

Moving Forward

# 2010 Annual Report

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Changing the way the world does business.™

## International Monetary Systems, Ltd. and Subsidiaries

# Company Profile

Founded in 1985, International Monetary Systems (IMS) serves over 15,000 businesses and professional people representing 23,000 cardholders in 51 U.S. markets. The IMS network enables companies to acquire new customers, create cost savings, and improve operations by taking advantage of barter opportunities in their business models. Based in New Berlin, WI and managed by seasoned industry veterans, IMS is one of the largest publicly traded barter companies in the world and is continually expanding its network by adding exchange locations. The company's proprietary transaction software, Trade Network Tracking System (TNT), enables businesses and individuals to trade goods and services throughout North America online using an electronic currency known as trade dollars.

Since its inception, IMS has continued to expand its membership roster by way of acquisitions and a strong program of internal growth. By exhibiting a high level of integrity and solid reliability, International Monetary Systems has earned a great degree of respect and has developed a reputation as a dominant player in the barter industry.

In today's fast-paced business environment, convenience and simplicity are crucial. International Monetary Systems provides its members with BarterBuy/E-mail promotions, monthly statements, 24-hour authorization service, and IMS' exclusive online, Internet trading. In addition, each account is assigned a seasoned trade broker who acts as that company's personal sales and purchasing representative.

Because of the nature of its business, IMS has consistent, recurring revenues from a number of sources. The Company's income is derived through transaction fees, monthly maintenance fees, and several other service charges. In 2010, IMS processed approximately \$212 million in billable trade volume, which generated revenue of more than \$13,700,000.

### CONTENTS

|   |         |
|---|---------|
| A Message to Our Shareholders.....  | 1 - 3   |
| Health Care.....  | 4       |
| Marketing.....  | 5       |
| Advertising Mogul Saves Business the Old Fashioned Way: Through Barter..... | 6       |
| Barter in a Big Way.....  | 7       |
| Report of Independent Registered Public Accounting Firm.....                | 9 - 10  |
| Financial Statements  |         |
| Consolidated Balance Sheets.....  | 11 - 12 |
| Consolidated Statements of Operations.....                                  | 13      |
| Consolidated Statements of Cash Flows.....                                  | 14 - 15 |
| Consolidated Statements of Changes in Stockholder's Equity.....             | 16      |
| Notes to Consolidated Financial Statements.....                             | 17 - 36 |

Dear Fellow Shareholders:

2010 was a year of transition, litigation, and continuing to build infrastructure for International Monetary Systems. The Company spent a good deal of time and resources settling litigation and tax examinations, while streamlining operations and strengthening controls.

Following are some of the highlights of 2010:

## Return to Shareholders

- During the year, 198,790 shares of the Company's outstanding common stock were repurchased into treasury. This represents approximately 1.8% of the outstanding shares of the Company.
- The Company's stock generally traded in a higher range in 2010 than in 2009.

## Operations

- In 2010, there was a loss from operations of \$333,620, compared to income of \$539,305 last year. The 2010 loss included approximately \$182,000 in legal fees and a charge of \$220,000 related to settlement of an employment contract. Also incurred were approximately \$316,000 of other professional fees that are not expected to recur. Adjusted for these non-recurring expenses, net operating income would have been approximately \$385,000.
- International Monetary Systems, Ltd. had EBITDA (earnings before interest, taxes, depreciation and amortization) of \$1,297,547 or approximately \$.12 per share. Exclusive of the non-recurring items noted above, EBITDA would be approximately \$2,016,000 in 2010.
- Cash flow from operations totaled approximately \$960,000 or \$.09 per share.
- Total liabilities were reduced by \$1,161,468 during the year.
- Corporate finance, accounting, and human resources were relocated to the corporate headquarters in Milwaukee, WI from offices in northern California, resulting in increased operating efficiencies and lower administrative costs.

## Markets Served

### CALIFORNIA

Brentwood  
Carmel  
Fresno  
Los Angeles  
Modesto  
Monterey  
Sacramento  
San Diego  
San Jose  
Sonoma County  
Stockton

### COLORADO

Boulder  
Denver  
Grand Junction

### CONNECTICUT

Hartford  
New Haven

### HAWAII

Honolulu

### ILLINOIS

Chicago  
Rockford

### INDIANA

Indianapolis

### KANSAS

Wichita

### KENTUCKY

Louisville

### MARYLAND

Annapolis  
Baltimore

### MASSACHUSETTS

Boston

### MICHIGAN

Benton Harbor  
St. Joseph

### NEVADA

Las Vegas  
Reno

### NEW YORK

Buffalo  
Long Island  
New York  
Rochester  
Syracuse

### OHIO

Cincinnati  
Columbus  
Dayton

### RHODE ISLAND

Providence

### TENNESSEE

Chattanooga  
Memphis

### VIRGINIA

Alexandria  
Arlington

### WASHINGTON D.C.

### WISCONSIN

Fox Valley  
Green Bay  
Kenosha  
Madison  
Milwaukee  
Racine

### CANADA

Toronto  
Peterborough

(President's message continued)

- In August 2010, the Company implemented its new TNT barter software, which allows for enhanced sales, operations and reporting.
- During the third quarter of 2010, several purchase notes were paid in full, which frees cash flow of approximately \$16,000 per month. Also, another purchase note requiring payments of approximately \$9,000 per month was paid in full in December 2010. Several of the Company's offices, notably the Chicago office, have been moved in early 2011 resulting in an estimated savings of approximately \$21,000 per month.

## RESULTS OF OPERATIONS

EBITDA (earnings before interest, taxes, depreciation and amortization) was \$1,297,547 in 2010 versus \$2,252,138 in 2009. Excluding the legal and settlement expenses described above, EBITDA would have been approximately \$2,016,000 in 2010.

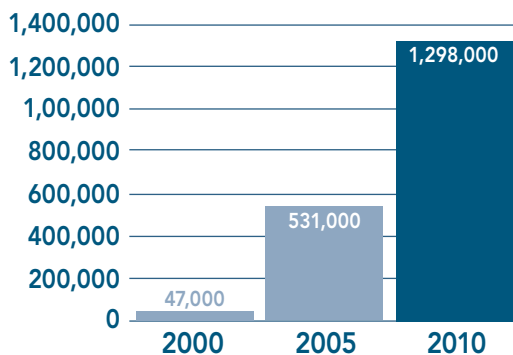
### Revenue

During the year ended December 31, 2010, IMS processed more than \$212 million in billable trade volume, generating gross revenue of \$13,704,307 compared to \$13,968,152 in 2009. The 1.9% decrease is primarily due to an increase of \$261,000 in trade dollar sales discounts, which offset revenue from several large transactions in the corporate barter division.

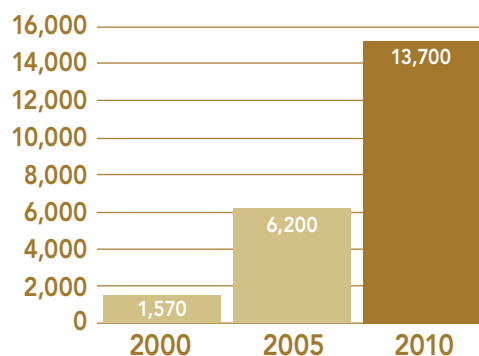
### Operating Expenses

Total operating expenses increased from \$13,428,847 in 2009 to \$14,037,927 in 2010, an increase attributable to approximately \$498,000 of non-recurring

### EBITDA



### REVENUE (in thousands)



## John Strabley, CTB

Executive Vice President - COO

At International Monetary Systems, we believe it is our job as a trading partner to bring all the resources we have at our disposal to help clients successfully manage inventory, finances and, ultimately, profits. Exchange clients are now able to utilize a broad array of services to complement cash management using IMS currency. Trade credit lines, employee trade health benefits, as well as the best online barter account management system, e-commerce marketplace and service directory in the industry, are changing the dynamics of barter as a generally accepted currency and business practice.

We look forward to renewed prosperity in 2011 as we commence new growth initiatives. The launch of our franchise division has exponential global potential with far less investment. The pioneering efforts of our Information Tech-

nology Department's development of our viral marketing online referral program has a broad but personalized reach, and the value we offer clients during the present economic environment has never been greater.

We will continue to strive to reach our business objectives by serving retail customers through our community niche barter model, now with a footprint in 51 markets throughout the United States and North America. The results demonstrate the strength of this approach, all of which can be customized to meet the needs of the ever-changing economy.

In 2003, IMS trademarked the phrase, "Changing the way the world does business". This focus, though bold, drives our strategy, our business model and our everyday decisions.

professional fees associated with settling litigation, tax audits and abandonment of a secondary stock offering, and \$220,000 of settlement expense. We continue to see savings from the continuation of a cost containment and realignment exercise where redundant costs in acquired markets were eliminated and the Company's outside sales force was restructured and reduced.

As a result, exclusive of the one-time, non-recurring expenses, operations totals for 2010 would have been quite similar to those reported in 2009. Because of the additional year-end reductions in expenses, IMS management expects 2011 to provide a much better financial and operational picture.

The graphs on these pages illustrate the growth of IMS over the past ten years. Throughout this annual report, you will see some of the new innovative ideas and programs that are being implemented to continue strengthening the Company and its financial results. We are very excited about the future as we transition the operation to a higher tech, Internet-based format, while still providing the high level of personal service that our clients have come to expect.

