

INTERNATIONAL ASSETS HOLDING CORP  
Form DEF 14A  
January 23, 2006  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**International Assets Holding Corporation**

(Name of Registrant as Specified in Its Charter)

---

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

---

2) Aggregate number of securities to which transaction applies:

---

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

4) Proposed maximum aggregate value of transaction:

---

5) Total fee paid:

---

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form DEF 14A

1) Amount previously paid:

---

2) Form, Schedule or Registration Statement No.:

---

3) Filing Party:

---

4) Date Filed:

---

Table of Contents

**INTERNATIONAL ASSETS HOLDING CORPORATION**

**220 E. Central Parkway**

**Suite 2060**

**Altamonte Springs, Florida 32701**

January 23, 2006

Dear Shareholders:

You are cordially invited to attend the annual meeting of shareholders of International Assets Holding Corporation to be held at the Company's corporate offices in Altamonte Springs, Florida on Wednesday, March 8, 2006 at 10:00 a.m. (local time).

At the meeting, shareholders will be asked to vote on the election of seven directors, the ratification of the appointment of Rothstein, Kass & Company, P.C. as the Company's independent registered public accounting firm for the Company's 2006 fiscal year, and the approval of an amendment to the Company's 2003 Stock Option Plan to increase the number of shares authorized for issuance under the plan.

The Notice of Annual Meeting of Shareholders and Proxy Statement accompanying this letter provide detailed information concerning matters to be considered at the meeting.

Your vote is important. I urge you to vote as soon as possible, whether or not you plan to attend the annual meeting.

Thank you for your continued support of International Assets Holding Corporation.

Sincerely,

/s/ **DIEGO J. VEITIA**  
**Diego J. Veitia**

**Chairman**

**Table of Contents**

**INTERNATIONAL ASSETS HOLDING CORPORATION**

220 E. CENTRAL PARKWAY, SUITE 2060

ALTAMONTE SPRINGS, FLORIDA 32701

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**March 8, 2006**

---

TO THE SHAREHOLDERS OF

INTERNATIONAL ASSETS HOLDING CORPORATION

The annual meeting of the shareholders of International Assets Holding Corporation, a Delaware corporation, (the Company), will be held on Wednesday, March 8, 2006, at 10:00 a.m. (local time), at the Company's corporate offices located at 220 E. Central Parkway, Suite 2060, Altamonte Springs, Florida, for the following purposes:

1. To elect seven directors to serve until the 2007 annual meeting of shareholders.
2. To ratify the appointment of Rothstein, Kass & Company, P.C. as the Company's independent registered public accounting firm for the 2006 fiscal year.
3. To approve an amendment to the Company's 2003 Stock Option Plan to increase the total number of shares authorized for issuance under the plan from 1,000,000 shares to 1,500,000 shares.
4. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on January 10, 2006 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting. We hope that you will attend the meeting, but if you cannot do so, please complete, date and sign the enclosed proxy card, and return it in the accompanying envelope as promptly as possible. Returning the enclosed proxy card will not affect your right to vote in person if you attend the meeting.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form DEF 14A

By Order of the Board of Directors

/s/ SEAN M. O CONNOR  
**SEAN M. O CONNOR**

**Chief Executive Officer**

Altamonte Springs, Florida

January 23, 2006

**Table of Contents**

**TABLE OF CONTENTS**

<u>ANNUAL MEETING</u>	1
<u>PROPOSAL 1 - ELECTION OF DIRECTORS</u>	5
<u>PROPOSAL 2 - RATIFICATION OF ROTHSTEIN, KASS &amp; COMPANY, P.C.</u>	11
<u>PROPOSAL 3 - APPROVAL OF AMENDMENT TO 2003 STOCK OPTION PLAN</u>	16
<u>PROPOSAL 4 - OTHER MATTERS</u>	21
<u>MANAGEMENT</u>	22
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	28
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	31
<u>GENERAL INFORMATION</u>	32

**Table of Contents**

**INTERNATIONAL ASSETS HOLDING CORPORATION**

**220 E. Central Parkway**

**Suite 2060**

**Altamonte Springs, Florida 32701**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD MARCH 8, 2006**

**GENERAL**

The enclosed proxy is solicited on behalf of the Board of Directors of International Assets Holding Corporation, a Delaware corporation (the Company), for use at the annual meeting of shareholders to be held on Wednesday, March 8, 2006, at 10:00 a.m. (local time), or at any adjournment or postponement of the meeting, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting. The annual meeting will be held at the Company's corporate offices located at 220 E. Central Parkway, Suite 2060, Altamonte Springs, Florida. The Company intends to mail this proxy statement and accompanying proxy card on or about January 23, 2006 to all shareholders entitled to vote at the annual meeting.

