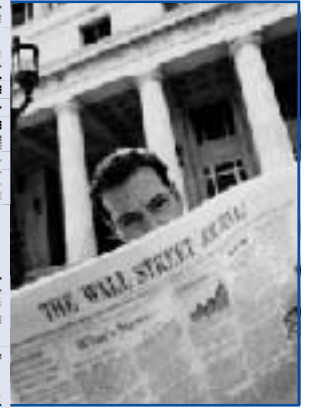




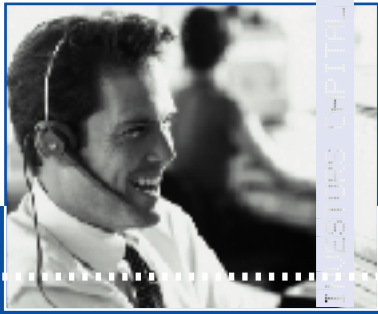
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# 2002

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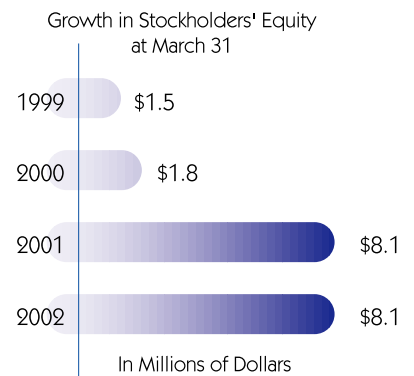
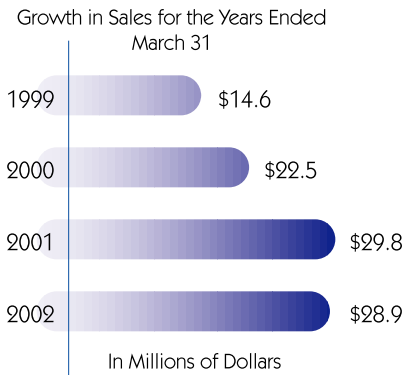
Annual Report



INVESTORS CAPITAL HOLDINGS, LTD.

# Highlights

- Developed and opened an additional investment center in McMurray, Pennsylvania and an Investment Banking Division in Providence, Rhode Island.
- Eastern Point Advisors has implemented a series of enhancements to its fee-based investment advisory programs in order to foster better client service, improve performance and reduce risk. Fundamental among these enhancements was the addition of the new *EPAElite* balanced portfolio (the Surveyor) and a true income portfolio (the Navigator), as well a complete refit of the mutual funds being utilized.
- Approaching its 3-year anniversary in October 2002, the Eastern Point Advisors Twenty Fund's outstanding performance has recently been acknowledged by such publications as *Kiplingers*, *Money Magazine*, the *Boston Globe* and *Investors Business Daily*.
- Through our affiliation with GoldK, our advisors can now offer their clients a no- cost 401(k) plan with a multi-manager investment platform, around-the-clock plan access, complete plan administration and record keeping, a suite of educational tools for plan participants and comprehensive customer support.
- Recognizing that the CPA is typically a client's advisor of choice, Investors Capital Corporation has brought in Integrated Partners. Our relationship with Integrated Partners allows our advisors to work with CPAs to provide financial planning, asset management and other financial products and services to the CPA's upper-tier clients.
- Through our relationship with Financial Profiles, Inc., the industry's leading provider of financial planning software and web-based planning tools, our advisors are able to enhance their presentations, stay in compliance, increase sales and acquire more assets under management. The software is a comprehensive, cash flow-based financial analysis tool that enables our advisors to generate easy to understand financial plans ranging from single-needs to comprehensive.



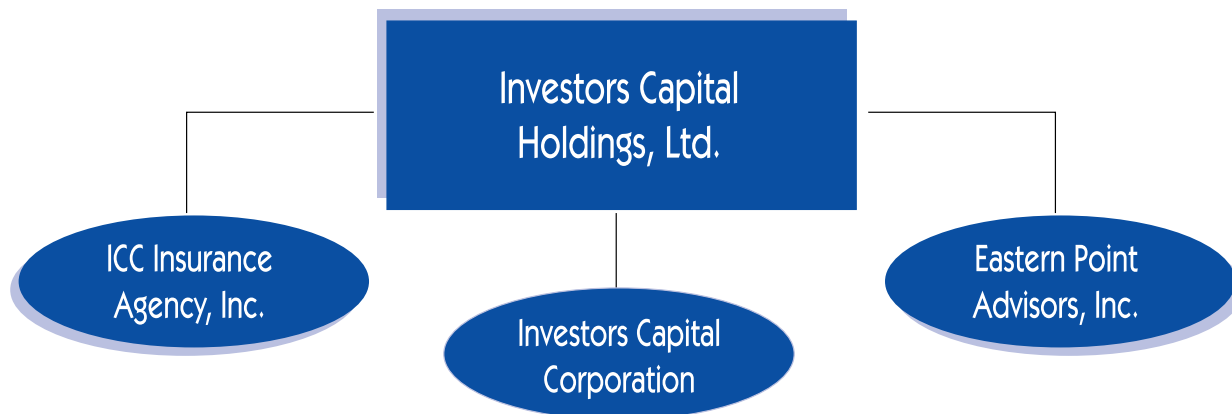


### Investors Capital Holdings, Ltd.

Investors Capital Holdings, Ltd. (AMEX : ICH), of Lynnfield, Massachusetts, is a diversified financial services company which owns and operates Investors Capital Corporation, Eastern Point Advisors, Inc. and ICC Insurance Agency, Inc. Investors Capital Corporation is a nationally recognized, independent broker dealer comprised of over 1,000 experienced financial professionals throughout the United States. Eastern Point Advisors, Inc. is an investment advisory firm managing portfolios for individual and institutional clients, as well as the advisor to the Eastern Point Advisors Twenty Fund. ICC Insurance Agency, Inc. provides insurance services to agents of Investors Capital Corporation.

Investors Capital Holdings, Ltd. provides complete support to its growing base of representatives, who provide their clients with unbiased financial counsel, brokerage and insurance services.

### Corporate Structure



# A Look at 2009 and Beyond

Dear Shareholders, Financial Advisors and Customers:

The events of September 11th, the energy crisis, accounting scandals and rising unemployment all met in a vortex to make this past year one of the most difficult in the financial services industry. Despite the turmoil of the world financial markets, the financial advisors and staff at Investors Capital Holdings, Ltd. (ICH) rose in response to this tumultuous time.

While other companies struggled to increase their revenues, Investors Capital Holdings was able to increase net income by 104%, up from a net loss from the previous year. Basic and diluted earnings per share increased by \$0.02, versus the prior year loss of \$0.02 per share.

Revenues for the year were flat which is an accomplishment considering the overall condition of the world markets.

Much has been said about the success of Investors Capital Holdings as a leader in the financial services community. Our goal is not to become the largest, but to be the very best as measured by our financial advisors, who are our customers, our staff, our suppliers of financial products, our communities and most importantly, our shareholders.

One of our goals was to have earnings grow at a rate equal to or better than sales. We were able to accomplish this despite revenues that were somewhat flat by instituting several cost cutting measures, substantial restructuring efforts and increasing our fee income and managed account programs. Our fee based asset management program, Eastern Point Advisors, has increased sales significantly, as investors are turning to financial advisors for advice during these volatile times in the financial markets. Our broker-dealer, Investors Capital Corporation, is increasing the number of financial advisors and strengthening its position geographically. We have committed to the implementation of a wholesaling effort to market the Eastern Point Advisors investment advisory programs and the Eastern Point Advisors Twenty Fund to the brokerage community, as well as investment advisers.

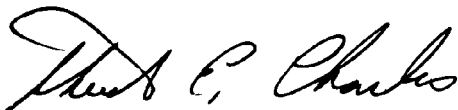
Recently, many investors were dismayed to find that many of the company's stocks and bonds that they owned were dishonest about their earnings and overall business practices. At Investors Capital Holdings we work very diligently to maintain the integrity of our financial results and reporting. It's important to us that the disclosure is accurate. The financial results you will find reported here will provide you with a review of the company and a detailed discussion about financial matters. Reading financial statements is not always the most exciting pastime, but I urge you to look at our financials. Our staff has worked hard to make this report comprehensive, yet simple.

Investors Capital Holdings is known for its integrity and its commitment to its financial advisors, staff, clients and shareholders. Essential to this relationship is their trust. We take this trust very seriously.

The past fiscal year proved to be an enormous challenge. September 11th and the economy had an impact on all companies. Investors Capital Holdings had a good year relative to other companies, but it was not a typical "ICH" year. This fiscal year began on a better note and we are looking to repeat another record year. Now more than ever, we are experiencing solid customer enthusiasm for fee-based services which will continue to drive positive growth in our investment advisory programs. Looking forward, our strong program line-up and economies of scale will provide Investors Capital Holdings with a significant competitive advantage and sustained profitability.

In closing, I would like to thank all of you...our over 1,000 financial advisors, our dedicated staff and our shareholders. It's through your efforts and commitment that we've succeeded as a company and it is because of you that I'm both confident and excited about the future of Investors Capital Holdings.

Sincerely,



Theodore E. Charles  
President, Chairman and Chief Executive Officer





## Investors Capital Corporation

Formed in 1992, Investors Capital Corporation is a nationally recognized, independent broker/dealer committed to providing quality services and a full array of investment products to its financial professionals. Doing business in all 50 states, Puerto Rico and the District of Columbia, the firm focuses on providing support, technology and back-office service to its network of over 1,000 registered representatives.

### "In the Business of Building Your Business"

A philosophy that holds the spirit of our organization and dedication to providing unbiased investment services and ethically serving its business partners through proven leadership, market insight and the effective use of information technology.

### Investment Center Partnerships

Investors Capital is committed to opening company-operated offices in select geographic locations across the country. With this option, financial advisors can choose the level of independence they want. Some thrive completely on their own, while others prosper in the more structured setting of our investment centers. So far the firm has successfully opened retail centers in Massachusetts and Pennsylvania and an Investment Banking Division in Rhode Island. We are in the planning stage of opening centers in California, Florida and New York.

### Personalized Websites

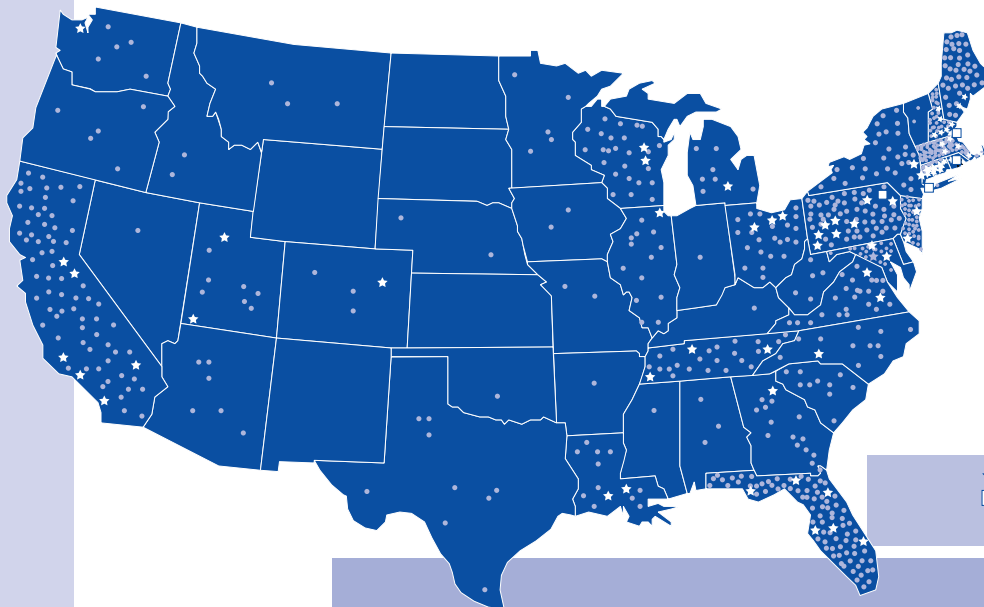
We continue our active efforts in pursuing additional technologies to service the rapidly evolving financial services industry. Investors Capital offers free, custom designed internet websites for our advisors. These sites provide a secure and private interface directly to our proprietary website, allowing advisors and clients to do market research, buy and sell securities online, monitor their accounts, utilize financial calculators and purchase non-financial goods and services.

### Investment Advisory Services

Through its investment adviser subsidiary, Investors Capital offers turnkey asset management and investment advisory services.

### Commissions & Technology

We pay commissions weekly and provides daily, real time updates of commission activity via the web.



Investors Capital  
Nationwide Offices

- ★ Investors Capital Managing Directors
- Investors Capital Investment Centers
- Investors Capital Registered Representatives

### Eastern Point Advisors, Inc.



Established in July 1995, Eastern Point Advisors, Inc. is a federally registered investment adviser with more than \$135 million of assets under management. Rooted in Nobel Prize winning Model Portfolio Theory, Eastern Point Advisors provides clients with professionally managed portfolios of mutual funds, variable and fixed annuities and individual equity securities. Utilizing portfolios tailored to each client's specific goals and objectives, we combine state-of-the-art technology with rigorous selection procedures to construct, monitor and maintain each and every portfolio.

To foster Eastern Point Advisors' commitment to performance and information, clients receive one, easy to read monthly statement, quarterly performance reporting, tax-critical enhanced 1099 reporting and no-cost access to experienced tax professionals.

Investment performance, experience, detailed-yet-understandable reporting and access to tax and investment professionals, position Eastern Point Advisors as a leader in the fee-based investment advisory industry. Clients feel secure in the realization that their hard earned investment dollars are entrusted to an experienced and professional organization with an established track record. As such, we firmly believe that we can greatly reduce the stress typically associated with investing.

Eastern Point Advisors' professionally managed portfolios align the interests of the client with those of the investment professional. Under our fee-for-service structure, and in direct opposition to the traditional transaction-based compensation paradigm, when the client wins the investment professional also wins. Acknowledging the fact that recent industry studies have firmly established that a fee-for-service structure is the wave of the future, Eastern Point Advisors is uniquely positioned to simultaneously further both the interests of the client and the investment professional.

