INTL FCSTONE INC.
Form 10-Q
August 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From to

Commission File Number 000-23554

INTL FCStone Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	59-2921318 (I.R.S. Employer Identification No.)

708 Third Avenue, Suite 1500
New York, NY 10017
(Address of principal executive offices) (Zip Code)
(212) 485-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 305 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of August 6, 2012, there were 19,039,504 shares of the registrant’s common stock outstanding.

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INTL FCStone Inc.
Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2012
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
INTL FCStone Inc.
Condensed Consolidated Balance Sheets

(in millions, except par value and share amounts)	June 30, 2012 (Unaudited)	September 30, 2011
ASSETS		
Cash and cash equivalents	$213.7	$ 220.6
Cash, securities and other assets segregated under federal and other regulations (including $72.8 and $22.7 at fair value at June 30, 2012 and September 30, 2011, respectively)	570.7	119.4
Deposits and receivables from:		
Exchange-clearing organizations (including $1,288.1 and $1,408.2 at fair value at June 30, 2012 and September 30, 2011, respectively)	1,292.5	1,489.2
Broker-dealers, clearing organizations and counterparties (including $1.0 and $16.2 at fair value at June 30, 2012 and September 30, 2011, respectively)	175.3	146.5
Receivables from customers, net	108.8	115.9
Notes receivable, net	12.0	26.3
Income taxes receivable	8.6	8.8
Financial instruments owned, at fair value	130.1	223.1
Physical commodities inventory	100.7	160.6
Deferred income taxes, net	21.2	20.7
Property and equipment, net	18.4	15.0
Goodwill and intangible assets, net	56.1	56.1
Other assets	26.3	33.5
Total assets	$2,734.4	$ 2,635.7
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including $20.7 and $22.3 at fair value at June 30, 2012 and September 30, 2011, respectively)	$129.7	$ 122.0
Payables to:		
Customers	1,932.1	1,739.8
Broker-dealers, clearing organizations and counterparties	5.2	3.4
Lenders under loans	175.4	77.4
Income taxes payable	4.0	4.6
Financial instruments sold, not yet purchased, at fair value	176.5	390.9
Total liabilities	2,422.9	2,338.1
Commitments and contingencies (Note 11)		
Equity:		
INTL FCStone Inc. stockholders' equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, $.01 par value. Authorized 30,000,000 shares; 19,166,799 issued and 19,005,242 outstanding at June 30, 2012 and 18,653,964 issued and 18,642,407 outstanding at September 30, 2011	0.2	0.2
Common stock in treasury, at cost - 161,557 shares at June 30, 2012 and 11,557 shares at September 30, 2011, respectively	(2.9)	(0.1)
Additional paid-in capital	210.7	205.2

Retained earnings	103.7	97.0
Accumulated other comprehensive loss, net	(0.2)	(6.0)
Total INTL FCStone Inc. stockholders’ equity	311.5	296.3
Noncontrolling interests	—	1.3
Total equity	311.5	297.6
Total liabilities and equity	$2,734.4	$ 2,635.7

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Income Statements
(Unaudited)