**ABOUT THE MEETING**

**Why did I receive this proxy statement?**

You received this proxy statement because you held shares of the Company's common stock on January 10, 2006 (the Record Date) and are entitled to vote at the annual meeting. The Board of Directors is soliciting your proxy to vote at the meeting.

**What am I voting on?**

You are being asked to vote on three items:

1. The election of seven directors (see page 5).



## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form DEF 14A

2. The ratification of Rothstein, Kass & Company, P.C. as the Company's independent registered public accounting firm for fiscal 2006 (see page 11).
  
3. The approval of an amendment to the Company's 2003 Stock Option Plan to increase the number of shares authorized for issuance under the plan from 1,000,000 to 1,500,000 shares (see page 16).

## **Table of Contents**

### **How do I vote?**

#### **Shareholders of Record**

If you are a shareholder of record, there are two ways to vote:

By completing and returning your proxy card in the postage-paid envelope provided by the Company; or

By voting in person at the meeting.

#### **Street Name Holders**

Shares which are held in a brokerage account in the name of the broker are said to be held in street name.

If your shares are held in street name, you should follow the voting instructions provided by your broker. You may complete and return a voting instruction card to your broker, or, in many cases, your broker may also allow you to vote via the telephone or internet. Check your proxy card for more information. If you hold your shares in street name and wish to vote at the meeting, you must obtain a legal proxy from your broker and bring that proxy to the meeting.

Regardless of how your shares are registered, if you complete and properly sign the accompanying proxy card and return it to the address indicated, it will be voted as you direct.

### **What are the voting recommendations of the Board of Directors?**

The Board of Directors recommends that you vote in the following manner:

1. FOR each of the persons nominated by the Board of Directors to serve as directors.
2. FOR the ratification of the appointment of Rothstein, Kass & Company, P.C. as independent registered public accounting firm for the 2006 fiscal year.
3. FOR the approval of the proposed amendment to the Company's 2003 Option Plan.

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form DEF 14A

Unless you give contrary instructions on your proxy card, the persons named as proxies will vote your shares in accordance with the recommendations of the Board of Directors.

### **Will any other matters be voted on?**

We do not know of any other matters that will be brought before the shareholders for a vote at the annual meeting. If any other matter is properly brought before the meeting, your signed proxy card would authorize Diego Veitia and Sean O Connor to vote on such matters in their discretion.

## **Table of Contents**

### **Who is entitled to vote at the meeting?**

Only shareholders of record at the close of business on the Record Date are entitled to receive notice of and to vote at the annual meeting. If you were a shareholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponement or adjournment of the meeting.

### **How many votes do I have?**

You will have one vote for each share of the Company's common stock that you owned on the Record Date.

### **How many votes can be cast by all shareholders?**

The Company had 7,547,017 outstanding shares of common stock on the Record Date. Each of these shares is entitled to one vote. There is no cumulative voting.

### **How many votes must be present to hold the meeting?**

The holders of a majority of the Company's common stock outstanding on Record Date must be present at the meeting in person or by proxy in order to fulfill the quorum requirement necessary to hold the meeting. This means at least 3,773,509 shares must be present in person or by proxy.

If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will also be counted in determining the quorum. A broker non-vote occurs when a bank or broker holding shares in street name submits a proxy that states that the broker does not vote for some or all of the proposals because the broker has not received instructions from the beneficial owners on how to vote on the proposals and does not have discretionary authority to vote in the absence of instructions.

We urge you to vote by proxy even if you plan to attend the meeting so that we will know as soon as possible that a quorum has been achieved.

### **What vote is required to approve each proposal?**

In the election of directors, the affirmative vote of a plurality of the votes present in person or by proxy and entitled to vote at the meeting is required. A proxy that has properly withheld authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for the purposes of determining whether there is a quorum.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form DEF 14A

For the proposal to ratify the appointment of Rothstein, Kass & Company, P.C. as the Company's independent registered public accounting firm, the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting will be required for

## **Table of Contents**

approval. An abstention with respect to this proposal will be counted for the purposes of determining the number of shares entitled to vote that are present in person or by proxy. Accordingly, an abstention will have the effect of a negative vote.

