)	(3,976)
Cash flows from financing activities:		
Bank overdrafts	(3,943,753)	
Exercise of stock options	71,872	141,525
Net cash (used in) provided by financing activities	(3,871,881)	141,525
Net (decrease) increase in cash and cash equivalents	(989,091)	2,718,406
Cash and cash equivalents at beginning of period	21,084,467	7,066,572
Cash and cash equivalents at end of period	$ 20,095,376	9,784,978

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 176,912	24,068
Income taxes paid	$ 73,320	3,480
Supplemental disclosure of noncash activities:		
Assumption of trust certificates, at cost, with related financial instruments sold, not yet purchased, at market value and payable to customers (TRS)	$ 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, 2004

(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, 2004, contained in the Company s Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, and in conjunction with the Company s Amended Form 10-KSB/A for the fiscal year ended September 30, 2004 filed with the Securities and Exchange Commission.

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. The Company s subsidiaries are INTL Trading, Inc. (INTL Trading), INTL Assets, Inc. (INTL Assets), INTL Holdings (U.K.) Limited, INTL Global Currencies Limited (INTL Global Currencies) and IAHC (Bermuda) Ltd. The Company also owns a 50.1% limited liability company interest in INTL Consilium, LLC (INTL Consilium), an investment advisory firm that focuses on the emerging market asset class. INTL Consilium is accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company operates as a wholesale international financial firm in four business segments international equities market making, international debt capital markets, foreign exchange/commodities trading and asset management. The Company acts as a market maker for equity securities, including American Depository Receipts (ADRs), issued by non-U.S. issuers, and trades and invests in debt securities issued by non-U.S. issuers. These activities are primarily conducted through INTL Trading. During the quarter ended March 31, 2003, the Company also began to conduct fixed income trading and investing activities through IAHC Bermuda. During the quarter ended September 30, 2003, the Company began to conduct precious metals and foreign currency trading and investing activities through International Assets Holding Corporation.

On May 11, 2004 the Company signed a joint venture agreement with Consilium Investment Capital, Inc. (CIC) of Fort Lauderdale, Florida and formed INTL Consilium, LLC. INTL Consilium, LLC is an investment management firm which primarily provides investment advice on emerging market securities.

On July 9, 2004, the Company acquired the foreign exchange business of Global Currencies Limited (Global) through the purchase of two wholly owned subsidiaries of Global INTL Global Currencies Limited and INTL Holdings (U.K.) Limited. Both INTL Global Currencies and INTL Holdings (U.K.) Limited are designated as U.S. dollar denominated companies under the laws of the United Kingdom. Accordingly, the functional currency for these companies is the U.S. dollar.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(2) Restatement

The Company has three grounds for restatement of the Form 10-QSB:

a) Subsequent to the issuance of its financial statements for the year ended September 30, 2004, the Company determined that it should have accounted for the discount arising from the beneficial conversion feature in the 7% convertible notes (the Notes) issued in March 2004 and converted in August 2004, in compliance with FASB Emerging Issues Task Force (EITF) Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio,* as amended by EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The resulting restatement of the Company s financial statements for the year ended September 30, 2004 had the effect of increasing the additional paid-in capital and the retained deficit of the Company at September 30, 2004 by an amount of $2,483,478, with a consequent effect on those balances at December 31, 2004. It had no effect on reported total cash flow. In addition, the Company has changed the method it uses to calculate diluted earnings per share from the treasury stock method to the if-converted method in order to comply with the requirements of Statement of Financial Accounting Standards (FAS) No. 128, *Earnings per Share*, which requires the use of the if-converted method for this type of convertible security. This restatement requires corresponding adjustments to the Company s balance sheets at September 30, 2004, and December 31, 2004 contained in these financial statements.

b) The Company had previously treated the interest paid to holders of the 7% notes for the period between their issuance in March 2004 and their conversion in August 2004 as deductible for income tax purposes. The Company has now concluded that there is insufficient certainty that the Internal Revenue Service will recognize this interest, amounting to $378,243, as deductible. The restatement corrected this by increasing the income tax expense by $154,096 for the year ended September 30, 2004 and increasing income taxes payable by a corresponding amount. This restatement requires corresponding adjustments to the Company s balance sheets at September 30, 2004 and December 31, 2004 contained in these Consolidated Financial Statements.

c) Following a review of its lease accounting policies, the Company determined that it was appropriate to restate its financial statements for the quarter ended December 31, 2004 and for the years ended September 30, 2002, 2003 and 2004, with respect to the accounting for certain office leases. In the past, while the benefits of certain periods of free or reduced rental have been spread across the lease term, the Company has not properly allocated scheduled rent escalations across the lease terms. The restatement increases 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 quarters ended December 31, 2003 and 2004 has been increased by $2,526 and $7,911, respectively.

The restatements have no effect on total cash flow for the quarter ended December 31, 2004, or for any prior period. The table below gives a comparison between the affected amounts as previously reported and as restated.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

	Quarter Ended Dec. 31, 2004	Quarter Ended Dec. 31, 2004	Quarter Ended Dec. 31, 2004	Quarter Ended Dec. 31, 2003	Quarter Ended Dec. 31, 2003	Quarter Ended Dec. 31, 2003
	previously reported	restatement adjustment	as restated	previously reported	restatement adjustment	as restated
Occupancy and equipment rental	165,224	7,911	173,135	112,218	2,526	114,744
Non-interest expenses	4,906,545	7,911	4,914,456	4,028,530	2,526	4,031,056
Income (loss) before income taxes	1,001,842	(7,911)	993,931	1,276,028	(2,526)	1,273,502
Income tax expense	378,550	(3,223)	375,327	503,676	(1,029)	502,647
Income before minority interest	623,292	(4,688)	618,604	772,352	(1,497)	770,855
Net income (loss)	616,855	(4,688)	612,167	772,352	(1,497)	770,855
Net income (loss) per share - basic	$ 0.09		$ 0.09	$ 0.16		$ 0.16
Net income (loss) per share - diluted	$ 0.08		$ 0.08	$ 0.14		$ 0.14
Deferred income tax asset, net	407,738	33,632	441,370	71,698	12,058	83,756
Income taxes receivable	67,453	(67,453)				
Total assets	108,104,583	(33,821)	108,070,762	26,752,532	12,058	26,764,590
Income taxes payable	312,957	101,907	414,864	245,917		245,917
Other liabilities	366,906	45,084	411,990	42,110	29,595	71,705
Total liabilities	82,040,841	146,991	82,187,832	16,534,139	29,595	16,563,734
Additional paid-in capital	24,946,663	2,483,478	27,430,141	11,930,522		11,930,522
Retained earnings (deficit)	610,390	(2,664,290)	(2,053,900)	(1,759,468)	(17,537)	(1,777,005)
Total stockholders equity	25,628,163	(180,812)	25,447,351	10,218,393	(17,537)	10,200,856

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

	Sept. 30, 2004 previously reported	Sept. 30, 2004 restatement adjustment	Sept. 30, 2004 as restated
Deferred income tax asset, net	332,429	30,409	362,838
Income taxes receivable	57,881	(57,881)	
Total assets	67,719,753	(27,472)	67,692,281
Income taxes payable	112,917	111,479	224,396
Other liabilities	37,519	37,173	74,692
Total liabilities	42,970,388	148,652	43,119,040
Additional paid-in capital	24,685,139	2,483,478	27,168,617
Retained deficit	(6,465)	(2,659,602)	(2,666,067)
Total stockholders equity	24,749,365	(176,124)	24,573,241

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(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.

