

\* AB  
6/10



13014614

PUBLIC

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

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-43515 ✓

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 04/01/12 AND ENDING 03/31/13  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER DEALER:

International Strategy & Investment Group LLC

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM ID. NO.

666 Fifth Avenue, 11<sup>th</sup> Floor

(No. and Street)

New York

(City)

New York

(State)

10103

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Stephen V. Killorin

212-466-9410

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

BDO USA, LLP

(Name — if individual, state last, first, middle name)

100 Park Avenue

(Address)

New York

(City)

New York

(State)

10017

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not in residence in United States or any of its possessions.



FOR OFFICIAL USE ONLY

REGISTRATIONS BRANCH

02

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1410 (06-02)

2A AB  
6/10

**OATH OR AFFIRMATION**

I, Stephen V. Killorin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of International Strategy & Investment Group LLC, as of March 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Signature  
  
\_\_\_\_\_  
Chief Financial Officer  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

BARBARA M. O'BRIEN  
Notary Public, State of New York  
No. 010B6058010  
Qualified in Nassau County  
Term Expires 4/30/2015

This report\*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A Copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditors' Report on internal control required by SEC Rule 17a-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

# International Strategy & Investment Group LLC

## Contents

Facing page to Form X-17A-5	2A
Affirmation of officer	2B
Independent auditor's report	3-4
Statement of financial condition	5
Notes to statement of financial condition	6-12
Independent auditor's report on internal control required by Securities and Exchange Commission Rule 17a-5	13-15



## Independent Auditor's Report

To the Management and Member  
International Strategy & Investment Group LLC

We have audited the accompanying statement of financial condition of International Strategy & Investment Group LLC as of March 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement of financial condition that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial condition. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement of financial condition in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of International Strategy & Investment Group LLC as of March 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

May 29, 2013

# International Strategy & Investment Group LLC

## Statement of Financial Condition

March 31, 2013

<b>Assets</b>	
Cash and cash equivalents	\$ 34,067,347
Restricted cash	1,780,087
Due from clearing and other brokers	6,568,734
Property and equipment, net	12,948,593
Due from affiliates	332,531
Deferred charges	2,535,202
Other assets	2,390,044
	<b>\$ 60,622,538</b>
<b>Liabilities and Member's Equity</b>	
<b>Liabilities:</b>	
Accrued employee compensation	\$ 21,413,056
Deferred rent	5,975,017
Commissions payable	2,886,284
Accrued expenses	2,057,747
Deferred income	1,086,373
Due to affiliate	644,789
<b>Total liabilities</b>	<b>34,063,266</b>
<b>Liabilities subordinated to claims of general creditors</b>	<b>25,550,000</b>
<b>Commitments and contingencies (Note 7)</b>	
<b>Member's equity</b>	<b>1,009,272</b>
	<b>\$ 60,622,538</b>

*See accompanying notes to statement of financial condition.*

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

- 1. Business**

International Strategy & Investment Group LLC (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and the Securities Investor Protection Corporation.

- 2. Summary of Significant Accounting Policies**

### *Basis of Presentation*

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

### *Cash and Cash Equivalents*

The Company considers all highly liquid debt instruments with an initial maturity of three months or less that are not held for sale in the ordinary course of business to be cash equivalents. Cash and cash equivalents held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation.

### *Fair Value of Financial Instruments*

The carrying value of the Company’s assets and liabilities, which qualify as financial instruments under U.S. GAAP, approximate the carrying amounts presented on the statement of financial condition.

### *Fair Value Measurement*

The Company values all investments at fair value. U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the investment based on available market data. Unobservable inputs are inputs that reflect the Company’s assumptions about the factors market participants would use in valuing the investment based on the best information available in the circumstances.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1– Valuations based on quoted prices in active markets for identical investments.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable, supported by little or no market activity, and significant to the overall fair value measurement.

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, such as the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

As of March 31, 2013, the Company did not hold any types of investments.

### *Property and Equipment*

Furniture and fixtures and other equipment are depreciated over the estimated useful lives of the assets ranging from 3 to 5 years using the straight-line method. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the respective lease, using the straight-line method.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

### *Deferred Charges*

Deferred charges represent amounts paid as compensation that are subject to vesting requirements ranging from 3 to 5 years. The deferred charges are amortized into compensation expense ratably over the vesting period.

### *Deferred Rent*

Deferred rent represents the difference between rent on a straight-line basis compared to the annual rent paid.

### *Income Taxes*

The Company is treated as a partnership for Federal income tax purposes. Therefore, no income tax provision has been included in the accompanying financial statements since the sole member is required to report its share of the Company's income on its income tax return.

The Company recognizes a tax benefit from an uncertain position only if it is more likely than not the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company measures the tax benefit as the largest amount of benefit that is greater than 50% likely being realized upon ultimate settlement. The Company is subject to potential examination by taxing authorities in various jurisdictions. The open tax years under potential examination vary by jurisdiction.