For the proposal to approve the amendment to the Company's 2003 Stock Option Plan, the affirmative vote of a majority of the shares represented in person or by proxy and entitled to vote at the meeting will be required for approval. An abstention with respect to this proposal will be counted for the purposes of determining the number of shares entitled to vote that are present in person or by proxy. Accordingly, an abstention will have the effect of a negative vote.

If a broker indicates on the proxy that it does not have discretionary authority as to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to the matter.

### **Can I change my vote?**

Yes. You may change your vote by sending in a new proxy card with a later date, or, if you are a shareholder of record, sending written notice of revocation to the Company's Corporate Secretary at the address on the cover of this proxy statement. Also, if you attend the meeting and wish to vote in person, you may request that your previously submitted proxy not be used.

### **Who can attend the annual meeting?**

Any person who was shareholder of the Company on January 10, 2006 may attend the meeting. If you own shares in street name, you should ask your broker or bank for a legal proxy to bring with you to the meeting. If you do not receive the legal proxy in time, bring your most recent brokerage statement so that we can verify your ownership of our stock and admit you to the meeting. However, you will not be able to vote your shares at the meeting without a legal proxy.

### **What happens if I sign and return the proxy card but do not indicate how to vote on an issue?**

If you return a proxy card without indicating your vote, your shares will be voted as follows:

(i) FOR each of the nominees for director named in this proxy statement;

(ii) FOR ratification of the appointment of Rothstein, Kass & Company, P.C. as the independent registered public accounting firm for the Company for the 2006 fiscal year; and

(iii) FOR the approval of the amendment to the Company's 2003 Stock Option Plan.

**Table of Contents****PROPOSAL 1 - ELECTION OF DIRECTORS**

Under the Company's bylaws, the number of directors of the Company is fixed, and may be increased or decreased by resolution of the Board of Directors. Currently, the board has fixed the number of directors at seven persons.

The Nominating Committee has nominated and the Board of Directors has approved the nominations of seven persons to serve as directors until the 2007 annual meeting, or until each director's successor is elected and qualified. Each of the nominees has agreed to serve if elected. The nominees are as follows:

<u>Name of Nominee</u>	<u>Age</u>	<u>Director Since</u>
Diego Veitia	62	1987
Sean M. O Connor	43	2002
Scott J. Branch	43	2002
Robert A. Miller, Ph.D.	63	1998
John Radziwill	58	2002
Justin R. Wheeler	33	2004
John M. Fowler	56	2005

The background of each nominee for director is as follows:

**Diego J. Veitia** founded the Company in 1987 and has served as Chairman of the Board since that time. He served as Chief Executive Officer of the Company from its inception in 1987 until October 2002. He has also served as President of the Company on several occasions, including most recently from September 2001 to October 2002.

**Sean M. O Connor** joined the Company in October 2002 as Chief Executive Officer. In December 2002, he was elected to the Board of Directors. From 1994 until 2002, Mr. O Connor was Chief Executive Officer of Standard New York Securities, a division of Standard Bank. From 1999 until 2002, Mr. O Connor also served as Executive Director of Standard Bank London, Ltd., a United Kingdom bank and subsidiary of the Standard Bank of South Africa.

**Scott J. Branch** joined the Company in October 2002 as President. In December 2002, he was elected to the Board of Directors. Mr. Branch was General Manager of Standard Bank London, Ltd. from 1995 until 2002. During this period, he also served in other capacities for Standard Bank, including management of its banking and securities activities in the Eastern Mediterranean Region and management of its forfaiting and syndications group.

**Robert A. Miller, Ph.D.** was elected as a director of the Company in February 1998. Dr. Miller served as President of Nazareth College in Rochester, New York from 1998 until his retirement in August 2005. He also served as a director of Bergmann Associates, LLC, a privately owned architectural and engineering firm based in Rochester, New York from September, 2000 until December 2004.





## **Table of Contents**

**John Radziwill** was elected as a director of the Company in December 2002. Mr. Radziwill is currently a director of Lionheart Group, Inc., USA Micro Cap Value Co. Ltd, Goldcrown Group Limited, New York Holdings Limited, Acquisitor Plc and Acquisitor Holdings (Bermuda) Ltd. In the past five years, he has also served as a director of Interequity Capital Corporation, GP and Radix Organization Inc. Mr. Radziwill is a member of the Bar of England and Wales.