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, on a pro forma basis, would have been the amounts indicated below:

For the three months ended December 31,	**2004**	**2003**
	as restated	**as restated**
Net income		
As reported	$ 612,167	770,855
Pro forma	$ 494,244	627,700
Basic earnings per share		
As reported	$ 0.09	0.16
Pro forma	$ 0.07	0.13
Diluted earnings per share		
As reported	$ 0.08	0.14
Pro forma	$ 0.06	0.12

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

(4) Effects of Recent Accounting Pronouncements and Interpretations

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). This statement requires the recognition of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award in its financial statements. It also requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). SFAS No. 123R replaces SFAS No. 123 and supersedes APB Opinion No. 25, and its related interpretations. SFAS No. 123R is effective for periods beginning after June 15, 2005. The effective date for small-business issuers (the Company presently qualifies as a small business issuer) is December 15, 2005. SFAS No. 123R applies to all awards granted, modified, repurchased, or cancelled after December 15, 2005. The Company is reviewing the impacts of the adoption of this statement including the transition options provided by SFAS No. 123R.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which provides guidance on the consolidation of certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Such entities are referred to as variable interest entities (VIE s). FIN 46 requires that a VIE be consolidated by a business enterprise if that enterprise is deemed to be the primary beneficiary of the VIE. The FASB revised FIN 46 through the issuance of Interpretation No. 46 (revised December 2003 and referred to as FIN 46R). FIN 46R contains technical corrections and extends the effective date of FIN 46 to the first reporting period that ended after March 15, 2004. The issuance of FIN 46 and FIN 46R had no material impact on the Company s consolidated financial statements. The Company has one VIE with an impact on total assets of $435,579 as at December 31, 2004. The Company has consolidated this VIE, which involves an investment in a hedge fund managed by INTL Consilium. The effect of the consolidation is to recognize a minority interest of $435,579 on the Condensed Consolidated Balance Sheets at December 31, 2004 and a minority interest in the income of the VIE of $6,437 on the Condensed Consolidated Statements of Operations for the three months ended December 31, 2004.

(5) Basic and Diluted Earnings per Share

Basic earnings per share for the three months ended December 31, 2004 and 2003 have been computed by dividing net income by the weighted average number of common shares outstanding.

Options to purchase 53,600 and 53,750 shares of common stock were excluded from the calculation of diluted earnings per share for the three months ended December 31, 2004 and 2003, 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).

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

For the three months ended December 31,	**2004**	**2003**
	as restated	**as restated**
Diluted earnings per share		
Numerator:		
Net income	$ 612,167	770,855
Denominator:		
Weighted average number of:		
Common shares outstanding	7,085,836	4,712,981
Dilutive potential common shares outstanding	912,463	687,929
	7,998,299	5,400,910
Diluted earnings per share	$ 0.08	0.14

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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

On March 12, 2004, the Company issued $12,000,000 in principal amount of the Company s 7% convertible subordinated notes (the Notes) due December 31, 2014. The Notes were issued at par and bore interest at the rate of 7% per annum, payable semi-annually on June 30 and December 31 of each year. They were redeemable, in whole or in part at the option of the Company, at any time on or after December 31, 2009 at a redemption price in cash equal to 115% of the principal balance. The Notes were general unsecured obligations of the Company. The conversion features of the Notes were approved by the shareholders on March 26, 2004. The Notes were convertible by the holders at any time prior to the maturity date of December 31, 2014 into shares of the Company s common stock at a conversion price of $5.75 per share. The Company was authorized to cause the outstanding principal balance of the Notes to be converted, in whole or in part, into shares of common stock at any time during the 90 days following the occurrence of all of the following three events: (i) the closing price of the common stock exceeding $8.00 per share (proportionately adjusted to reflect adjustments to conversion price) for 20 consecutive days; (ii) the Company filing a registration statement under the Securities Act to register the issuance of the common stock pursuant to the conversion of the Notes; and, (iii) such registration statement being declared effective by the SEC.

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

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

The Notes were convertible by investors at a price lower than the fair value of the Company s stock on March 26, 2004 (the date that the Company s shareholders approved the conversion terms of the Notes), requiring accounting recognition of this beneficial conversion feature as a debt discount against the Notes. This gave rise during fiscal 2004 to an increase in the Company s additional paid in capital of $2,483,478 and a matching expense item that was classified as interest, resulting in an increased deficit at the end of the year but having no effect on total stockholders equity at September 30, 2004.

(7) Reclassifications

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

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(8) Investment in Asset Management Joint Venture

On May 11, 2004, the Company entered into an agreement with Consilium Investment Capital, Inc. (CIC) of Fort Lauderdale, Florida to form INTL Consilium, LLC (INTL Consilium). INTL Consilium is an investment management firm which primarily provides investment advice with respect to emerging market securities. In June 2004 the Company made a capital contribution of $500,000 and CIC a capital contribution of $100,000 to INTL Consilium. The Company s total capital contribution was allocated as $100,401 share capital and $399,599 excess capital. The excess capital contribution was made by the Company in recognition of the asset management skills and relationships contributed by CIC. The excess capital contribution has a liquidation preference of three years. The Company is entitled to receive 50.1% of the profits and losses of INTL Consilium. The Company and CIC 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.

For the three months ended December 31, 2004 the Company has recorded revenue of $39,358, representing the Company s equity in the net income of INTL Consilium.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

INTL Consilium, LLC

Condensed Statement of Operations

For the period from October 1, 2004 through December 31, 2004

Revenues:	
Management and investment advisory fees	$ 268,493
Interest	1,183
Other	2,307
Total revenues	271,983
Non-interest expenses:	
Compensation and benefits	139,070
Occupancy and equipment rental	10,696
Professional fees	13,861
Depreciation	1,441
Business development	7,011
Insurance	10,070
Other	11,275
Total non-interest expenses	193,424
Net income	$ 78,559

INTL Consilium, LLC

Condensed Balance Sheet

	December 31, 2004
Assets	
Cash	314,773
Receivable from clients	162,723
Investment in INTL Consilium sponsored fund	103,237
Property and equipment, net	30,904
Other assets	13,456
Total assets	$ 625,093

Liabilities and Members Equity	
Liabilities:	3,000
Accounts payable	12,165
Bonus payable	10,000
Rent payable	3,055
	28,220
Members equity	
Common stock	200,401
Excess capital contribution	399,599
Retained deficit	(3,127)
Total members equity	596,873
Total liabilities and members equity	$ 625,093

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(9) Investment in INTL Consilium Sponsored Fund

Investment in INTL Consilium sponsored fund consists of the Company s investment in a hedge fund managed by INTL Consilium. The fund primarily invests in emerging market debt securities. At March 31, 2005 the Company owned approximately 88% of the total assets of the fund. Accordingly, the Company has consolidated the fund under the provisions of FIN 46R at December 31, 2004.

As indicated in note 8, the Company owns a 50.1% interest in INTL Consilium. The Company invested $3,000,000 in the fund in July 2004. Change in the net asset value is included in Net dealer inventory and investment gains in the Condensed Consolidated Statements of Operations. Investment withdrawals require ninety days written notice to the manager of the fund as well as additional limitations on the amount of withdrawal. The manager may waive the withdrawal limitations in its sole discretion.