In addition, the firm serves as the advisor to the Eastern Point Advisors Twenty Fund. This mutual fund seeks long-term capital appreciation through a concentrated, non-diversified portfolio of common stocks of companies of any size, regardless of industry or sector. This fund concentrates its holdings in a select group of approximately 20 to 30 stocks that are believed to offer outstanding capital appreciation potential through execution of their solid business model, use of technology, dominant or dominating market share, proprietary products and excellent management and corporate culture. To reduce risk and guard against market fluctuations, stop losses are used to preserve capital and differentiate it from other concentrated growth funds.

### ICC Insurance Agency, Inc.

Established in 1994, ICC Insurance Agency, Inc. facilitates the sale of variable life insurance and variable annuities.

## Investor Perspective

On September 11th, our nation was given a stark and vivid lesson in the fragility and vulnerability of life itself. We are resolved that terrorism and its criminal purveyors shall have no place in our world. And the world knows not to bet against America and our nation's ability to rise above the challenges we face.

We have witnessed America's boundless resilience, courage and determination, and the strength of its national character. We have once again realized the capacity of our financial system to survive the darkest days. Most significantly, Americans and our global friends have gained a newfound respect for the ideals of life and liberty - values that now inspire us all to build an even brighter future for this great nation and our world.

The extraordinary challenges of fiscal 2002 produced a vast array of new lessons. Investors now know that the fundamentals of investing and long-term goals do indeed matter. They realize the value of the financial professional and have been reassured that there is no substitute for honesty, timeliness and due diligence. Transparency and integrity are essential. Shareholders expect and deserve nothing less.

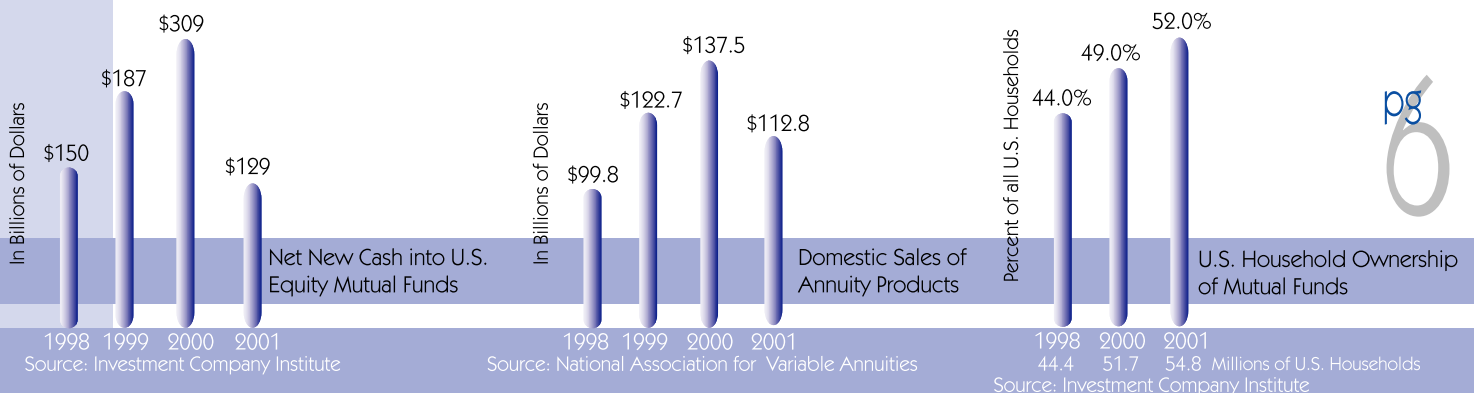
According to Investment Company Institute, the number of American households participating in the capital markets more than doubled from 23.4 million to 54.8 million between 1990 and 2001. More than one-half of American households are now invested in mutual funds that, in turn, account for 76 percent of all mutual fund assets.

American households own many financial assets, including mutual funds, stocks, bonds and bank deposits. In 2001, households made \$478 billion of net purchases of financial assets, up from \$312 billion in 2000. On balance, households were net sellers of directly held stocks and bonds, but net buyers of mutual funds.

These trends have led to exponential growth in the number of financial service professionals, including thousands of "financial planners"- a category hardly identified 10 years ago.

Consumer, media and general interest in financial markets and the economy has never been higher. While readily available information on the Internet concerning various financial products has led to the concept of day-trading, the reality is that most investors increasingly need financial advisors from a full-service firm to interpret raw data and create personalized investment plans.

The trend back to full-service will continue, regardless of market conditions. From a regulatory standpoint, the accelerated dismantling of the barriers between the banking, insurance and securities industries has created demand for the one-stop portfolio that includes everything from money market funds, stocks, equities and variable annuities to life insurance. The transparent and easy access to corporate financial statements, the regulatory commitment to level playing fields in all products and the rebounding American economy have made financial services the ultimate growth industry for the foreseeable future.



## Advisor Perspective

The growth of Investors Capital Holdings, Ltd. clearly reflects the demand trends throughout the financial services industry. As financial service consumers gain access to data on every conceivable product, they become even more dependent on, and appreciative of, our expertise and range of products.

Since our broker-dealer's founding, Investors Capital Corporation has grown and diversified substantially in direct response to investors needs. The company is now registered in all 50 states, the District of Columbia and Puerto Rico and has more than 1,000 representatives servicing over 80,000 accounts for over 600,000 investors. Perhaps the most telling statistic of all: during the period between the fiscal years of 1995 and 2002, our average annual revenue per registered representative has grown at a compound annual growth rate over 50 percent.

### *What accounts for this dramatic rise?*

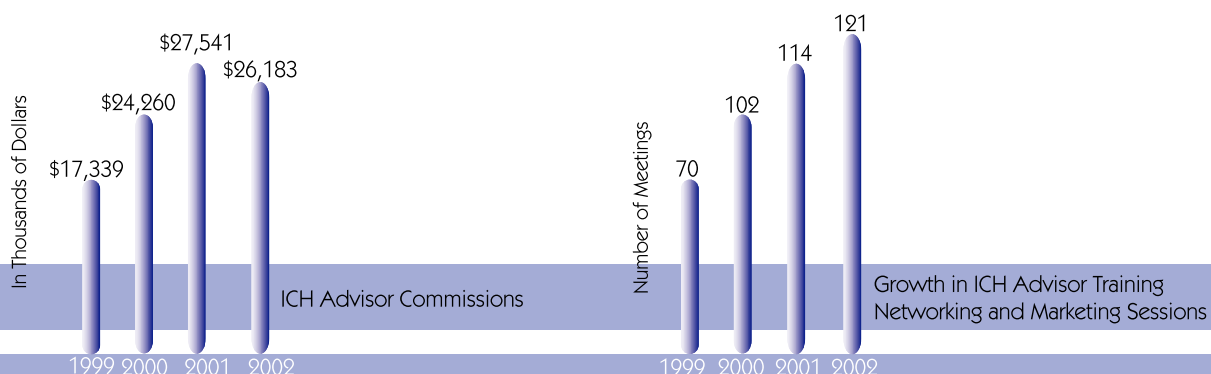
The answer is simple. At Investors Capital Corporation, we provide financial advisors the tools they need to succeed in one of the most rapidly evolving industries in the world. These tools include unparalleled execution of brokerage transactions, access to a wide array of brokerage and money management accounts, as well as on-line "storefronts" which include 24 hours a day, 7 days a week account access and trading. In addition, our financial advisors can choose the level of independence they want. Some thrive completely on their own, while others prosper in the more structured setting of our investment centers.

We provide advisors that desire advancement in their careers with unparalleled practice management, training and continued education to keep them among the best-informed and trained professionals in the industry.

Members of the Investors Capital Holdings family are finding more opportunities by offering a broader portfolio of products. In particular, there is outstanding potential in our array of insurance offerings. Meanwhile, we continue to expand and refine our resources to provide fee-based asset management products, which we believe to be a golden opportunity in financial services. This broader product portfolio allows financial advisors to generate more recurring fee income and, in the process, enjoy higher margins.

Investors Capital Corporation is aggressively recruiting additional experienced and productive advisors committed to quality customer service and integrity.

A business model capitalizing on trends in the marketplace and enabling financial professionals to benefit from these trends has allowed us to recruit some of the finest advisors in the business. With a proven management team and our expanding roster of financial advisors, Investors Capital Corporation will continue to reap the benefits of the evolving and dynamic financial services industry.



\*Includes brokerage commissions only.  
Annuity, insurance and financial advisor commissions are excluded.

## Honors & Awards

### Investors Capital Holdings, Ltd. Rated 51st Fastest Growing Public Company

With controlled but strong growth, Investors Capital Holdings was ranked #51 in this year's list of the fastest growing public companies in the state of Massachusetts. The list was published in the September 17, 2001 supplement of the *Boston Business Journal*. Competing with an impressive peer group of companies from many different industries, Investors Capital is growing at a rate comparable to companies twice its size.

### Investors Capital Corporation Ranked Broker-Dealer of the Year for 2 Consecutive Years

For two consecutive years, Investors Capital has been rated the Broker/Dealer of the Year (2000 & 2001). Not only did the firm win #1 overall broker/dealer in its category, but received high ratings in the areas of timely commission payouts, compliance, product list, management and due diligence. The award was presented by *Investment Advisor* magazine.

### Eastern Point Advisors Twenty Fund Gets Recognition for Excellent Performance

- Rated #1 in the *Boston Globe* year-to-date and 1 year large blend categories for the quarter ended March 28, 2002.
- Rated in the Top 10 in *Kiplinger's* large cap category for 1 year for the period of March 19, 2001 - March 18, 2002.
- Ranked #1 in Diversified Growth Funds in *Investors Business Daily* for the quarter ended March 28, 2002.
- Rated #4 in *Money* magazine's large cap category for 1 year total return as of April 12, 2002.

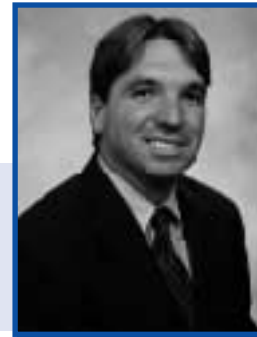




Theodore E. Charles  
President, Chairman & CEO  
Investors Capital Holdings, Ltd.



Timothy B. Murphy  
Treasurer, CFO  
Investors Capital Holdings, Ltd.



David R. Smith  
Managing Director  
Charter Financial Publishing Network



C. Troy Shaver, Jr.  
Vice Chairman  
GoldK

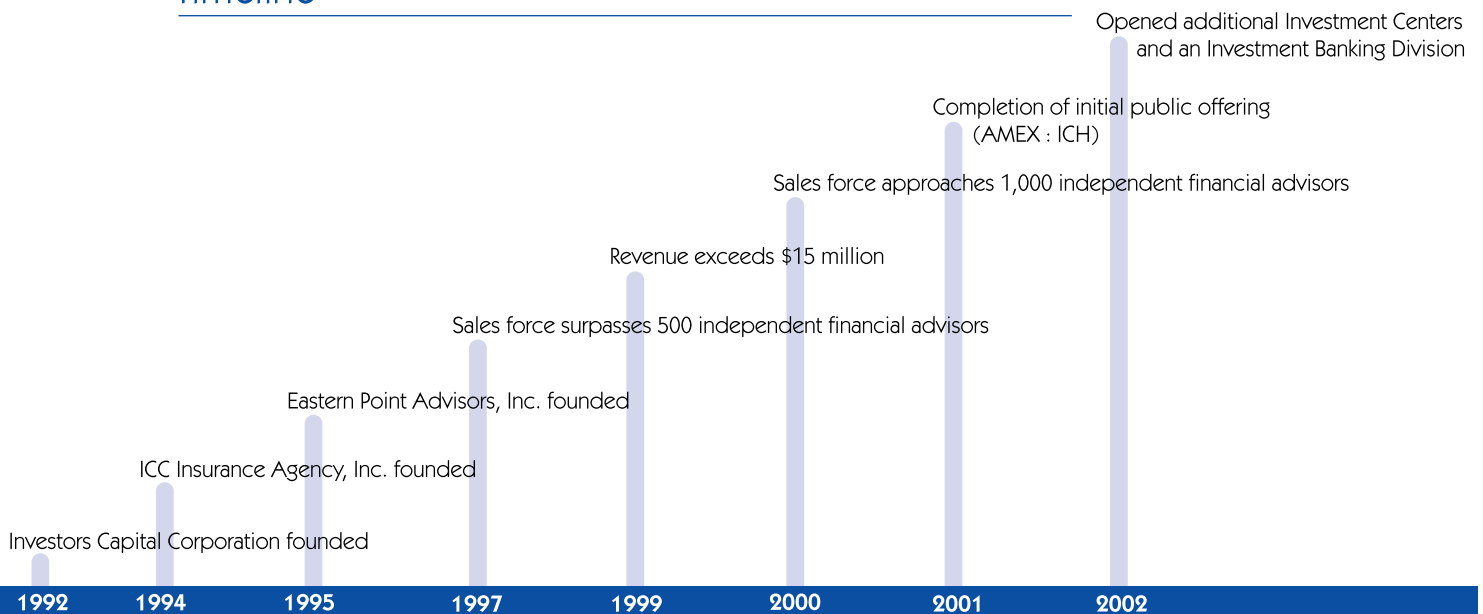


James F. Twaddell  
Investment Banker  
Investors Capital Investment Banking Division



Stephen Parker  
Vice President  
Allmerica Financial

## Timeline



# 2009

## Financial Review

AMEX : ICH INVESTORS CAPITAL HOLDINGS LTD AMEX : ICH

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AMEX : ICH

# 2002 Financial Review

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## Forward-Looking Statements

The statements, analyses, and other information contained herein relating to trends in the operations and financial results of Investors Capital Holdings, Ltd. (the "Company"), the markets for the Company's products, the future development of the Company's business, and the contingencies and uncertainties to which the Company may be subject, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "will," "should," "may," and other similar expressions, are "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Such statements are made based upon management's current expectations and beliefs concerning future events and their effects on the Company. The Company's actual results may differ materially from the results anticipated in these forward-looking statements.