### *Use of Estimates*

The preparation of a statement of financial condition in conformity with U.S. GAAP requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates, and those differences could be material.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

3. **Due from Clearing and Other Brokers** The Company has clearing agreements (“Agreements”) with four brokerage firms (“Brokers”) to clear securities transactions and carry customers’ accounts on a fully disclosed basis. The Company operates under the exemptive provisions of Securities and Exchange Commission (“SEC”) Rule 15c3-3(k)(2)(ii).

The Agreements provide the Brokers with liens upon all cash and cash equivalents and receivables held by the Brokers. These liens secure the liabilities and obligations of the Company to the Brokers. Accordingly, the Company is subject to credit risk if these Brokers are unable to repay the balance in their accounts. Pursuant to the Agreements, the Company is required to maintain minimum regulatory net capital of at least \$250,000.

At March 31, 2013, due from clearing and other brokers consisted of:

Commissions	\$ 4,129,469
Subscription fees	2,213,395
Distribution fees	101,948
Trading income	90,919
Other	33,003
	<u>\$ 6,568,734</u>

A stockholder of an affiliate of the Company has personally guaranteed to indemnify the Brokers up to \$1,200,000 for any losses in connection with customer transactions.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

**4. Property and Equipment, net**

At March 31, 2013, property and equipment, net consisted of:

	Life	Amount
Leasehold improvements	Lease term	\$ 10,868,347
Computers and equipment	3 years	6,365,831
Furniture and fixtures	5 years	3,351,650
		20,585,828
Less accumulated depreciation and amortization		(7,637,235)
		<b>\$ 12,948,593</b>

**5. Related Party Transactions**

The Company shares its offices and certain personnel, administrative and overhead expenses with International Strategy & Investment Inc. (“ISI”), a related party through common ownership. The Company earns distribution fees from certain funds managed by ISI. At March 31, 2013, the Company had a receivable of \$99,108 from ISI.

The Company has an affiliate in the UK, International Strategy & Investment (UK) Limited (“ISI UK”), to market the Company’s research and to service its European clients. All of ISI UK’s expenses are charged back to the Company. At March 31, 2013, the Company had an outstanding liability of \$644,789 to ISI UK.

The Company has an affiliate in China, Shanghai Dong-Mei Investment Consulting Company Ltd. (“ISI China”) that provides research support services. All of ISI China’s expenses are charged back to the Company. The Company had a receivable of \$233,423 at March 31, 2013 for advances to ISI China.

**6. Employee Benefit Plan**

The Company has a defined noncontributory profit sharing plan under Section 401(k) of the Internal Revenue Code (“Code”) covering substantially all of the Company’s employees. Participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

### 7. Commitments

#### *Office Leases*

Minimum annual rental commitments for office space under noncancellable operating leases approximate:

#### *Year ending March 31,*

2014	\$ 3,527,000
2015	3,473,000
2016	3,428,000
2017	3,513,000
2018	3,303,000
Thereafter	10,357,000
	<u>\$ 27,601,000</u>

At March 31, 2013, the Company was contingently liable for \$1,780,087 in standby letters of credit in favor of the Company's landlords. The Company has restricted cash that serves as collateral for the letters of credit.

### 8. Regulatory Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum regulatory net capital and a specified ratio of aggregate indebtedness to regulatory net capital, both as defined, which shall not exceed 15 to 1. As of March 31, 2013, the Company had regulatory net capital and a regulatory net capital requirement of \$20,664,654 and \$858,618, respectively. The Company's aggregate indebtedness to net capital ratio was .62 to 1.

# International Strategy & Investment Group LLC

## Notes to Statement of Financial Condition

- 9. Liabilities Subordinated to Claims of General Creditors** At March 31, 2013, subordinated borrowings consisted of \$25,550,000 in subordinated notes with stockholders of an affiliate of the Company, bearing interest at 5.5% payable semi-annually; \$15,000,000 is due on October 15, 2013, \$10,000,000 is due on December 15, 2014 and the balance of \$550,000 is due on demand. Subordinated borrowings of \$25,000,000 have been approved by FINRA and are available in computing net capital under the Uniform Net Capital Rule of the SEC. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.
- The balance of \$550,000 is not pursuant to a subordinated borrowing agreement approved by FINRA and, therefore, is not available in computing regulatory net capital under the SEC's Uniform Net Capital Rule.
- 10. Financial Instruments with Off-Balance Sheet Risk** In the normal course of business, the Company executes, as agent, transactions on behalf of customers. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the security is different from the contract amount of the transactions.
- The Company does not anticipate nonperformance by customers or counterparties in the above situation. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business.
- 11. Subsequent Events** Management has evaluated subsequent events through May 29, 2013, the date the financial statements were available to be issued. Management has determined that there are no material events that would require adjustment to, or disclosure in, the Company's financial statements.



**Independent Auditor's Report  
on Internal Control Required by Securities  
and Exchange Commission Rule 17a-5 For a  
Broker-Dealer Claiming an Exemption From SEC Rule 15c3-3**

To the Management and Member  
International Strategy & Investment Group LLC

In planning and performing our audit of the financial statements and supplemental schedule of International Strategy & Investment Group LLC (the "Company"), as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's previously-mentioned objectives.

Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

*A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at March 31, 2013, to meet the SEC's objectives.



This report is intended solely for the information and use of management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*BDO USA, LLP*

New York, New York

May 29, 2013