Investment in INTL Consilium Sponsored Fund

	December 31, 2004
International Assets Holding Corporation	$ 3,066,115
Minority owners interest	435,579
Investment in INTL Consilium Sponsored Fund	3,501,694
Percentage of fund owned by International Assets Holding Corporation	88%

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

On July 9, 2004 the Company completed the acquisition of the foreign exchange business of Global Currencies Limited through the purchase of all of the shares of INTL Holdings (U.K.) Limited. INTL Holdings (U.K.) Limited is a U.K. holding company that owns 100% of INTL Global Currencies Limited (INTL Global Currencies). The primary reason for the acquisition was to accelerate the Company s efforts to establish a foreign exchange business. Consolidated results of operations have been included for the period from July 9, 2004 through September 30, 2004. The Company made cash payments of $4,594,440 and issued 150,000 common shares of the Company valued at $1,471,500 as of the date of the purchase. The cash payments consisted of $1,000,000 cash premium paid to the sellers, $3,577,375 for the value of the net assets received, less negotiation differences of $49,982 related to fixed asset amounts and stamp duty adjustments. In addition, the Company paid $67,047 for legal and accounting related fees.

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

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

The Company negotiated a purchase price that resulted in recognition of goodwill based on factors including anticipated revenues, cash flows, profitability and synergistic human resource sharing including trading staff, operations, administration and management.

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

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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

(11) Goodwill and Intangible Assets

The purchase price paid by the Company for the acquisition of the foreign exchange business of Global Currencies Limited exceeded the net asset value received by $2,488,565. This amount was treated as goodwill. The Company has accrued additional goodwill of $753,293 under the earnout provisions of the purchase agreement. This accrual is reported as deferred acquisition consideration payable.

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 based on foreign exchange revenues from July 9, 2004 through December 31, 2004	753,293
Total goodwill as of December 31, 2004	$ 2,891,858

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

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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, 2004
Intangible assets	
Noncompete agreement	$ 150,000
Trade name	100,000
Customer base	100,000
Total intangible assets	350,000
Less: Amortization of intangible assets	29,167
Intangible assets, net	320,833

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

(12) Commission Revenue and Wholesale Commission Expense

Commission revenues of $ 157,352 and $245,836 were reported for the three months ended December 31, 2004 and 2003, respectively. These revenues were primarily related to introducing broker fees that the Company received in connection with its wholesale debt trading activities.

For the three months ended December 31,	2004	2003
Wholesale commission revenue	$ 271,579	465,713
Amounts paid to wholesale third party	(114,227)	(219,877)
Net wholesale commission revenue	157,352	245,836

(13) Related Party Transactions

In November 2004 one of the Company s principal shareholders increased its investment in a hedge fund managed by INTL Consilium from $50,000,000 to $75,000,000. In November 2004, an executive of this shareholder was elected to the Board of Directors of the Company.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(14) 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, 2004 and September 30, 2004 consisted of trading and investment financial instruments at market values as follows:

	Owned	Sold, not yet purchased
December 31, 2004:		
Common stock and American Depository Receipts	$ 2,531,463	3,640,335
Foreign ordinary stocks, paired with their respective American Depository Receipts	6,998,766	7,176,577
Corporate and municipal bonds	2,469,649	863,212
Foreign government obligations	298,630	745,892
Negotiable instruments (promissory notes)	1,935,364	
U.S. Treasury Bonds under total return swap transactions		29,671,991
Options and futures	2,853,241	2,599,519
Other investments	46,359	
	$ 17,133,472	44,697,526

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

	Owned	Sold, not yet purchased
September 30, 2004:		
Common stock and American Depository Receipts	$ 1,546,117	1,401,367
Foreign ordinary stocks, paired with their respective American Depository Receipts	8,851,358	8,935,260
Corporate and municipal bonds	2,085,122	
Foreign government obligations	1,529,410	454,025
Negotiable instruments (promissory notes)	2,905,812	
Options and futures	1,762,052	1,519,891
Commodities	55,076	
U.S. Government obligations	17,194	
Other investments	53,484	
	$ 18,805,625	12,310,543

(15) Trust Certificates and Total Return Swap

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 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.

   iii) When the Transactions terminate in December 2005 and 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.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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 $29,739,902 (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 $322,112, appear as a liability on the Condensed Consolidated Balance Sheets as at December 31, 2004 under Other liabilities . Non-recoverable costs incurred in connection with the Transactions but not yet recognized as expenses, amounting to $96,634, appear as an asset under Other assets at the same date.

(16) <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, 2004 at market values of the related financial instruments (totaling $44,697,526). The Company will incur losses if the market value of the financial instruments increases subsequent to December 31, 2004. The total of $44,697,526 includes $2,599,519 for options and futures contracts, which represent a liability of the Company based on their market value as of December 31, 2004.

Listed below is the fair value of trading-related derivatives as of December 31, 2004 and September 30, 2004. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	December 31, 2004 Assets	December 31, 2004 Liabilities	September 30, 2004 Assets	September 30, 2004 Liabilities
Interest Rate Derivatives	$	$ 825	$	$ 984
Foreign Exchange Derivates	$ 115,349	$	$ 48,822	$ 3,350
Commodity Price Derivatives	$ 2,737,892	$ 2,598,694	$ 1,713,230	$ 1,515,557
Total	$ 2,853,241	$ 2,599,519	$ 1,762,052	$ 1,519,891

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

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 a 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.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(17) Interest Income and Interest Expense

For the three months ended December 31,	2004	2003
Interest income and interest expense:		
Interest income	$ 49,142	26,947
Interest expense:		
Lending to support foreign exchange business	$ 100,030	
Short securities trading position balances	71,143	24,068
Other	5,739	
Interest expense	$ 176,912	24,068

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(18) Dividend Income and Expense

For the three months ended December 31,	2004	2003
Dividend income (expense), net:		
Dividend income	$ 84,968	31,774
Dividend expense	(85,847)	(25,070)
Dividend (expense) income, net	$ (879)	6,704

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

Amounts receivable from and payable to brokers, dealers and clearing organization at December 31, 2004 and September 30, 2004 consisted of the following:

	Receivables	Payable
December 31, 2004:		
Open securities transactions with clearing organization, net	$ 1,868,284	
Securities clearing fees and related charges payable with clearing organization, net		78,531
Open foreign currency transactions	16,802,915	5,559,537
Open commodities transactions	378,600	506,971
Introducing fee receivable	50,117	
	$ 19,099,916	6,145,039
September 30, 2004:		
Open securities transactions with clearing organization, net	$	6,314,652
Securities clearing fees and related charges payable with clearing organization, net		58,402
Open foreign currency transactions	7,552,215	2,899,803
Introducing fee receivable	147,235	
	$ 7,699,450	9,272,857

Receivables and payables to brokers, dealers and clearing organization result from open trading activities between the Company and other financial institutions including banks, securities broker-dealers, market makers and counter-parties. Receivables and payables to certain organizations are reported net, when a right of setoff exists with the broker, dealer or clearing organization. As these amounts are short-term in nature, the carrying amount is a reasonable estimate of fair value.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(20) Receivable From and Payable to Customers

Amounts receivable from and payable to customers at December 31, 2004 and September 30, 2004 consisted of the following:

	Receivables	Payable
December 31, 2004:		
Open transactions - foreign currency trading	$ 10,646,723	14,870,271
Open transactions - other debt structures	343,977	100,086
Margin deposits held - commodities trading		1,231,057
Pledge receivable - commodities trading	1,992,525	
	$ 12,983,225	16,201,414
September 30, 2004:		
Open transactions - foreign currency trading	$ 11,018,572	4,613,147
Open transactions - other debt structures		41,000
Margin deposits held - metals trading		11,036
Pledge receivable - commodities trading	1,339,840	
	$ 12,358,412	4,665,183