These forward-looking statements are subject to risks and uncertainties including, but not limited to, the risks that (1) losses may be incurred if our investment professionals fail to comply with regulatory requirements; (2) the loss of either Theodore E. Charles or Timothy B. Murphy may adversely affect our business and financial condition through the loss of significant business contacts, which would have to be replaced; (3) customer fraud could harm our earnings and profits by requiring us to expend time, money and incur actual loss, exposing us to the potential for arbitration; (4) investment professional and employee fraud and misconduct could harm our profits and earnings by causing us to expend time, money and incur actual loss, with the latter exposing us to the potential for litigation; (5) without implementation of adequate internal controls, our ability to make money could be severely restricted by regulatory sanctions being applied against our broker-dealer subsidiary, and could result in us paying substantial fines and limit our ability to make money; (6) involvement in material legal proceedings could have a significant impact on our earnings and profits if we are found liable for such claims; (7) a change in our clearing firm could result in the inability of our customers to transact business in a timely manner due to delays and errors in the transfer of their accounts, which, on a temporary basis, could affect our earnings and profits.

Readers are also directed to other risks and uncertainties discussed, as well as to further discussion of the risks described above, in other documents filed by the Company with the United States Securities and Exchange Commission. The Company specifically disclaims any obligation to update or revise any forward- looking information, whether as a result of new information, future developments, or otherwise.

## PART I

### ITEM 1. Description of Business.

#### Overview

Incorporated in July of 1995, Investors Capital Holdings, Ltd. is a financial services holding company that operates primarily through its subsidiaries in two segments of the financial services industry. These two segments provide for the offering of (1) services related to corporate equity and debt securities, U.S. Government securities, municipal securities, mutual funds, variable annuities, variable life insurance, market information, internet online trading and portfolio tracking and records management and (2) financial planning services, investment advisory and asset management services and the management of a retail mutual fund.

#### Support to our Representatives

**Investors Capital Corporation.** Investors Capital Corporation, an NASD registered broker-dealer also registered with the Securities and Exchange Commission is headquartered in Lynnfield, Massachusetts and is a wholly-owned subsidiary of Investors Capital Holdings, Ltd. Doing business in all 50 states, Puerto Rico and the District of Columbia, Investors Capital Corporation makes available multiple investment products, and provides support, technology and back-office service to its network of approximately 1,103 registered representatives. Our representatives sell investment products that are securities under federal and state law. Accordingly, they are required to, and are registered as, representatives with our broker-dealer subsidiary. Similar registrations may be required by these persons as investment adviser representatives under federal and state law. Our in-house training program for these representatives emphasizes the long-range aspects of financial planning and investment products. We believe that through the continuing education we provide to our registered representatives, our clients can become better informed, and therefore, better serviced. This entity generated approximately 90% of Investors Capital Holdings' total revenues for the fiscal year ended March 31, 2002.

We seek to recruit primarily experienced, productive registered representatives by offering them an attractive commission payout and the independence of owning and operating their own offices. Generally, each such office pays substantially, if not all, of the costs associated with its establishment and operation. We provide technical, regulatory, supervisory, compliance and other support services to our independent investment professionals. This allows expansion of our operations with relative minimal capital outlay by our firm. Continuing to add experienced, productive registered representatives is an integral part of our growth strategy.

The commission payouts to our registered representatives are negotiable and currently average approximately 85% of the gross dealer concession generated from the sale of securities. Pursuant to the terms of our agreement with our registered representatives, and as permitted by current NASD rules, we provide our representatives, or their named beneficiaries, with continuing commissions on pre-existing business in the event of their retiring from the securities industry or death. Also, in this agreement, each of our representatives grants to us the right to offset against commissions any losses we sustain as a result of their actions, omissions and errors. Our agreement with our representatives is terminable by either party with 15 days prior written notice, and does not contain either a confidentiality or non-compete provision.

Our products and services provided to our representatives include:

*Technology Resources:* Utilizing the latest in technology, our representatives are able to perform the following activities on-line:

- Opening of new accounts;
- Monitoring of existing accounts;
- Trading;
- Locating and exploring approved products;
- Downloading client data; and
- Researching reports or inquiries on companies, securities and other pertinent financial topics

*Product Choices:* Allowing our representatives to choose from a wide variety of investment products sponsored by well-

respected and financially sound companies is critical to our registered representatives' success as well as ours. We follow a selective process in determining approved products to be offered to clients by our representatives. In addition, we continuously monitor the product list as deemed necessary.

*Marketing:* Producing compliance and NASD-approved marketing materials to be used by our representatives enhances their professional stature in the public's eye. The marketing resources produced by Investors Capital Corporation include:

- Corporate and product brochures;
- Technology resources;
- Client letters;
- Seminars; and
- Advertising and public relations

*Focus.* Our focus is on representatives who offer their clients assistance in attaining their long-range financial goals. Utilizing primarily experienced representatives, our client list is widely diversified in terms of goals, financial resources and geography. During the fiscal year ended March 31, 2002, the average revenue per registered representative was \$23,700 as compared to \$25,000 for our fiscal year ended March 31, 2001. Additionally, on March 31, 2002, we had a total of 1,103 representatives in our national network, as compared to 1,082 for the same period last year.

*Supervision.* Our broker-dealer subsidiary's compliance staff includes individuals with significant industry experience. Six of these individuals, including two experienced compliance attorneys, are located in the home office. The remaining compliance individuals, most of whom have in excess of 10 years of industry experience, termed Offices of Supervisory Jurisdiction by the NASD, are field supervisors situated across the country and are charged with compliance responsibilities for a defined group of registered representatives. By positioning these compliance individuals in the field, we are able to more closely scrutinize and monitor the activities of our representatives thereby ensuring, as much as possible, their compliance with the requisite rules and regulations. Such a field supervisor is assigned to each new registered representative affiliated with our broker-dealer subsidiary. Our in-house computer systems and programs further assist us in compliance matters.

As compliance is an area for which representatives seek and value assistance to keep abreast of, and in step with, the latest industry regulations, our compliance department provides, among other things:

- Advertising and sales literature review;
- Field inspections followed up with written findings and recommendations;
- Weekly faxes and monthly conference calls on selected compliance topics;
- Assistance with customer complaints and regulatory inquiries;
- Workshops and in-house publications on various compliance matters; and
- Regional and national meetings

*Clearing.* We utilize the services of another broker-dealer to clear our transactions. Our clearing agreement is on a fee-for-service basis. Our clearing firm processes most of the securities transactions for our account and the accounts of our clients. Services of our clearing firm include billing and credit extension, control and receipt and custody and delivery of securities, for which we pay a transaction charge. We rely on the operational capacity and the ability of our clearing firm for the orderly processing of transactions. In addition, by engaging the processing services of a clearing firm, certain capital reserve requirements and other complex regulatory requirements imposed by federal and state securities laws are not applicable to us.

*Broker-Dealer Revenue.* As of the end of our most recent fiscal year, March 31, 2002, revenue generated from our broker-dealer subsidiary's activities can be broken into the following percentages:

- Commissions from the sale of mutual funds and unit investment trusts: 34%
- Commissions from the sale of variable annuities and variable life insurance: 48%

Commissions from the sale of individual stocks and bonds: 9%

Commissions from the sale of direct participation programs: 1%

Other miscellaneous commission and fee income: 8%

### **Investment Advisory Services**

*Eastern Point Advisors, Inc.* Our investment adviser subsidiary provides investment advisory and asset management services directly to the investing public through its managed asset programs. These programs involve managed portfolios of load and no-load mutual funds, variable and fixed annuities and/or individual securities, and are provided to the public through approximately 260 investment adviser representatives and solicitors. As of March 31, 2002, we had approximately \$135 million under management in these managed asset programs with average weekly contributions of new money in excess of \$1 million since January of 2000. The maximum annual fee charged for these services is 2.75%, which is paid by the customer in quarterly installments. Eastern Point Advisors contributes approximately 10% of Investors Capital Holdings' total revenues.

In addition, our investment adviser subsidiary is the investment adviser to our retail mutual fund, the Eastern Point Advisors Twenty Fund. Until recently, this mutual fund was marketed to the public solely by registered representatives of Investors Capital Corporation. Recently, our investment adviser subsidiary has begun making its portfolios available to other broker-dealers. We have signed selling agreements to make our managed asset programs available to registered representatives of certain other broker-dealers, as well as to allow our mutual fund to be marketed by investment professionals affiliated with certain selected broker-dealers in addition to Investors Capital Corporation. These wholesaling activities increase the exposure of both the managed asset programs and the mutual fund.

As of March 31, 2002, Eastern Point Advisors had approximately \$9.2 million under management in this mutual fund. The annual fee charged by Eastern Point Advisors to the fund for its services is 1.50%, which is paid monthly.

As of March 31, 2002 we had approximately 260 investment adviser representatives registered with the various state securities departments. These investment adviser representatives are typically registered representatives of our wholly-owned brokerage subsidiary. Licensing requirements for these investment adviser representatives are dictated by the state in which they conduct business. As such, prior to their clients utilizing our investment advisory services, each investment adviser representative and solicitor must satisfy the requisite state licensing requirements which are typically the NASD Series 6 or 7 securities license coupled with a Series 65 or 66 license.

*Asset Allocation Strategy.* Eastern Point Advisor's asset allocation strategy, utilized by approximately 3,246 investors as of March 31, 2002, is based on the principle that, by investing in a combination of asset classes, we may reduce risk while seeking to provide enhanced returns. Thus, by combining asset classes that typically do not move in tandem, the volatility of the customer's investment portfolio may be lowered while, at the same time, provide the opportunity for possible increased long-term returns.

In implementing this asset allocation strategy for each individual customer, we utilize the following three steps:

Based upon a customer's ascertained tolerance for risk, investment goals, age, time horizon, investment experience and financial and personal situation, determined through the use of detailed questionnaires completed during personal interviews, we will recommend an overall investment allocation consisting of a suggested percentage of stocks, bonds and cash.

Should the customer agree with the recommended overall investment allocation, we will then select what we believe to be the appropriate investment vehicles for the particular customer from the universe of mutual funds, variable annuities and individual securities.

Following implementation of the recommended portfolio, our investment adviser subsidiary monitors the performance of the portfolio, communicates the model's performance to the client at least quarterly and makes any necessary changes based upon performance, changes in a customer's financial situation, goals or risk tolerance or any other factor relevant to the composition of the customer's portfolio.

*Fee-Based Compensation Structure.* As required by the Investment Advisers Act of 1940, compensation is based on an annual fee calculated as a percentage of total assets under management rather than a transaction-based commission or performance fee.

## Insurance Operations

ICC Insurance Agency, Inc., our wholly-owned insurance agency subsidiary, facilitates the sale by our registered representatives of variable life insurance and variable annuities. In certain states, in order to transact variable life and annuity business, a separately licensed insurance entity is required. This is the role filled by ICC Insurance Agency. This entity is properly licensed in all states in which such licensing is required. One hundred percent of all funds realized by this entity flow through as revenue to our broker-dealer subsidiary.

## Mutual Fund

***The Eastern Point Advisors Twenty Fund.*** The Eastern Point Advisors Twenty Fund, formally known as the Investors Capital Twenty Fund, is our growth-oriented mutual fund, which became available for sale on October 19, 1999. We created this mutual fund to complement our existing product lines with the rationale that our mutual fund would provide investors with a convenient way to meet their financial goals and, at the same time, provide new sales opportunities for representatives of our broker-dealer subsidiary.

The Eastern Point Advisors Twenty Fund invests in a portfolio of common stocks believed to offer capital appreciation potential. As such, the Fund may be more suitable for those investors who seek capital appreciation and are willing to accept a significant degree of volatility and risk.

The Eastern Point Advisors Twenty Fund utilizes a non-diversified portfolio of 20 to 30 common stocks of companies of any size, regardless of industry or sector, which may include smaller emerging companies. As of March 31, 2002, the Eastern Point Advisors Twenty Fund had assets of \$9,236,596.

Class A Shares of the Eastern Point Advisors Twenty Fund carry a maximum one-time, up-front sales charge to the investor of 5.75%. This sales charge decreases as the dollar amount of the investor's investment increases. Class C Shares have no such up-front sales charge but, in addition to annual management fees, carry a 1.00% per year annual fee.

## Our Strategy

Key elements to achieve our corporate objectives include:

*Increase brand awareness.* We plan to increase our brand recognition to attract new clients. We are implementing a comprehensive marketing plan to attract more clients and experienced representatives, build market awareness, educate the investing public and develop brand name recognition and loyalty. We intend to accomplish this strategy through direct marketing, advertising through our marketing department, use of our web site, a public relations program, live seminars, print advertising and television air time. In addition, we have committed to opening company-operated offices in selected strategic geographic locations across the country. In this regard, we have already opened investment centers in Topsfield, Massachusetts and Pittsburgh, Pennsylvania, and are in the planning stage of opening centers in California and Florida.

*Expand client relationships.* We intend to expand our relationships with representatives and investors by increasing our sales and marketing efforts. We plan to target sophisticated and experienced investors and financial institutions of all sizes, including professional money managers and registered investment advisers. Because these participants typically execute more trades per year than traditional retail investors and expect lower commissions, real-time access to information and quick order execution, the market for their business is currently underserved. We believe that we can profitably fill this market niche.

*Provide value-added services to our clients.* We will continue to provide our clients with access to a pool of well-trained representatives, access to up-to-date market and other financial information and direct access to our trade desk that is online with various stock exchanges and institutional buyers and sellers. We will also continue to provide trading before and after traditional market hours to our clients.

*Create technologically innovative solutions to satisfy clients' needs.* We intend to continue our active efforts in pursuing additional technologies to service the rapidly evolving financial services industry. Specifically, we are developing our web site to enable our clients to trade equity securities more efficiently via the internet, monitor the history and current status of their accounts at any time on-line and access all types of financial and other information to enhance their situations. Also, we have

developed personalized internet web sites for our representatives. These personalized sites provide the clients of our representatives, through the use of passwords and firewalls, a secure and private interface directly to our proprietary web site. This allows these clients to do market research, buy and sell securities on-line, monitor their accounts and utilize financial calculators.