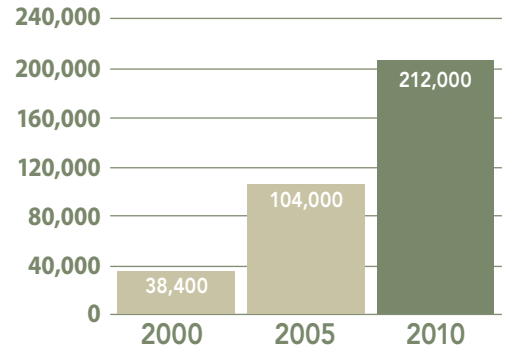
Once again, we thank all of you shareholders for your continued support of International Monetary Systems, North America's finest barter network.

Sincerely,

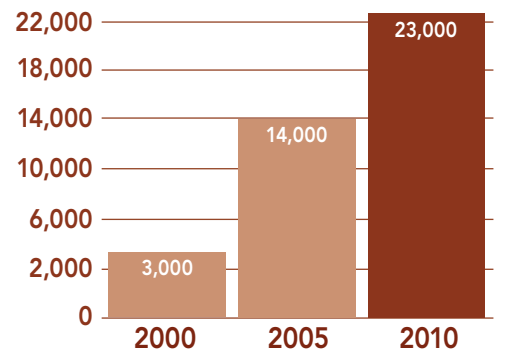


Donald F. Mardak  
President, CEO and Chairman

### TRADE VOLUME (in thousands)



### CARDHOLDERS

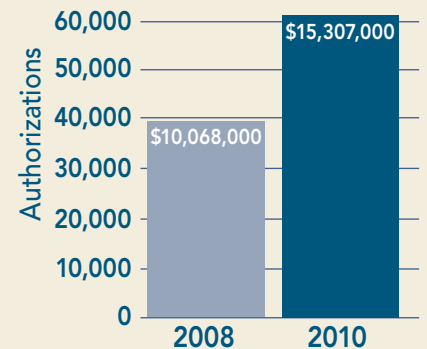


### Dale Mardak, CTB Senior Vice President - COO

One of the guiding principles at International Monetary Systems is that we have never been ones to shy away from technology - we embrace it. Our efforts to be at the forefront of the barter industry will continue as we constantly explore the many options available today that technology presents. We have recently completed a redesign of our web site. Furthermore, we are in the midst of making a mobile optimized version of the site to meet future demands. This is needed for smart phone and tablet apps to work efficiently, as well as for our ability to interact with other e-commerce sites. We are very excited with the possibilities of creating new capabilities to meet customer needs for Internet and mobile channel usage. Another of our recent web design feature changes helped to better optimize the site which resulted in higher search engine rankings.

Unlike other barter companies who rely on boxed software, IMS has moved forward with a successful roll-out of our barter commerce and process management software, the Trade Network Tracking System (TNT). This allows IMS to continually change or modify to meet the growing demands of our employees and customers as we have in-house developers that work tirelessly on making this the best software in our industry.

### WEBSITE AUTHORIZATIONS



Increase in number of authorizations: 60.10%  
Increase in total authorization amount: 52.03%



## Health Care

The program, IMS Benefit Solutions, will make it possible for International Monetary Systems' members to utilize their earned trade dollars to provide an expanded healthcare benefits package to their employees.

We believe that, because of the size of the IMS trade network, our new healthcare program is the largest of its kind in the barter industry. As part of the program, IMS business members will offer their employees trade dollars as reimbursement for medical costs that are not covered by their health insurance plans. Because of the high healthcare costs that most companies and their employees are now facing, IMS Benefit Solutions will not only enhance the clients' businesses, but will also generate significant new trade-dollar volume for International Monetary Systems. As a result of this program, we expect to recruit many more medical professionals across North America to join the IMS barter network.

International Monetary Systems has had a medical reimbursement policy that utilizes trade dollars in place for its employees for many years now. We are now expanding this program by making it available for our clients to use with their employees.

Under the new plan, exchange members and their employees will carry a special IMS Benefit Solutions prepaid barter card, which they will present to their medical providers.



# Marketing

International Monetary Systems builds lasting relationships with its members and provides them with important benefits at a time when they need them.

- Members can sell products and services at full retail price to the IMS network and buy needed products and services for their business by using their IMS trade dollars, without spending cash.
- IMS membership provides a new way to grow its members' businesses by adding a full-service sales and marketing team that introduces their product or service to the nationwide IMS network.
- We've invested heavily in our trade-broker network so our members can reap the rewards. IMS brokers are experienced and trained by seasoned veterans of the barter industry. They learn from the most reputable experts, and together create an effective network of communications – all about the products and services of our members.

We at IMS are proud to partner with businesses, allowing many to not only stay in business, but to use barter as a necessity for growth. IMS gives its members a financial edge when companies incorporate barter into their business model.



## Advertising Mogul Saves Business the Old Fashioned Way: Through Barter

**W**hen the going gets tough, the tough get going. Or, in the case of Georgia entrepreneur Stan Thomas, president of Magellan Transit Media, the tough turn to...barter?

In the wake of the current economic downturn, many companies are struggling to stay afloat. Magellan, a pioneer in the truck-side marketing industry, is a case study in the power of barter to turn a failing business around. (<http://www.magellan-tsa.com/>)

Four years after founding Magellan -- which creates "rolling billboards" for companies like Kinko's, Bacardi, and Holiday Inn -- Thomas found the company deeply in debt.

Luckily, he already had a trade account with IMS Barter. (<http://www.imsbarter.com>) So, after slashing payroll and expenses, he began using his \$50,000 line of credit to buy everything possible.

For Thomas, that included office supplies, computers, yellow page advertising, even airfare and hotel stays for his billboard installers, who travel nationally.

Barter is the oldest form of doing business. However, sophisticated barter networks do not exchange in direct

swapping, but use trade dollars or credits to manage transactions.

IMS currently boasts 16,000 participants, giving members like Thomas unlimited opportunities to earn and spend trade dollars. Members range from sole proprietorships to national conglomerates.

Barter is a smart vehicle for moving excess inventory, attracting new customers, and generating credit to use for business purchases -- regardless of a company's economic situation.

In the U.S., more and more businesses are jumping on the barter bandwagon. Through aggressive sales as well as corporate acquisitions, IMS has grown by 350% in the last ten years.

As for Magellan, the firm's annual barter activity has soared from \$15,000 to \$500,000 in the last decade. In fact, employees are partially paid in barter dollars.

"I grew barter from a casual asset to an integral part of my business, and it saved us from bankruptcy," Thomas notes. "We're an extreme case, but I think most companies can benefit from barter to some degree. They'd be silly not to explore the possibilities, especially now."



## GLENWOOD TREE EXPERTS

### Barter In A Big Way

**A**lmost everything about Jim Seckelmann's company, *Glenwood Tree Experts*, is BIG.

Big, as in a fleet of 20 trucks and heavy equipment machines - some larger than a small home. Big, as in mounds of wood pulp and debris rising to the height of a three-story building.

Another thing Seckelmann has been big on is barter. He got into the cashless system of trading goods and services 20 years ago and now does some \$250,000 in sales annually through his barter network, International Monetary Systems, or IMS. That makes possible more big things: smiles. By offering his services for trade within the IMS network, Seckelmann earns trade dollars that he uses to gift dental work to employees. The dentistry was paid for, of course, with IMS trade dollars.

Marie Anderson, the first face a visitor sees in the reception window of the suburban Chicago tree service, has a beautiful smile, gratis, from her employer of nine years. "I have so much more confidence now when I greet people with a smile," she said.

"I've done that with four or five of our people," said Seckelmann. "If it takes \$5,000 or \$10,000 (in trade dollars) to give someone more confidence and give them a different outlook on life," he added, "it's well worth it".

In the current, dangerous economic downturn, barter income and buying power become strong windfalls. "Trade has always been part of our business model," said Seckelmann. "Not everybody has cash to spend all the time, so they'll look to spend trade dollars."

Also, barter business begets cash business. "This is business we would not get otherwise," said Seckelmann. "People who've had us out will have neighbors who are not part of trade, who then end up using us and paying cash".

During peak season, Glenwood runs six full work crews, totaling 45 employees. The seasonal business does have some down time during Chicago's harsh winters, but with work projects expanded by barter sales, more crew members are kept busy for longer periods.

Glenwood, like many businesses, uses trade dollars to buy advertising also. Their annual advertising budget is about \$200,000, said Seckelmann, or about 80 percent of its annual barter revenue. Glenwood buys ads in local money mailers and uses coupon cash savers and mailer booklets to get the word out.

Other trade dollar expenditures include over 100 commercial-grade fire extinguishers for the buildings, grounds and work vehicles, and the servicing and inspections of the units. "If you can be creative, do a little research on what your business needs, and sometimes wait for certain things, barter is great," Seckelmann said.

Trade dollars also go to office supplies, electrical work, heavy-duty copy machines, parts for the repair shop, printing, signs on the trucks, and portable toilets at job sites and in the yards.

