



International Monetary Exchange , INC.
(NASDAQ: INLM)

Institutional Research Report

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December 12, 2004

Symbol (NASDAQ):	INLM	Period Ending				
Recent Price:	0.41	Year	E/S	PER	REVS	PSR
Avg. Daily Vol. (3-Mo.):	9,771	2004 4 th Qtr	0.01	41.0	NA	NA
Industry	Business Services	2003	(0.01)	NA	0.10	3.97
12 Month Target Valuation:	\$0.60	2004E	0.012	34.7	0.12	3.34
Market Capitalization (\$mil):	\$14.13	2005E	0.021	19.2	0.17	2.38
Capitalization: 09/30/04		Estimated 2003-2007 annualized				
Shares O/S ¹ :	38,495,682	Growth Rate:	25%			
Cash & Equiv. (09/30/04)	1,348,857	Dividend:	Nil			
Net Working Capital:	737,641	Yield:	Nil			
Long-term Debt:	1,018,424	Insider Ownership (12/31/03):	22,743,400	59.0%		
Shareholders Equity (9/30/04)	2,996,1515	Rating:	BUY / 4			

¹ As of 9/30/2004

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International Monetary Exchange, Inc is rated as “BUY / 4” for the following reasons:

Summary:

International Monetary Exchange is a publicly traded barter company. The barter industry is highly fragmented providing ample opportunity for INLM to expand their business in sales and profitability through acquisitions.

INLM’s strengths include:

- Publicly traded. Stock provides a source of funding for acquisitions through issuance and exchange of shares.
- Strong cash position
- High Gross Margin
- Seasoned management

INLM’s weaknesses:

- Small float. With a recent 3-month average daily volume of 14,369 shares, or a dollar volume of \$6,034, it can be difficult to get in or out of a position without affecting the price of the stock.

A history of Barter and Money

Barter began long before any organized monetary exchange system existed. Simply put, when one person needed what another person possessed, they traded for it, or bartered. The first type of money, really a barter system, consisted of trading livestock for goods or services. Goats, pigs, cattle and sheep were a measure of a man's wealth.

Around 1,200 BC, many people began to use Cowrie shells as a form of currency. This practice continued up to the middle of the 20th century in isolated parts of the world. The Cowrie shell can be considered one of the oldest forms of currency.



Somewhere around 500 BC, metal coinage began to appear in the form of silver lumps. Coins (see photo of coins on the right¹) were believed to be first used in Lydia, part of present day Turkey. These coins were stamped with images of gods or emperors to validate them.

Coinage soon led to other types of money. A precursor of paper money was leather money, used by the Chinese around 118 BC. These primitive 'banknotes' were essentially decorated, square pieces of leather.

Gold began to make a major contribution to the monetary system around the 1800's as Europe adopted the metal to back its banknotes. This allowed for the printing of more banknotes without the introduction of inflation. The US followed suit and adopted this standard in the 1900's, which helped the US form a central bank.

The Gold standard began to lose power during the depression of the 30's, as banknotes were devalued to help provide relief. As the world went off of the Gold standard, complex regulation of currency valuation began.²

The past decade or two has ushered in a new type of currency, electronic. The use of credit cards has facilitated the gradual shift to electronic forms of monetary exchange. Value is now stored in debit cards and borrowed from banks with the swipe of a piece of plastic. In Japan, monetary value is even stored within their cellular phones; instead of using a debit card, they transmit payment via their cell phone.

Today's Barter Industry

The US barter exchanges first began to form in the 60's, with the operators plugging the exchanges as ways to do business without paying taxes.

¹ Image from: <http://minneapolisfed.org/econed/curric/history.cfm>, The Federal Reserve Bank of Minneapolis.

² Background information from <http://www.pbs.org/wgbh/nova/moolah/history.html>.

Taxes, however, are one of life's inescapable events, the other being death. So, in the 80's the IRS declared that barter dollars were the taxable equivalent of the traditional US currency. The industry was also determined to be a type of third-party record keeper.

Industry trade organizations began to form to help alleviate these record keeping requirements and to help stave off further regulatory actions. The IRTA, or the International Reciprocal Trade Association was formed, along with National Association of Trade Exchanges.