*Build and expand our corporate presence.* We intend to expand our branch office locations to strategically situated metropolitan locations throughout the United States. We have expanded in Massachusetts and Pennsylvania, and intend to expand in California and Florida. We also continue to explore strategic alliances, acquisitions and other opportunities to provide our clients with the best possible services and products.

*Expand our product and service offering through strategic relationships.* We will continue to actively pursue alliances with various companies to increase trading volume, capitalize on cross-selling opportunities, create additional markets for our asset management programs and mutual fund sales, take advantage of emerging market trends and create operational efficiencies and further enhance our name recognition. We have no present agreements, plans, arrangements or understandings regarding any acquisitions and have not identified any specific criteria that such acquisitions must meet.

## **Competition**

Our competitors vary in size, scope and breadth of services offered. We encounter direct competition from numerous other brokerage firms that have electronic brokerage services and full research capabilities. We also encounter competition from established, full-commission brokerage firms, as well as insurance companies with securities brokerage subsidiaries, financial institutions, mutual fund sponsors and others who utilize financial planning representatives paying their own office costs and expenses. Competitors utilizing similar representatives include Linsco Private Ledger and Commonwealth Financial, and various insurance companies with securities brokerage subsidiaries.

Also, as demand for discounted brokerage services increases, our market is becoming more competitive. In particular, we anticipate that competition for electronic brokerage services will intensify as investor demand for such services increases. We also recognize and intend to capitalize on the fact that when investing large amounts of money, investors typically prefer personal attention from an experienced industry professional rather than inexpensive internet access to trading.

Some of our competitors have significantly greater financial, technical, marketing and other resources, and certain of our competitors also offer a wider range of services and financial products and have greater name recognition and more extensive client bases. These competitors may be able to respond more quickly to new or changing opportunities, technologies, and client requirements, and may be able to undertake more extensive promotional activities, offer more attractive terms to clients and adopt more aggressive pricing policies. Moreover, current and potential competitors have established, or may establish, cooperative relationships among themselves or with third parties or may consolidate to enhance their services and products.

We believe that our ability to compete depends upon many factors both within and outside our control, including:

- Our ability to attract and retain a network of investment professionals;
- The effectiveness, ease of use, performance and features of our technology and services;
- Client perceptions of the effectiveness of our services and technology;
- The price and quality of our services;
- Our ability to service our clients effectively and efficiently;
- The timing and acceptance of our new products and services and enhancements to existing products and services developed by us or our competitors; and
- Our reputation in the financial services industry.

*Mutual Funds.* Mutual funds are continuously being introduced to the investing public. These funds are being offered by new, as well as existing, mutual fund companies. Many of our mutual fund competitors have greater financial, technical, marketing and distribution resources. We believe that we can become competitive through our sales force and through selling agreements with other broker-dealers.

## How We Are Regulated

*Broker-Dealer Regulation.* The securities industry is subject to extensive regulation under both federal and state law. The SEC is the federal agency responsible for administering the federal securities laws. In general, broker-dealers are required to register with the SEC under the Securities Exchange Act of 1934, as amended. Our wholly-owned subsidiary, Investors Capital Corporation is a broker-dealer registered with the SEC. Under the Securities Exchange Act of 1934, every registered broker-dealer that does business with the public is required to be a member of and is subject to the rules of the NASD.

The NASD has established conduct rules for all securities transactions among broker-dealers and private investors, trading rules for the over-the-counter markets and operational rules for its member firms. The NASD conducts examinations of member firms, investigates possible violations of the federal securities laws and its own rules and conducts disciplinary proceedings involving member firms and associated individuals. The NASD administers qualification testing for all securities principals and registered representatives for its own account and on behalf of the state securities authorities. We are also subject to regulation under state law. We are currently registered as a broker-dealer in all 50 states, Puerto Rico and the District of Columbia.

The SEC and other regulatory bodies in the United States have rules with respect to net capital requirements that affect our broker-dealer subsidiary. These rules are designed to ensure that broker-dealers maintain adequate regulatory capital in relation to their liabilities, types of securities business conducted and the size of their customer business. These rules have the effect of requiring that a substantial portion of a broker-dealer's assets be kept in cash or highly liquid investments. Failure to maintain the required net capital may subject a firm to suspension or revocation of its registration with the SEC and suspension and expulsion by the NASD and other regulatory bodies, and ultimately may require its liquidation. The rules could restrict underwriting, trading activities, our ability to withdraw capital, pay dividends, pay interest on and repay the principal of any debt, among other matters, that could be affected.

*Registered Investment Adviser Regulation.* The Investment Advisers Act of 1940 regulates the registration of and the compensation that may be charged by an SEC registered investment adviser. Investment advisers are subject to the same oversight by the SEC and the various states as are broker-dealers. Investment advisers are required to register with the SEC, except those that are only required to register with the appropriate state regulatory agency, are required to periodically file reports and are subject to periodic or special examinations. Rules promulgated under the Advisers Act govern advertisements by investment advisers and the custody or possession of funds or securities of a client. Most states require registration by investment advisers unless an exemption is available and impose annual registration fees. Some states also impose minimum capital requirements. There can be no assurance that compliance with existing and future requirements and legislation will not be costly and time consuming or otherwise adversely impact our business in this area.

As a registered investment adviser under the Investment Advisers Act of 1940, our wholly-owned subsidiary, Eastern Point Advisors, is subject to regulations which cover various aspects of its business, including compensation arrangements. Under the Advisers Act, every investment advisory agreement with clients must expressly provide that such contract may not be assigned by the adviser without the consent of the client. Under the Investment Company Act of 1940, every investment adviser's agreement with a registered investment company must provide for the agreement's automatic termination in the event it is assigned. Under both the Advisers Act and the Investment Company Act, an investment advisory agreement is deemed to have been assigned when there is a direct or indirect transfer of the Agreement, including a direct assignment or a transfer of a "controlling block" of the adviser's voting securities or, under certain circumstances, upon the transfer of a "controlling block" of the voting securities of its parent corporation. A transaction is not, however, an assignment under the Advisers Act or the Investment Company Act if it does not result in a change of actual control or management of the investment adviser. Any assignment of Eastern Point Advisors' investment advisory agreements would require, as to any registered investment company client, the approval of a majority of its shareholders, and as to other advisory clients, the consent of such clients to such assignments.

*Regulations Applicable to the Use of the Internet.* Due to the increasing popularity and use of the internet and other online services, various regulatory authorities are considering laws and/or regulations with respect to the internet or other online services covering issues such as user privacy, pricing, content copyrights and quality of services. In addition, the growth and development of the market for online commerce may prompt more stringent consumer protection laws that may impose additional burdens on those companies conducting business online.

Also, the recent increase in the number of complaints by online traders could lead to more stringent regulations of online trading firms and their practices by the SEC, NASD and other regulatory agencies. The applicability to the internet and other

online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes and personal privacy is also uncertain and may take years to resolve. Finally, as our services are available over the internet in multiple states, and as we have numerous clients residing in these states, these jurisdictions may claim that we are required to qualify to do business as a foreign corporation in each such state. While Investors Capital Corporation is currently registered as a broker-dealer in all 50 states, Puerto Rico and the District of Columbia, we are qualified to do business as a foreign corporation in only a few states. Failure by our company to qualify as a broker-dealer in other jurisdictions or as an out-of-state or "foreign" corporation in a jurisdiction where it is required to do so could subject us to taxes and penalties for the failure to qualify. Our business could be harmed by any new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the applications of existing laws and regulations to the internet and other online services.

## **Employees**

As of March 31, 2002, we had 35 full-time employees, all of which are located at our principal office in Lynnfield, Massachusetts. No employee is covered by a collective bargaining agreement or is represented by a labor union. We consider our employee relations to be excellent. We also enter into independent contractor arrangements with other individuals on an as-needed basis to assist with programming and developing proprietary technologies.

## **ITEM 2. Description of Property.**

Our principal executive offices are located in a 7,600 square foot facility at 230 Broadway, Lynnfield, Massachusetts. This facility is comprised of several office condominiums owned by different entities, which lease the office space to the Company. A portion of the space which is leased to the Company, including Investors Capital Corporation and Eastern Point Advisors, is owned by Arlsburg Trust, the trustee of which is the principal stockholder of Holdings, and Investors Realty, LLC, the principal member of whom is the principal stockholder of Holdings. The remainder is leased from an unrelated entity. The combined current annual rent was \$182,723 and is comparable to current market rates for similar space in our geographic area. The leases expire in August 2003. In addition, the Company leases office space from the Arlsburg Trust for its investment center located in Topsfield, Massachusetts. Rent expense for the investment center was \$36,000 for the year ended March 31, 2002.

## **ITEM 3. Legal Proceedings.**

On January 3, 2001, an action was brought against our broker-dealer subsidiary by 21st Century Group, Inc. in the Circuit Court of Sarasota, Florida seeking common law indemnification in the amount of \$160,208. This indemnification action stems from an April 7, 1999 judgment against 21st Century for that amount rendered by the same court in the case of Crabill v. 21st Century Group, Inc. vs. Investors Capital Corp. Our broker-dealer subsidiary was named as a third-party defendant in this case which we successfully defended and the case against us was dismissed. As such, we believe this January 3, 2001 action is wholly without merit on grounds of estoppel and res judicata and are awaiting a determination on our motion to dismiss.

Our broker-dealer subsidiary, Investors Capital Corporation, has recently become engaged in a material NASD Arbitration in which one of our registered representatives is alleged to have made misrepresentations in the sale of unsecured promissory notes in a Florida company that has since filed for bankruptcy protection. This arbitration, Paul and Irmgard Jung and Wilhelm Trefz vs. Investors Capital Corporation and Kenneth J. Saunders originally was filed with the NASD on April 17, 2002 in Boca Raton, Florida. Damages are alleged in the amount of approximately \$221,455. At this time legal counsel is unable to evaluate the likelihood of an unfavorable outcome or estimate the potential loss.

## **ITEM 4. Submission of Matters to a Vote of Security Holders.**

No matter was submitted to a vote of security holders of Investors Capital Holdings, Ltd. during the fiscal year covered by this report.

## PART II

### ITEM 5. Market for Common Equity and Related Stockholder Matters.

Investors Capital Holdings' common stock began trading on The American Stock Exchange (AMEX) under the symbol "ICH" on February 8, 2001. Prior to such date, there was no established public trading market for the common stock. As of June 17, 2002, exclusive of shares held in street name, there were approximately 75 stockholders of record and 5,717,380 shares outstanding.

The following table presents the high and low closing prices for the common stock of Investors Capital Holding, Ltd. on the AMEX for the period indicated.

	<u>High</u>	<u>Low</u>
<b>Fiscal 2002</b>		
For the period from April 1, 2001 through June 30, 2001 .....	\$6.00	\$3.11
For the period from July 1, 2001 through September 30, 2001 .....	\$3.75	\$2.20
For the period from October 1, 2001 through December 31, 2001 .....	\$3.49	\$2.50
For the period from January 1, 2002 through March 31, 2002.....	\$2.99	\$2.00
<b>Fiscal 2001</b>		
For the period from February 8, 2001 through March 31, 2001.....	\$8.00	\$5.55

Investors Capital Holdings, Ltd. did not pay dividends for the year ended March 31, 2002. Future dividend decisions will be based on, and affected by, a number of factors, including the operating results and financial requirements of the Company and the impact of regulatory restrictions. See Regulation and Management's Discussion and Analysis—Liquidity and Capital Resources, included elsewhere in this Form 10-KSB.

### ITEM 6. Management's Discussion and Analysis.

#### Overview

We are a financial services holding company that, through our subsidiaries, provides investment advisory, insurance, financial planning and related services. We operate in a highly regulated and competitive industry, that is influenced by numerous external factors such as economic conditions, marketplace liquidity and volatility, monetary policy, global and national political events, regulatory developments, competition and investor preferences. Our revenues and net earnings may be either enhanced or diminished from period to period by any one of or by a multiple of these external factors. In addition, the passage of the Graham-Leach-Bliley Act in November of 1999 repealed depression-era laws that separated commercial, investment banking and insurance activities. Such repeal may result in the intensification of the environment in which we compete by increasing the number of companies doing business in the financial services arena.

#### Results of Operations

##### Fiscal Year Ended March 31, 2002 Compared with Fiscal Year Ended March 31, 2001

Consolidated operating loss of \$152,205 for the year ended March 31, 2002 decreased by \$16,305, or 9.7%, as compared to the consolidated operating loss of \$168,510 for the year ended March 31, 2001. This decrease in consolidated operating loss, after the elimination of all inter-segment revenues and expenses, was attributable to a \$253,503 increase in operating income provided by Investors Capital Corporation (ICC) and a \$121,522 increase in operating income provided by Eastern Point Advisors (EPA). Offsetting these increases was a decrease of \$358,720 in operating income provided by Investors Capital Holdings, Ltd (ICH), on a stand-alone basis. The \$253,503 increase in operating income provided by ICC was attributable to an increase of \$151,876 in income earned from promotional events throughout the year as well as a \$116,279 increase in fees charged for an insurance policy. The remaining \$14,652 decrease was the result of miscellaneous items. The \$121,522 increase in operating income provided by EPA was mainly attributable to a \$94,476 decrease in expenses associated with the discontinuation of the Investors Capital Internet and Technology Fund. The remaining \$27,046 increase resulted from a general reduction in various expenses as part of an effort to streamline our operations. The \$358,720 decrease in operating

income provided by ICH was attributable to an increase of \$130,388 in legal and accounting, a \$100,000 increase associated with the amortization of the Company's subsidiary, ICC Insurance Agency, an increase of \$61,445 in printing costs and a \$59,328 increase in investor and public relations costs. The remaining \$7,559 decrease was comprised of miscellaneous items.