In addition, Glenwood has used trade to reward top customers, and has also rewarded employees with restaurant scrip, company parties and entertainment tickets.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
International Monetary Systems, Ltd.  
New Berlin, WI

We have audited the accompanying consolidated balance sheet of International Monetary Systems, Ltd. as of December 31, 2010, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Monetary Systems, Ltd. at December 31, 2010, and the results of its operations and comprehensive income (loss) and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LBB & Associates Ltd., LLP  
Houston, Texas  
February 28, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors  
International Monetary Systems, Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheet of International Monetary Systems, Ltd. and Subsidiaries as of December 31, 2009, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholder equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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WEBB & COMPANY, P. A.  
Boynton Beach, Florida  
March 20, 2010

**CONSOLIDATED BALANCE SHEETS**  
For the Years Ended December 31, 2010 and 2009

|                             | <u>2010</u>                 | <u>2009</u>                 |
|-----------------------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>               |                             |                             |
| Current assets              |                             |                             |
| Cash                        | \$ 804,108                  | \$ 894,396                  |
| Restricted cash             | 41,829                      | 149,682                     |
| Marketable securities       | 157,014                     | 115,110                     |
| Accounts receivable, net    | 1,075,965                   | 1,201,403                   |
| Refundable income taxes     | -                           | 133,000                     |
| Earned trade account        | 285,282                     | 33,561                      |
| Prepaid expenses            | <u>184,513</u>              | <u>103,027</u>              |
| Total current assets        | <u>2,548,711</u>            | <u>2,630,179</u>            |
| Other assets                |                             |                             |
| Property and equipment, net | 727,549                     | 921,473                     |
| Membership lists, net       | 6,826,464                   | 8,153,093                   |
| Goodwill                    | 3,435,479                   | 3,435,479                   |
| Assets held for investment  | <u>179,181</u>              | <u>174,659</u>              |
| Total non-current assets    | <u>11,168,673</u>           | <u>12,684,704</u>           |
| <b>Total assets</b>         | <b><u>\$ 13,717,384</u></b> | <b><u>\$ 15,314,883</u></b> |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**  
For the Years Ended December 31, 2010 and 2009

|   | <u>2010</u>          | <u>2009</u>          |
|---|----------------------|----------------------|
| <b>LIABILITIES</b>  |                      |                      |
| Current liabilities   |                      |                      |
| Accounts payable and accrued expenses   | \$ 1,294,213         | \$ 1,290,464         |
| Credit lines and current portions of long term debt   | 465,120              | 782,608              |
| Current portion of common stock subject to guarantee  | 640,000              | 706,500              |
| Current portion of convertible notes payable, related parties   | -                    | 50,000               |
| Total current liabilities   | <u>2,399,333</u>     | <u>2,829,572</u>     |
| Long-term liabilities   |                      |                      |
| Long term debt, net of current portion  | 1,491,377            | 1,523,445            |
| Common stock subject to guarantee, less current portion   | 178,500              | 620,000              |
| Convertible notes payable to related parties, less current portion  | 120,000              | 50,000               |
| Deferred compensation   | 290,000              | 275,000              |
| Deferred income taxes   | 1,336,904            | 1,679,565            |
| Total long-term liabilities   | <u>3,416,781</u>     | <u>4,148,010</u>     |
| <b>Total liabilities</b>  | <u>5,816,114</u>     | <u>6,977,582</u>     |
| Commitments and Contingencies   |                      |                      |
| <b>STOCKHOLDERS' EQUITY</b>   |                      |                      |
| Preferred stock, \$.0001 par value; 20,000,000 shares<br>authorized, 0 outstanding  | -                    | -                    |
| Common stock, \$.0001 par value; 280,000,000 shares<br>authorized, 10,544,800 and 10,343,467 shares<br>issued and outstanding, December 31, 2010 and<br>December 31, 2009, respectively | 1,050                | 1,030                |
| Paid in capital   | 13,542,436           | 12,772,904           |
| Treasury stock, 904,049 and 646,095 shares,<br>respectively   | (3,170,571)          | (2,428,422)          |
| Accumulated other comprehensive income (loss)   | 16,118               | (10,581)             |
| Accumulated deficit   | (2,487,763)          | (1,997,630)          |
| <b>Total stockholders' equity</b>   | <u>7,901,270</u>     | <u>8,337,301</u>     |
| <b>Total liabilities and stockholders' equity</b>   | <u>\$ 13,717,384</u> | <u>\$ 15,314,883</u> |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS)**

For the Years Ended December 31, 2010 and 2009

|   | <u>2010</u>          | <u>2009</u>          |
|---|----------------------|----------------------|
| Gross revenue                                     | <u>\$ 13,704,307</u> | <u>\$ 13,968,152</u> |
| Operating expenses                                |                      |                      |
| Employee costs                                    | 7,949,398            | 7,727,461            |
| Selling, general and administrative               | 4,057,286            | 4,069,577            |
| Depreciation and amortization                     | 1,629,156            | 1,631,809            |
| Unusual items - cost of legal settlements         | 402,087              | -                    |
| Total operating expenses                          | <u>14,037,927</u>    | <u>13,428,847</u>    |
| Income (loss) from operations                     | <u>(333,620)</u>     | <u>539,305</u>       |
| Other income (expense)                            |                      |                      |
| Interest income                                   | 2,011                | 654                  |
| Interest expense                                  | <u>(200,642)</u>     | <u>(228,936)</u>     |
| Total other income (expense)                      | <u>(198,631)</u>     | <u>(228,282)</u>     |
| Income (loss) before income taxes                 | <u>(532,251)</u>     | <u>311,023</u>       |
| Income tax (expense) benefit                      | <u>42,118</u>        | <u>(104,206)</u>     |
| Net income (loss)                                 | <u>(490,133)</u>     | <u>206,817</u>       |
| Components of comprehensive income (loss):        |                      |                      |
| Unrealized gain on available for sale investments | 16,685               | 21,938               |
| Foreign currency translation gain                 | 10,014               | 18,321               |
| Comprehensive net income (loss)                   | <u>\$ (463,434)</u>  | <u>\$ 247,076</u>    |
| Net income (loss) per                             |                      |                      |
| common share – basic                              | \$ (0.04)            | \$ 0.02              |
| – dilutive  | \$ (0.04)            | \$ 0.02              |
| Weighted average common                           |                      |                      |
| shares outstanding – basic                        | 10,462,465           | 9,731,062            |
| – dilutive  | 10,462,465           | 9,731,062            |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2010 and 2009

|  | <u>2010</u>     | <u>2009</u>      |
|--|-----------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                 |                  |
| Net income (loss)  | \$ (490,133)    | \$ 206,817       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                 |                  |
| Depreciation and amortization  | 1,629,156       | 1,631,809        |
| Impairment loss  | -               | 80,370           |
| Stock issued for services  | 172,423         | 96,200           |
| Bad debt expense   | 108,673         | (303,923)        |
| Deferred compensation  | 15,000          | 15,000           |
| Loss on disposal of assets   | 1,024           | -                |
| Changes in assets and liabilities  |                 |                  |
| Accounts receivable  | 16,765          | 503,903          |
| Earned trade account   | (251,721)       | (26,570)         |
| Tax refund receivable  | 133,000         | (84,500)         |
| Deferred tax benefit   | -               | 75,000           |
| Inventory  | -               | 33,839           |
| Prepaid expenses   | (34,647)        | 6,683            |
| Accounts payable and accrued expenses  | 3,751           | 601,566          |
| Deferred tax liability   | (342,661)       | (359,435)        |
| Trade payable  | -               | (321,476)        |
| Net cash provided by operating activities  | <u>960,630</u>  | <u>2,155,283</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                 |                  |
| (Increase) decrease in restricted cash   | 107,853         | (480,379)        |
| Capital expenditures   | (109,209)       | (152,962)        |
| (Increase) in marketable securities  | (25,219)        | (8,365)          |
| (Increase) in cash surrender value   | (4,523)         | (6,236)          |
| Net cash used by investing activities  | <u>(31,098)</u> | <u>(647,942)</u> |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2010 and 2009

|  | <u>2010</u>               | <u>2009</u>         |
|--|---------------------------|---------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                       |                           |                     |
| Proceeds from notes payable  | -                         | 125,092             |
| Proceeds from convertible notes payable, related parties           | <b>20,000</b>             | 100,000             |
| Payments on credit lines   | <b>(20,602)</b>           | (119,443)           |
| Payments on notes payable  | <b>(236,997)</b>          | (885,176)           |
| Payments on convertible notes payable                              | <b>(91,957)</b>           | (59,608)            |
| Proceeds from issuance of stock                                    | -                         | 826,500             |
| Purchase of treasury stock   | <b>(699,860)</b>          | (897,859)           |
| Net cash used by financing activities                              | <u><b>(1,029,416)</b></u> | <u>(910,494)</u>    |
| <br>   |                           |                     |
| Effect of exchange rate changes                                    | <u><b>9,596</b></u>       | <u>18,322</u>       |
| <br>   |                           |                     |
| Net increase (decrease) in cash                                    | <b>(90,288)</b>           | 615,169             |
| <br>   |                           |                     |
| Cash at beginning of period  | <u><b>894,396</b></u>     | <u>279,227</u>      |
| <br>   |                           |                     |
| Cash at end of period  | <u><b>\$ 804,108</b></u>  | <u>\$ 894,396</u>   |
| <br><b>SUPPLEMENTAL DISCLOSURES</b>                                |                           |                     |
| Cash paid for interest   | <b>\$ 202,737</b>         | \$ 228,936          |
| Cash paid for income taxes   | <b>\$ 420,761</b>         | \$ 58,296           |
| <br><b>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b> |                           |                     |
| Unrealized net gain (loss) on equity investments                   | <u><b>\$ 16,685</b></u>   | <u>\$ (21,302)</u>  |
| <br>   |                           |                     |
| Release of common stock guarantees                                 | <u><b>\$ 658,000</b></u>  | <u>\$ 1,301,500</u> |
| <br>   |                           |                     |
| Adjustment for stock guarantee agreement                           | <u><b>\$ 150,000</b></u>  | <u>-</u>            |
| <br>   |                           |                     |
| Common stock issued for prepaid services                           | <u><b>\$ 46,840</b></u>   | <u>-</u>            |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
 For the Years Ended December 31

