

INTERNATIONAL ASSETS HOLDING CORP

Form DEF 14A

February 11, 2004

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

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**

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(Name of Registrant as Specified In Its Charter)

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(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:

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(2) Aggregate number of securities to which transaction applies:

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(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):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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**INTERNATIONAL ASSETS HOLDING CORPORATION**

220 E. CENTRAL PARKWAY, SUITE 2060

ALTAMONTE SPRINGS, FLORIDA 32701

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**March 26, 2004**

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TO THE SHAREHOLDERS OF

INTERNATIONAL ASSETS HOLDING CORPORATION

The annual meeting of the shareholders of International Assets Holding Corporation will be held on Friday, March 26, 2004, at 10:00 a.m., local time, at the Company's corporate offices, 220 E. Central Parkway, Suite 2060, Altamonte Springs, Florida, for the following purposes:

1. To elect six directors to serve until the 2005 annual meeting of shareholders.
2. To approve an amendment to the International Assets Holding Corporation 2003 Stock Option Plan to increase the total number of shares authorized for issuance under the plan from 750,000 shares to 1,000,000 shares.
3. To ratify the appointment of KPMG LLP as the Company's independent accountants for the 2004 fiscal year.
4. To authorize the issuance of up to 2,286,956 shares of common stock upon the conversion or exercise of certain convertible notes and warrants to be issued by the Company, including the issuance of up to 330,435 of these shares to the Company's executive officers and directors.
5. To approve an amendment to the Company's Certificate of Incorporation to increase the total number of shares of common stock which the Company is authorized to issue from 8,000,000 shares to 12,000,000 shares.
6. To transact such other matters as may properly come before the meeting.

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The Board of Directors has fixed the close of business on February 2, 2004 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 and sign the enclosed proxy, and return it in the accompanying envelope as promptly as possible.

By Order of the Board of Directors

DIEGO J. VEITIA

Chairman

Altamonte Springs, Florida

February 2, 2004

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**INTERNATIONAL ASSETS HOLDING CORPORATION**

**220 E. Central Parkway**

**Suite 2060**

**Altamonte Springs, Florida 32701**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD MARCH 26, 2004**

**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 Friday, March 26, 2004, at 10:00 a.m., local time (the Annual Meeting), or at any adjournment or postponement thereof, 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 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 February 17, 2004 to all shareholders entitled to vote at the Annual Meeting.

**Voting Rights and Outstanding Shares**

Only holders of record of common stock at the close of business on February 2, 2004 (the Record Date) will be entitled to notice of and to vote at the Annual Meeting. At the close of business on the Record Date, the Company had outstanding and entitled to vote 4,750,552 shares of common stock.

Each holder of record of common stock on the Record Date will be entitled to one vote for each share held on all matters to be voted upon. If no choice is indicated on the proxy, the shares will be voted in favor of Proposals 1, 2, 3, 4 and 5.

All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

**Broker Non-Votes**

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A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in a fiduciary capacity (typically referred to as being held in street name ), but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the election of directors, increases in authorized common stock for general corporate purposes and ratification of auditors. Non-routine matters include amendments to stock plans and issuance of additional securities.



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### **Revocability of Proxies**

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Corporate Secretary of the Company at the Company's principal executive offices, 220 E. Central Parkway, Altamonte Springs, Florida 32701, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

### **Solicitation**

The Company will bear the entire cost of solicitation of proxies including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to shareholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others to forward to such beneficial owners. The Company may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of the Company. No additional compensation will be paid to directors, officers or other regular employees for such services.

### **Required Vote**

No business can be conducted at the annual meeting unless a majority of all outstanding shares entitled to vote are either present in person or represented by proxy at the meeting. A plurality of the shares present at the meeting in person or by proxy is required for the election of directors. Under the Company's bylaws, the affirmative vote of a majority of the shares present at the meeting in person or by proxy is required for all other items. For this purpose, abstentions and broker non-votes have the same effect as votes cast against a particular proposal.

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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 6 persons. The Board of Directors has nominated six persons to serve as directors until the 2005 annual meeting, or until each director's successor is elected and qualified. Each of the nominees is a current director of the Company, and 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	60	1987
Sean M. O Connor	41	2002
Scott J. Branch	41	2002
Edward R. Cofrancesco, Jr.	41	2002
Robert A. Miller, Ph.D.	60	1998
John Radziwill	56	2002

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 forfeiting and syndications group.