Consolidated commissions and advisory fee income of \$28,880,521 for the year ended March 31, 2002 decreased by \$925,623, or 3.1%, as compared to consolidated commissions and advisory fee income of \$29,806,144 for the year ended March 31, 2001. This decrease in gross revenues, after the elimination of all inter-segment revenues and expenses, was attributable to a \$777,309 decrease in revenues provided by ICC, a \$139,470 decrease in advisory fee income provided by EPA and an \$8,844 decrease in other income provided by ICH. The decrease of \$777,309 in gross revenues provided by ICC was mainly driven by a decrease of \$480,184 in one-time commissions earned from the initial public offering which occurred last year. The remaining \$297,125 decrease was attributable to an overall decline in commissions earned from the sale of mutual fund and variable annuity products as the market under-performed compared to the previous year. The \$139,470 decrease in advisory fee income provided by EPA was mainly the result of market conditions and a decision to terminate certain selling agreements that were not favorable to the Company.

Consolidated commissions and advisory fee expense of \$23,309,136 for the year ended March 31, 2002 decreased by \$1,252,532, or 5.1%, as compared to consolidated commissions and advisory fee expense of \$24,561,668 for the year ended March 31, 2001. This decrease, after the elimination of all inter-segment revenues and expenses, was attributable to a \$1,171,215 decrease in commission expense incurred by ICC and an \$81,317 decrease in advisory fee expense incurred by EPA. The decrease of \$1,171,215 in commission expense incurred by ICC was the result of the decrease in one-time commissions earned from the sale of mutual funds and variable annuity products as well as the decrease in commissions earned from the initial public offering in the previous year. As the commissions earned on these revenues decrease, the payout associated with these revenues decreases proportionately.

Consolidated administrative expenses of \$5,158,290 for the year ended March 31, 2002 increased by \$680,084, or 15.2%, as compared to consolidated administrative expenses of \$4,478,206 for the year ended March 31, 2001. This increase, after the elimination of all inter-segment revenues and expenses, was attributable to a \$529,890 increase in administrative expenses incurred by ICC and a \$312,576 increase in administrative expenses incurred by ICH. Offsetting these increases was a decrease of \$162,382 in administrative expenses incurred by EPA. The increase of \$529,890 in administrative expenses incurred by ICC was mainly driven by a \$438,024 increase in legal expense related to the settlement of various NASD arbitrations. The remaining \$91,866 increase was driven by an overall increase in payroll and payroll related expenses. The increase of \$312,576 in administrative expenses incurred by ICH was driven by an increase of \$130,388 in legal and accounting expense, a \$100,000 increase associated with the amortization of the Company's subsidiary, ICC Insurance Agency, and a \$61,445 increase in printing costs. The remaining \$20,743 increase was attributable to miscellaneous items. The decrease of \$162,382 in administrative expenses incurred by EPA was driven by a \$94,476 decrease in expenses associated with the discontinuation of the Investors Capital Internet and Technology Fund as well as a \$69,744 decrease in printing expense. The offsetting increase of \$1,838 was due to miscellaneous items.

Consolidated selling expenses of \$565,300 for the year ended March 31, 2002 decreased by \$369,480, or 39.5%, as compared to consolidated selling expenses of \$934,780 for the year ended March 31, 2001. This decrease, after the elimination of all inter-segment revenues and expenses, was attributable to a \$389,487 decrease in selling expenses incurred by ICC and a \$17,293 decrease in selling expenses incurred by EPA. Offsetting these decreases was a \$37,300 increase in selling expenses incurred by ICH. The decrease of \$389,487 in selling expenses incurred by ICC was driven by a decrease of \$172,847 in advertising costs and a \$151,876 increase in income earned from promotional events throughout the year. The remaining \$64,764 decrease was the result of various cost cutting measures put in place throughout the year.

Consolidated income taxes of \$125,249 for the year ended March 31, 2002 increased by \$111,249, or 794.6%, as compared to consolidated income taxes of \$14,000 for the year ended March 31, 2001. This increase in income tax expense was mainly attributable to an increase in permanent differences in which certain expenses are deductible for book purposes but not deductible for tax purposes.

Consolidated net income of \$4,137 for the year ended March 31, 2002 increased by \$108,443, or 104.0%, as compared to consolidated net loss of \$104,306 for the year ended March 31, 2001. This \$108,443 increase in net earnings, after the elimination of all inter-segment revenues and expenses, was attributable to a \$239,116 increase in net income provided by ICC and a \$103,696 increase in net income provided by EPA. Offsetting these increases was an increase in net loss of \$234,369 provided by ICH. The \$239,116 increase in net income provided by ICC was attributable to an increase of \$151,876 in income earned from promotional events throughout the year as well as an increase of \$116,279 in fees charged for an insurance policy.

The offsetting decrease of \$29,039 was due to miscellaneous items. The \$103,696 increase in net income provided by EPA was attributable to a \$94,476 decrease in expenses associated with the discontinuation of the Investors Capital Internet and Technology Fund as well as a \$69,744 decrease in printing expense. The offsetting decrease of \$60,524 was attributable to a lower gross margin resulting from unfavorable market conditions and the termination of certain selling agreements. The \$234,369 increase in net loss provided by ICH was attributable to an increase of \$130,388 in legal and accounting expense, a \$100,000 increase associated with the amortization of the Company's subsidiary, ICC Insurance Agency, a \$70,635 increase in income tax expense, a \$61,445 increase in printing costs and a \$59,328 increase in investor and public relations costs. Offsetting these increased costs was an increase in interest income of \$170,335 resulting from availability of IPO proceeds for an entire year. The remaining \$17,092 was the result of miscellaneous items.

### **Fiscal Year Ended March 31, 2001 Compared with Fiscal Year Ended March 31, 2000**

Consolidated operating loss of \$168,510 for the year ended March 31, 2001 increased by \$241,945, or 329.5%, as compared to consolidated operating income of \$73,435 for the year ended March 31, 2000. This decrease in consolidated operating income, after the elimination of all inter-segment revenues and expenses, was attributable to a \$169,817 decrease in operating income provided by the Company's subsidiary, Eastern Point Advisors (EPA) and a \$88,279 decrease in operating income provided by Investors Capital Holdings, Ltd. (ICH), on a stand-alone basis. Offsetting these decreases was an increase of \$16,151 in operating income provided by the Company's subsidiary, Investors Capital Corporation (ICC). The \$169,817 decrease in operating income provided by EPA was mainly attributable to a one-time charge of \$110,000 to write-off promotional expenses incurred by the Investors Capital Internet and Technology mutual fund. The remaining decrease of \$59,817 in operating income provided by EPA was due to increases in salary and marketing expenses in anticipation of an expanding market. The \$88,279 decrease in operating income provided by ICH was mainly attributable to an increase in salary expense.

Consolidated commissions and advisory fee income of \$29,806,144 for the year ended March 31, 2001 increased by \$6,117,621, or 25.8%, as compared to consolidated commissions and advisory fee income of \$23,688,523 for the year ended March 31, 2000. This increase in gross revenues, after the elimination of all inter-segment revenues and expenses, was attributable to a \$5,581,912 increase in revenues provided by ICC, a \$526,864 increase in advisory fee income provided by EPA and an \$8,845 increase in other income provided by ICH, on a stand-alone basis. The increase of \$5,581,912 in gross revenues provided by ICC was mainly driven by an increase in the sale of mutual fund and variable annuity products, which have historically been ICC's main source of revenues.

Consolidated commissions and advisory fee expense of \$24,561,668 for the year ended March 31, 2001 increased by \$4,777,512, or 24.1%, as compared to consolidated commissions and advisory fee expense of \$19,784,156 for the year ended March 31, 2000. This increase, after the elimination of all intersegment revenues and expenses, was attributable to a \$4,513,337 increase in commission expense incurred by ICC and \$264,175 increase in advisory fee expense provided by EPA. The increase of \$4,513,337 in commission expense incurred by ICC was the direct result of the \$5,581,912 increase in gross revenues incurred by ICC.

Consolidated administrative expenses of \$4,478,206 for the year ended March 31, 2001 increased by \$1,140,367, or 34.2%, as compared to consolidated administrative expenses of \$3,337,839 for the year ended March 31, 2000. This increase, after the elimination of all inter-segment revenues and expenses, was attributable to a \$640,482 increase in administrative expenses incurred by ICC, a \$416,136 increase in administrative expenses incurred by EPA and an \$83,749 increase in administrative expenses incurred by ICH, on a stand-alone basis. The increase of \$640,482 in administrative expenses incurred by ICC was mainly the result of a \$482,238 increase in payroll and payroll related expenses. The increase of \$416,136 in administrative expenses incurred by EPA was mainly the result of a \$213,653 increase in payroll and payroll related expenses and a one-time charge of \$110,000 to write-off promotional expenses incurred in support of the Investors Capital Internet and Technology Fund. In both instances, ICC and EPA had expanded their human resources in anticipation of an expanding market.

Consolidated selling expenses of \$934,780 for the year ended March 31, 2001 increased by \$441,687, or 89.6%, as compared to consolidated selling expenses of \$493,093 for the year ended March 31, 2000. This increase, after the elimination of all inter-segment revenues and expenses, was attributable to a \$411,943 increase in selling expenses incurred by ICC, a \$16,370 increase in selling expenses incurred by EPA and a \$13,374 increase in selling expenses incurred by ICH, on a stand-alone basis. The increase of \$411,943 in selling expenses incurred by ICC was mainly the result of an increase in advertising costs of \$400,538 in anticipation of an expanding market.

Consolidated income taxes of \$14,000 for the year ended March 31, 2001 decreased by \$69,000, or 83.1%, as compared to consolidated income taxes of \$83,000 for the year ended March 31, 2000. This decrease in income tax expense was mainly

attributable to the increase in operating loss for the year.

Consolidated net loss of \$104,306 for the year ended March 31, 2001 increased by \$162,683, or 278.7%, as compared to consolidated net income of \$58,377 for the year ended March 31, 2000. This \$162,683 decrease in net earnings, after the elimination of all intersegment revenues and expenses, was attributable to a \$152,514 decrease in net income provided by ICH, on a stand-alone basis, a \$79,943 decrease in net income provided by EPA and a \$69,774 increase in net income provided by ICC. The \$152,514 decrease in net income provided by ICH, on a stand-alone basis, was mainly attributable to an increase in payroll and payroll related expenses. The \$79,943 decrease in net income provided by EPA was mainly the result of an increase in payroll and payroll related expenses and the one-time charge of \$110,000 to write off the promotional expenses incurred in support of the Investors Capital Internet and Technology Fund. The \$69,774 increase in net income provided by ICC was mainly the result of an increase in interest income.

## **Liquidity and Capital Resources**

We believe that return on equity primarily is based on the use of capital in an efficient manner. Historically, we have financed our operations primarily through private equity and internally generated cash flow and not by incurring debt.

As of March 31, 2002, cash and cash equivalents totaled \$6,337,445 as compared to \$7,180,340 as of March 31, 2001. Working capital as of March 31, 2002 was \$7,276,218 as compared to \$7,408,733 as of March 31, 2001. Our ratio of current assets to current liabilities was 4.53 to 1 as of March 31, 2002 as compared to 3.98 to 1 as of March 31, 2001.

As of March 31, 2002, our net capital ratio for the broker-dealer was 1.74 to 1 as compared to 7.42 to 1 for our fiscal year ended March 31, 2001. The SEC requires that we maintain a net capital of \$100,000 and a ratio of aggregate indebtedness to net capital not to exceed 15 to 1. This SEC requirement is also referred to as the "net capital ratio" or the "net capital rule." Indebtedness generally includes all money owed by a company, and net capital includes cash and assets that are easily converted into cash. SEC rules also prohibit "equity capital," which, under the net capital rule, includes the subordinated loans from being withdrawn or cash dividends from being paid if our net capital ratio would exceed 10 to 1 if we would have less than our minimum required net capital. As of March 31, 2002, we had net capital of \$1,136,646 as compared to net capital of \$311,295 as of March 31, 2001. This resulted in excess net capital of \$1,004,696 and \$157,254, respectively, for the applicable years.

Net cash used in operating activities was \$15,651 for the year ended March 31, 2002 as compared to net cash used in operating activities of \$325,681 for the year ended March 31, 2001. This decrease in cash flow use in operating activities was primarily the result of a decrease in commissions payable. This decrease in commissions payable resulted from the automation of the commission payment system in the previous year, which pays commissions on a more timely basis.

Net cash used in investing activities was \$420,405 for the year ended March 31, 2002 as compared to \$139,592 for the year ended March 31, 2001. This increase in cash flow used in investing activities was the result of granting loans to our registered representatives during the current year in addition to an increase in the purchase of fixed assets needed to enhance our infrastructure.

Net cash used in financing activities was \$406,839 for the year ended March 31, 2002 as compared to net cash provided by financing activities of \$6,801,010 for the year ended March 31, 2001. This decrease in cash provided by financing activities was mainly the result of our Company's initial public offering on February 8, 2001.

## **Effect of Recently Issued Accounting Pronouncements**

In June of 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of SFAS Statement No. 133 and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of SFAS No. 133." These statements outline the accounting treatment for all derivative activity. We do not use derivative instruments and these accounting statements will not have an effect on us.

FASB has issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and rescinds SFAS Statement No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125." SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial

assets and extinguishments of liabilities. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001; however, the disclosure provisions are effective for fiscal years ending after December 15, 2000. The adoption of this Statement did not have a material impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This Statement addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Under Opinion 16, business combinations were accounted for using one of two methods, the pooling-of-interests method or the purchase method. All business combinations in the scope of SFAS No. 141 are to be accounted for using one method—the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001 and to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

The adoption of SFAS No. 141 had no immediate effect on the Company's financial statements since it had no pending business combinations as of March 31, 2002 or as of the date of the issuance of these consolidated financial statements. If the Company consummates business combinations in the future, any such combinations that would have been accounted for by the pooling-of-interests method under Opinion 16 will be accounted for under the purchase method and the difference in accounting could have a substantial impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This Statement addresses financial accounting and reporting for required goodwill and other intangible assets and supercedes APB Opinion No. 17, "Intangible Assets." The initial recognition and measurement provisions of SFAS No. 142 apply to intangible assets which are defined as assets (not including financial assets) that lack physical substance. The term "intangible assets" is used in SFAS No. 142 to refer to intangible assets other than goodwill. The accounting for a recognized intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of."