**Justin R. Wheeler** was elected as a director of the Company in November 2004. Since 2000, Mr. Wheeler has been an executive of the Asset Management Group of Leucadia National Corporation, the Company's largest shareholder. He also serves as President and CEO of American Investment Bank, a wholly owned subsidiary of Leucadia.

**John M. Fowler** has been a private investor since 1998. From 1996 to 1998, Mr. Fowler was the Chief Financial Officer, Executive Vice President and Director of Moneygram Payment Systems, Inc. He also served as an Executive Vice President of the Travelers Group, Inc. (now Citigroup, Inc.) from 1986 to 1994.

### ***THE BOARD RECOMMENDS A VOTE***

#### ***IN FAVOR OF EACH NOMINEE***

## **The Board of Directors and its Committees**

The Company's Board of Directors is responsible for establishing broad corporate policies and for overseeing the overall management of the Company. In addition to considering various matters which require its approval, the Board of Directors provides advice and counsel to, and ultimately monitors the performance of, the Company's senior management.

There are three committees of the Board of Directors—the Audit Committee, the Compensation Committee and the Nominating Committee. Committee assignments are re-evaluated annually and approved during the Board meeting which follows the annual meeting of shareholders. The Board of Directors has determined that, in its judgment as of the date of this Proxy Statement, each of the Company's directors, other than directors who serve as executive officers, are independent directors within the meaning of Rule 4200 of the National Association of Securities Dealers, Inc. (the "NASD"). Accordingly, all of the members of the Audit, Compensation and Nominating Committees are independent within the meaning of Rule 4200.

The Board of Directors has adopted charters for all of its Committees. Copies of these charters can be found on the Company's website at <http://www.intlassets.com>.

During the fiscal year ended September 30, 2005, the Board of Directors held six meetings. Each director attended at least 75% of the total number of meetings of the Board and the Board committees of which he was a member in 2005.

## Table of Contents

The Company has adopted a formal policy regarding attendance by members of the Board of Directors at the Company's annual meeting of shareholders and at scheduled meetings of the board of directors. This policy is as follows:

### Attendance of Directors at Meetings

The Board of Directors currently holds regularly scheduled meetings and calls for special meetings as necessary. Meetings of the Board may be held telephonically. Directors are expected to attend all Board meetings and meetings of the Committees of the Board on which they serve and to spend the time needed and meet as frequently as necessary to properly discharge their duties.

Directors are also expected to attend the annual meeting of shareholders. The Board believes that director attendance at shareholder meetings is appropriate and can assist directors in carrying out their duties. When directors attend shareholder meetings, they are able to hear directly shareholder concerns regarding the Company. It is understood that special circumstances may occasionally prevent a director from attending a meeting.

Five of the Company's seven current directors attended the annual meeting of the shareholders in 2005.

### Audit Committee

The Audit Committee meets at least quarterly with the Company's management and independent accountants to, among other things, review the results of the annual audit and quarterly reviews and discuss the financial statements, select and engage the independent accountants, assess the adequacy of the Company's staff, management performance and procedures in connection with financial controls and receive and consider the accountants' comments on the Company's internal controls. The current members of the Audit Committee are John Radziwill (Chairman), Justin R. Wheeler and John M. Fowler. The Audit Committee met thirteen times during the 2005 fiscal year. The Board has determined that each of the current members of the Audit Committee is an audit committee financial expert within the meaning of Item 401(e) of SEC Regulation S-B.

### Compensation Committee

The Compensation Committee makes determinations concerning salaries and incentive compensation and otherwise determines compensation levels for the Company's executive officers, directors and other key employees and performs such other functions regarding compensation as the Board may delegate. The current members of the Compensation Committee are John M. Fowler (Chairman), John Radziwill and Robert A. Miller. The Compensation Committee met five times during the 2005 fiscal year.

## **Table of Contents**

### **Nominating Committee**

The Nominating Committee reviews and evaluates the effectiveness of the Company's executive development and succession planning processes, as well as providing active leadership and oversight of these processes. The Nominating Committee also evaluates and recommends nominees for membership on the Company's Board of Directors and its committees.