|  | Preferred Stock |        | Common Stock |          | Paid in<br>Capital | Accumulated<br>Comprehensive<br>Income | Deferred<br>Compensation | Accumulated<br>Deficit | Treasury Stock |                | Total<br>Stockholder<br>Equity |
|--|-----------------|--------|--------------|----------|--------------------|--|--------------------------|------------------------|----------------|----------------|--------------------------------|
|  | Shares          | Amount | Shares       | Amount   |                    |  |                          |                        | Shares         | Amount         |                                |
| Balance December 31, 2008                            | -               | \$ -   | 10,270,939   | \$ 1,028 | \$ 11,702,173      | \$ (50,840)                            | \$ (25,467)              | \$ (2,204,447)         | (387,090)      | \$ (1,403,216) | \$ 8,019,231                   |
| Foreign currency translation adjustment              | -               | -      | -            | -        | -                  | 18,321                                 | -                        | -                      | -              | -              | 18,321                         |
| Unrealized gain on available for<br>sale securities  | -               | -      | -            | -        | -                  | 21,938                                 | -                        | -                      | -              | -              | 21,938                         |
| Net income for 2009                                  | -               | -      | -            | -        | -                  | -                                      | -                        | 206,817                | -              | -              | 206,817                        |
| Total comprehensive income                           | -               | -      | -            | -        | -                  | -                                      | -                        | -                      | -              | -              | 247,076                        |
| Stock issued for services                            | -               | -      | 122,333      | 7        | 69,226             | -                                      | (24,000)                 | -                      | 3,000          | 1,500          | 46,733                         |
| Deferred comp expensed                               | -               | -      | -            | -        | -                  | -                                      | 49,467                   | -                      | -              | -              | 49,467                         |
| Stock converted to notes                             | -               | -      | (50,000)     | (5)      | (299,995)          | -                                      | -                        | -                      | -              | -              | (300,000)                      |
| Treasury stock purchases                             | -               | -      | -            | -        | -                  | -                                      | -                        | -                      | (262,005)      | (1,026,706)    | (1,026,706)                    |
| Stock split adjustments                              | -               | -      | 195          | -        | -                  | -                                      | -                        | -                      | -              | -              | -                              |
| Repurchase of shares under common<br>stock guarantee | -               | -      | -            | -        | 1,301,500          | -                                      | -                        | -                      | -              | -              | 1,301,500                      |
| Balance December 31, 2009                            | -               | \$ -   | 10,343,467   | \$ 1,030 | \$ 12,772,904      | \$ (10,581)                            | \$ -                     | \$ (1,997,630)         | (646,095)      | \$ (2,428,422) | \$ 8,337,301                   |
| Foreign currency translation adjustment              | -               | -      | -            | -        | -                  | 10,014                                 | -                        | -                      | -              | -              | 10,014                         |
| Unrealized gain on available for<br>sale securities  | -               | -      | -            | -        | -                  | 16,685                                 | -                        | -                      | -              | -              | 16,685                         |
| Net income (loss)                                    | -               | -      | -            | -        | -                  | -                                      | -                        | (490,133)              | -              | -              | (490,133)                      |
| Total comprehensive income                           | -               | -      | -            | -        | -                  | -                                      | -                        | -                      | -              | -              | (463,434)                      |
| Stock issued for services and<br>prepaid expenses    | -               | -      | 201,333      | 20       | 194,243            | -                                      | -                        | -                      | 20,000         | 25,000         | 219,263                        |
| Adjustment for stock guarantee agreement             | -               | -      | -            | -        | (150,000)          | -                                      | -                        | -                      | -              | -              | (150,000)                      |
| Treasury stock purchases                             | -               | -      | -            | -        | -                  | -                                      | -                        | -                      | (44,789)       | (41,860)       | (41,860)                       |
| Return of shares from litigation settlement          | -               | -      | -            | -        | 67,289             | -                                      | -                        | -                      | (79,164)       | (67,289)       | -                              |
| Repurchase of shares under common<br>stock guarantee | -               | -      | -            | -        | 658,000            | -                                      | -                        | -                      | (154,001)      | (658,000)      | -                              |
| Balance December 31, 2010                            | -               | -      | 10,544,800   | \$ 1,050 | \$ 13,542,436      | \$ 16,118                              | \$ -                     | \$ (2,487,763)         | (904,049)      | \$ (3,170,541) | \$ 7,901,270                   |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - INFORMATION ABOUT THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Organization**

International Monetary Systems, Ltd. (IMS - the Company) is a Wisconsin holding company located in New Berlin, Wisconsin, with three wholly-owned operating subsidiaries: Continental Trade Exchange, Ltd (CTE) and National Trade Association, both of which operate a barter (trade) exchange in the United States, and INLM CN Inc., which operates a barter (trade) exchange in Canada.

#### **Operations of Barter Exchanges**

A barter (trade) exchange is a business network, a membership organization comprised of businesses that buy and sell among the network without using cash. It is a small, private economy with a unique currency called a barter dollar or trade dollar. It is a third-party record keeper which provides an alternative payment system.

Member businesses do not actually engage in direct barter. Rather, they sell products or services to other members, accepting payment in trade dollars which they then use to buy the products or services of other members of the network. Transactions are recorded through manual and electronic data transmission using a 24-hour telephone and Internet authorization system. Some members consign their products to the barter exchange to hold as saleable inventory. Others sell gift certificates or tickets that are redeemable for their goods or services.

The barter exchange maintains the accounting records for all sales and purchases, provides monthly statements, files annual tax forms 1099-B, enrolls businesses to the network, proactively markets member products and services, maintains a member web site, facilitates transactions, and provides personal customer support services to members and clients.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents to the extent the funds are not held for investment purposes.

#### **Restricted Cash**

As a condition to issuing the guarantee on the purchase of certain exchanges, IMS agreed to deposit a monthly amount into an escrow account for the repurchase of common stock under guaranteed transactions. As of December 31, 2010 and 2009, the Company has made all required deposits into the escrow account.

#### **Fair Value of Financial Instruments**

The carrying amounts of the Company's cash and cash equivalents, accounts receivable, restricted cash, prepaid expense and other assets, accounts payable, accrued liabilities, notes payable and deferred compensation approximate their fair value due as of December 31, 2010 because of their short-term natures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Revenue Sources

The Company and its subsidiaries earn revenues in both traditional dollars (cash income) and in trade dollars. Cash income is earned through fees assessed when a member joins, through transaction fees generated when clients earn or spend trade dollars, through monthly maintenance fees, finance charges on delinquent accounts receivable, event fees, and inventory sales.

Trade revenue is similarly generated through initial membership fees, monthly maintenance fees, transaction fees, event fees, and inventory sales. Occasionally the Company will accept a favorable trade ratio in lieu of a cash fee. The Company uses earned trade dollars to purchase various goods and services required in its operations. All barter transactions are reported at the estimated fair value of the products or services received. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

Transaction fees are recognized upon receipt of transactional information accumulated by our systems or reported by our clients. Membership fees, monthly maintenance fees, finance charges, and other fees are billed monthly to members' accounts, and are recognized in the month the revenue is earned.

Occasionally, the Company sells IMS trade dollars for US dollars. The cash received in these sales are included in gross revenue and the carrying value of the trade dollars sold is netted against the sales proceeds.

### Principles of Consolidation

The consolidated financial statements for 2010 and 2009 include the accounts of the Company and its wholly owned subsidiaries Continental Trade Exchange, Ltd., National Trade Association, Inc., and INLM CN, Inc. Significant inter-company accounts and transactions have been eliminated in consolidation.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

### Marketable Securities

Marketable equity securities are classified into three categories: (1) held-to-maturity securities reported at amortized cost, (2) trading securities reported at fair value with unrealized gains and losses included in earnings, and (3) available-for-sale securities reported at fair value with unrealized gains and losses reported in other comprehensive income (loss). Costs are determined by the specific identification method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Fair Value Measurements**

ASC 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

### **Receivables and Allowance for Doubtful Accounts**

Accounts receivable are stated at face value, net of the allowance for bad debts. Finance charges on receivables are calculated using the simple interest method on the amount outstanding.

The allowance for bad debts is maintained at a level that is management's best estimate of probable bad debts incurred as of the balance sheet date. Management's determination of the adequacy of the allowance is based on an evaluation of the accounts receivable, past collection experience, current economic conditions, volume, growth and composition of the accounts receivable, and other relevant factors. Actual results may differ from these estimates. The allowance is increased by provisions for bad debts charged against income. The allowance for bad debts was \$394,128 and \$492,338 as of December 31, 2010 and 2009, respectively.

### **Inventory**

Inventory consisted primarily of jewelry and other merchandise held for sale by the Company. Inventory is carried at the lower of actual cost of acquisition, or fair value. The inventory was sold at cost in 2009.

### **Earned Trade Account**

As part of the operations of the subsidiaries, the Company earns trade dollars which are used to purchase goods and services required in operations. This account is increased principally for service, membership and transaction fees, and is decreased by the Company's purchase of goods and services. An impairment loss is recognized if it becomes apparent that the fair value of the trade dollars in the account is less than the carrying amount, or if it is probable that the Company will not use all of the balance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight line methods over the estimated useful lives of five to thirty-nine years. When property or equipment is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is included in the income statement. The costs of repair and maintenance are included in expense as incurred.

### **Long-Lived Assets**

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than assets' carrying amount.

### **Software Development Costs**

Extensive software has been developed to manage and track trade activity and member account balances and calculate fees in the Exchange. Qualifying costs are accounted for in accordance with ASC 350. Accordingly, costs incurred in the planning and post-implementation stages are expensed as incurred, and costs related to development have been capitalized. Qualifying software development costs are included in property and equipment in the consolidated balance sheets and are amortized over their estimated useful life of 60 months.