SFAS No. 142 provides that goodwill shall not be amortized. Goodwill is defined as the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. SFAS No. 142 further provides that goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

SFAS No. 142 is effective as follows:

All of the provisions of SFAS No. 142 shall be applied in fiscal years beginning after December 15, 2001, to all goodwill and intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized.

The Company believes that the impact of SFAS No. 142 on its future consolidated financial statements will be immaterial.

### **Effects of Inflation**

Investors Capital Holdings' assets are primarily liquid in nature and are not significantly affected by inflation. Management believes that the replacement cost of property and equipment will not materially affect operating results. However, the rate of inflation affects our expenses, including employee compensation and benefits, communications and occupancy, which may not be readily recoverable through charges for services provided.

## **ITEM 7. Financial Statements.**

To the Board of Directors and Stockholders of  
Investors Capital Holdings, Ltd. and Subsidiaries  
Lynnfield, Massachusetts

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying consolidated balance sheet of Investors Capital Holdings, Ltd. and Subsidiaries as of March 31, 2002, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Investors Capital Holdings, Ltd. and Subsidiaries as of March 31, 2001 were audited by other auditors whose report dated May 29, 2001 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Investors Capital Holdings, Ltd. and Subsidiaries as of March 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts  
May 17, 2002, except for Note 13 as to which  
the date is June 27, 2002

**INVESTORS CAPITAL HOLDINGS, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
Cash and cash equivalents .....	\$6,337,445	\$7,180,340
Investments in available-for-sale securities .....	56,291	62,394
Marketable securities, at market value .....	2,364	15,769
Securities not readily marketable, at estimated fair value .....	10,000	10,000
Investment in unconsolidated affiliates .....	89,697	80,030
Deposits with clearing organization, restricted .....	175,000	175,000
Accounts receivable .....	2,101,200	2,009,252
Loans receivable from registered representatives .....	199,996	—
Receivables from officers .....	136,078	109,327
Prepaid expenses .....	193,682	151,226
Deferred income tax asset, net .....	31,930	—
Prepaid income taxes .....	—	88,123
Premises and equipment, net .....	531,296	439,589
Other assets .....	249,553	291,251
Total assets .....	\$10,114,532	\$10,612,301
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Notes payable .....	\$79,016	\$454,262
Commissions payable .....	1,136,676	1,133,101
Accounts payable .....	379,320	639,791
Accrued expenses .....	303,816	249,574
Securities sold, not yet purchased, at market value .....	9,530	—
Income taxes payable .....	149,108	—
Deferred income tax liability, net .....	—	13,000
Total liabilities .....	2,057,466	2,489,728
Stockholders' equity:		
Common stock, \$.01 par value, authorized 10,000,000 shares; issued 5,721,265 shares and 5,708,311 shares at March 31, 2002 and 2001, respectively; outstanding 5,717,380 shares and 5,708,311 shares at March 31, 2002 and 2001, respectively .....	57,213	42,258
Additional paid-in capital .....	8,135,347	8,151,760
Accumulated deficit .....	(61,634)	(65,771)
Treasury stock, at cost (3,885 shares at March 31, 2002) .....	(30,135)	—
Accumulated other comprehensive loss .....	(43,725)	(5,674)
Total stockholders' equity .....	8,057,066	8,122,573
Total liabilities and stockholders' equity .....	\$10,114,532	\$10,612,301

The accompanying notes are an integral part of these consolidated financial statements.

**INVESTORS CAPITAL HOLDINGS, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended March 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Commission and advisory fee income .....	\$28,880,521	\$29,806,144
Cost of commission and advisory fees .....	23,309,136	24,561,668
Gross profit .....	5,571,385	5,244,476
Selling and administrative expenses:		
Administrative .....	5,158,290	4,478,206
Selling .....	565,300	934,780
Total selling and administrative expenses .....	5,723,590	5,412,986
Operating loss .....	(152,205)	(168,510)
Other income (expense):		
Interest income .....	280,625	99,780
Interest expense .....	(30,982)	(21,576)
Other income .....	31,948	—
Net other income .....	281,591	78,204
Income (loss) before taxes .....	129,386	(90,306)
Provision for income taxes .....	125,249	14,000
Net income (loss) .....	\$4,137	\$(104,306)
 Earnings per common share		
Basic and diluted earnings (loss) per common share:		
Net income (loss) .....	\$0.00	\$(0.02)
 Share data:		
Weighted average shares used in basic earnings (loss) per common		
share calculations .....	5,717,931	4,789,007
Plus: Incremental shares from assumed conversion of stock options .....	100,764	—
Weighted average shares used in diluted earnings (loss) per common share calculations .....	5,818,695	4,789,007

The accompanying notes are an integral part of these consolidated financial statements.

**INVESTORS CAPITAL HOLDINGS, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended March 31, 2002 and 2001**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance, March 31, 2000 .....	4,645,311	\$31,628	\$1,744,602	\$38,535	\$—	\$31,948	\$1,846,713
Additional capital .....	1,063,000	10,630	6,407,158				6,417,788
Comprehensive loss:							
Net loss .....				(104,306)			
Net unrealized losses .....						(37,622)	
Comprehensive loss .....							(141,928)
Balance, March 31, 2001 .....	5,708,311	42,258	8,151,760	(65,771)	—	(5,674)	8,122,573
Costs related to initial public offering .....			(1,458)				(1,458)
Common stock adjustment .....	12,954	14,955	(14,955)				—
Purchases of treasury stock .....					(30,135)		(30,135)
Comprehensive income:							
Net income .....				4,137			
Net unrealized losses .....						(38,051)	
Comprehensive loss .....							(33,914)
Balance, March 31, 2002 .....	5,721,265	\$57,213	\$8,135,347	\$(61,634)	\$(30,135)	\$(43,725)	\$8,057,066

Reclassification disclosure:

Net unrealized losses on available-for-sale securities for the year ended March 31, 2002 were \$37,426. Such amount has been adjusted to \$38,051 to reflect a reclassification of the gain of \$656 on the sale of a security, with no tax effect.

For net unrealized losses on available-for-sale securities, no reclassification adjustment was necessary and there was no income tax effect for the year ended March 31, 2001 because there were no sales of such securities in that year.

Accumulated other comprehensive loss as of March 31, 2002 and 2001 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

The accompanying notes are an integral part of these consolidated financial statements.

**INVESTORS CAPITAL HOLDINGS, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended March 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income (loss) .....	\$4,137	\$(104,306)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization .....	133,932	79,382
Change in deferred taxes .....	(44,930)	6,000
Unrealized loss on investments .....	—	65,644
Gain on sale of available-for-sale security .....	(656)	—
Change in marketable securities .....	13,405	—
Realized gain on investment in unconsolidated affiliates .....	(14,241)	—
Increase in accounts receivable .....	(91,948)	(193,134)
(Increase) decrease in prepaid expenses and other assets .....	(27,509)	4,628
Decrease in prepaid income taxes .....	88,123	50,862
Increase in taxes payable .....	149,108	—
(Decrease) increase in accounts payable and other liabilities .....	(250,941)	93,192
Increase (decrease) in accrued expenses .....	54,242	(5,819)
Increase (decrease) in commissions payable .....	3,575	(322,130)
Other .....	(31,948)	—
Net cash used in operating activities .....	(15,651)	(325,681)
Cash flows from investing activities:		
Purchases of property and equipment .....	(225,639)	(121,220)
Purchase of securities .....	—	(18,372)
Proceeds from sale of available-for-sale security .....	5,230	—
Increase in loans receivables from registered representatives .....	(199,996)	—
Net cash used in investing activities .....	(420,405)	(139,592)
Cash flows from financing activities:		
Proceeds from the issuance of common stock .....	—	10,630
Additional paid-in capital .....	—	6,407,158
Costs related to initial public offering .....	(1,458)	—
Purchases of treasury stock .....	(30,135)	—
Proceeds from notes payable .....	773,668	558,225
Payments on notes payable .....	(1,148,914)	(175,003)
Net cash (used in) provided by financing activities .....	(406,839)	6,801,010
Net (decrease) increase in cash and cash equivalents .....	(842,895)	6,335,737
Cash and cash equivalents at beginning of year .....	7,180,340	844,603
Cash and cash equivalents at end of year .....	\$6,337,445	\$7,180,340
Supplemental disclosures:		
Interest paid .....	\$30,982	\$21,576
Income taxes (received) paid .....	(64,553)	72,200

The accompanying notes are an integral part of these consolidated financial statements.

#### **NOTE 1—NATURE OF OPERATIONS**

Investors Capital Holdings, Ltd., (the Company) (ICH) and its wholly-owned subsidiaries, Investors Capital Corporation (ICC), Eastern Point Advisors, Inc. (EPA) and ICC Insurance Agency, Inc. are engaged throughout the United States in the financial services industry as general securities brokers and asset managers. ICC is a registered broker-dealer under the Securities Exchange Act of 1934. EPA is a Federally Regulated Advisor subject to the Securities and Exchange Commission under the Investment Adviser's Act of 1940.

#### **NOTE 2—ACCOUNTING POLICIES**

The significant accounting policies of the Company are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

##### **USE OF ESTIMATES:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **PRINCIPLES OF CONSOLIDATION:**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, ICC, EPA and ICC Insurance Agency. All significant inter-company items and transactions have been eliminated in the consolidation.

##### **REVENUE RECOGNITION:**

Securities transactions and related commission revenues and expenses are recorded on a settlement date basis. The Company earns an advisory fee based on a client's managed portfolio value on portfolios managed by EPA. These fees are recorded under the accrual method.

##### **CASH AND CASH EQUIVALENTS:**

For purposes of reporting cash flow, cash and cash equivalents includes cash in checking and savings accounts and short-term investments with original maturities of three months or less.

##### **FINANCIAL INSTRUMENTS:**

The financial instruments of the Company are reported in the consolidated balance sheets at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments, except loans receivable. The fair values for loans receivable are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. As of March 31, 2002, the carrying amount and fair value of loans receivable from registered representatives were \$199,996 and \$191,000, respectively.

##### **INVESTMENT SECURITIES:**

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheet. Unrealized holding gains and losses are not included in earnings, or in a separate component of capital. They are merely

disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheet. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the consolidated balance sheet. Unrealized holding gains and losses for trading securities are included in earnings.

Declines in the fair value of available-for-sale and held-to-maturity securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management.

#### **PREMISES AND EQUIPMENT:**

Furniture, equipment and leasehold improvements are stated at cost. Maintenance and repairs are charged to operations. Depreciation is provided utilizing the straight-line method over their useful lives, generally seven years.

#### **BUSINESS DEVELOPMENT:**

The Company expenses all promotional costs as incurred and advertising costs upon first exhibition of the advertisement. Substantially all business development costs relate to advertising. Business development expenses amounted to \$346,681 and \$311,905 for the years ended March 31, 2002 and 2001, respectively.

#### **INCOME TAXES:**

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under the asset and liability approach, deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

#### **SEGMENT REPORTING:**

The Company makes disclosures about products and services, geographic areas, and major customers in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

#### **RECENT ACCOUNTING PRONOUNCEMENTS:**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 2000. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts, and requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure them at fair value. If certain conditions are met, an entity may elect to designate a derivative as follows: (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of an unrecognized firm commitment, an available-for-sale security, a foreign currency denominated forecasted transaction, or a net investment in a foreign operation. The Statement generally provides for matching the timing of the recognition of the gain or loss on derivatives designated as hedging instruments with the recognition of the changes in the fair value of the item being hedged. Depending on the type of hedge, such recognition will be in either net income or other comprehensive income. For a derivative not designated as a hedging instrument, changes in fair value will be recognized in net income in the period of change. The adoption of this Statement did not have a material impact on the consolidated financial statements.

FASB has issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This Statement replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and rescinds SFAS Statement No. 127, "Deferral of the Effective Date of Certain Provisions of

FASB Statement No. 125." SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001; however, the disclosure provisions are effective for fiscal years ending after December 15, 2000. The adoption of this Statement did not have a material impact on the Company's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This Statement addresses financial accounting and reporting for business combinations and supercedes Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." Under Opinion 16, business combinations were accounted for using one of two methods, the pooling-of-interests method or the purchase method. All business combinations in the scope of SFAS No. 141 are to be accounted for using one method—the purchase method. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001 and to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later.

The adoption of SFAS No. 141 had no immediate effect on the Company's financial statements since it had no pending business combinations as of March 31, 2002 or as of the date of the issuance of these consolidated financial statements. If the Company consummates business combinations in the future, any such combinations that would have been accounted for by the pooling-of-interests method under Opinion 16 will be accounted for under the purchase method and the difference in accounting could have a substantial impact on the Company's consolidated financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This Statement addresses financial accounting and reporting for required goodwill and other intangible assets and supercedes APB Opinion No. 17, "Intangible Assets." The initial recognition and measurement provisions of SFAS No. 142 apply to intangible assets which are defined as assets (not including financial assets) that lack physical substance. The term "intangible assets" is used in SFAS No. 142 to refer to intangible assets other than goodwill. The accounting for a recognized intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized; an intangible asset with an indefinite useful life is not amortized. An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of."

SFAS No. 142 provides that goodwill shall not be amortized. Goodwill is defined as the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. SFAS No. 142 further provides that goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

SFAS No. 142 is effective as follows:

All of the provisions of SFAS No. 142 shall be applied in fiscal years beginning after December 15, 2001, to all goodwill and intangible assets recognized in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized.

The Company believes that the impact of SFAS No. 142 on its future consolidated financial statements will be immaterial.

## **RECLASSIFICATIONS:**

Certain amounts from the prior year have been reclassified for consistency with current year presentation.

## **NOTE 3—NET CAPITAL**

ICC is subject to the Securities and Exchange Commission's regulations and operating guidelines, which require ICC to maintain a specified amount of net capital, as defined, and a ratio of aggregate indebtedness to net capital, as defined, not exceeding 15 to 1.

ICC's net capital as computed under 15c3-1 was \$1,136,646 at March 31, 2002 which resulted in excess net capital of the required net capital of \$131,950 in the amount of \$1,004,696. The ratio of aggregate indebtedness to capital at March 31, 2002 was 1.74 to 1. ICC's net capital as computed under 15c3-1 was \$311,295 at March 31, 2001 which resulted in excess net

capital of the required net capital of \$154,041 in the amount of \$157,254. The ratio of aggregate indebtedness to capital at March 31, 2001 was 7.42 to 1.