The current members of the Nominating Committee are Robert A. Miller (Chairman) John Radziwill and Justin R. Wheeler. The Committee met four times during the 2005 fiscal year.

In September 2005, the Board of Directors adopted a formal policy concerning shareholder recommendations for candidates as nominees to the Board of Directors. The policy has been incorporated into the charter of the Nominating Committee which is posted on the Company's website. The policy is as follows:

The Nominating Committee is charged with recommending to the entire board a slate of director nominees for election at each annual meeting of the shareholders. Candidates for director nominees are selected for their character, judgment and business experience.

The Committee will consider recommendations from Company shareholders when establishing the slate of director nominees to be submitted to the entire board. Such recommendations will be evaluated by the Committee using the same process and criteria that are used for recommendations received from directors and executive officers. The Committee will consider issues of diversity, experience, skills, familiarity with ethical and corporate governance issues which the Company faces in the current environment, and other relevant factors. The Committee will make these determinations in the context of the perceived needs of the Company at the time.

### **Procedures by which Shareholders may submit Nominees for Director**

For a shareholder to recommend a director nominee to the Committee, the shareholder should send the recommendation to the Chairman of the Nominating Committee, c/o Corporate Secretary, International Assets Holding Corporation, 220 E. Central Parkway, Suite 2060, Altamonte Springs, Florida 32701. The recommendation should include (a) the name, address and telephone number of the potential nominee; (b) a statement regarding the potential nominee's background, experience, expertise and qualifications; (c) a signed statement from the potential nominee confirming his or her willingness and ability to serve as a director and abide by the corporate governance policies of International Assets Holding Corporation (including its Code of Ethics) and his or her availability for a personal interview with the Committee; and (d) evidence

**Table of Contents**

establishing that the person making the recommendation is a shareholder of the Company.

Recommendations which comply with the foregoing procedures and which are received by the Secretary before September 1 in any year will be forwarded to the Chairman of the Nominating Committee for review and consideration by the Committee for inclusion in the slate of director nominees to be recommended to the entire Board for presentation at the annual meeting of shareholders in the following year.

In evaluating director nominees, the Nominating Committee considers the following factors:

the appropriate size of the Company's Board of Directors;

the needs of the Company with respect to the particular talents and experience of its directors;

the knowledge, skills and experience of nominees, including experience in securities markets, business, finance, administration or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;

familiarity with national and international business matters;

experience with accounting rules and practices; and

the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Nominating Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience.

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating Committee may also consider such other factors as it may deem are in the best interests of the Company and its shareholders. The Nominating Committee also believes that it is appropriate for certain key members of the Company's management to serve as directors.

The Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. If any member of the

## Table of Contents

Board does not wish to continue in service or if the Nominating Committee or the Board decides not to re-nominate a member for re-election, the Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Nominating Committee and Board of Directors are polled for suggestions as to individuals meeting the criteria of the Nominating Committee. Research may also be performed to identify qualified individuals. To date, the Company has not engaged third parties to identify or evaluate potential nominees, although the Company reserves the right in the future to retain a third party search firm, if necessary.

## Shareholder Communications with Non-Management Members of the Board

The Company has adopted a formal process for shareholder communications with the independent members of the Board. The policy, which is available on the Company's website, [intlassets.com](http://intlassets.com), is as follows:

Interested parties are invited to communicate with the non-management members of the Board by sending correspondence to the non-management members of the Board of Directors, c/o Corporate Secretary, International Assets Holding Corporation, 220 East Central Parkway, Suite 2060 Altamonte Springs, FL 32701 or via e-mail to [board@intlassets.com](mailto:board@intlassets.com).

The Corporate Secretary will review all such correspondence and forward to the non-management members of the Board a summary of all such correspondence received during the prior month and copies of all such correspondence that deals with the functions of the Board or committees thereof or that otherwise is determined to require attention of the non-management directors. Non-management directors may at any time review the log of all correspondence received by the Company that is addressed to the non-management members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters will immediately be brought to the attention of the Chairman of the Audit Committee.

**Table of Contents**

**PROPOSAL 2 - RATIFICATION OF INDEPENDENT ACCOUNTANTS**

The Audit Committee of the Board of Directors has appointed Rothstein, Kass & Company, P.C. ( Rothstein Kass ) as the Company's independent registered public accountants for the fiscal year ending September 30, 2006. The Board has endorsed this appointment and it is being presented to the shareholders for ratification.