### **Goodwill and Membership Lists**

Goodwill and membership lists are stated at cost and arise when additional exchanges are purchased. Membership lists are amortized over the estimated life of ten years.

The Company has adopted FASB ASC 350, which requires that goodwill and intangible assets with indefinite lives be tested annually for impairment. In 2009, the Company recorded an impairment loss of \$80,370 relative to membership lists of the Louisville, KY and Boston, MA operations. No impairment loss was recorded in 2010.

### **Assets Held for Investment**

Assets held for investment consist of various works of art and two parcels of undeveloped land, all valued at the lower of cost or fair market value, and the cash surrender value of a life insurance policy being used to help fund the deferred compensation arrangement described in note 7.

### **Income Taxes**

The Company accounts for income taxes in accordance with FASB ASC 740. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Concentrations of Risk**

#### **Cash**

Cash includes deposits at financial institutions with original maturities of three months or less. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. At December 31, 2010 and 2009, respectively, the Company had approximately \$545,000 and \$358,000 in cash balances at financial institutions which were in excess of the FDIC insured limits of \$250,000.

#### **Accounts Receivable**

The Company grants credit to its customers, all of whom are members of Continental Trade Exchange, National Trade Association and INLM CN. Customers are located throughout 20 states and in Canada. The Company routinely assesses the financial strength of its customers and, therefore, believes that its accounts receivable credit risk exposure is limited.

### **Segment Reporting**

The Company operates in one segment and, therefore, segment information is not presented.

### **Advertising**

Advertising costs, which are principally included in selling expenses, are expensed as incurred. Advertising expense was \$140,014 and \$436,698 for the years ended December 31, 2010 and 2009, respectively.

### **Stock-Based Compensation**

Effective January 1, 2006, the Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values, as required by FASB ASC 718. ASC 718 is being applied on the modified prospective basis. Accounting for Stock based compensation ("ASC 718") and accordingly, recognized no compensation expense related to the stock-based plans as stock options granted to employees and directors were equal to the fair market value of the underlying stock at the date of grant.

Common stock, stock options and common stock warrants issued to other than employees or directors are recorded on the basis of their fair value, as required by FASB ASC 505. In accordance with ASC 505, the stock options or common stock warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying common stock on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes option pricing model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Comprehensive Income

FASB ASC 220 establishes rules for reporting and displaying comprehensive income and its components. Comprehensive income is the sum of net loss as reported in the consolidated statements of operations and other comprehensive income transactions as reported in the consolidated statement of changes in stockholders' equity. Other comprehensive income transactions that currently apply to the Company result from unrealized gains or losses on equity investments and from changes in exchange rates used in translating the financial statements of its wholly owned subsidiary INLM CN, Inc. of Canada.

### Foreign Currency Translation

The financial statements of the Company's foreign subsidiary have been translated into U.S. dollars in accordance with FASB ASC 830. All balance sheet accounts have been translated using the exchange rate in effect at the balance sheet date. Income statement amounts have been translated using an appropriately weighted average exchange rate for the year. The translation gains and losses of \$10,014 and \$18,321 resulting from the changes in exchange rates during 2010 and 2009, respectively, have been reported in accumulated other comprehensive income, except for gains and losses resulting from the translation of intercompany receivables and payables, which are included in earnings for the period.

### Earnings (Loss) Per Share

Basic and diluted net gain or loss per common share is computed based upon the weighted average common shares outstanding as defined by FASB ASC 260. As of December 31, 2010 and 2009 there were 1,619,148 and 1,322,288 common share equivalents outstanding which consisted of:

|  | <u>2010</u>             | <u>2009</u>             |
|--|-------------------------|-------------------------|
| Shares issuable upon the conversion of notes payable | 1,252,481               | 955,621                 |
| Shares issuable upon the exercise of warrants        | <u>366,667</u>          | <u>366,667</u>          |
|  | <u><u>1,619,148</u></u> | <u><u>1,322,288</u></u> |

These shares were not included in the computations of income or loss per share because their effect was anti-dilutive.

### Recent Accounting Pronouncements

Management does not anticipate that the recently issued but not yet effective accounting pronouncements will materially impact the Company's financial condition.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 2 - MARKETABLE SECURITIES

The Company has classified certain of its investments as trading securities which are reported at fair value, defined as the last closing price for the listed securities. The unrealized gains and losses which the Company recognizes from its trading securities are included in earnings. The Company also has investments classified as available-for-sale, which are also required to be reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity (net of the effect of income taxes). Fair value is also defined as the last closing price for the listed security.

The amortized cost of equity securities as shown in the accompanying balance sheets and their estimated market value at December 31, 2010 and 2009 are as follows:

|  | <u>2010</u>       | <u>2009</u>       |
|--|-------------------|-------------------|
| Available for sale securities:                     |                   |                   |
| Cost   | \$ 140,329        | \$ 107,966        |
| Unrealized gain or (loss)                          | <u>16,685</u>     | <u>7,144</u>      |
| Marketable equity securities classified as current | <u>\$ 157,014</u> | <u>\$ 115,110</u> |

The changes in unrealized gains (losses) from available-for-sale securities included as a component of equity for the years ended December 31, 2010 and 2009 were as follows:

|                        | <u>2010</u>       | <u>2009</u>      |
|------------------------|-------------------|------------------|
| Unrealized gain (loss) | <u>\$ (1,034)</u> | <u>\$ 21,302</u> |

The majority of the investment in marketable equity securities has been pledged to secure the liability for deferred compensation (Note 8).

### NOTE 3 - INTANGIBLE ASSETS

Intangible assets consist of membership lists, goodwill and a covenant not to compete, and for the years ended December 31, 2010 and 2009 are as follows:

|                          | <u>2010</u>         | <u>2009</u>         |
|--------------------------|---------------------|---------------------|
| Membership lists         | \$ 13,345,448       | \$ 13,345,448       |
| Accumulated amortization | <u>(6,518,984)</u>  | <u>(5,192,355)</u>  |
| Net                      | <u>\$ 6,826,464</u> | <u>\$ 8,153,093</u> |
| Goodwill                 | \$ 3,448,602        | \$ 3,448,602        |
| Accumulated amortization | <u>(13,123)</u>     | <u>(13,123)</u>     |
| Net                      | <u>\$ 3,435,479</u> | <u>\$ 3,435,479</u> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Aggregate amortization expense was \$1,327,047 and \$1,343,794 for the years ended December 31, 2010 and 2009, respectively. In 2009, the Company recorded an impairment loss of \$80,370 on membership lists of the Louisville, KY and Boston, MA operations. Estimated future amortization expense is as follows:

|            |                     |
|------------|---------------------|
| 2011       | \$ 1,321,226        |
| 2012       | 1,277,701           |
| 2013       | 1,187,008           |
| 2014       | 1,122,879           |
| thereafter | <u>1,917,650</u>    |
|            | <u>\$ 6,826,464</u> |

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31, 2010 and 2009:

|  | <u>2010</u>              | <u>2009</u>              |
|--|--------------------------|--------------------------|
| Office furniture, equipment, computers<br>and software | <b>\$1,904,634</b>       | \$ 1,906,801             |
| Leasehold improvements                                 | <b>253,814</b>           | 211,202                  |
|  | <b>2,158,448</b>         | 2,118,003                |
| Accumulated depreciation                               | <b>(1,430,899)</b>       | (1,196,530)              |
|  | <b><u>\$ 727,549</u></b> | <b><u>\$ 921,473</u></b> |

Depreciation expense during the years ended December 31, 2010 and 2009 was \$302,109 and \$288,015, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5 - DEBT

## Credit Lines

|   | 2010              | 2009       |
|---|-------------------|------------|
| \$500,000 revolving credit line with a financial institution, interest at LIBOR plus 3.24% per annum (3.49% at December 31, 2010), matures in June, 2011, secured by virtually all assets of the Company. This line of credit is guaranteed by Donald Mardak. | <b>\$ 203,866</b> | \$ 154,420 |
| \$122,000 unsecured business credit line with a financial institution, with no maturity date and an interest rate of prime plus 6% per annum (11% at December 31, 2010).  | -                 | 69,967     |
| \$50,000 unsecured business credit line with a financial institution, with no maturity date and an interest rate of 4.25% per annum.  | <b>21,917</b>     | 21,998     |

## Notes Payable

|  |                |         |
|--|----------------|---------|
| Note payable to an individual assumed in connection with the purchase of a trade exchange in 2003. The original note was \$207,500 discounted to \$161,510 with maturity in February, 2010, and monthly payments of \$2,500.   | -              | 4,953   |
| Unsecured note payable for \$300,000 issued in 2007 in connection with the acquisition of a trade exchange. Terms include thirty-six monthly payments of \$9,267 including interest at 6% per annum beginning January 10, 2008.  | -              | 106,041 |
| Unsecured note payable for \$125,000 issued in 2008 in connection with the acquisition of a trade exchange. Terms included monthly payments of \$5,540 and interest at 6% per annum.   | -              | 43,340  |
| On July 17, 2009, the Company redeemed 18,222 shares of IMS common stock from the former owner of a trade exchange purchased. He was paid \$82,000 (\$6,000 per month starting August 2009) in cash per the stock guarantee agreement. The stock was placed in treasury. A discounted note in the amount of \$79,907 was issued for the transaction using an imputed interest rate of 4.25% per annum.                               | -              | 51,119  |
| On August 20, 2009, the Company redeemed 11,111 shares of IMS common stock from the former owner of a trade exchange purchased in 2008. The former owner was paid \$50,000 (\$4,500 per month starting in September 2009) in cash per the stock guarantee agreement. The stock was placed in treasury. A discounted note in the amount of \$48,944 was issued for the transaction using an imputed interest rate of 4.25% per annum. | -              | 31,544  |
| A loan from a private investor of \$100,000 was made in November, 2009, due in May, 2012, with quarterly interest payments at 10% per annum and principal payments of \$5,000 per month beginning in February, 2011.   | <b>100,000</b> | 100,000 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