**NOTE 4—SECURITIES OWNED AND SOLD, NOT YET PURCHASED**

Securities owned and sold, not yet purchased, consist of available-for-sale securities and investment securities at market values.

The carrying amount and fair value of investments in available-for-sale securities are as follows:

	<u>Amortized Cost</u>	<u>Losses In Accumulated Other Comprehensive Income</u>	<u>Fair Value</u>
March 31, 2002			
Equity securities .....	\$100,016	\$43,725	\$56,291
March 31, 2001			
Equity securities .....	\$68,068	\$5,674	\$62,394

The carrying amount of investment securities at market values are as follows:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
March 31, 2002		
Equity securities .....	\$2,364	\$9,530
March 31, 2001		
Equity securities .....	\$15,769	\$—

The securities owned are securities owned temporarily by the Company for the convenience of customers of the Company.

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company.

These securities at estimated fair values consist of the following:

March 31, 2002	
Equity securities.....	\$10,000
March 31, 2001	
Equity securities.....	\$10,000

**NOTE 5—INVESTMENT IN UNCONSOLIDATED AFFILIATE**

As of March 31, 2002 and 2001, the Company had investments totaling \$89,697 and \$80,030, respectively in unconsolidated affiliates. As of March 31, 2001, the investment holdings consisted of Eastern Point Advisors Twenty Fund and Investors Capital Internet and Technology Fund. During the year ended March 31, 2002, the Company sold its investment in

Investors Capital Internet and Technology Fund and the fund was liquidated as described in Note 19. These investments were accounted for under the equity method of accounting for investments because the Company had the ability to exercise significant influence over the funds.

An investor using the equity method initially records an investment at cost. Subsequently, the carrying amount of the investment is increased to reflect the investor's share of income of the investee and is reduced to reflect the investor's share of losses of the investee or dividends received from the investee. The investor's share of the income or losses of the investee is included in the investor's net income as the investee reports them. Adjustments similar to those made in preparing consolidated financial statements, such as elimination of intercompany gains and losses, also are applicable to the equity method.

As of March 31, 2002, the Company held a 1% ownership in the Eastern Point Advisors Twenty Fund which had a market value of \$89,697.

**NOTE 6—TRANSACTIONS WITH RELATED PARTIES**

The Company leases office space from the Arlsburg Trust, the trustee of whom is the principal stockholder of the Company and Investors Realty, LLC, the principal member of whom is the principal stockholder of the Company. Rent of \$184,149 and \$163,019 for the years ending March 31, 2002 and 2001, respectively, was paid to these entities.

ICC Insurance Agency, Inc. facilitates the sale of insurance and annuity products. One hundred percent of all funds realized by this entity flow through as revenue to ICC. Effective August 9, 2000, the Company's Board of Directors approved the stock purchase agreement between the Company's principal stockholders and the Company, whereby the Company purchased all of the common stock of ICC Insurance Agency for \$100,000. During the year ended March 31, 2002, the asset was written down in full, the write down was included in administrative expense, and the current carrying amount is zero.

Loans Receivable From Registered Representatives—These loans consist of promissory notes, which bear interest at the rate of 3.94% per annum, and are payable within 18 or 24 months of the date of the note, in weekly installments. The notes are secured by various pledges of brokerage accounts and/or personal assets of the registered representatives. As of March 31, 2002 these loans amounted to \$199,996 and \$75,252 of these loans are to a registered representative who is also a Director of the Company.

The Company is owed money from senior executives. As of March 31, 2002 and 2001 the balances amounted to \$136,078 and \$109,327, respectively.

Investors Marketing Services, Inc. is jointly owned by the Company's principal stockholder, Theodore E. Charles and his spouse, Janice M. Charles. This entity performs a fulfillment function for our subsidiaries by preparing, collating and mailing registration kits to registered representatives, and creates graphics and other art work for various marketing materials produced for these subsidiaries. It also prepares the assembly, shipping and postage of literature pertaining to the subsidiaries. For the years ended March 31, 2002 and 2001, the cost paid for these services was \$62,982 and \$221,091, respectively.

**NOTE 7—PREMISES AND EQUIPMENT, NET**

Property and equipment consisted of the following at March 31:

	<u>2002</u>	<u>2001</u>
Equipment.....	\$483,786	\$259,278
Furniture and fixtures.....	179,110	177,979
Leasehold improvements.....	178,808	178,808
	841,704	616,065
Accumulated depreciation.....	(310,408)	(176,476)
Property and equipment, net .....	\$531,296	\$439,589

**NOTE 8—NOTES PAYABLE**

At March 31, 2002 and 2001 notes payable consisted of debt to finance insurance premiums. The annual rate of interest on the outstanding loan at March 31, 2002 was 6.39% and the loan matures on November 8, 2002.

## NOTE 9—INCOME TAXES

The components of income taxes are as follows for the years ended March 31:

	<u>2002</u>	<u>2001</u>
Current tax expense (refund):		
Federal .....	\$125,095	\$(21,000)
State .....	45,084	18,000
	170,179	(3,000)
Deferred tax expense:		
Federal .....	(42,400)	14,000
State .....	(2,530)	3,000
	(44,930)	17,000
Total income taxes .....	\$125,249	\$14,000

Deferred income taxes are the result of timing differences between book and taxable income and consist primarily of net operating loss carryforwards, unrealized gains, mutual fund start up costs and differences between depreciation expense for financial statement purposes versus tax return purposes.

Net deferred tax assets (liabilities) within each tax jurisdiction consisted of the following at:

	<u>March 31, 2002</u>		
	<u>Asset</u>	<u>Liability</u>	<u>Net</u>
Federal .....	\$57,411	\$33,011	\$24,400
State .....	17,725	10,195	7,530
Total .....	\$75,136	\$43,206	\$31,930
	<u>March 31, 2001</u>		
	<u>Asset</u>	<u>Liability</u>	<u>Net</u>
Federal .....	\$24,000	\$42,000	\$(18,000)
State .....	16,000	11,000	5,000
Total .....	\$40,000	\$53,000	\$(13,000)

A reconciliation of the provision for income taxes with amounts determined by applying the statutory federal income tax rate to income before income taxes.

	<u>Year Ended March 31,</u>	
	<u>2002</u>	<u>2001</u>
Tax at U.S. statutory rate .....	\$43,992	\$(7,000)
State taxes, net of federal benefit .....	28,085	21,000
Unallowable expenses .....	53,172	—
Provision for income taxes .....	\$125,249	\$14,000

## NOTE 10—SEGMENT INFORMATION

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit and loss from operations after income taxes.

The Company accounts for intersegment services and transfers as if the services or transfers were to third parties, that is, at current market prices.

The Company's reportable segments are strategic business units that offer different services. They are managed

separately because each business requires different technology and marketing strategies.

The Company's reportable segments include support services by the parent company ICH, investment services offered through ICC and asset management services offered through EPA. The investment services segment includes securities, insurance, financial planning and related services. ICH incurs expenses on behalf of and to support ICC and EPA. ICC earns commissions as a broker for its customers in the purchase and sale of securities on major exchanges. Asset management services generates recurring annual revenue from fees received on the management of customer accounts. EPA provides asset management and portfolio design services to one mutual fund and a variety of investors.

Segment data presented includes the allocation of all corporate overhead to each segment. Intersegment revenues and expenses, and receivables and payables, are eliminated between segments. Information concerning operations in the Company's segments of business is as follows at or for the years ended March 31:

	<u>2002</u>	<u>2001</u>
Non-interest revenues:		
ICC, investment services.....	\$26,127,467	\$26,904,776
EPA, asset management services.....	2,753,054	2,892,524
ICH, support services.....	—	8,844
Total.....	\$28,880,521	\$29,806,144
Revenues from transactions with other operating segments:		
ICC.....	\$532,677	\$344,260
EPA.....	228,290	147,540
Intersegment elimination.....	(760,967)	(491,800)
Total.....	\$0	\$0
Interest income:		
ICC.....	\$103,977	\$93,467
ICH.....	176,648	6,313
Total.....	\$280,625	\$99,780
Depreciation and amortization expense:		
ICC.....	\$122,054	\$73,811
EPA.....	11,878	5,571
Total.....	\$133,932	\$79,382
Income tax expense:		
ICC.....	\$115,050	\$92,000
EPA.....	(57,436)	(75,000)
ICH.....	67,635	(3,000)
Total.....	\$125,249	\$14,000
Income (loss):		
ICC.....	\$657,855	\$418,739
EPA.....	142,303	38,607
ICH.....	(796,021)	(561,652)
Total.....	\$4,137	\$(104,306)
Year-end total assets:		
ICC.....	\$4,096,506	\$2,422,255
EPA.....	718,649	800,406
ICH.....	5,299,377	7,389,640
Total.....	\$10,114,532	\$10,612,301

## NOTE 11—CONCENTRATIONS OF CREDIT RISK

The Company is engaged in various trading and brokerage activities whose counterparties primarily include the general public. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standings of each counterparty with which it conducts business.

At March 31, 2002, the carrying amount of the Company's deposits, including a time deposit, was \$6,337,445 and the bank statement balance was \$6,311,508. Of the bank statement balance, \$263,073 was covered by federal depository insurance and \$6,048,435 was covered by the Depositors Insurance Fund of Massachusetts. The Company's deposits also include \$470,303 at its clearing broker-dealer that are fully insured by the Securities Investor Protection Corporation (SIPC). At March 31, 2001, the carrying amount of the Company's deposits was \$7,180,340 and the bank balance was \$8,156,863. Of the bank statement balance, \$333,561 was covered by federal depository insurance and \$7,823,302 was uninsured. However, pursuant to a written agreement with Danvers Savings Bank, formerly Revere Federal Savings, dated April 2, 2001, Federal Home Loan Bank bonds were pledged as collateral. The collateral had a market value of \$7,000,000 as of March 31, 2001. The agreement expired on April 30, 2002. At March 31, 2002 the Company had \$4,836,003 of deposits at Danvers Savings Bank.

## NOTE 12—COMMITMENTS AND CONTINGENCIES

The Company is obligated under various lease agreements covering offices and equipment. These agreements are considered to be operating leases. The terms expire between 2002 and 2003. Options to renew for additional terms are included under the office lease agreements. The total minimum rental due in future periods under these existing agreements is as follows as of March 31, 2002:

Year ending March 31, 2003.....	\$62,274
Year ending March 31, 2004.....	24,838
Total minimum lease payments.....	\$87,112

Certain leases contain provisions for escalation of minimum lease payments contingent upon increases in real estate taxes. The total rental expense amounted to \$227,993 for fiscal year 2002 and \$213,882 for fiscal year 2001.

## NOTE 13—LITIGATION

The Company is involved in an action filed with the Commonwealth of Massachusetts Commission against Discrimination on August 3, 2000. This action alleges that the petitioner was discriminated against by the Company on the basis of sex and seeks damages in the amount of \$275,000. Legal counsel is unable at this time to assess the likelihood of an unfavorable outcome and an estimate of potential damages.

The Company is engaged in a material National Association of Securities Dealers arbitration in which one of the Company's registered representatives is alleged to have made misrepresentations in the sale of unsecured promissory notes. This arbitration was originally filed with the NASD on April 17, 2002. Damages are alleged in the amount of approximately \$221,455. Legal counsel is unable at this time to evaluate the likelihood of an unfavorable outcome or estimate of potential loss.

The Company is engaged in a material National Association of Securities Dealers arbitration in which the plaintiff alleges that the Company failed to supervise a planning company that made unsuitable investments. This arbitration was originally filed in May of 2001 and damages are alleged in the approximate amount of \$85,000. Legal counsel is unable at this time to evaluate the likelihood of an unfavorable outcome or estimate of potential loss.

## NOTE 14—STOCK COMPENSATION PLANS

As of March 31, 2002, the Company has three fixed option stock-based compensation plans, which are described below. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the Company's net income (loss) and earnings (loss) per share would have been reduced (increased) to the pro

forma amounts indicated below for the years ended March 31:

		<u>2002</u>	<u>2001</u>
Net income (loss).....	As reported	\$4,137	\$(104,306)
	Pro forma	\$(15,912)	\$(133,720)
Earnings (loss) per share.....	As reported	\$0.00	\$(0.02)
	Pro forma	\$0.00	\$(0.03)
Earnings (loss) per share, assuming dilution.....	As reported	\$0.00	\$(0.02)
	Pro forma	\$0.00	\$(0.03)

As of September 1, 1994, the Company issued a stock option plan (the "1994 Plan") which provided for the granting of options to an officer of the Company to purchase shares of the common stock of the Company. Following a three for two stock split in 1997, a maximum of 150,000 shares of common stock could be issued under the 1994 Plan. The number of options and grant date were determined at the discretion of the Company's Board of Directors. Options outstanding under the 1994 Plan are exercisable and have no stated maturity.

As of October 1, 1997, the Board of Directors issued the 1996 Incentive Stock Option Plan (the "1996 Plan"). Key employees and associates are eligible to receive options and the aggregate number of shares to be delivered under the 1996 Plan could not exceed 300,000 shares. Each grant of options, the number of options granted and the vesting schedules of such options subject thereto were determined by the Board. The stock options outstanding are fully vested after two years from grant date, are exercisable for an additional three years after vesting and are forfeited 30 days after termination.

As of March 12, 2001, the Board of Directors issued the 2001 Equity Incentive Plan (the "2001 Plan"). Key employees and associates are eligible to receive options to purchase shares of the common stock of the Company and the aggregate number of shares to be delivered under the 2001 Plan shall not exceed 250,000 shares. Each grant of options, the number of options granted and the vesting schedules of such options subject thereto shall be determined by the Board. The stock options outstanding are fully vested after two years from grant date, are exercisable for an additional three years after vesting and are forfeited 30 days after termination.