Today, the barter industry is extremely fragmented with over 500 retail barter brokers in North America³. The industry is growing faster than GDP at 8% annually,⁴ with the average North American exchange doing between \$3.5 and \$4.5 million annual volume⁵. An IRTA survey indicates that the barter industry may be able to capture 4% of the global trade volume. In 2001, Global trade volume was over \$32 trillion, giving barter an indicated market opportunity of \$128 billion.⁶

The table below shows the growth, in volume of the barter industry from 1974 to 1995. Annualized, this growth is 11.91% vs. GDP growth over the same period of 7.87%

³ from National Association of Trade Exchanges (NATE) press release dated 9/23/04, <http://www.nate.org/articlesdetail.asp?id=827&pageno=1>

⁴ IRTA, 'The Commercial Barter Industry,' <http://www.irta.com>

⁵ from National Association of Trade Exchanges (NATE) press release dated 9/23/04, <http://www.nate.org/articlesdetail.asp?id=827&pageno=1>

⁶ IRTA, '2001 IRTA Barter Statistics Workshop Results.'

**Table 1: Volume of Corporate Barter,
North American Companies, 1974-1995
(in Millions of Current US Dollars)**

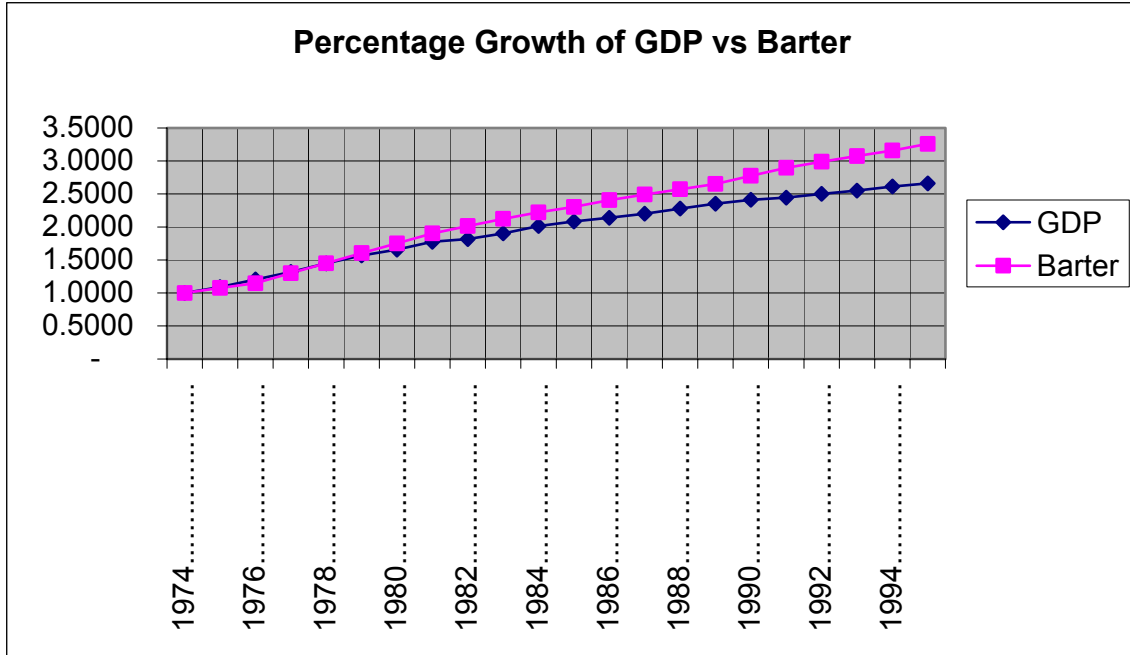
Year	Volume	Year	Volume
1974	\$850	1986	\$3200
1976	980	1987	3470
1977	1130	1988	3750
1978	1300	1989	4050
1979	1500	1990	4550
1980	1720	1991	5100
1981	1980	1992	5570
1982	2200	1993	6050
1983	2440	1994	6560
1984	2680	1995	7216
1985	2900		

Source: Barter by North American Companies,
(<http://www2.dgsys.com/~irta/statisti.html>).

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The table below shows, from 1974-1995, the percentage growth of GDP and Barter Volume. As you can infer from the chart, barter volume is growing faster than GDP as a whole.

⁷ http://www.appropriate-economics.org/materials/reciprocal_exchange_networks.pdf



INLM seems to be the only publicly traded, true barter only company. Other publicly traded companies in the industry are not just barter companies, or are more of a franchise type of operation.