**Edward R. Cofrancesco, Jr.** joined the Company in December 2000 and currently serves as the Executive Vice President and Chief Operating Officer. He was elected to the Board of Directors in 2002. Since 2000, he has served in several positions with the Company, including as the Senior Vice President of INTL Trading and International Assets Advisory Corporation, the Company's former subsidiary. He was appointed Executive Vice President and Chief Operating Officer in 2002. Mr. Cofrancesco served as a Vice President of Institutional Sales for Lehman Brothers from February 2000 to December 2000, and as Vice President and Manager of the international trading division of Raymond James from 1993 to February 2000.

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**Robert A. Miller, Ph.D.** was elected as a director of the Company in February 1998. Dr. Miller has served as President of Nazareth College in Rochester, New York since 1998. He is currently a director of Bergmann Associates, LLC, a privately owned architectural and engineering firm based in Rochester, N.Y. Dr. Miller previously served as the Academic Vice President of Queens College in Charlotte, North Carolina from 1994 to 1998. Dr. Miller previously served as a director of America's All Seasons Fund, Inc. until December 1998.

**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 on the boards of Air Express International Corp., Interequity Capital Corporation, GP and Radix Organization Inc. Mr. Radziwill is a member of the Bar of England and Wales.

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

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

## **Board Committees and Meetings**

During the fiscal year ended September 30, 2003, the Board of Directors held six meetings. The Board currently has an Audit Committee, a Compensation Committee and a Nominating/Personnel Committee. Committee assignments are re-evaluated annually and approved by the Board at its meeting that follows the annual meeting of shareholders.

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 as to internal controls. The Audit Committee acts pursuant to a written charter. At the beginning of the 2003 fiscal year, the Audit Committee was composed of Messrs. Robert A. Miller (Chairman), Jerome F. Miceli and Jeffrey L. Rush. Effective December 6, 2003, Mr. Miceli and Mr. Rush resigned from the Board and the Audit Committee. After their resignation, the Audit Committee was composed of Messrs. Radziwill (Chairman) and Mr. Miller. The Audit Committee met 4 times during the 2003 fiscal year. All members of the Audit Committee are independent directors, within the meaning of Rule 4200 of the National Association of Securities Dealers, Inc. (the "NASD").

The Compensation Committee makes recommendations 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 Compensation Committee does not have a written charter. At the beginning of the 2003 fiscal year, the Compensation Committee was composed of Mr. Rush (Chairman), Mr. Miller and Mr. Miceli. Effective December 6, 2003, Mr. Rush and Mr. Miceli resigned from the Board and the Compensation Committee. After their resignation,

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the Compensation Committee was composed of Mr. Miller and Mr. Radziwill (as Co-Chairmen). The Compensation Committee met 2 times during the 2003 fiscal year. All of the members of the Compensation Committee are independent directors within the meaning of Rule 4200 of the NASD.

The Nominating/Personnel 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. In addition, the Nominating/Personnel Committee evaluates and recommends nominees for membership on the Company's Board of Directors and its committees. The Committee does not have a written charter, although it intends to adopt one prior to the 2005 Annual Meeting.

At the beginning of fiscal 2003, the Nominating/Personnel Committee was composed of Mr. Miller (Chairman), Mr. Miceli and Mr. Rush. Effective December 6, 2003, Mr. Miceli and Mr. Rush resigned from the Board and the Nominating/Personnel Committee. After their resignation, the Nominating/Personnel Committee was composed of Mr. Miller (Chairman) and Mr. Radziwill. The Committee met one time in fiscal 2003. All of the members of the Nominating/Personnel Committee are independent directors within the meaning of Rule 4200 of the NASD.

As indicated above, nominating functions are handled by the Nominating/Personnel Committee.

Historically, the Company has not had a formal policy concerning shareholder recommendations to the Nominating/Personnel Committee. To date, the Company has not received any recommendations from shareholders requesting that the Nominating/Personnel Committee (or any predecessor) consider a candidate for inclusion among the Committee's slate of nominees in the Company's proxy statement. The absence of such a policy does not mean, however, that a recommendation would not have been considered had one been received. The Nominating/Personnel Committee will consider this matter fully during the upcoming year with a view to adopting and publishing a policy on shareholder recommendations for director nominees prior to the 2005 Annual Meeting.

In evaluating director nominees, the Nominating/Personnel 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;

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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/Personnel 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/Personnel Committee may also consider such other factors as it may deem are in the best interests of the Company and its shareholders. The Nominating/Personnel Committee also believes it appropriate for certain key members of the Company's management to participate as members of the Board.