On January 15, 2009, IMS issued notes payable totaling \$300,000 in exchange for release of the stock guarantee on, and the return of 300,000 shares of IMS stock. The notes were interest only at 4.5% per annum. In December, 2009, the Company and the note holder renegotiated the agreement so that interest is now at 7% per annum and annual principal payments begin January 21, 2011. In November, 2010, the notes were again renewed to pay interest only for the year 2011, with principal payments to begin January, 2012. Principal payments can range from \$0 to \$100,000 at the discretion of the note holders. If mutually agreed, the Company can issue stock to repay principal at share price equivalent of \$6.00 per share.

|  | <u>2010</u>       | <u>2009</u> |
|--|-------------------|-------------|
|  | <b>\$ 300,000</b> | \$ 300,000  |

**Convertible Notes Payable**

\$1,200,000 of notes payable, with 60 monthly payments of \$15,858 including interest of 10% per annum, and a balloon payment of \$746,367 due September 2013. The investor has the option to convert the principle balance to shares of IMS common stock at \$1.86 per share.

|  |                  |           |
|--|------------------|-----------|
|  | <b>1,030,714</b> | 1,122,671 |
|--|------------------|-----------|

Loans of \$100,000 and \$200,000 were made to IMS by a private investor in 2008. The due dates of the notes were July, 2009 to April, 2010, with quarterly interest payments of 10% per annum. The notes were convertible to 41,667 shares of IMS stock at \$2.40 per share, and 62,893 shares of IMS stock at \$3.18 per share, at the option of the holder. On July 15, 2009, the \$100,000 note was renewed to mature in July, 2011. The conversion agreement was also changed so that the note may now be converted to 151,515 shares of common stock at \$.66 per share. On April 22, 2010, the \$200,000 note was renewed. It is now due in July, 2012, pay interest at 10% per annum, and, at the lender's option, is convertible into 266,667 shares at \$0.75 per share.

|  |                |         |
|--|----------------|---------|
|  | <b>300,000</b> | 300,000 |
|--|----------------|---------|

Total notes payable and long-term debt  
 Less current portion  
 Notes payable and long-term debt, net of current portion

|  |                           |                    |
|--|---------------------------|--------------------|
|  | <b>1,956,497</b>          | 2,306,053          |
|  | <b>465,120</b>            | 782,608            |
|  | <b><u>\$1,491,377</u></b> | <u>\$1,523,445</u> |

**Common Shares Subject to Guarantees**

As part of various prior acquisition agreements which included stock consideration by the Company, the Company guaranteed the stock price of the stock consideration based on the fair market value of the stock at the time of the applicable acquisition agreements. Accordingly, the guaranteed values of the shares are recorded as a liability on the accompanying financial statements.

Guarantee issued in 2002 redeemable in trade dollars at \$3.00 per share at the discretion of the guarantee holder.

|  |                   |            |
|--|-------------------|------------|
|  | <b>\$ 100,000</b> | \$ 125,000 |
|--|-------------------|------------|

Guarantee issued in February 2007 to a member of the board of directors in connection with the purchase of a trade exchange formerly owned by him. A monthly payment of \$40,000 is made to a restricted cash account and used to repurchase the stock at a price of \$4.50 per share.

|  |                |           |
|--|----------------|-----------|
|  | <b>613,500</b> | 1,201,500 |
|--|----------------|-----------|

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | <u>2010</u>              | <u>2009</u>              |
|---|--------------------------|--------------------------|
| <p>Guarantee issued in connection with the amendment of an Asset Purchase Agreement between IMS and the former owner of a barter exchange acquired in a prior year. The amended agreement guarantees the 50,000 shares of IMS common stock held by the former owner to a price of \$3.00 per share. The former owner has the right to redeem 1,667 shares of IMS common stock for \$5,000 in cash, per month, starting March 1, 2010. The guarantee expires on the earlier of March 1, 2013 or fulfillment by the Company of its obligation under the agreement. As a result of this amendment, the Company reclassified \$150,000 from additional paid-in capital to common shares subject to guaranteed (liability) during the period ended March 31, 2010.</p> | <b>\$ 105,000</b>        | \$ -                     |
| Total common shares subject to guarantees   | <b>818,500</b>           | 1,326,500                |
| Less current portion  | <b>640,000</b>           | 706,500                  |
| Long term portion of common shares subject to guarantees  | <b><u>\$ 178,500</u></b> | <b><u>\$ 620,000</u></b> |
| <br><b>Related Party Convertible Notes Payable</b>  |                          |                          |
| <p>Interest-only convertible note issued March 31, 2009, at 8% per annum, due July 10, 2010. At any time the note can be converted into 83,334 shares of IMS common stock at \$.60 per share, the fair value of the common stock on the date of the note. Quarterly interest payments started June 30, 2009. This note has been renewed and now has a maturity date of July 10, 2012.</p>   | <b>\$ 50,000</b>         | \$ 50,000                |
| <p>Interest-only convertible note issued March 31, 2009, at 8% per annum, due March 31, 2011. At any time the note can be converted into 83,334 shares of IMS common stock at \$.60 per share, the fair value of the common stock on the date of the note. Quarterly interest payments started June 30, 2009. This note has been renewed on the same terms and now has a maturity date of March 31, 2013.</p>   | <b>50,000</b>            | 50,000                   |
| <p>Note payable to an officer and shareholder in the amount of \$20,000 issued in June 2010. It is due June 10, 2012 and requires quarterly interest payments at 8% per annum. At the option of the officer, the note may be converted to 23,256 shares of the Company's common stock at a fixed rate of \$.86 per share, the price on the origination date of the note.</p>  | <b><u>20,000</u></b>     | -                        |
| Total notes payable and long-term debt  | <b>120,000</b>           | 100,000                  |
| Less: Current portion   | -                        | 50,000                   |
| Notes payable and long-term debt, net of current portion  | <b><u>\$ 120,000</u></b> | <b><u>\$ 50,000</u></b>  |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Aggregate Maturities**

|      |                     |
|------|---------------------|
| 2011 | 1,105,120           |
| 2012 | 714,401             |
| 2013 | 1,015,476           |
| 2014 | 60,000              |
| 2015 | -                   |
|      | <u>\$ 2,894,997</u> |

Interest expense for the years ended December 31, 2010 and 2009 was \$200,642 and \$228,936, respectively.

A convertible note holder has an option to purchase stock at a price of \$1.86, with the amount being the difference between current outstanding principal balance and the original note payable amount. As of December 31, 2010, this amount was \$169,286.

The Company has an outstanding letter of credit with a financial institution in the amount of \$75,000 related to an office lease security deposit. This letter of credit expires on August 31, 2011.

**NOTE 6 - DEFERRED COMPENSATION**

As part of an acquisition, the Company assumed a deferred compensation liability of \$2,500 per month for 120 months, payable to a key employee after retirement.

The value of future payments required under the agreement is being charged to operations over the period of expected active employment until the employee reaches her retirement date, in December, 2012.

Assets intended to fund this liability include an investment in marketable securities (Note 2) with a balance of \$157,014 and \$115,110, as of December 31, 2010 and 2009, respectively, and a life insurance policy with a \$300,000 death benefit and a cash surrender value as of December 31, 2010 and 2009, of \$54,634 and \$49,361, respectively. All incidents of ownership accrue to the Company, which is the designated beneficiary. There are no loans outstanding on the insurance policy.

**NOTE 7 - INCOME TAXES**

Income tax expense for the years ended December 31, 2010 and 2009 reflect a higher or lower effective tax rate due to certain expenses that are not deductible for tax purposes, such as the impairment loss of the membership list and 50% of meals and entertainment. The difference between actual and expected tax liability also includes the effects of timing differences in deducting certain expenses such as bad debts, charitable contributions and depreciation, as well as the effects of different financial accounting and tax bases of certain assets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Income tax expense consists of the following components:

|                 | Years Ended December 31 |                   |
|-----------------|-------------------------|-------------------|
|                 | 2010                    | 2009              |
| Federal         |                         |                   |
| Current         | \$ 272,425              | \$ 355,016        |
| Deferred        | (289,809)               | (222,261)         |
| State and Local |                         |                   |
| Current         | 28,119                  | 33,711            |
| Deferred        | (52,853)                | (62,260)          |
|                 | <u>\$ (42,118)</u>      | <u>\$ 104,206</u> |

The following table reconciles the reported income taxes and the income taxes that would be computed by applying the Company's normal tax rate to income before taxes for the periods ended December 31:

|  | Years Ended December 31 |                   |
|--|-------------------------|-------------------|
|  | 2010                    | 2009              |
| Statutory rate applied to earnings (loss)<br>before income taxes | \$ (212,902)            | \$ 124,132        |
| Increase (decrease) in income taxes resulting from:              |                         |                   |
| Nondeductible impairment loss                                    | -                       | 32,148            |
| Change in allowance for doubtful accounts                        | (31,820)                | (117,844)         |
| Depreciation variances   | 35,206                  | 21,785            |
| Audit settlements  | 133,000                 | -                 |
| Utilization of net operating loss carryover                      | -                       | 18,240            |
| Other  | 34,398                  | 25,745            |
|  | <u>\$ (42,118)</u>      | <u>\$ 104,206</u> |

The tax effects of temporary differences that gave rise to significant portions of deferred tax liabilities are as follows:

|   | December 31         |                     |
|---|---------------------|---------------------|
|   | 2010                | 2009                |
| Deferred income tax liabilities:                                      |                     |                     |
| Primarily difference in tax basis of<br>Membership lists and goodwill | <u>\$ 1,336,904</u> | <u>\$ 1,679,565</u> |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 8 - STOCKHOLDERS' EQUITY

#### Reverse Stock Split

On August 7, 2009, a 1 for 6 reverse stock split became effective. The new symbol on that date became ITNM. All share and per share amounts have been retroactively adjusted. As a result of the split, a rounding adjustment added 195 shares to the total number of outstanding shares of common stock. All stock related disclosures have been restated to report post split share quantities.