The Trade Organizations

International Reciprocal Trade Association (IRTA)

The largest trade organization for the industry is the International Reciprocal Trade Association, or IRTA. IRTA was founded in 1979.

IRTA is truly international, and has barter exchange members in over 25 countries, including the US, UK, Canada, Australia, Malaysia, India, Thailand, North Korea, Japan, China, Mexico, France, Germany, and Russia.

The positive effects of a trade association can be seen in IRTA’s success in obtaining a ruling from the Civil Aeronautics Board allowing the unrestricted barter of air services.

National Association of Trade Exchanges (NATE)

The National Association of Trade Exchanges or NATE, was formed in 1984. NATE is a membership owned organization that provides an industry set of ethics and codes for members to operate under.

NATE also operates BANC, a payment-clearing house for member exchanges. This clearinghouse operates in a similar fashion to the Federal Reserve System in that it allows

members to pay other members by transferring funds into and out of their respective accounts at the BANC. The availability of this system permits barter exchanges to offer a wider assortment of trade merchandise and value to their respective members. This in turn makes the barter industry much more viable in established economies.

INLM Business Basics

INLM's primary operating company is Continental trade Exchange (CTE), with a trading volume of \$32mm, and operating revenue of \$3.972mm, an increase of 42.4%. CTE receives sales from several revenue streams:

- A cash fee paid for handling the transaction (12% (6% buyer, 6% seller fees)). This equates to around \$3.8mm (2003) given a trade volume of \$32mm.
- A cash membership fee paid when a member joins (\$595).
- Monthly maintenance fees (\$10 cash / \$10 in trade dollars). With 7,000 business clients, INLM receives \$70,000 per month in cash dollars and \$70,000 in trade dollars for its own account.
- Cash earned through sales of goods purchased by IMS with its own trade dollars.

CTE's competition is made up of smaller, independently owned exchanges. Competition in this industry can be a benefit since customers of one exchange may use the barter services of another exchange through the BANC system, and customers tend to join more than one exchange, if available in their area.

The customers have an incentive to stay with an exchange since dollars earned must be utilized through that exchange company. Since customers can build up a large barter dollar balance, turnover can be minimized. These factors contribute to CTE's 10% growth rate from established accounts.

These characteristics also make acquisitions more attractive. CTE can purchase an existing exchange utilizing its stock as currency and acquire an established customer base.

Acquisition Strategy

CTE's business strategy has been to find an exchange were the owner would like to cash out. CTE usually purchases these exchanges partly in cash and partly in stock, to be paid out over several years to the current owners.

An example of how INLM transacts an acquisition is the purchase of Tradecard, Inc in September 2002. The company purchased Tradecard for 1,050,000 (pre-split shares) shares. Of this amount, the owners were guaranteed to receive \$800,000 in cash, and \$250,000 in barter dollars.

For the cash portion, INLM agreed to deposit \$20,000 each month into an escrow account for 35 months. Tradecard's former owners then have the right to sell back to INLM

20,000 shares of INLM stock at \$1 per share per month. At the end of the 36-month period, if the Tradecard owners have sold all of the INLM shares, INLM may keep any remaining funds.

Utilizing this transaction method allows INLM to make acquisitions using cash flow and trade dollars as guarantees of stock value.

Once an acquisition is made, CTE begins to consolidate back office operations while retaining sales staff in the local markets. Back office operations can include processing, software, and travel exchange departments.

Financials

CTE has been growing sales at a faster rate than the general industry, due to being able to take advantage of acquisitions. Sales have been growing at a 5-year average rate of +26%, vs. the industry growth rate of 11.9%. Recent revenue growth at CTE has been even larger, as illustrated by the 2003/2002-growth rate of 42%.

Income Statement

CTE's expenses, as a percentage of revenue, are broken down in the following table:

Income	2003	% Of Sales
Gross Revenue	\$3,972,386.00	100.00%
Net Revenue	\$3,972,386.00	100.00%
Expenses:		
Payroll & Employee Related	\$2,159,870.00	54.37%
General Administrative	\$ 818,126.00	20.60%
Occupancy	\$ 432,176.00	10.88%
Selling	\$ 186,457.00	4.69%
Other	\$ 203,055.00	5.11%

This table illustrates the largest cost center in the barter exchange industry, Payroll and Employee Related Expenses. CTE has done an acceptable job of controlling this expense, as it does not change significantly, as a percentage of sales, as the company has expanded.