Representatives of Rothstein Kass are expected to be present at the 2006 annual meeting (either in person or by teleconference), will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Shareholder ratification of the selection of Rothstein Kass as the Company's independent registered public accountants is not required by the Company's bylaws or otherwise. However, the Board is submitting the appointment of Rothstein Kass to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain that firm. Even if the appointment is ratified, the Audit Committee in its discretion may appoint a different independent accounting firm at any time during the year if the Committee determines that such a change would be in the best interests of the Company and its shareholders.

**Audit Committee Report**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee operates under a written charter approved by the Board. The charter provides, among other things, that the Audit Committee has full authority to engage the independent auditor, independent advisors, and consultants. In fulfilling its oversight responsibilities, the Audit Committee:

reviewed with management the audited consolidated financial statements in the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements;

reviewed with Rothstein Kass, the independent auditors, who are responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with accounting principles generally accepted in the United States of America, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards;

reviewed the written disclosures and the letter required by Independent Standards Board Standard No.1. In addition, the Committee has discussed with Rothstein Kass their independence from management and the Company, including the

**Table of Contents**

matters in the written disclosures required by the Independence Standards Board and considered the compatibility of non-audit services with the auditors' independence;

been advised by Rothstein Kass that Rothstein Kass has discussed with the Committee and management all the matters required to be discussed by Statement of Auditing Standards No. 61, as modified, which include among other items, matters related to the conduct of the audit of the Financial Statements; and

discussed with Rothstein Kass the overall scope and plans for its audit. The Committee meets with Rothstein Kass, with and without management present, to discuss the results of its examinations, its evaluation of the Company's internal controls and the overall quality of the Company's financial reporting process;

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005 for filing with the Securities and Exchange Commission; and selected Rothstein Kass to serve as the Company's independent auditors for 2006.

Respectfully submitted,

**THE AUDIT COMMITTEE**

**OF THE BOARD OF DIRECTORS**

John Radziwill, Chairman

Justin R. Wheeler

John M. Fowler



**Table of Contents**

**Replacement of KPMG LLP with Rothstein, Kass & Company, P.C. in Fiscal Year 2005**

On July 13, 2005, KPMG LLP ( KPMG ) notified the Company that it had resigned as the independent registered public accounting firm for the Company.

The reports of KPMG on the financial statements of the Company for the fiscal years ended September 30, 2004 and 2003, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principle, other than KPMG's audit report dated December 12, 2004, except as to Note 2, which is as of May 21, 2005, contained an explanatory paragraph stating that the Company's financial statements for the fiscal years ended September 30, 2004 and 2003 had been restated. The aforementioned audit report was included in the Company's Form 10-KSB/A for the fiscal years ended September 30, 2004 and 2003 filed on May 23, 2005.

During the fiscal years ended September 30, 2004 and 2003, and through July 13, 2005, there have been no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference to the subject matter of the disagreements in connection with KPMG's opinions on the financial statements for such years.

During the fiscal years ended September 30, 2004 and 2003, and through July 13, 2005, there have been no events of the type described in Item 304(a)(1)(iv)(B) of Regulation S-B, other than the material weaknesses in internal controls, which were previously disclosed in Item 8A of the Company's Form 10-KSB/A filed on May 23, 2005 regarding 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. The Company has authorized KPMG to respond fully to any inquiries of the Company's successor accountants concerning the subject matter of these events.

On July 13, 2005, the Audit Committee engaged Rothstein Kass as the independent registered public accounting firm for the Company for the fiscal year ending September 30, 2005 including the June 30, 2005 quarterly review. The Audit Committee of the Board of Directors of the Company participated in and approved the decision to engage Rothstein Kass.

During the fiscal years ended September 30, 2004 and 2003, and through July 13, 2005, the Company did not consult with Rothstein Kass regarding either (i) the application of accounting principles to a specified transaction, either completed or contemplated; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject of any disagreement or event of the type described in Item 304(a)(1)(iv) of Regulation S-B.

**Table of Contents****Fees Paid To Independent Registered Public Accounting Firms**

Rothstein Kass performed the review of the Company's quarterly report for the quarter ended June 30, 2005 and the audit of the Company's financial statements for the year ended September 30, 2005.

The following table presents fees billed for professional audit and other services rendered by Rothstein Kass and KPMG for the fiscal year ended September 30, 2005 and rendered by KPMG for the fiscal year ended September 30, 2004.