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

(21) Other Assets

Other assets at December 31, 2004 and September 30, 2004 consisted of the following:

	December 31, 2004	September 30, 2004
Other receivables	$ 33,578	32,651
Deposit with clearing organization	500,000	500,000
Prepaid expenses and other assets	349,043	128,990
	$ 882,621	661,641

(22) **Bank Overdrafts**

At December 31, 2004, INTL Global Currencies had a multi-currency on-demand overdraft facility of up to $7,000,000 with a commercial bank based in the United Kingdom. The overdraft facility provides a right of set-off between amounts borrowed in one or more currencies against positive balances in one or more other currencies. Amounts borrowed bear interest at the London Interbank Offered Rates (LIBOR) for each currency plus 2%. The overdraft facility is guaranteed by International Assets Holding Corporation. At September 30, 2004, the net borrowings of INTL Global Currencies exceeded the credit facility limit by $3,447,417. This excess borrowing is guaranteed by a cross-lending guarantee from the former owner of the foreign exchange trading business of INTL Global Currencies. The former owner of the foreign exchange business was not obligated by any written agreement to provide access to this additional credit. The guarantee terminated during the quarter ended December 31, 2004. During the quarter ended December 31, 2004, the Company obtained additional on-demand overdraft facilities from two commercial banks based in the United States totaling $13,500,000.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

At December 31, 2004 and September 30, 2004, the U.S. dollar equivalent of the components of the net borrowing under the overdraft facilities were as follows:

	December 31, 2004 Positive balance (overdraft) U.S. dollar equivalent	September 30, 2004 Positive balance (overdraft) U.S. dollar equivalent
Overdraft facility with right of set-off		
Australian Dollar	$ 393,506	
Canadian Dollar	(4)	698,967
Danish Krona	106,294	196
Euro	(2,101,995)	(2,826,520)
Indian Rupee	314,672	(511,067)
Indonesian Rupiah	62,747	2,452
Japanese Yen	(384,764)	175
Mexican Peso	4,394	4,244
Namibian Dollar	(5,920)	(4,897)
Norwegian Krona	385	441
South African Rand	(403,713)	12,325
Swedish Krona	5,612	5,770
Swiss Franc	(121,454)	(76,697)
United Kingdom Pound Sterling	(2,778,107)	(2,202,841)
United States Dollar	(932,370)	(5,549,965)
Overdraft payable with one U.K. bank	(5,840,717)	(10,447,417)
Overdraft with other financial institutions		
Canadian Dollar	(420,354)	
Euro	(162,336)	
Mexican Peso	(73,962)	
South African Rand	(19)	
Namibian Dollar	(135)	
Ugandan Shilling	(6,131)	
Overdraft payable	(662,937)	
Total	$ (6,503,654)	(10,447,417)

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(23) Capital and Cash Reserve Requirements

INTL Trading is subject to the net capital rules imposed by the Securities and Exchange Commission under SEC Rule 15c3-1. This rule requires maintenance of minimum net capital of an amount equal to the greater of $100,000, 6 2/3 percent of aggregate indebtedness, or $2,500 for each security in which a market is made with a bid price over $5 and $1,000 for each security in which a market is made with a bid price of $5 or less with a ceiling of $1,000,000. Rule 15c3-1 also requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1. As of December 31, 2004, the Company had excess net capital of $1,389,234, a ratio of aggregate indebtedness to net capital of 1.98 to 1 and a percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d) of 28%.

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

(24) Leases

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

The Company is obligated under various noncancelable operating leases for the rental of office facilities, service obligations and certain office equipment. The expense associated with operating leases amounted to $226,667 and $132,061 for the three months ended December 31, 2004 and 2003, respectively. The expense associated with the operating leases and service obligations are reported in the statements of operations in occupancy and equipment rental, clearing and related and other expenses.

Future minimum lease payments under noncancelable operating leases as of December 31, 2004 are as follows:

Fiscal Year (12 month period) ending September 30,	
2005	$ 792,500
2006	563,700
2007	369,300
2008	328,000
2009	303,100
Thereafter	700

Total future minimum lease payments	$ 2,357,300

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

(25) Stock Options

During the three months ended December 31, 2004, the Company granted incentive stock options covering 122,500 shares of common stock. During three months ended December 31, 2004, incentive stock options covering 3,700 shares of common stock were exercised and 1,670 shares were forfeited. During the three months ended December 31, 2004, 40,000 shares of common stock were exercised under existing nonqualified stock options. As of December 31, 2004, the Company had outstanding total options covering 1,359,136 shares of common stock and the Company has 242,150 shares available for issuance under its existing option plans.

Incentive Stock Options (Granted during the three months ended December 31, 2004)

Options Granted	Grant Date	Exercise Price Per Share	Expiration Date	Exercisable
52,500	11/18/04	$ 7.45	11/18/08	(a)
50,000	11/18/04	$ 8.568	11/18/08	(b)
20,000	12/01/04	$ 7.35	12/01/08	(a)
122,500				

(a) Exercisable at 33% after year one, 33% after year two and 34% after year three.
(b) Exercisable at 33% on January 2 2006, 33% on November 18, 2006 and 34% on November 18, 2007.

The Company did not recognize any compensation expense in connection with the grant of incentive stock options covering 122,500 shares during the three months ended December 31, 2004, because the exercise price on the date of grant for each option was equal to or greater than the fair market value of the common stock on the date of grant.

(26) Commitments and Contingent Liabilities

The Company has entered into employment agreements with two officers, effective October 1, 2004 and December 1, 2004 respectively that each have an indefinite term. Under the terms of the agreements each officer will receive specified annual compensation and have the right to receive bonuses as determined by the Board of Directors. In the event of termination of either agreement by the Company other than for cause, or if the officer concerned resigns as a result of a breach by the Company, each agreement provides for payments equal to 100% of total compensation for 120 days following date of termination.

The employment of the Company s former Chief Operating Officer, who resigned from that office in November 2004, will terminate effective as of March 15, 2005, following which he will continue to receive an amount equal to his salary for a period of six months under an existing contractual arrangement.

(27) <u>Segment Analysis</u>

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

International Equities Market making:

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

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

International Debt Capital Markets:

The Company actively trades a wide variety of international debt instruments. The Company also invests in international debt instruments on a proprietary basis and arranges international debt transactions. The Company trades and invests in international bonds, including both investment grade and higher yielding emerging market bonds. The Company generally focuses on smaller issues, such as emerging market sovereign, corporate and bank bonds that trade worldwide on an over-the-counter basis. Through its customer relationships, the Company periodically identifies opportunities to arrange, purchase or sell debt transactions that fall outside the parameters of established financial markets. These transactions generally involve negotiable emerging market debt and may be documented by promissory notes, bills of exchange, loan agreements, accounts receivable and other types of debt instruments. The revenues, expenses, assets and liabilities relating to the Trust Certificate and Total Return Swap discussed in note 15 are included in this segment.

Foreign Exchange/ Commodities Trading:

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

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

Other:

All other transactions that do not relate to the operating segments above are classified as Other . Certain cash accounts and balances were maintained to support the administration of all of the operating segments. These multi-segment assets were allocated to Other . Revenue reported for Other includes interest income but not interest expense; and the gain or loss on the Company s asset management joint venture, which is accounted for by the equity method.

Segment data includes the profitability measure of net contribution by segment. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions regarding the allocation of the Company s resources. Net contribution is calculated as revenue less direct clearing and clearing related charges and variable trader compensation. Variable trader compensation represents a fixed percentage of an amount equal to revenues produced less clearing and related charges, base salaries and an overhead allocation.