INLM's ROE seems a bit low at 4.05%. Without the expenses related to the printing division disposition lawsuit, the ROE figure should be higher going forward.

General and Administrative expenses have been high in the past few years, mainly due to lawsuit expenses related to the disposition of the printing business.

Balance Sheet

INLM has a strong balance sheet with good cash position. The company's current ratio is 1.78x. Given this strong ratio, INLM should have no problem continuing its growth by acquisition strategy.

INLM's debt / equity ratio of 48% would also not be too restrictive in regards to financing options related to their acquisition strategy, given INLM's strong ability to generate cash.

Assets

Assets	2003
Current Assets	
Cash	\$ 113,023.00
Acct. Receivable	\$ 745,270.00
Earned Trade Acct	\$ 164,961.00
Inventory	\$ 136,672.00
Prepaid Exp	\$ 5,552.00
Current Notes Receivable	\$ 49,919.00
Total Current Assets	\$1,215,397.00
Property Plant and Equip	
Leasehold Improvements	\$ 9,652.00
Furniture & equip	\$ 813,734.00
Less Accumulated Depreciation	\$ (424,654.00)
Net Property & equip	\$ 398,732.00
Other Assets	
Restricted cash	\$ 301,230.00
Notes Receivable	\$ 49,736.00
Membership Lists	\$1,363,109.00
Goodwill	\$ 535,478.00
Investment in R/E	\$ 43,000.00
Other	\$ 92,425.00
Deferred Inc. tax	\$ 124,000.00
Total Other Assets	\$2,508,978.00
Total Assets	

	\$4,123,107.00
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The asset side of the balance sheet shown above shows a large cash balance (Cash and Restricted Cash) of \$414,253. INLM's cash balance (unrestricted) has grown about 2%, even after spending on acquisitions.

Restricted cash includes funds deposited into escrow for compensating owners of acquired firms if those owners do not receive the value anticipated from sales of INLM stock received from the merger transaction. Funds in the restricted category could conceivably be returned, in whole or in part, to INLM at the end of the agreed upon time frame.

Another item unique to the industry is the Earned Trade Account. This account consists of barter dollars earned by INLM that can be used to purchase goods and services through its barter network. INLM earns these dollars each month as part of a member's membership fee.

When INLM acquires an exchange company, the greatest value in the acquisition is the membership list. Accordingly, INLM records this value on its balance sheet, currently at \$1.36mm. Amounts paid for an acquisition above and beyond the value of the membership list is placed into the goodwill asset account.

Liabilities

Liabilities	2003
Current Liabilities	
Accts. Payable	\$ 70,781.00
	-
Payroll and Payroll Taxes	114,842.00
Sales Tax	26,177.00
Other Accrued Expenses	21,000.00
Current Portion of LT Debt	447,165.00
Total Current Liabilities	679,965.00
Long Term Liabilities	
Capital Leases	13,395.00
Notes Payable	608,495.00
Notes Payable to Related Parties	193,329.00
Deferred Comp Payable	64,045.00
Total LT Liabilities	879,264.00
Total Liabilities	1,559,229.00

Stockholder Equity	
Common Stock	1,832.00
Paid in Capital	3,152,806.00
Treasury Stock	(353,201.00)
Retained Earnings	(237,559.00)
Total Stockholder Equity	2,563,878.00
Total Liabilities and Stockholder Equity	4,123,107.00

Earnings Model

	FY 2003 (a)	2004 (e)	2005 (e)
Income	\$ 3,972,386	\$ 4,727,139	\$ 6,617,995
Net Rev	3,972,386	4,727,139	6,617,995
Expenses			
Payroll & Related Employee	2,159,870	2,054,485	2,876,280
General Administrative	818,126	945,227	1,257,419
Occupancy	432,176	519,985	661,719
Selling	186,457	213,546	298,964
Other	203,055	236,356	198,539
Total Expenses	3,799,684	3,969,801	5,293,002
Gain (Loss) Before Inc Tax	172,702	757,337	1,324,992
Income tax expense (benefit)	68,800	302,934	529,996
Net Gain (Loss)	103,902	454,402	794,995
Loss on Disc. Ops	(346,161)	0	0
Net inc	(242,259)	454,402	794,995
Common Outstanding	38,495,602	38,495,602	38,495,602
	\$ -		
NI Per Common	\$ (0.01)	\$ 0.01	\$ 0.02

Common Outstanding take from 10q and 10k. FY 2003 earnings numbers adjusted for total shares outstanding.