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

Historically, the Company has not adopted a formal process for shareholder communications with the Board. Nevertheless, every effort has been made to ensure that the views of shareholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to shareholders in a timely manner. The Company believes its responsiveness to shareholder communications to the Board has been excellent. Nevertheless, during the upcoming year, the Board will give full consideration to the adoption of a formal process for shareholder communications with the Board and, if adopted, publish it promptly and post it to the Company's website.

Although the Company does not have a formal policy regarding attendance by members of the Board of Directors at the Company's Annual Meeting of Shareholders, it encourages directors to attend. The 2002 and 2003 Annual Meetings were attended by 66% and 50% of the directors, respectively. The Board will give consideration during the upcoming year of

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establishing a formal policy on this issue, so as to maximize attendance by directors, taking into account the directors' schedules and the timing requirements of applicable law.

During the fiscal year ended September 30, 2003, each Board member attended at least 75% of the aggregate of the meetings of the Board, and of the Committees on which he served, held during the period for which he was a Board or Committee member, respectively.

The Board has determined that Mr. Miller and Mr. Radziwill are independent directors within the meaning of Rule 4200 of the NASD.

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**PROPOSAL 2 APPROVAL OF AMENDMENT TO INTERNATIONAL ASSETS**

**HOLDING CORPORATION 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). As of February 6, 2004, there were 87,750 shares of the Company's common stock available for issuance under the 2003 Option Plan.

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 250,000 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. In the event that this Proposal 2 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 June 30, 2004.

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 executed officers.

As of February 6, 2004, the closing price for the Company's common stock on the National Association of Securities Dealers Automated Quotation System was \$6.78 per share.

**Plan Description**

The following summary describes briefly the principal features of the 2003 Plan, which 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.

**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.





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### **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 30 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 Corporation to all optionees under the 2003 Plan is 750,000 shares and will increase to 1,000,000 shares upon shareholder approval of the proposed amendment to the 2003 Plan. 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 Board of Directors of the Company, although the Plan provides that the Board may authorize the Compensation Committee to administer the Plan on behalf of the Board. The Board 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 Board 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 thereunder: (a) the maximum term of any Incentive Option shall be 10 years; (b) an option shall 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 granted under the Company as such term is defined in the Plan or is continually on the Board of Directors of the Company, the 2003 Plan shall not be assignable or transferable other than by will or the laws of descent and distribution.

### **Stock Options**

The option price of stock options granted under the 2003 Plan shall 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 2003 Plan to any individual who possesses more than 10% of the combined voting power of all classes of common stock of the Company shall not be less than 110% of the fair market value of the stock on the date the option is granted.



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Options shall become exercisable as provided by the Board in each option agreement. 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 Company 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 on December 19, 2012. Furthermore, the 2003 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.

The Company's executive officers exercised a total of 3,200 options during the fiscal year ended September 30, 2003.

## **Federal Tax Treatment of Options**

If an option is granted to an employee in accordance with the terms of the 2003 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 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 2003 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

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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 may subject the employee to the alternative minimum tax. The disposition of shares acquired upon exercise of an Incentive Option under the 2003 Plan will ordinarily result in long-term or short-term capital gain or loss (depending on the applicable holding period). Generally, however, if the employee disposes of shares of stock acquired upon exercise of an Incentive Option within two years after the date of grant or within one year after the date of exercise (a disqualifying disposition), the employee will recognize ordinary income, and the Corporation will be entitled to a deduction for tax purposes, in the amount of the excess of the fair market value of the shares on the date of exercise over the purchase price (or, in certain circumstances, the gain on sale, if less). Any excess of the amount realized by the holder on the disqualifying disposition over the fair market value of the shares on the date of exercise of the Incentive Option will ordinarily constitute capital gain. In the case of an employee subject to the Section 16(b) restrictions discussed above, the relevant date in measuring the employee's ordinary income and the Company's tax deduction in connection with any such disqualifying disposition will normally be the later of (i) the date the six-month period after the date of grant lapses or (ii) the date of exercise of the Incentive Option.