	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
<b>Fees billed by Rothstein Kass</b>		
Audit Fees(1)	\$ 179,250	
Audit Related Fees (2)		
Tax Fees(3)	6,125	
All Other Fees (4)		
<b>Total</b>	<b>\$ 185,375</b>	
<b>Fees billed by KPMG</b>		
Audit Fees(1)	\$ 79,716	\$ 150,000
Audit Related Fees (2)		11,500
Tax Fees(3)	12,295	8,065
All Other Fees (4)		
<b>Total</b>	<b>\$ 92,011</b>	<b>\$ 169,565</b>

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services normally provided in connection with statutory and regulatory filings or engagements. These include fees paid to KPMG for procedures related to the restatement in May 2005 of the Company's financial statements for the fiscal years ended September 30, 2004, 2003 and 2002, and for the quarter ended December 31, 2004.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under Audit Fees, including SEC filings and a private placement memorandum.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax consultation and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance and international tax planning.
- (4) All Other Fees consist of fees for products and services other than the services reported above.

**Table of Contents**

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. During the 2005 fiscal year, 100% of the audit and tax services were pre-approved by the Audit Committee.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ROTHSTEIN, KASS & COMPANY, P.C. AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.***

**Table of Contents**

**PROPOSAL 3 - APPROVAL OF AMENDMENT TO 2003 STOCK OPTION PLAN**

**General**

In December 2002, the Board of Directors adopted, and the shareholders subsequently approved, the Company's 2003 Stock Option Plan (the 2003 Option Plan). The shareholders also approved an amendment to the 2003 Option Plan at the Company's 2004 annual meeting of shareholders from 750,000 shares to 1,000,000 shares.

The Board of Directors of the Company believes that stock options are a key aspect of the Company's ability to attract and retain qualified personnel in the face of high demand for qualified personnel. The Board has approved an amendment to increase the aggregate number of shares of common stock authorized for issuance under the 2003 Option Plan by 500,000 shares, subject to shareholder approval, in order to ensure that the Company is able to continue to grant stock options to employees and consultants at levels determined appropriate by the Board. As of the date of this proxy statement, there were 158,768 shares of the Company's common stock available for issuance under the 2003 Option Plan.

In the event that this Proposal 3 is not approved by the shareholders, and as a consequence the Company is unable to continue to grant options at competitive levels, the Company's management believes that it will negatively affect the Company's ability to meet its needs for highly qualified personnel and its ability to manage future growth. Without these additional shares, management expects that the current shares available for grant under the 2003 Option Plan will not be sufficient to maintain our option grant practices after December 31, 2006.

The Compensation Committee of the Board of Directors administers the 2003 Option Plan and determines the number of options to be granted thereunder, subject to an annual limitation on the total number of options that may be granted to any employee. Details are presented in the Summary Compensation Table regarding stock options granted during the last three years to each of the Company's five most highly compensated executive officers.

As of January 3, 2006, the closing price for the Company's common stock on the National Association of Securities Dealers Automated Quotation System was \$8.96 per share.

**Plan Description**

The following summary describes briefly the principal features of the 2003 Plan. A copy of the 2003 Plan, as proposed to be amended, is attached as Exhibit A to this Proxy Statement. This summary does not purport to be complete and is subject to and qualified in its entirety by the provisions of the 2003 Plan.

## **Table of Contents**

### **Purpose**

The purpose of the 2003 Plan is to advance the growth and development of the Company by affording an opportunity to directors, executives, consultants and key employees of the Company and its affiliates to purchase shares of the Company's common stock and to provide incentives for them to put forth maximum efforts for the success of the Company's business.

### **Eligibility**

The 2003 Plan provides that awards may be granted to directors, consultants, officers, and executive, managerial, and other key employees of the Company or any parent or subsidiary of the Company. Approximately 62 employees of the Company and its subsidiaries are currently eligible to participate in the Plan.

### **Shares Subject to the Plan**

The current total number of shares of common stock which may be issued by the Company to all optionees under the 2003 Plan is 1,000,000 shares and will increase to 1,500,000 shares upon shareholder approval of the proposed amendment to the 2003 Plan. To date, the Company has issued options to acquire 1,076,400 shares under the Plan, of which 200,018 have expired, 305,015 have been exercised and 573,367 are currently outstanding. If and to the extent an option granted under the 2003 Plan expires or terminates for any reason whatsoever, in whole or in part, the shares (or remaining shares) of stock subject to that particular option shall again be available for grant under the 2003 Plan.