A summary of the status of the Company's fixed stock option plans as of March 31, 2002 and 2001 and changes during the years ending on those dates is presented below:

<u>Fixed Options</u>	<u>Shares</u>	<u>2002</u>		<u>2001</u>	
		<u>Weighted-Average</u> <u>Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average</u> <u>Exercise Price</u>	<u>Shares</u>
Outstanding at beginning of year.....	485,100	\$5.61	173,000	\$1.31	
Granted .....	10,000	3.90	312,100	8.00	
Exercised.....	—	—	—	—	
Forfeited.....	(44,173)	8.00	—	—	
Outstanding at end of year.....	450,927	5.34	485,100	5.61	
Options exercisable at year-end.....	173,000		173,000		
Weighted-average fair value of options granted during the year .....	\$2.07				

The fair value of options granted to employees in 2002 and 2001 is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

	<u>2002</u>	<u>2001</u>
Dividend yield .....	0%	0%
Volatility .....	55.20%	20.62%
Risk-free interest rate.....	5.20%	5.75%
Expected life in years.....	5	5

The following table summarizes information about fixed stock options outstanding as of March 31, 2002:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Number Outstanding as of 3/31/02</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>	<u>Number Exercisable as of 3/31/02</u>	<u>Weighted-Average Exercise Price</u>	
\$1.00	150,000	No stated maturity	\$1.00	150,000	\$1.00	
3.34	23,000	.5 years	3.34	23,000	3.34	
3.90	10,000	4.2	3.90	—	—	
8.00	267,927	3.28	8.00	—	—	
	450,927	3.1(1)	5.34	173,000	1.31	

(1) Includes only stock options with stated maturity.

#### NOTE 15—EARNINGS PER COMMON SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

The following shares of stock options were included in the computation of diluted EPS at March 31:

	<u>2002</u>	<u>2001</u>
Stock options .....	173,000	—

#### NOTE 16—RETIREMENT PLAN

The Company has a 401(k) retirement plan that covers all employees with at least one or more years of service. Employees employed on the plan's effective date did not have to satisfy the service requirement. The Company's contribution was based on matching 100% of the first 3% of salary deferral elected by each eligible employee. Effective May 29, 2001 the Company's contribution was increased to matching 100% of the first 6% of salary deferral, with matching dollars to be in the form of the Company's common stock. The Company's contribution expense for the years ended March 31, 2002 and 2001 was \$72,692 and \$27,649, respectively.

#### NOTE 17—DEFERRED COMPENSATION PLAN

On March 20, 2001, at a special meeting of the Board of Directors, the Board adopted a non-qualified deferred compensation plan for the principal stockholder, President and Chief Executive Officer, Theodore E. Charles effective April 1, 2001. Under the terms of this plan, Mr. Charles will annually defer \$100,000 of his salary in return for the Company's unsecured promise to pay him a retirement benefit upon his retirement on or after attaining age 60. The amount of this retirement benefit will be determined solely by the investment performance of the amount deferred by Mr. Charles and invested by the Company. This retirement benefit will be paid to Mr. Charles, at his election, either in a lump sum or in installments over a period of 10 years. Should Mr. Charles die prior to reaching retirement, his designated beneficiary will receive a pre-retirement death benefit calculated in exactly the same manner. This non-qualified deferred compensation plan is one in which Mr. Charles is electing to defer current salary. There are no additional corporate funds being contributed to the plan.

#### **NOTE 18—EMPLOYMENT AGREEMENTS**

The Company entered into employment agreements with its President and Chief Financial Officer. The employment agreements provide for continued payments of specified compensation and benefits for specified periods. The employment agreements also provide for severance benefits if the President or Chief Financial Officer resign for just cause, as defined in the employment agreements, just cause including a significant decrease by the Board of Directors of their duty or authority. Severance benefits include, among other things, 60 months base salary for the President and 36 months base salary for the Chief Financial Officer.

#### **NOTE 19—LIQUIDATION OF INVESTORS CAPITAL INTERNET AND TECHNOLOGY FUND**

The Eastern Point Advisors (formerly, Investors Capital) Funds' Board of Trustees voted to liquidate the Investors Capital Internet and Technology Fund as of May 31, 2001. The Board determined that because of the small asset size of the Fund and the costs involved, it was in the best interests of the shareholders to cease operations. Sales of new shares were discontinued as of April 23, 2001. Eastern Point Advisors Funds is a Delaware Business Trust. Eastern Point Advisors, Inc., a subsidiary of the Company, was the investment advisor to Investors Capital Internet and Technology Fund.

#### **ITEM 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

### PART III

#### ITEM 9. Directors, Executive Officers, Promoters and Control Persons, Compliance With Section 16(a) of the Exchange Act.

The following table presents information about each of our executive officers and directors. All directors hold office until the next annual meeting of stockholders or until successors have been duly elected and qualified. There are no arrangements or understandings between any director and any other person pursuant to which he or she was selected as a director.

<u>NAME</u>	<u>AGE</u>	<u>POSITION(S) HELD</u>	<u>DIRECTOR SINCE</u>
Theodore E. Charles .....	58	President, Chairman of the Board, Chief Executive Officer, and Director	July 1995
Timothy B. Murphy .....	36	Executive Vice President, Treasurer, Chief Financial Officer, and Director	July 1995
C. David Weller .....	45	Vice President, General Counsel, and Assistant Secretary	—
Janice M. Charles .....	50	Secretary	—
Joseph P. Trainor, Jr. ....	34	Controller	—
David R. Smith .....	39	Director	March 2000
Stephen Parker .....	68	Director	March 2001
James F. Twaddell .....	63	Director	April 2001
C. Troy Shaver, Jr. ....	55	Director	December 2001

THEODORE E. CHARLES, founder of Holdings in July of 1995, serves as chairman of the board, chief executive officer and president. Mr. Charles also serves as the chief executive officer of Investors Capital Corporation and Eastern Point Advisors. In addition, he is the founder and co-owner of two other unconsolidated companies: Investors Marketing Services, Inc. in June of 1989 and Eastern Point Distributors, LLC, in April of 1999.

Mr. Charles received his Bachelors degree from Ithaca College, Ithaca, New York in May of 1964. He also has graduate hours from the University of Hartford, Hartford, Connecticut and St. Lawrence University, Canton, New York. Mr. Charles was previously a life insurance agent with National Life of Vermont. He currently holds various securities licenses, including the series 6, 63, 7 and 24. Mr. Charles is a member of the Financial Planning Association and has been since 1985. He was formerly Chairman of the Shareholder Advisory Board of Life USA Insurance Company and is a former member of the Board of Trustees of the Museum Council, Museum of Fine Arts in Boston. Mr. Charles is married to Janice M. Charles.

TIMOTHY B. MURPHY is also a July 1995 founder of Holdings and currently serves as treasurer, chief financial officer and a director. Since August of 1994, Mr. Murphy has also served as president of Investors Capital Corporation. In addition, since January of 1995 Mr. Murphy has been president of Eastern Point Advisors. He entered the securities industry in May of 1991 as an operations manager, assisting brokers in the Boston regional office of Clayton Securities. From February through August of 1994, he was a compliance officer of Baybanks Brokerage in Burlington, Massachusetts and a vice president of G.R. Stuart & Company, a brokerage firm located in Maynard, Massachusetts. Mr. Murphy earned a Bachelor of Science degree in Finance from Babson College, Wellesley, Massachusetts in May 1986. He holds various securities licenses, including the series 4, 7, 24, 27, 53, 63 and 65. Mr. Murphy is a member of the New England Securities Compliance Group and past member of the National Society of Compliance Professionals.

DAVID R. SMITH is a founding partner and Managing Director of Charter Financial Publishing Network in Shrewsbury, New Jersey. Founded in March 2000, CFPN publishes, markets and distributes information for the financial services industry. He is co-founder of, and currently oversees sales, marketing and circulation for FINANCIAL ADVISOR magazine, along with other newsletters, books and investment charts distributed by CFPN. He was previously Senior Vice President of Dow Jones Financial Publishing Corporation, where he served as Publisher of DOW JONES INVESTMENT ADVISOR and Associate Publisher of DOW JONES ASSET MANAGEMENT magazines since October of 1987. Mr. Smith attended Hobart College in Geneva, New York from August of 1982 through January of 1983 and graduated from Monmouth College in West Long Branch, New Jersey in June of 1985.

STEPHEN PARKER is a vice president of Allmerica Financial, a Fortune 500 financial services firm located in

Worcester, Massachusetts. He is also president of Allmerica Investment Management Company (AIMCO), the Registered Investment Advisory Company (RIA). Prior to joining Allmerica Investments, Mr. Parker was chairman and chief executive officer of Freedom Capital Management, a subsidiary of John Hancock, with \$2.7 billion under management including 12 mutual funds. Mr. Parker has held positions of president and CEO of Interact Management, Inc., an affiliate of the Colonial Group; and Moseley Securities, a regional brokerage firm. Mr. Parker has been a director of the Securities Industry Association (SIA), has served on many committees, and has all series of Securities Registrations. He is a graduate of Harvard University, with a B.A. in Economics.

JAMES F. TWADDELL is a member of the corporate finance team of Schneider Securities, an active underwriter of small and medium sized companies. He is also Chairman of the Trainer Wortham First Mutual Fund. Mr. Twaddell is the former Chairman and Director of the National Investment Bankers Association (NIBA). He is also a former member of the National Association of Securities Dealers (NASD) Business District committee. Prior to entering the financial services industry, Mr. Twaddell served in the foreign service office of the U.S. State Department. He has served on the board of directors of numerous public companies. He is a 1961 graduate of Brown University with a B.A. in American Civilization.

C. TROY SHAVER, JR. is the Vice Chairman of GoldK, Inc., a full-service retirement company and a leading provider of online retirement plans. He is also President and CEO of GoldK Investment Services, Inc., the division which enables GoldK to offer a self-directed brokerage option in a 401(k) plan. Prior to joining GoldK, Mr. Shaver was President of State Street Research Investment Services Inc., President and CEO of John Hancock Funds, Inc. and Executive Vice President and Director of Oppenheimer Management Corporation. He held similar roles at State Street Research, Hancock and Oppenheimer dealing with mutual funds and the development and restructuring of strategies for sales, marketing, distribution and customer service. He is a 1969 graduate of Dartmouth College with a B.A. in Geology.

#### **ITEM 10. Executive Compensation.**

The information required by Item 10 is included in the Company's definitive proxy statement which will be filed pursuant to Regulation 14A on or before July 5, 2002. Such information is incorporated herein by reference, pursuant to General Instruction E3.

#### **ITEM 11. Security Ownership of Certain Beneficial Owners and Management.**

The information required by Item 11 is included in the Company's definitive proxy statement which will be filed pursuant to Regulation 14A on or before July 5, 2002. Such information is incorporated herein by reference, pursuant to General Instruction E3.

## ITEM 12. Certain Relationships and Related Transactions.

The information required by Item 12 is included in the Company's definitive proxy statement which will be filed pursuant to Regulation 14A on or before July 5, 2002. Such information is incorporated herein by reference, pursuant to General Instruction E3.

## ITEM 13. Exhibits and Reports on Form 8-K.

- (a) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Organization, as amended.
3.2	By-laws.
4.1	Form of Stock Certificate of the Company.
10.1	Employment agreement with Theodore E. Charles.
10.2	Employment agreement with Timothy B. Murphy.

Any exhibit not included with this Form 10-KSB when furnished to any shareholder of record will be furnished to such shareholder upon written request and payment of up to \$.25 per page plus postage. Such requests should be directed to Investors Capital Holdings, LTD., 230 Broadway East, Lynnfield, MA 01940-2320.

- (b) Reports on Form 8-K.

There were no reports on Form 8-K required to be filed during the fourth quarter of 2002.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on June 28, 2002.

INVESTORS CAPITAL HOLDINGS, LTD.

By:                   /s/ TIMOTHY B. MURPHY                    
                  Timothy B. Murphy  
                  *Chief Financial Officer*

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on June 28, 2002.

<b><u>Signature</u></b>	<b><u>Title</u></b>
<u>          /s/ THEODORE E. CHARLES          </u> Theodore E. Charles	Chief Executive Officer, President and Director
<u>          /s/ TIMOTHY B. MURPHY          </u> Timothy B. Murphy	Chief Financial Officer, Chief Accounting Officer, Treasurer, Executive Vice President and Director
<u>          /s/ DAVID R. SMITH          </u> David R. Smith	Director
<u>          /s/ STEPHEN PARKER          </u> Stephen Parker	Director
<u>          /s/ JAMES F. TWADDELL          </u> James F. Twadell	Director
<u>          /s/ C. TROY SHAVER, JR.          </u> C. Troy Shaver, Jr.	Director

## Shareholder Information

### Transfer Agent

Computershare Trust Company, Inc.  
12039 W. Alameda Parkway  
Lakewood, CO 80228

### Independent Accountants

Shatswell, MacLeod & Company, P.C.  
83 Pine Street  
West Peabody, MA 01960

### Corporate Counsel

William M. Prifti, Esq.  
5 Market Square  
Suite 109  
Amesbury, MA 01913

### Stock Exchange Listing

Investors Capital Holdings, Ltd. common stock is listed on the American Stock Exchange under the symbol ICH.

## Investor Relations

For additional information, including the online version of Investors Capital Holdings, Ltd. annual report, please visit our website at [www.investorscapital.com](http://www.investorscapital.com). Additional copies of this report and other corporate information are available upon request from:

Investor Relations  
Investors Capital Holdings, Ltd.  
230 Broadway  
Lynnfield, MA 01940  
800-949-1422

## Board of Directors

Theodore E. Charles  
President, Chairman & CEO, Investors Capital Holdings, Ltd.

Timothy B. Murphy  
Treasurer, CFO, Investors Capital Holdings, Ltd.

David R. Smith  
Managing Director, Charter Financial Publishing Network

Stephen Parker  
Vice President, Allmerica Financial

James F. Twaddell  
Investment Banker, Investors Capital Investment Banking Division

C. Troy Shaver, Jr.  
Vice Chairman, GoldK

## Officers

Theodore E. Charles  
President, Chairman of the Board, Chief Executive Officer and Director

Timothy B. Murphy  
Executive Vice President, Treasurer, Chief Financial Officer and Director

Janice M. Charles  
Secretary

C. D