If an option is exercised through the use of stock previously owned by the employee, such exercise generally will not be considered a taxable disposition of the previously owned shares and, thus, no gain or loss will be recognized with respect to such shares upon such exercise. However, if the previously owned shares were acquired through the exercise of an Incentive Option or other tax-qualified stock option and the holding period requirement for those shares was not satisfied at the time they were used to exercise an Incentive Option, such use would constitute a disqualifying disposition of such previously owned shares resulting in the recognition of ordinary income (but, under proposed Treasury Regulations, not any additional capital gain) in the amount described above. If any otherwise qualifying Incentive Option becomes first exercisable in any one year for shares having a value in excess of \$100,000 (grant date value), the portion of the option in respect of such excess shares will be treated as a Nonqualified Option.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE**

**FOR THE APPROVAL OF THE AMENDMENT TO THE 2003 OPTION PLAN.**

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**PROPOSAL 3 RATIFICATION OF INDEPENDENT ACCOUNTANTS**

The Audit Committee of the Board of Directors has appointed KPMG LLP as the Company's independent accountants for the fiscal year ending September 30, 2004. The Board has endorsed this appointment and it is being presented to the stockholders for ratification.

Representatives of KPMG LLP are expected to be present at the 2004 Annual Meeting, 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 KPMG LLP as the Company's independent accountants is not required by the Company's bylaws or otherwise. However, the Board is submitting the appointment of KPMG LLP 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 direct the appointment of 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. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements in the Annual Report with management 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.

The Audit Committee reviewed with KPMG LLP, 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. The Committee has reviewed the written disclosures and the letter from KPMG LLP required by Independent Standards Board Standard No.1. In addition, the Committee has discussed with KPMG LLP their independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board and considered the compatibility of non-audit services with the auditors' independence.

The Audit Committee discussed with KPMG LLP the overall scope and plans for their audit. The Committee meets with KPMG LLP, with and without management present, to discuss the results of their examinations, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting process. The Audit Committee held four meetings during fiscal year 2003.

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In reliance 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 year ended September 30, 2003 for filing with the Securities and Exchange Commission. The Committee also recommended, subject to shareholder approval, the selection of the Company's independent accountants.

John Radziwill

Robert A. Miller

**Fees Paid To KPMG LLP**

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of the Company's annual financial statements for the fiscal years ended September 30, 2003 and 2002 and fees billed for other services rendered by KPMG LLP during those periods.

	<u>Fiscal 2003</u>	<u>Fiscal 2002</u>
Audit Fees(1)	\$ 60,000	\$ 48,850
Audit Related Fees (2)		
Tax Fees(3)	21,800	41,050
All Other Fees (4)		
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>\$ 81,800</b>	<b>\$ 89,900</b>

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- (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 that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements.
- (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.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice 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.

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

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pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. During the 2003 fiscal year, 100% of the audit services were pre-approved by the Audit Committee. None of the tax services were pre-approved because they were provided prior to the requirement of pre-approval under the Sarbanes-Oxley Act.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE  
FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE  
COMPANY S INDEPENDENT ACCOUNTANTS.**

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**PROPOSAL 4**

**APPROVAL FOR PURPOSES OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. RULE 4350 OF THE  
ISSUANCE OF UP TO 2,286,956 SHARES OF THE COMPANY'S COMMON STOCK UPON THE CONVERSION OR EXERCISE  
OF CERTAIN CONVERTIBLE NOTES AND WARRANTS TO BE ISSUED BY THE**

**COMPANY, INCLUDING THE ISSUANCE OF UP TO 330,435 OF THESE SHARES TO THE**

**COMPANY'S EXECUTIVE OFFICERS AND DIRECTORS**

The Company currently intends to undertake a private placement of up to \$12,000,000 in principal amount of the Company's 7% Convertible Subordinated Notes (the "Notes"). Subject to the approval of the Company's shareholders, the Notes will be convertible at the option of the holders at any time prior to maturity into shares of the Company's common stock at an initial conversion price of \$5.75 per share. The conversion price may be adjusted to reflect stock splits, stock dividends and similar transactions. The Notes may also be convertible at the option of the Company at any time during any 90 day period following each date on which all of the following conditions are satisfied: (i) the closing price of the Company's common stock exceeds \$8.00 per share (proportionately adjusted to reflect adjustments to the conversion price) for 20 consecutive trading days; and (ii) the issuance of shares of the Company's common stock under the Notes has been registered under the Securities Act.

The Company has entered into an agreement with an unaffiliated broker/dealer (the "Placement Agent") to act as placement agent for the offering of the Notes. Under this agreement, the placement agent would receive warrants to purchase up to 200,000 shares of the Company's common stock (the "Warrants").