INLM's sales have been growing at an outstanding rate. During the past five years, revenue has grown, on average, over 46%. I believe that this trend should continue given the opportunities for industry consolidation and acquisitions that are available to INLM.

Conclusion

INLM is a compelling buy. The biggest problem is its extremely small float, as noted at the beginning of this report. It is because of the small float that I have rated the company Buy/4 and not a Strong Buy/5.

INLM has indicated that they are attempting to find ways to alleviate the thinly traded problem, including finding intuitional investors that could provide funding to the company in exchange for shares. Although this could be dilutive, the trading benefits are hard to argue about.

I would recommend trades be made in small allotments to avoid causing an adverse market price reaction.

Management Summary

INLM has a very seasoned management that is highly capable of guiding the company as it grows. Talent is not limited to the CEO; there is a depth of talent at the company to draw upon. Some members of management also serve on the board of NATE, and therefore can have some guidance in the direction of one of the industry's trade groups.



Donald F. Mardak has been the Chief Executive Officer, President and a director of IMS since our inception in 1988. From 1970 to 1974, Mr. Mardak was a partner in Learning Unlimited, a division of Hal Leonard Publishing Corp. In 1974, he founded Don Mardak Piano & Organ Centers, Ltd., a chain of retail piano and organ stores in the Greater Milwaukee area. In 1985, Mr. Mardak founded the Continental Trade Exchange barter network under the name "Continental Trading Company", a sole proprietorship. Continental Trading Company was incorporated in 1988 as Continental Trade Exchange, Ltd. and is now our primary operating subsidiary. Mr. Mardak is a two-term president of NATE, the National Association of Trade Exchanges (1995-96 and 1999-2000) and served on the board of directors of the organization for seven years. NATE is the principal barter industry trade association.



John E. Strabley, Jr. has been the Executive Vice President of IMS since 1992 and a director since 1997. Mr. Strabley joined Continental Trade Exchange, Ltd. as a trade broker in 1991. In 1992, he was promoted to General Manager and, in August of that year, was appointed as Vice President of Continental Trade Exchange and IMS. In 1995, Mr. Strabley passed the barter industry certification examination and was awarded with the industry's

highest designation of CTB - Certified Trade Broker. In 1997, Mr. Strabley became a director of both Continental Trade Exchange, Ltd. and IMS.

Dale L. Mardak has been Vice President of IMS since 1995, and a director since 1997. He joined Continental Trade Exchange, Ltd. in 1993 as a trade broker and was appointed trade director in 1995. In 1997, he was appointed Treasurer and a director of both Continental Trade Exchange, Ltd. and IMS. In 1999, Mr. Mardak received the designation of CTB - Certified Trade Broker. Currently, he is serving a term on the NATE Board of Directors.



Danny W. Weibling is a Certified Public Accountant and, along with his wife Lisa, was the former owner of Trade Systems Interchange, the Rohnert Park, CA barter network that IMS acquired in April of 2001. Mr. Weibling is also the developer and programmer of TradeWorks, the barter industry's finest software program, and he served six years as treasurer of the National Association of Trade Exchanges. He became Treasurer and Chief Financial Officer of IMS in April of 2001.

Patricia A. Katsch is currently the owner of Katsch & Associates, a marketing consulting and public relations firm. From 1998 - 2001, Ms. Katsch was an Associate Dean in the College of Professional Studies at Marquette University. Previous to that, she founded and published the Women's Yellow Pages of Greater Milwaukee and was the producer of the Wisconsin World of Women Show.



Wayne Emmer is currently the President of Illinois Cement Co., a position he has held since August of 1998. Wayne is also a former member of the Parkview Christian Academy School Board.

Gerald Van Dyn Hoven is currently the president of the Van Dyn Hoven Automotive Group. Jerry is a director of American National Bank - Fox Cities, and is a member of the Board of Trustees of Equitable Reserve Association.



Thomas Delacy is currently the president and CEO of Independent Inspections, Inc. Thomas has a degree in geology from the University of Wisconsin - LaCrosse, and he is a Wisconsin State Certified Building Inspector.

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