Inter-segment revenues, charges, receivables and payables are eliminated between segments, excepting revenues and costs related to foreign currency transactions done at arm s length by the foreign exchange trading business for the equity and debt trading business. The foreign exchange trading business competes for this business as it does for any other business. If its rates are not competitive the equity and debt trading businesses buy or sell their foreign currency through other market counter-parties. The profit or loss made by the foreign exchange trading business on these transactions is not quantifiable.

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INTERNATIONAL ASSETS HOLDING CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, continued

Information concerning operations in these segments of business is shown in accordance with SFAS 131 as follows:

For the three months ending December 31,	**2004**	**2003**
Revenues:		
International equities market-making	$ 2,517,000	4,399,000
International debt capital markets	628,000	677,000
Foreign exchange/commodities trading	2,806,000	228,000
Other	134,000	25,000
Total	$ 6,085,000	5,329,000
Net contribution:		
(Revenue less clearing and related and variable trader bonus compensation):		
International equities market-making	$ 1,056,000	2,277,000
International debt capital markets	444,000	490,000
Foreign exchange/commodities trading	2,131,000	167,000
Total	$ 3,631,000	2,934,000

December 31,	**2004**	**2003**
	as restated	**as restated**
Total assets:		
International equities market-making	$ 18,146,000	19,701,000
International debt capital markets	37,942,000	2,474,000
Foreign exchange/commodities trading	46,077,000	2,528,000
Other	5,906,000	2,062,000
Total	$ 108,071,000	26,765,000
Reconciliation of net contribution to income before income tax expense:		
Net contribution allocated to segments	$ 3,631,000	2,934,000
Fixed costs not allocated to operating segments	2,637,000	1,660,000
Income before income taxes and minority interest	$ 994,000	1,274,000

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

The Company has revised Item 2 to reflect the restatement of the Company s financial statements for the quarters ended December 31, 2003 and 2004. All amounts presented in Item 2 reflect the restatement of the Company s financial statements. The details of the restatement are described in the note appearing at the beginning of the Form 10-QSB/A. The Company has also amended Item 2 to make certain additional disclosures regarding the Company s results of operations and financial condition.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-QSB 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 counter-party failures and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of federal and state securities laws and the impact of changes in technology in the securities and commodities brokerage industries. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business 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.

Principal Activities

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

Since September 30, 2002, the Company s activities have changed significantly due to the following developments:

In the first quarter of fiscal 2003, the Company appointed new management and raised approximately $3,400,000 in additional capital.

In the second quarter of fiscal 2003, the Company began trading and related activities in international debt capital markets.

In the fourth quarter of fiscal 2003, the Company began trading precious metals and foreign exchange.

In the second quarter of fiscal 2004, the Company raised $12,000,000 from the issuance of the Company s 7% convertible subordinated notes. The proceeds have been utilized to continue to expand the Company s trading businesses.

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In the third quarter of fiscal 2004, the Company and an unrelated third party formed INTL Consilium, LLC, an asset management joint venture. The Company received a 50.1% interest in exchange for a $500,000 capital contribution.

In the fourth quarter of fiscal 2004, the Company acquired INTL Global Currencies, a specialist foreign exchange trading business based in London.

In the fourth quarter of fiscal 2004, the Company exercised its right to convert the outstanding 7% subordinated notes into 2,086,923 shares of the Company s common stock.

The Company believes that it continues to make significant progress in its effort to build a diversified financial services firm focusing on niche markets. During the last two years, the Company has successfully acquired or established businesses in key product areas and geographic locations. The Company s activities are currently divided into international equities market making, international debt capital markets, foreign exchange/ commodities trading and asset management. Although most of the Company s revenues over the past two fiscal years were generated by international equities market making, foreign exchange trading revenue from the recently-acquired INTL Global Currencies has shifted the balance and, together with growth in other business segments, has produced a more balanced and diversified revenue stream. As a result, the Company believes that it is now less vulnerable to cycles in individual product areas. The Company believes that its strategy of linking expenses to revenues will also help to lessen the negative impact of adverse market conditions which occur periodically in international securities and financial markets.

The Company is currently focused on increasing revenue and market share for each of its established business activities. The equities market making activities were expanded during the quarter ended December 31, 2004, by the addition of trading in over-the-counter Bulletin Board stocks and the recruitment of a specialist trader in equity securities of Latin American issuers.

Recent Developments

In July 2004 the Company acquired INTL Global Currencies Limited. The Company has made significant progress in integrating this business, including transitioning the business onto the Company s systems, streamlining the business operations and instituting additional internal controls.

In July 2004, INTL Consilium, the joint venture in which the Company holds 50.1%, established a hedge fund for which it acts as investment manager. INTL Consilium now employs four individuals and manages more than $80 million on behalf of third parties.

Acquisition of Foreign Exchange Business of Global Currencies Limited

On July 9, 2004, the Company completed the acquisition of the foreign exchange business (INTL Global Currencies) of Global Currencies Limited through the purchase of all the shares of INTL Holdings (U.K.) Limited. INTL Holdings (U.K.) Limited is a U.K. holding company that owns 100% of INTL Global Currencies Limited. The Company undertook this acquisition in order to expand its foreign exchange business. The results of operations from acquired businesses have been included in the Company s results of operations since July 9, 2004 (the date of the acquisition).

Under the terms of the purchase agreement for the acquisition of INTL Global Currencies, the Company made a cash payment of $4,594,000, and issued 150,000 shares of the Company s common stock (which

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were valued at $1,472,000 on the date of the purchase). The cash payment consisted of a $1,000,000 cash premium paid to the Sellers, and $3,577,000 for the value of the net assets received, less negotiated differences of $50,000 related to fixed assets amounts and stamp duties. In addition, the Company paid $67,000 in legal and accounting fees.

The Company is obligated to make earn-out payments to the sellers of INTL Global Currencies. In particular, the Company is obligated to pay an amount equal to 20% of the gross foreign exchange trade profits generated by the Company during the 30 months ending on December 31, 2006 (up to a maximum of $4,000,000). In addition, the Company is obligated to pay the sellers ten percent (10%) of the gross foreign exchange trading profits in excess of $10,000,000 per year for the 12 months ending June 30, 2005 and June 30, 2006, and ten percent (10%) of such profits in excess of $5,000,000 for the six (6) months ended December 31, 2006.

The Company funded the acquisition by utilizing its existing working capital, which included cash received from the Company s private placement of $12,000,000 in notes of March 2004.

The Company believes that the acquisition of the foreign exchange business of INTL Global Currencies will materially increase the Company s revenues and net income from the foreign exchange business based upon the historical financial results of this business.

As noted above, the Company s acquisition of INTL Global Currencies utilized approximately $4,594,000 in cash in connection with the payment of the initial purchase price. The Company expects to make future payments to the sellers of INTL Global Currencies pursuant to the earnout provisions of the purchase agreement. The Company expects to fund these payments from working capital generated by the foreign exchange business.

The operations of INTL Global Currencies, which have been integrated into the Company s existing foreign exchange business, are expected to increase both the Company s net current assets and cash flow in the future.

Results of operations for the three months ended December 31, 2004 and 2003 (Q1 2005 and Q1 2004 , respectively)

The Company s total revenues for Q1 2005 increased 14% to $6,085,000 from $5,329,000 for Q1 2004. Total non-interest expenses for Q1 2005 were 22% higher than those in Q1 2004, while interest expense increased by $153,000. The Company s net income decreased from $771,000 during Q1 2004 to $612,000 during Q1 2005.