(in millions, except share and per share amounts)	Three Months Ended June 30, 2012	2011	Nine Months Ended June 30, 2012	2011
Revenues:				
Sales of physical commodities	$17,201.0	$20,464.7	$51,238.5	$51,179.9
Trading gains	94.8	70.0	206.2	117.9
Commission and clearing fees	45.4	31.1	118.9	105.6
Consulting and management fees	7.1	5.2	20.6	15.2
Interest income	2.7	2.3	7.7	7.8
Other income	0.1	0.1	0.6	0.8
Total revenues	17,351.1	20,573.4	51,592.5	51,427.2
Cost of sales of physical commodities	17,227.3	20,468.0	51,252.8	51,112.1
Operating revenues	123.8	105.4	339.7	315.1
Interest expense	2.6	2.0	8.3	9.1
Net revenues	121.2	103.4	331.4	306.0
Non-interest expenses:				
Compensation and benefits	54.6	44.0	155.5	129.6
Clearing and related expenses	30.6	18.0	80.4	58.4
Introducing broker commissions	7.9	6.3	21.7	17.7
Communication and data services	6.3	4.2	16.5	11.1
Occupancy and equipment rental	2.7	2.1	8.2	6.1
Professional fees	3.3	2.9	9.6	6.9
Depreciation and amortization	1.9	1.3	5.3	3.4
Bad debts and impairments	0.6	1.2	0.6	5.7
Other	7.4	6.1	24.8	20.6
Total non-interest expenses	115.3	86.1	322.6	259.5
Income from continuing operations, before tax	5.9	17.3	8.8	46.5
Income tax expense	1.2	7.0	2.2	17.1
Net income from continuing operations	4.7	10.3	6.6	29.4
Income from discontinued operations, net of tax	—	—	—	0.2
Net income	4.7	10.3	6.6	29.6
Add: Net loss attributable to noncontrolling interests	—	0.1	0.1	0.2
Net income attributable to INTL FCStone Inc. common stockholders	$4.7	$10.4	$6.7	$29.8
Basic earnings per share:				
Income from continuing operations attributable to INTL FCStone Inc. common stockholders	$0.24	$0.58	$0.35	$1.67
Income from discontinued operations attributable to INTL FCStone Inc. common stockholders	—	—	—	0.01
Net income attributable to INTL FCStone Inc. common stockholders	$0.24	$0.58	$0.35	$1.68
Diluted earnings per share:				
Income from continuing operations attributable to INTL FCStone Inc. common stockholders	$0.23	$0.55	$0.33	$1.56
Income from discontinued operations attributable to INTL FCStone Inc. common stockholders	—	—	—	0.01

Net income attributable to INTL FCStone Inc. common stockholders	$0.23	$0.55	$0.33	$1.57
Weighted-average number of common shares outstanding:				
Basic	18,392,823	17,901,613	18,286,308	17,714,916
Diluted	19,098,667	19,280,696	19,156,471	19,308,661
Amounts attributable to INTL FCStone Inc. common stockholders:				
Income from continuing operations, net of tax	$4.7	$10.4	$6.7	$29.6
Income from discontinued operations, net of tax	—	—	—	0.2
Net income	$4.7	$10.4	$6.7	$29.8

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Cash Flows Statements
(Unaudited)

	Nine Months Ended June 30,			
(in millions)	2012		2011	
Cash flows from operating activities:				
Net income	$6.6		$29.6	
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	5.3		3.4	
Provision for bad debts and impairments	0.6		5.7	
Deferred income taxes	(2.4	)	1.6	
Amortization of debt issuance costs and debt discount	1.2		0.1	
Convertible debt interest settled in company stock upon conversion	—		0.1	
Amortization of stock-based compensation expense	3.8		1.6	
Gain on acquisition of INTL Provident	—		(0.4	)
Changes in operating assets and liabilities, net:				
Cash, securities and other assets segregated under federal and other regulations	(413.2	)	(49.5	)
Deposits and receivables from exchange-clearing organizations	229.3		(914.5	)
Deposits and receivables from broker-dealers, clearing organizations, and counterparties	(5.2	)	(7.9	)
Receivable from customers, net	7.1		(32.3	)
Notes receivable from customers, net	14.3		6.1	
Income taxes receivable	0.2		0.8	
Financial instruments owned and securities purchased under agreements to resell, at fair value	100.9		377.7	
Physical commodities inventory	59.9		(122.9	)
Other assets	6.9		1.3	
Accounts payable and other accrued liabilities	9.5		25.8	
Payable to customers	106.3		622.5	
Payable to broker-dealers, clearing organizations and counterparties	1.8		0.6	
Income taxes payable	(0.1	)	4.1	
Financial instruments sold, not yet purchased, at fair value	(214.4	)	126.1	
Net cash (used in) provided by operating activities	(81.6	)	79.6	
Cash flows from investing activities:				
Deconsolidation of affiliates	0.4		—	
Cash paid for acquisitions, net	(11.7	)	(13.5	)
Purchase of exchange memberships and common stock	—		(3.4	)
Sale of exchange memberships and common stock	—		1.3	
Purchase of property and equipment	(6.9	)	(7.0	)
Net cash used in investing activities	(18.2	)	(22.6	)
Cash flows from financing activities:				
Net change in payable to lenders under loans	98.0		5.6	
Payments related to earn-outs on acquisitions	(3.4	)	—	
Repayment of subordinated debt	—		(0.5	)
Debt issuance costs	—		(1.3	)
Exercise of stock options	1.7		1.3	
Share repurchase	(2.8	)	—	
Income tax benefit on stock options and awards	—		0.1	