#### Purchase-Related Transactions

On January 2, 2009, the Company redeemed 100,000 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$450,000 in cash per the stock guarantee agreement. Payment was made from restricted cash, and the stock was placed in treasury.

On January 15, 2009, the portion of the agreement, for the purchase of an acquired trade exchange, that specified that 50,000 of shares IMS common stock were to be issued, was cancelled. The stock had not yet been issued. In exchange two notes payable were issued totaling \$300,000. The notes are interest only at 4.5% per annum, and annual principal payments begin January 21, 2009. Principal payments range from \$0 to \$120,000 at the discretion of the note holders. This also resulted in the release of \$300,000 of the stock guarantee.

On May 1, 2009, the Company redeemed 4,000 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$24,000 in cash per the stock guarantee agreement. The stock was placed in treasury.

On May 26, 2009, the Company redeemed 41,666 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$187,500 in cash per the stock guarantee agreement. Payment was made from restricted cash, and the stock was placed in treasury.

On May 31, 2009, the Company redeemed 8,334 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$25,000 in trade dollars per the stock guarantee agreement. The stock was placed in treasury.

On July 17, 2009, the Company redeemed 18,222 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$82,000 (\$6,000 per month starting August 2009) in cash per the stock guarantee agreement. The stock was placed in treasury. A discounted note in the amount of \$79,907 was issued for the transaction using an imputed interest rate of 4.25%.

On August 20, 2009, the Company redeemed 11,111 shares of IMS common stock from the former owner of an acquired trade exchange, who was paid \$50,000 (\$4,500 per month starting in September 2009) in cash per the stock guarantee agreement. The stock was placed in treasury. A discounted note in the amount of \$48,943 was issued for the transaction using an imputed interest rate of 4.25%.

On October 9, 2009, IMS repurchased 42,000 shares of common stock at \$4.50 per share using restricted cash of \$189,000, thereby releasing \$189,000 of the common stock guarantee.

On January 22, 2010, IMS repurchased 41,667 shares of common stock at \$4.50 per share using restricted cash of \$187,500, thereby releasing \$187,500 of common stock guarantee.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 18, 2010, IMS repurchased 1,667 shares of common stock at \$3.00 per share, thereby releasing \$5,000 of common stock guarantee.

From May 15, 2010 through September 15, 2010, IMS repurchased 8,333 shares of common stock at \$3.00 per share, thereby releasing \$25,000 of common stock guarantee.

On July 7, 2010, IMS repurchased 44,000 shares of common stock at \$4.50 per share using restricted cash of \$198,000, thereby releasing \$198,000 of the common stock guarantee.

On August 9, 2010, IMS repurchased 8,334 shares of common stock at \$3.00 per share using \$25,000 of Trade dollars (earned trade account receivable), thereby releasing \$25,000 of the common stock guarantee.

On December 6, 2010, IMS repurchased 45,000 shares of common stock at \$4.50 per share using restricted cash of \$202,500, thereby releasing \$202,500 of common stock guarantee.

In the fourth quarter of 2010, IMS repurchased 5,000 shares of common stock at \$3.00 per share, thereby releasing \$15,000 of common stock guarantee.

### **Stock Issued as Compensation**

On March 16, 2009, IMS issued 50,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$24,000.

On August 19, 2009, IMS issued 24,000 shares of common stock to the outside members of the board of directors. Six members were issued 4,000 shares each as annual compensation. The fair value of the shares was \$12,000.

On August 19, 2009, IMS issued 3,000 shares of common stock to an employee of the Company as a bonus. The fair value of the shares was \$1,500. The shares were taken from treasury.

On November 2, 2009, IMS issued 10,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$5,000.

On November 2, 2009, IMS issued 8,333 shares of common stock to an employee of the Company as a bonus. The fair value of the shares was \$4,167.

On November 25, 2009, IMS issued 30,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$15,000.

On January 14, 2010, IMS issued 20,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$16,000.

On February 3, 2010, IMS issued 15,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$12,000.

On April 19, 2010, IMS issued 8,333 shares of common stock to the then interim Chief Financial Officer of the Company as a bonus. The fair value of the shares was \$5,833.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On May 19, 2010, IMS issued 40,000 shares of IMS stock to two consulting firms. The fair value of the stock was \$50,000. Of these shares, 20,000 were reissued from the treasury stock of the Company.

On June 2, 2010, IMS issued 30,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$30,000.

On July 12, 2010, the independent directors and the corporate secretary were each issued 8,000 shares of IMS common stock as part of their directors' compensation. The value of the stock was \$43,680, and was initially recorded as prepaid expense, amortizing over a period of 12 months.

On July 13, 2010, IMS issued 25,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$23,250.

On July 16, 2010, IMS issued 10,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$8,500.

On August 9, 2010, IMS granted 25,000 shares of IMS stock to a consulting firm. The fair value of the stock was \$30,000.

### **Other Treasury Stock Transactions**

On April 3, 2009, IMS paid \$3,203 in trade dollars for 6,672 shares of IMS common stock, which were placed in treasury.

In September, 2010, the Company received 79,164 shares of common stock with a value of \$67,289 in settlement of a lawsuit. The shares were placed in treasury.

### **Share Buyback Program**

In accordance with a stock buyback plan originally approved by the board of directors in 2005 and reconfirmed on October 29, 2009, in 2010 the Company purchased 44,789 shares at a cost of \$41,860. In 2009, the Company purchased 30,000 shares for a total cost of \$23,933. The stock was placed into treasury.

### **Stock Options**

Options on 106,667 shares expired in 2009. As of December 31, 2010 and 2009, there were no options outstanding.

### **Warrants**

In May, 2006, the Company issued 583,333 fully vested warrants with an option price of \$3.30, which expire in May, 2011. 91,666 warrants were exercised in March 2008 with proceeds of \$302,500. 125,000 warrants were exercised in 2007 with proceeds of \$412,500. The remaining balance was 366,667 as of both December 31, 2010 and 2009.

No warrants were issued in the current year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Stock Guarantee Liability**

The stock guarantee liability was reduced by \$658,000 and \$1,301,500 during 2010 and 2009, respectively, through treasury stock buy backs as described above.

### **Other Comprehensive Income (Loss)**

ASC 220 establishes rules for reporting and displaying of comprehensive income and its components. Comprehensive income is the sum of the net income (loss) as reported in the consolidated statements of operations and other comprehensive income transactions. Other comprehensive income transactions that currently apply to the Company result from changes in exchange rates used in translating the financial statements of its wholly owned subsidiary in Toronto, Canada.

The total of these various items was \$26,699 in 2010 and \$40,259 in 2009.

### **Proposed Sale of Stock**

In 2010, the Company worked to file an S-1 Registration statement with the SEC for the purpose of raising capital through the sale of equity units. The Company has decided to indefinitely postpone raising capital via this route as it feels that timing and market conditions are not conducive to a successful offering at this time. Accordingly, approximately \$116,000 in legal and other costs relating to the offering were written off in 2010.

## **NOTE 9 - RELATED PARTY TRANSACTIONS**

The Company leases its executive offices and principal operating facilities in New Berlin, Wisconsin from Glendale Investments, LLC, a Wisconsin limited liability company which is owned by officers and stockholders of the Company. The original lease began October 1, 2002 and extended through September 30, 2010. Upon expiration, the lease was renewed for a term of 3 years, through September, 2013. Under the old lease, payments were \$8,000 monthly plus certain operating costs, including sales and use taxes, insurance, utilities, maintenance, and non-structural repairs. Under the new lease, the monthly payment increased to \$9,740 per month plus operating costs. Total payments in 2010 and 2009 were \$101,219 and \$91,500, respectively.

The Company currently leases office space in Rochester, New York, from a member of the board of directors of the Company. The triple net lease commenced in February 2007, and expires December 31, 2011. Monthly rental payments are \$6,644. The Company believes that the rental payments required and other terms of the lease are comparable to those available for similar space from unaffiliated, third-party lessors in the area. Total payments in 2010 and 2009 were \$79,728 each year.

See Note 5 for a discussion of related party debt.