The results reflect the benefits of diversification into select non-correlated markets. During Q1 2005 the Company encountered relatively difficult market conditions in its securities business and in particular the international equity trading business; however, this was more than offset by a substantial increase in revenues from its foreign currency trading business. The increased foreign exchange trading revenue was due to the inclusion of the results of INTL Global Currencies for the full period and strong market conditions within that business during the quarter. The Company believes that these difficult conditions reflect the cyclical nature of international debt and equity markets generally, and are not necessarily indicative of any long term market trends. The increase in non-interest expenses was attributable mainly to the expanded foreign exchange trading activities and, to a lesser extent, administrative infrastructure to support continued growth.

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Three Months Ended December 31, 2004 Compared to Three Months Ended December 31, 2003

The following table reflects the principal components of the Company s revenues and interest expense as a percentage of total revenue for Q1 2005 and Q1 2004.

	Percentage of Total Revenue Q1 2005	Percentage of Total Revenue Q1 2004	Percentage Change from Q1 04 to Q1 05
Trading revenue (Net dealer inventory and investment gains)	96.0%	94.8%	15.6%
Commissions	2.6%	4.6%	-36.0%
Interest income	Less than 1%	Less than 1%	Not meaningful
Dividend income (expense), net	Expense less than 1%	Less than 1%	Not Meaningful
Asset management joint venture income (expense)	Less than 1%	0%	Not Meaningful
Other revenues	Less than 1%	Less than 1%	Not Meaningful
Total revenue	**100%**	**100%**	**14.2%**
Interest expense	2.9%	Less than 1%	635%
Net revenue	97.1%	99.6%	11.4%

The following table reflects the sources of the Company s revenues as a percentage of the Company s total revenue for Q1 2005 and Q1 2004.

	Percentage of Total Revenues Q1 2005	Percentage of Total Revenues Q1 2004	Percentage Change from Q1 04 to Q1 05
Equity market making	42%	83%	-43%
Debt capital markets	10%	13%	-7%
Foreign exchange/ commodities trading	46%	4%	1,131%
Other	2%	Less than 1%	436%
Total revenues	100%	100%	14%

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The following table reflects the sources of the Company s net contribution as a percentage of the Company s total net contribution for Q1 2005 and Q1 2004

	% of Total Net Contribution	% of Total Net Contribution	% Change
	Q1 2005	Q1 2004	2004-2005
Equity market making	**29%**	**77%**	**-54%**
Debt capital markets	**12%**	**17%**	**-9%**
Foreign exchange/ commodities	**59%**	**6%**	**Not Meaningful**
Total Net Contribution	**100%**	**100%**	**24%**

(1) Net contribution consist of revenues from each business activity, less direct clearing and clearing related changes and variable trader compensation.

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The following table reflects the principal components of the Company s non-interest expenses as a percentage of the Company s total non-interest expenses in Q1 2005 and Q1 2004.

	Percentage of Total Non-interest Expenses	Percentage of Total Non-interest Expenses	Percentage Change from
	Q1 2005	Q1 2004	Q1 04 to Q1 05
Compensation and benefits	53.2%	48.1%	34.5%
Clearing and related expenses	29.1%	39.0%	-9.1%
Wholesale commission expense	Less than 1%	Less than 1%	Not meaningful
Occupancy and equipment rental	3.4%	2.8%	47.2%
Professional fees	2.4%	2.3%	29.6%
Depreciation and amortization	1.5%	2.1%	-11.1%
Business Development	3.5%	2.0%	120.9%
Insurance	2.6%	1.8%	85.6%
Other expenses	3.7%	1.8%	150.3%
Total non-interest expenses	100%	100%	21.8%

Net Income. The Company reported net income of $612,000 for the three months ended December 31, 2004 (Q1 2005), which equates to $0.09 per basic share and $0.08 per diluted share. This compares to net income of $771,000, or $0.16 per basic share and $0.14 per diluted share, for the three months ended December 31, 2003 (Q1 2004).

Total Revenues. The Company s total revenues increased 14% to $6,085,000 for Q1 2005 compared to $5,329,000 for Q1 2004. The most significant change has been the relative change in the source of the Company s income resulting from the acquisition in Q4 2004 of INTL Global Currencies. Foreign exchange/commodities trading produced $2,806,000, or 46% of total revenue for Q1 2005, compared to $228,000, or 4% of total revenue for Q1 2004. The relative increase in foreign exchange/commodities trading revenue is also attributable to the decline in equity market making revenue. Equity market making revenue fell from $4,399,000 for Q1 2004 to $2,517,000 for Q1 2005 as a result of difficult market conditions. Equity market making revenues decreased from 83% of total revenue for Q1 2004 to 42% of total revenue for Q1. International debt capital markets revenue decreased from $677,000 for Q1 2004 to $628,000 for Q1 2005. Debt trading and commission revenues were marginally lower because of less volatility in the markets and tighter interest spreads.

Net Contribution. Net contribution consists of revenues, less direct clearing and clearing related charges and variable trader compensation, as more fully described below. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions

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regarding the allocation of the Company s resources. The net contribution allocated to each of the Company s business segments increased is $3,631,000 for Q1 2005 compared to $2,934,000 for Q1 2004. The relative changes in net contribution between the equity market making business and the foreign exchange/commodities trading business principally reflects the effects of the acquisition of INTL Global Currencies, together with the revenue decline in the equity business between Q1 2004 and Q1 2005. Equity market making revenues are stated before deduction of ADR conversion fees, while net contribution is stated after these fees.

Trading Revenues (Net Dealer Inventory and Investment Gains). The Company had trading income of $5,840,000 for Q1 2005, compared to $5,050,000 for Q1 2004. The increase in trading revenue primarily reflected the expansion of the foreign exchange/commodities trading business discussed above. The commodities trading revenues grew by 613% from Q1 2004 to Q1 2005, due to increased business and increased volatility in the price movements of gold and silver. The large growth in this business was partially offset by a 43% reduction in equity market making revenue and a 10% reduction in debt trading revenue.

Total trading revenue includes the trading profits earned by the Company before the related expense deduction for American Depositary Receipt conversion fees. These ADR fees are included in the statement of operations as part of clearing and related expenses .

Commission Revenues. The Company generated commission revenue of $157,000 for Q1 2005, compared to $246,000 in Q1 2004. Wholesale brokerage of debt securities declined during Q1 2005 because of tighter interest spreads.

Interest Income. The Company s interest income for Q1 2005 was $49,000 compared to $27,000 for Q1 2004. The majority of this interest income is paid by the Company s clearing organization to the Company s broker-dealer subsidiary.

Dividend Income (Expense). The Company s net dividend expense for Q1 2005 was $1,000 compared to net dividend income of $7,000 for Q1 2004. Dividend income or expense is generated when the Company holds long or short equity positions, respectively, over a dividend declaration date.

Equity Share of Net Income from Asset Management Joint Venture. The Company recognized revenue of $39,000 from the asset management joint venture formed during Q3 2004 and in which the Company has a 50.1% interest. INTL Consilium has achieved early profitability due to the significant level of assets invested in the hedge fund established by INTL Consilium. In this connection, one of the Company s principal shareholders has invested $75,000,000 into the fund.

Interest Expense. The Company s interest expense was $177,000 for Q1 2005, compared to $24,000 for Q1 2004. The expense in Q1 2005 consisted of $100,000 in interest paid to banks in the INTL Global Currencies business and $71,000 of interest on financial instruments sold, not yet purchased, due to an increase in ADR conversion activity.