The Company is seeking shareholder approval to the issuance of up to 2,286,956 shares of common stock upon the conversion of the Notes and exercise of the Warrants, including the issuance of up to 330,345 of these shares to the Company's executive officers and directors.

**Why We Are Seeking Shareholder Approval**

The issuance of shares upon the conversion of the Notes and the exercise of the Warrants is being submitted to the shareholders at the 2004 Annual Meeting to comply with the Rules of the National Association of Securities Dealers, Inc. ("NASD") applicable to entities, such as the Company, which have securities authorized for trading on the Nasdaq SmallCap Market System ("Nasdaq").

Under NASD Rule 4350(i)(1)(D), companies which have securities traded on Nasdaq must obtain shareholder approval prior to the issuance of common stock in a private offering at a price less than the greater of the book and market value per share of such common stock, if the issuance amounts to twenty percent (20%) or more of the common stock or twenty percent (20%) or more of the voting power of a company outstanding before the issuance (the "20% Rule"). Under NASD Rule 4350(i)(1)(A), as interpreted by NASD, companies which have



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securities traded on Nasdaq must also obtain shareholder approval prior to the issuance of common stock in a private offering to the Company's executive officers, directors and their affiliates at a price less than the market value per share (the "Insider Purchase Rule").

The Company's Board of Directors has submitted this Proposal 4 to the Company's shareholders for approval because the 20% Rule and the Insider Purchase Rule may apply to issuance of the Company's common stock upon the conversion of the Notes and the exercise of the Warrants, depending on the book value and the market value of the Company's common stock at the time that the Notes and Warrants are sold. The closing price of the Company's common stock on February 6, 2004 was \$6.78 per share.

As of February 6, 2004, the Company had issued and outstanding 4,750,552 shares of common stock. If the Company were to sell all of the Notes, then the holders of the Notes and Warrants would be entitled to receive 2,286,956 shares of common stock upon the conversion of the Notes and exercise of the Warrants, if the shareholders approve this Proposal 4 and Proposal 5. These shares would represent approximately 48.1% of the Company's outstanding shares as of February 6, 2004.

The Company executive officers and directors have indicated that they may purchase up to \$1,900,000 in principal amount of the Notes. If all of these Notes were converted into common stock, these officers and directors would receive 330,435 shares of common stock, or 7.0% of the total outstanding on February 6, 2004.

The approval sought under this Proposal 4 will be effective to satisfy the shareholder approval required by the 20% Rule and the Insider Purchase Rule. Under the NASD Rules, the minimum vote which will constitute shareholder approval of this Proposal 4 for the purposes of the 20% Rule and the Insider Purchase Rule is a majority of the total votes cast on the proposal in person or by proxy at the 2004 Annual Meeting.

### **Impact if Proposal 4 is Not Approved**

The Board of Directors has determined that the approval of the issuance of the common stock under the Notes will be in the best interest of the Company and its shareholders because the approval will enhance the Company's ability to sell the Notes and provide the Company with the ability to cause the conversion of the Notes under certain circumstances. In this connection, the Company believes that the Notes will be more attractive to investors if they are convertible into the Company's common stock and if the Company's executive officers and directors are able to purchase a significant portion of the Notes. Additionally, the Notes provides that the Company has the right to cause the Notes to be converted at any time during any 90 day period following each date on which all of the following conditions are satisfied: (i) the closing price of the Company's common stock exceeds \$8.00 per share (proportionately adjusted to reflect changes in the conversion price) for 20 consecutive trading days; and (ii) the issuance of shares of the Company's common stock under the Notes has been registered under the Securities Act. The Company will not be able to exercise this right if the shareholders do not approve the conversion rights of the Notes.

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The sale of the Notes is not contingent upon the approval of the Company's shareholders of this Proposal 4. The Company is seeking shareholder approval of this Proposal 4 at this time to enhance the Company's ability to sell the Notes and to avoid additional costs associated with the need to convene a special meeting of shareholders at a later date to approve the conversion provisions of the Notes.

The Company intends to attempt to sell the Notes even if the shareholders do not approve this Proposal 4. If this occurs, the conversion provisions of the Notes would not become effective, and the holders would not have any right to convert the Notes into the Company's common stock. The Company believes that this would adversely affect the Company's ability to sell the Notes. If the Company is unable to complete the sale of the Notes, either in whole or in part, the Company's ability to finance the planned expansion of its business may be adversely affected.