The Company sold trade dollars to employees and directors at a discount during the year ended December 31, 2010 and 2009 of \$217,793 and \$78,935, respectively. The value of trade dollars sold related to these transactions was \$368,737, and \$166,949 during the years ended December 31, 2010 and 2009, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

## Leases

The Company has various leases for office facilities and vehicles which are classified as operating leases, and which expire at various times through 2014. Total rent expense for all operating leases for 2010 and 2009, is summarized as follows:

|                     | <u>2010</u>       | <u>2009</u>       |
|---------------------|-------------------|-------------------|
| Related party lease | \$ 180,947        | \$ 172,200        |
| Office leases       | 762,383           | 805,790           |
| Vehicle leases      | 18,399            | 15,795            |
|                     | <u>\$ 961,729</u> | <u>\$ 993,785</u> |

Minimum future lease commitments as of December 31, 2010, are summarized as follows:

| <u>Year ending December 31</u> | <u>Office Facilities</u> | <u>Vehicles</u>  |
|--------------------------------|--------------------------|------------------|
| 2011                           | \$ 421,143               | \$ 16,284        |
| 2012                           | 307,484                  | 7,473            |
| 2013                           | 259,271                  | 6,672            |
| 2014                           | 156,650                  | 4,448            |
| thereafter                     | 279,990                  | -                |
|                                | <u>\$ 1,424,538</u>      | <u>\$ 34,877</u> |

## Employment Agreements

On March 10, 2007, we renewed the employment agreements with Donald F. Mardak, our president, Danny W. Weibling, then our Principal Financial Officer and John E. Strabley, and Dale L. Mardak our senior vice presidents, for three year terms. On November 20, 2008 the board of directors approved amending the contracts to freeze the compensation schedule at the 2008 salaries, in exchange for which each contract was modified to add one additional year to the original term.

Terms of each were:

- ▶ Automatic renewal clause for additional one-year periods thereafter, unless terminated by either IMSL or the employee.
- ▶ Eighteen month non compete clause.
- ▶ Confidentiality of trade secrets clause.
- ▶ An annual auto allowance of \$6,000-\$18,000, depending on position.
- ▶ Stock options at the discretion of the CEO.
- ▶ Change of control provisions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 31, 2009, each of the above officers agreed to a 10% reduction in salary. The base salaries became \$207,000, \$171,000, \$157,500 and \$148,500, respectively. In January, 2010, the salary reduction was rescinded and the salaries were reinstated to the 2008 levels.

Additionally, all agreements contained a change of control provision. In the event of a merger, acquisition of IMSL or sale of substantially all of its assets, Donald Mardak's contract provided for compensation equal to two years' salary plus a lump sum payment of \$400,000, John Strabley's and Dale Mardak's contracts provided for compensation equal to one year's salary plus a lump sum payment of \$200,000. David Powell was to receive one year's salary plus a lump sum payment of \$100,000.

On February 28, 2011, the Compensation Committee of the board finalized employment agreements with Donald Mardak, Principal Executive Officer, John Strabley and Dale Mardak, Named Executive Officers, and David Powell, Principal Financial Officer, effective March 1, 2011, as follows:

- ▶ Salaries of \$250,000, \$192,000, \$185,000, and \$135,000, respectively, with increases to be determined annually by the board.
- ▶ Bonuses ranging from \$6,000 to \$30,000, per individual, contingent on meeting pre-tax income goals.
- ▶ Stock options at the discretion of the Board of Directors.
- ▶ Automatic renewal clause for additional one-year periods thereafter, unless terminated by either IMSL or the employee.
- ▶ Twelve month non-compete clause and confidentiality of trade secrets clause.
- ▶ Annual auto allowances of \$6,000-\$18,000, depending on position.
- ▶ Health insurance benefit paid for by IMSL.
- ▶ Donald Mardak, John Strabley, and Dale Mardak will receive severance payments of two years' salary and lump sum payments of \$400,000, \$300,000 and \$300,000 respectively in the event of involuntary termination, payable upon termination.
- ▶ In the event that a new Board of Directors substantially reduces their role in the Company, Donald Mardak, John Strabley and Dale Mardak will receive lump sum payments of \$600,000, \$400,000 and \$400,000 respectively.
- ▶ All agreements contain a change of control provision. In the event of a merger, acquisition of IMSL or sale of substantially all of its assets, Donald Mardak's contract provides for compensation equal to two years' salary plus a lump sum payment of \$400,000, John Strabley's and Dale Mardak's contracts provide for compensation equal to two years' salary plus a lump sum payment of \$300,000. David Powell will receive one year's salary plus a lump sum payment of \$150,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 11 - CONTINGENT LIABILITIES

In the ordinary course of business, the Company is occasionally involved in litigation, both as plaintiff and defendant. Management either litigates or settles claims after evaluating the merits of the actions and weighing the costs of settling vs. litigating.

In May 2010, the former CFO of the Company filed a lawsuit against the Company, alleging wrongful termination. In December, 2010, the Company reached a settlement agreement in this matter. The settlement agreement required a lump sum payment of \$100,000 in December, 2010, and monthly installment payments of \$20,000 from February through December, 2011. The Company anticipates receiving \$50,000 from its insurance carrier related to the settlement.

There are no other material legal actions pending against the Company.

### NOTE 12 - SUBSEQUENT EVENTS

On February 7, 2011, in accordance with the stock buyback plan described in Note 9, the Company purchased 50,000 shares at a cost of \$34,595. The shares were placed in treasury.

In accordance with the stock buyback plan described above, on February 28, 2011 the Company purchased 1,000 shares at a cost of \$725. The shares were placed in treasury.

On February 28, 2011, the Company purchased the assets of a trade exchange in Peterborough, Ontario. The purchase price was \$Canadian 60,000, payable \$20,000 in cash, \$20,000 of a note payable with a 12 month term, and \$20,000 trade dollars.

## COMPANY INFORMATION

### CORPORATE HEADQUARTERS

International Monetary Systems, Ltd.  
16901 W. Glendale Drive  
New Berlin, WI 53151-0305  
Telephone: 262-780-3640 • 800-559-8515  
Facsimile: 262-780-3655

### WEBSITE / EMAIL

www.IMSbarter.com  
ir@internationalmonetary.com

### TRANSFER AGENT AND REGISTRAR

Registrar and Transfer Company  
Cranford, New Jersey

### INDEPENDENT AUDITORS

Current Auditor  
LBB & Associates Ltd., LLP  
Houston, Texas

Former Auditor  
Webb & Company, PA  
Boynton Beach, Florida

### ANNUAL MEETING

The Annual Meeting of the Shareholders of International Monetary Systems, Ltd. will be held at the Sheraton Milwaukee Brookfield Hotel located at 375 South Moorland Road, Brookfield, Wisconsin on Tuesday, June 14, 2011 at 2:00 p.m. CDT. Shareholders of record on May 2, 2011 will be mailed an official notice of the meeting.

### FINANCIAL REPORT

Additional copies of Form 10-KSB (without exhibits) and other reports filed with the U.S. Securities and Exchange Commission (SEC) are available without charge upon written request from the company's Investor Relations Department at the headquarters address. Company documents filed electronically with the SEC can also be found on its website at [www.sec.gov](http://www.sec.gov).

### COMMON STOCK

International Monetary Systems, Ltd. (otcbb: ITNM) common stock trades on the Over-The-Counter Bulletin Board. As of April 1, 2011 there were 10,544,800 shares of common stock issued and outstanding.

## BOARD OF DIRECTORS

### Current Officers as of June 1, 2011

**Donald F. Mardak\***  
President and CEO  
Director and Chairman of the Board

**John E. Strabley**  
Executive Vice President  
Director

**Dale L. Mardak**  
Senior Vice President  
Director

**David A. Powell, CPA**  
Chief Financial Officer

**Patricia A. Katsich**  
Secretary

### Outside Directors

**Gerald G. Van Dyn Hoven\***  
Director

**Wayne W. Emmer\***  
Director

**Thomas E. DeLacy\***  
Director

**Wayne R. Dalin, CPA\***  
Director

**Stephen E. Webster**  
Director



\* Members of the Audit and Compensation Committees.

Changing the way the world does business.™

The image shows a screenshot of the IMS website and an IMS Platinum membership card. The website header includes the IMS logo and the tagline "INTERNATIONAL MONETARY SYSTEMS Changing the way the world does business.™". Navigation links include "Home", "Corporate Barter", "Investor Relations", and "Contact us". A "Join Today" button and a "Sign in" link are also present. The main content area features a "Save Cash!" headline with a sub-headline: "Convert your business goods and services into IMS trade dollars that work like cash to purchase needed items such as advertising, printing, legal and accounting services, website and internet services, janitorial services and equipment". Below this is a "Join Today" button and a "Member Sign In" form with fields for "Username" and "Password". A "Member Sign In" section also includes "Sign in" and "Register" buttons, and a "Forgot your password?" link. A "Barter Success Story" section titled "Little Turtle Golf Club Owes Much Success to Barter" features a photo of the club and text about Garth Walker. A "See what IMS Has" section is partially visible. The bottom of the website features a "See What The Media Has To Say About IMS" section with logos for "The New York Times", "CNMoney.com", "Bloomberg Television", and "CBS".

IMS  
INTERNATIONAL MONETARY SYSTEMS  
Changing the way the world does business.™

SAVE CASH | ATTRACT CUSTOMERS | INCREASE SALES | TRY IT | ABOUT IMS

# Save Cash!

Convert your business goods and services into IMS trade dollars that work like cash to purchase needed items such as advertising, printing, legal and accounting services, website and internet services, janitorial services and equipment

Join Today

Member Sign In

Username:

Password:

Sign in Register

Forgot your password?

### IMS Barter Success Story

#### Little Turtle Golf Club Owes Much Success to Barter

Garth Walker got into the golf business in high school by cutting the grass at Westerville Ohio's Little Turtle Golf Club. He attended college locally and remained working at the club. Today, almost 25 years later, he's co-owner and club manager of the suburban Columbus, Ohio golf club with partner Mike Hill, who also started his golf career at Little Turtle...

Read Full Barter Success Story

See what IMS Has

You can use

to...

See What The Media Has To Say About IMS

Newspaper / Magazine

Television / Radio

The New York Times | CNMoney.com | Bloomberg Television | CBS



## INTERNATIONAL MONETARY SYSTEMS, LTD.

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