### **Administration**

The 2003 Plan is currently administered by the Compensation Committee of the Board of Directors of the Company. The Committee may issue incentive stock options ( Incentive Options ) within the meaning as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code ), or options that do not qualify as Incentive Options ( Nonqualified Options ). In addition, the Committee shall have the discretion to determine the employees, directors and consultants to whom options are to be granted and the number of shares subject to the options.

### **General Conditions**

The 2003 Plan sets forth certain general conditions relating to the options that may be granted under the Plan, including the following: (a) the maximum term of any Incentive Option is 10 years; (b) an option may be exercisable only as long as optionee is in continuous employment with or any parent subsidiary or successor thereof except as expressly permitted by the 2003 Plan; and (c) an option shall not be assignable or transferable other than by will or the laws of descent and distribution.

## **Table of Contents**

### **Stock Options**

The option price of stock options granted under the Plan may not be less than 100% of the fair market value of the stock on the date the option is granted. The option price of stock options granted under the Plan to any individual who possesses more than 10% of the combined voting power of all classes of common stock of the Corporation may not be less than 110% of the fair market value of the stock on the date the option is granted.

Options shall become exercisable as provided by the Board in the option agreement evidencing each option. An option shall terminate upon the occurrence of the following conditions: (a) the expiration of one year after termination of employment by death or disability; (b) immediately upon termination for cause; (c) the expiration of 90 days after termination of employment for a reason other than death, disability or cause; or (d) the expiration of 90 days after the removal or resignation of the optionee from the Board.

The 2003 Plan contains certain additional conditions applicable to options designated as Incentive Options. Incentive Options may be granted only to employees. No employee may be granted Incentive Options exercisable for the first time in any calendar year in which Incentive Options have an aggregate fair market value of stock (determined for each Incentive Option at its date of grant) in excess of \$100,000. An Incentive Option granted to an employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the corporation shall have a per-share exercise price of not less than 110% of the fair market value of the stock on the date the option is granted.

Payment of the exercise price may be made in cash, by certified bank check, in shares of the Company's common stock or any combination of the foregoing. At the discretion of the Board, the Company may also accept a promissory note, secured or unsecured, in the amount of the option price.

### **Plan Termination and Amendment**

Under its terms, the 2003 Plan will terminate ten years following approval by the stockholders. Furthermore, the Plan may be amended or terminated at any time by the Board. Any termination shall not affect any award then outstanding. Amendments to the Plan may be made without shareholder approval, except as such shareholder approval may be required by law or the rules of a national securities exchange, or if the amendment would increase the number of shares that may be issued under the Plan, or modify the requirements as to eligibility for participation in the Plan.

### **Federal Tax Treatment of Options**

If an option is granted to an employee in accordance with the terms of the Plan, no income will be recognized by such employee at the time the option is granted.

Generally, on exercise of a Nonqualified Option, the amount by which the fair market value of the shares of the stock on the date of exercise exceeds the purchase price of such



**Table of Contents**

shares will be taxable to the optionee as ordinary income, and will be deductible for tax purposes by the Company in the year in which the optionee recognizes the ordinary income. The disposition of shares acquired upon exercise of a Nonqualified Option under the Plan will ordinarily result in long-term or short-term capital gain or loss (depending on the applicable holding period) in an amount equal to the difference between the amount realized on such disposition and the sum of the purchase price and the amount of ordinary income recognized in connection with the exercise of the Nonqualified Option.

Section 16(b) of the Exchange Act generally subjects executive officers, directors and 10% shareholders of the Company to potential liability if they both buy and sell shares of the Company's stock within a six-month period. In the case of employees who are subject to these rules, generally, unless the employee elects otherwise, the relevant date for measuring the amount of ordinary income to be recognized upon the exercise of a Nonqualified Option will be the later of (i) the date the six-month period following the date of grant lapses and (ii) the date of exercise of the Nonqualified Option.

Generally, upon exercise of an Incentive Option, an employee will not recognize any income and the Company will not be entitled to a deduction for tax purposes. However, the difference between the purchase price and the fair market value of the shares of stock received on the date of exercise will be treated as a positive adjustment in determining alternative minimum taxable income, which