If the Company cannot raise additional funds by completing the sale of the Notes, the Company intends to seek alternative funding for its expansion plans. However, the Company is uncertain whether the alternative funding would be available, or even if available, whether it would be on terms less favorable to the Company. If the Company is unsuccessful in obtaining additional funding, it could cause the Company to scale back or eliminate some or all of its expansion plans.

## **Background and Reasons for the Offering**

In November 2003, the Company's Board of Directors determined that the Company should raise additional capital to support the expansion of the Company's business. The Board instructed management to explore the feasibility of raising capital through the sale of debt securities, equity securities or a combination of both. After discussions with several unaffiliated broker/-dealers, management of the Company recommended to the Board that the Company engage the Placement Agent to assist the Company in this process.

Based on management's recommendation, on December 19, 2003, the Company entered into a placement agreement with the Placement Agent under which the Placement Agent agreed to assist the Company in the sale of securities. The agreement provided that the terms of the securities and the amount of the offering would be negotiated between the Company and the Placement Agent.

During January 2004, the management of the Company held discussions with the Placement Agent regarding the terms of the securities to be offered by the Company and the amount of the offering. Based on these discussions, the Placement Agent indicated that it believed that the Company could successfully complete an offering of up to \$12,000,000 in convertible subordinated notes containing the terms reflected in the Notes, including the conversion price of \$5.75 per share.

On January 16, 2004, the Board of Directors approved the offering of up to \$12,000,000 in Notes. The Board of Directors considered the following factors in approving the terms of the Notes and the maximum amount of the offering:

The Company's need for the proceeds of the offering.

The Company's ability to successfully complete the sale of the Notes in light of existing market conditions and the risks associated with an investment in the Notes.

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The current and historical levels of the market prices and trading volume for the Company's common stock. In this connection, the Board noted that the Company's common stock had traded in the range of \$1.79 to \$6.88 per share during the preceding 12 months, with the closing price of \$5.63 per share on January 15, 2004. The Board also noted that the average daily trading volume of the common stock was 10,227 shares during the 3 months preceding January 15, 2004.

The possibility that the market price of the common stock might increase above the conversion price of the Notes prior to the completion of the offering.

The indicated value of the Company's common stock based upon the market value of the other companies in the securities industry, utilizing customary valuation methodologies.

After considering these factors, the Board concluded that the terms of the Notes and the size of the offering were in the best interests of the Company and its shareholders.

On January 16, 2004, the Board of Directors also discussed the possible sale of the Notes to the Company's executive officers and directors. At this meeting, the Board approved the sale of up to \$1,900,000 in principal amount of the Notes to the Company's executive officers and directors. In approving the possible sale of Notes by the insiders, the Board concluded that the participation of the Company's insiders would enhance the Company's ability to sell the Notes to other investors because their participation would demonstrate the insiders' commitment to the Company. You should note that the insiders have not committed to purchase any amount of the Notes and there can be no assurance that they will do so.

Since January 16, 2004, the price of the Company's common stock has risen above the conversion price of \$5.75 per share set forth in the Notes. As of February 6, 2004, the closing price of the Company's common stock was \$6.78 per share. The Company's Board of Directors has reviewed the implication of this increase with respect to its approval of the terms of the Notes and the sale of the Notes to the Company's insiders. Based on this review, the Board of Directors continues to believe that the terms of the Notes, the size of the offering and the possible sale of up to \$1,900,000 in Notes to the insiders are in the best interests of the Company and its shareholders due to the factors described above. Furthermore, the Board believes that increasing the conversion price, reducing the interest rate or otherwise adjusting the terms of the Notes would have a material adverse affect on the Company's ability to complete the sale of the Notes.

### **Proposed Increase in Authorized Common Stock**

The Company is also seeking shareholder approval to increase the Company's authorized common stock from 8,000,000 shares to 12,000,000 shares as discussed in Proposal 5 in this proxy statement. Unless the proposal to increase the authorized common stock is approved, the Company will not be able to sell more than \$7,771,670 in Notes which are convertible into the Company's common stock.

### **Possible Purchases by Executive Officers and Directors**

The Company's executive officers and directors have indicated that they intend to purchase either directly or through affiliates up to \$1,900,000 in principal amount of the Notes.

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The maximum amounts which may be purchased by each executive officer, director or his affiliates is as follows:

<u>Name of Executive Officer or Director</u>	<u>Maximum Amount of Purchase</u>
Scott Branch	\$ 250,000
Edward Cofrancesco	\$ 150,000
Sean O Connor	\$ 250,000