Total Non-interest Expenses. The Company s total non-interest expenses increased by approximately 22% to $4,914,000 for Q1 2005 from $4,031,000 for Q1 2004. This increase was directly attributable to the expansion of the Company s business, which resulted in higher personnel, rents, business development and insurance costs.

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Compensation and Benefits. The Company s compensation and benefit expense increased 35% from $1,939,000 for Q1 2004 to $2,608,000 for Q1 2005. The increase was primarily a consequence of higher staff levels resulting from the expanded foreign exchange business and also of higher performance based compensation due to increased revenues and profitability in certain areas.

Clearing and Related expenses. Clearing and related expenses decreased by 9% from $1,572,000 for Q1 2004 to $1,430,000 for Q1 2005. The decrease was primarily due to the absence in Q1 2005 of the large, one-time ADR conversion-related charges that were paid in Q1 2004. The decrease was partially offset by an increase in foreign settlement fees, relating to changes in the composition of the equity trading activities, and a large increase in bank charges, relating to the INTL Global Currencies business. The total ADR conversion fees were $485,000 and $950,000 for Q1 2005 and Q1 2004, respectively.

Occupancy and Equipment Rental. Occupancy and equipment rental expense increased by 50% from $115,000 for Q1 2004 to $173,000 for Q1 2005. This increase is primarily due to increased occupancy as a result of expansion of the New York office space and the addition of the INTL Global Currencies office space in London; and an increase in information systems equipment corresponding to the increase in the number of employees.

Professional Fees. Professional fees principally consist of legal, taxation and accounting fees. These fees increased 30% from $94,000 for Q1 2004 to $122,000 for Q1 2005 mainly as a result of larger accruals for anticipated accounting fees relating to the audit of INTL Global Currencies in London and compliance with Section 404 of the Sarbanes-Oxley Act in fiscal 2005.

Depreciation and Amortization. Depreciation and amortization decreased 11% from $84,000 for Q1 2004 to $74,000 for Q1 2005. The Company incurred additional depreciation and amortization costs in Q1 2005 due to depreciation of additional fixed assets in the New York office and depreciation of the fixed assets and amortization of goodwill arising from the acquisition of INTL Global Currencies in Q4 2004. However, these items were more than offset by the absence of amortization of capitalized software development costs that were fully amortized in fiscal 2004.

Business Development Expense. Business development expense increased 121% from $81,000 for Q1 2004 to $178,000 for Q1 2005. Most of this increase relates to INTL Global Currencies business development while the balance relates to expanded marketing efforts for the other businesses of the Company.

Insurance Expense. Insurance expense increased 86% from $71,000 in Q1 2004 to $132,000 in Q1 2005. The increase was primarily due to increases in the cost of health insurance caused by higher staff levels and increased cost per employee.

Other Operating Expenses. Other operating expenses increased 150% from $74,000 in Q1 2004 to $186,000 for Q1 2005. The increase was primarily related to increased office expenses resulting from expanded staff levels, higher technology and license fees, and value added taxes payable in the United Kingdom by INTL Global Currencies.

Tax Expense. The Company recognized income tax expense of $375,000 for Q1 2005 compared with $503,000 for Q1 2004. The Company s effective income tax rate was approximately 39% for Q1 2005 compared with 40% for Q1 2004, largely as a result of the lower rate of corporate income tax in the United Kingdom than that in the United States.

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Liquidity and Capital Resources

A substantial portion of the Company s assets are liquid. The majority of the assets consist of financial instrument inventories, which fluctuate depending on the level of customer business. At December 31, 2004, approximately 88% of the Company s assets (excluding the Trust Interests of $29,740,000 disclosed in total assets under Trust certificates, at cost , which are offset by a liability of an equal amount as discussed in note 15 above) consisted of cash, cash equivalents, receivables from brokers, dealers and clearing organization and marketable financial instruments. All assets are financed by the Company s equity capital, demand loans from banks, short-term borrowings from financial instruments sold, not yet purchased and other payables.

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

INTL Trading is subject to the net capital requirements of the SEC and the NASD relating to liquidity and net capital levels. At December 31, 2004, INTL Trading had regulatory net capital of $2,389,000, which was $1,389,000 in excess of its minimum net capital requirement on that date. INTL Trading s net capital at December 31, 2004 included two subordinated loans made by the Company to INTL Trading. A loan of $500,000 was made on January 31, 2003, has a scheduled maturity date of February 28, 2006, and has an interest rate of 3%. A second loan of $2,500,000 was made on May 10, 2004, has a scheduled maturity date of June 5, 2005, and has an interest rate of 3%. INTL Trading is not obligated to repay the loans at scheduled maturity if repayment would cause INTL Trading to violate its net capital requirements. If this occurs, INTL Trading s obligation to repay the loan is deferred until these requirements can be satisfied. These inter-company loans, and the related interest income and income expense, have been eliminated from the consolidated balance sheet and statements of operations of the Company as of December 31, 2004.

The Company s assets and liabilities may vary significantly from period to period because of changes relating to customer needs and economic and market conditions. The Company s operating activities generate or utilize cash resulting from net income or loss earned during each period and fluctuations in its assets and liabilities. The most significant fluctuations arise from changes in the level of customer activity and financial instruments inventory changes resulting from proprietary arbitrage trading strategies dictated by prevailing market conditions. The Company s total assets at December 31, 2004 and September 30, 2004, were $108,071,000 and $67,692,000, respectively. Of the increase in assets over the quarter, $29,740,000 of assets and an equal value of liabilities relate to total return swap (TRS) transactions. The TRS-related assets and liabilities are of equal amounts, thus having no effect on liquidity. The Company expects that the only net cash flow arising from the TRS transactions will be the Company s receipt of fee revenue. During Q1 2005 the Company recognized $22,000 of fee revenue from these transactions. The total fee revenue is spread on a straight-line basis over the contractual terms of the TRS transactions.

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

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capital base can appropriately support the anticipated capital needs of its 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 July 2004 the Company completed the acquisition of INTL Global Currencies. The Company is obligated to make certain earn-out payments to the sellers. In particular, the Company is obligated to pay the sellers an amount equal to 20% of the gross foreign exchange trading profits generated by the Company during the 30 months ending on December 31, 2006 (up to a maximum of $4.0 million). Additionally, the Company is obligated to pay the sellers 10% of the gross foreign exchange trading profits in excess of $10.0 million per year for the 12 months ended June 30, 2005 and June 30, 2006, and 10% of such profits in excess of $5.0 million for the 6 months ended December 31, 2006. The Company anticipates that the additional contingent purchase consideration will be funded from working capital. At December 31, 2004 the Company recognized a liability for deferred acquisition consideration payable of $753,000.

Cash Flows

The Company s cash and cash equivalents decreased from $21,084,000 at September 30, 2004 to $20,095,000 at December 31, 2004.

The major sources of cash were:

The Company s net cash income for the three months ended December 31, 2004 of $531,000 (consisting of net income of $612,000, adjusted downwards by $81,000 for the net effect of non-cash items such as depreciation and amortization, deferred taxes, equity in the gain in INTL Consilium and the unrealized gain on investment in the INTL Consilium sponsored fund).

A $6,037,000 decrease in the Company s net financial instruments position (i.e. financial instruments owned, foreign currency sold, not yet purchased and financial instruments owned, not yet purchased).

A $10,844,000 increase in the Company s net amount payable to customers and receivable from customers.

The major uses of cash were:

A $14,528,000 increase in the Company s net amount of receivables from and payables to brokers, dealers and clearing organization. At December 31, 2004 and September 30, 2004 these organizations owed/(were owed by) the Company $12,955,000 and ($1,573,000), net, respectively.

Bank overdrafts were reduced in aggregate by $3,944,000.

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Critical Accounting Policies

The Company s Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles. The Company s significant accounting policies are described in the Summary of Significant Accounting Policies in the Consolidated Financial Statements set forth in the Company s 10-KSB for the year ended September 30, 2004. The Company believes that of its significant accounting policies, those described below may, in certain instances, involve a high degree of judgment and complexity. These critical accounting policies may require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the Consolidated Financial Statements. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of the Company.

Valuation of Financial Instruments and Foreign Currencies. Substantially all financial instruments are reflected in the financial statements at fair value or amounts that approximate fair value. These financial instruments include: cash, cash equivalents, and financial instruments purchased under agreements to resell; deposits with clearing organizations; financial instruments owned; and financial instruments sold but not yet purchased. Unrealized gains and losses related to these financial instruments are reflected in net earnings. Where available, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. In addition, even where the value of a financial instrument is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value. The value of foreign currencies, including foreign currencies sold, not yet purchased, are converted into its U.S. dollar equivalents at the foreign exchange rates in effect at the close of business at the end of the accounting period. For foreign currency transactions completed during each reporting period, the foreign exchange rate in effect at the time of the transaction is used.

The application of the valuation process for financial instruments and foreign currencies is critical because these items represent a significant portion of the Company s total assets. The accuracy of the valuation process allows the Company to report accurate financial information. Valuations for substantially all of the financial instruments held by the Company are available from independent publishers of market information. The valuation process may involve estimates and judgments in the case of certain financial instruments with limited liquidity and over-the-counter derivatives. Given the wide availability of pricing information, the high degree of liquidity of the majority of the Company s assets, and the relatively short periods for which they are typically held in inventory, there is insignificant sensitivity to changes in estimates and insignificant risk of changes in estimates having a material effect on the Company. The basis for estimating the valuation of any financial instruments has not undergone any change.

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

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The critical aspect of revenue recognition for the Company is recording all known transactions as of the trade date of each transaction for the financial period. The Company has developed systems for each of its businesses to capture all known transactions. Recording all known transactions involves reviewing trades that occur after the financial period that relate to the financial period. The accuracy of capturing this information is dependent upon the completeness and accuracy of the operations systems including personnel and the Company s clearing firm.

Deferred Tax Asset and Liability. The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company also establishes valuation allowances when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of December 31, 2004, based upon the projections for future taxable income, management believes it is more likely than not that the Company will realize the full benefits of these deductible differences and net operating loss carryforward. The value of the net operating loss carryforward is $25,000 as of December 31, 2004.

The recognition of deferred tax assets and liabilities involves estimates that management has calculated and relied upon. The various tax rates that jurisdictions impose and the proportion of the Company s taxable income assessed in each of those jurisdictions may differ from management s assumptions. As the Company expands into new tax jurisdictions these estimates become increasingly critical.

Effects of Inflation

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

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Quantitative and Qualitative Disclosures about Market Risk

The Company conducts its market-making and trading activities predominantly as a principal, which subjects its capital to significant risks. These risks include, but are not limited to, absolute and relative price movements, price volatility and changes in liquidity, over which the Company has virtually no control. The Company s exposure to market risk varies in accordance with the volume of client-driven market-making transactions, the size of the proprietary positions and the volatility of the financial instruments traded.

We seek to mitigate exposure to market risk by utilizing a variety of qualitative and quantitative techniques:

Diversification of business activities and instruments

Limitations on positions

Allocation of capital and limits based on estimated weighted risks

Daily monitoring of positions and mark-to-market profitability

The Company utilizes derivative products in a trading capacity as a dealer, to satisfy client needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company s other trading activities.

Management believes that the volatility of earnings is a key indicator of the effectiveness of its risk management techniques. The graph below summarizes volatility of daily revenue during Q1 2005.

In the Company s securities market-making and trading activities, the Company maintains inventories of equity and debt securities. In the Company s commodities market-making and trading activities, the

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Company s positions include physical inventories, forwards, futures and options. The Company s commodity trading activities are managed as one consolidated book for each commodity encompassing both cash positions and derivative instruments. The Company monitors the aggregate position for each commodity in equivalent physical ounces. The table below illustrates, for Q1 2005, the Company s average, greatest long, greatest short and minimum day-end positions by business segment. Due to integration issues related to the acquisition of the INTL Global Currencies foreign exchange business, this information is not available for the Company s foreign exchange activities.

Q1 2005	Average	Greatest Long	Greatest Short	Minimum Exposure
Equity Aggregate of Long and Short ($ millions)	$ 4.5	$ 6.6	n/a	$ 2.9
Equity Net of Long and Short ($ millions)	$ 0	$ 1.6	$ (2.0)	$ 0
Debt Aggregate of Long and Short ($ millions)	$ 4.4	$ 5.2	n/a	$ 2.6
Debt Net of Long and Short ($ millions)	$ 1.9	$ 3.7	$ 0.1	$ 0.1
Gold (Equivalent Oz)	(21,164)	753,578	(750,571)	0
Silver (Equivalent Oz)	(3,538)	59,735	(59,605)	0

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission. In connection with the Form 10-QSB for the fiscal quarter ended December 31, 2004 originally filed by the Company, as required under Rule 13a-15(e) of the Exchange Act, the Company s management, including its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures. Based on this evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2004.

In May 2005, the Company s management and the Audit Committee of the Company s Board of Directors concluded that the Company needed to restate certain of the Company s financial statements to correct errors in the application of accounting principles with respect to the accounting for: (i) the beneficial conversion feature embedded in the $12,000,000 convertible notes issued by the Company in March 2004; (ii) the recognition of rental expense for certain office leases; and (iii) the effect on income tax of the 7% coupon interest paid by the Company during fiscal 2004 on its convertible notes. As a result, the Company has restated its historical financial statements for the fiscal years ended September 30, 2002, 2003 and 2004, and the fiscal quarters ended December 31, 2003 and 2004.

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The above restatements are described in more detail in Note 2 to the condensed consolidated financial statements included in this Form 10-QSB/A.

Controls over the application of accounting policies are within the scope of internal controls. Therefore, management has concluded that there were material weaknesses in the Company s internal controls, as defined by the Public Company Accounting Oversight Board. The Company expects that the material weakness related to the issues described above will be remediated as a result of processes that have been implemented subsequent to December 31, 2004.

In connection with the filing of this Form 10-QSB/A, the Company s management, including the Chief Executive Officer and Chief Financial Officer, has re-evaluated the effectiveness of the Company s disclosure controls and procedures as of December 31, 2004. Because of the issues discussed above, the Company s Chief Executive Officer and Chief Financial Officer have now concluded that the Company s disclosure controls and procedures were not effective as of December 31, 2004.

There were no changes in the Company s internal controls over financial reporting that materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting during the fiscal quarter ended December 31, 2004.

It should be noted that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As a result, there can be no assurance that a control system will succeed in preventing all possible instances of error and fraud. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the conclusions of our Chief Executive Officer and Chief Financial Officer are made at the reasonable assurance level.

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 05/23/2005	/s/ Sean M. O Connor
	Sean M. O Connor Chief Executive Officer
Date 05/23/2005	/s/ Brian T. Sephton
	Brian T. Sephton Chief Financial Officer and Treasurer

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Exhibit Index

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a 14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a 14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.