Net cash provided by financing activities	93.5	5.2
Effect of exchange rates on cash and cash equivalents	(0.6)	—
Net (decrease) increase in cash and cash equivalents	(6.9)	62.2
Cash and cash equivalents at beginning of period	220.6	81.9
Cash and cash equivalents at end of period	$213.7	$144.1
Supplemental disclosure of cash flow information:		
Cash paid for interest	$5.7	$5.6
Income taxes paid, net of cash refunds	$4.0	$7.0
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of subordinated notes to common stock, net	$—	$7.7
Identified intangible assets and goodwill on acquisitions	$1.8	$—
Additional consideration payable related to acquisitions, net	$1.8	$4.5

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances as of September 30, 2011	$0.2	$(0.1)	$ 205.2	$97.0	$ (6.0)	$ 1.3	$297.6
Components of comprehensive income:							
Net income				6.7		(0.1)	6.6
Change in foreign currency translation, net of tax					(0.6)		(0.6)
Change in pension liabilities, net of tax					0.2		0.2
Change in unrealized gain or loss on available-for-sale securities, net of tax					6.2		6.2
Total comprehensive income							12.4
Exercise of stock options			1.7				1.7
Stock-based compensation			3.8				3.8
Repurchase of stock		(2.8)					(2.8)
Disposition or de-consolidation						(1.2)	(1.2)
Balances as of June 30, 2012	$0.2	$(2.9)	$ 210.7	$103.7	$ (0.2)	$ —	$311.5

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Basis of Presentation and Consolidation and Recently Issued Accounting Standards

INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively “INTL” or “the Company”), form a financial services group focused on domestic and select international markets. The Company’s services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter (“OTC”) products in a wide range of commodities; physical trading and hedging of precious and base metals and select other commodities; trading of more than 130 foreign currencies; market-making in international equities; debt origination and asset management. The Company provides these services to a diverse group of more than 20,000 customers located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the firm’s products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2011, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X.

Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. It is suggested that these interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes contained in the Company’s Form 10-K for the fiscal year ended September 30, 2011 filed with the SEC.

These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. In accordance with the Consolidation Topic of the Accounting Standards Codification ("ASC"), the Company consolidates any variable interest entities for which it is the primary beneficiary, as defined.

The Company applies the equity method of accounting when the Company does not have a controlling interest in an entity, but exerts significant influence over the entity.

The Company's fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurements for financial instruments and investments, revenue recognition, the provision for potential losses from bad debts, valuation of inventories, valuation of goodwill and intangible assets, incomes taxes and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued new guidance on the presentation of comprehensive income. This guidance eliminates the current option to report comprehensive income and its components in the statement of changes in equity. Under this guidance, an entity can elect to present items of net income and comprehensive income in one continuous statement or in two separate, but consecutive, statements. In addition, the guidance requires entities to show the effects of items reclassified from accumulated other comprehensive loss to net income on the face of the financial statements. This guidance is effective for fiscal years beginning after December 15, 2011 and interim and annual periods thereafter. Early adoption is permitted, but full retrospective application is required. This guidance is effective for the Company's fiscal year

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beginning October 1, 2012 and all interim periods within that fiscal year. In December 2011, the FASB issued guidance that deferred the portion of the original guidance that required a company to separately present within net income reclassification adjustments of items out of accumulated other comprehensive loss. The deferral is intended to be temporary until the FASB has time to reconsider these changes. The other provisions of the guidance will become effective as originally planned by the FASB. The Company is expecting to adopt this guidance in the first quarter of fiscal year 2013. As the Company reports comprehensive income within its condensed consolidated statements of stockholders' equity, the adoption of this guidance will result in a change in the presentation of comprehensive income in the Company's condensed consolidated financial statements.

On December 16, 2011, the FASB issued new guidance on the disclosures about offsetting assets and liabilities. While the FASB retained the existing offsetting models under U.S. GAAP, the new standard requires disclosures to allow investors to better compare and understand significant quantitative differences in financial statements prepared under U.S. GAAP. The new standard is effective for annual periods beginning after January 1, 2013, and interim periods within those annual periods. Retrospective application is required. This guidance is effective for the Company's fiscal year beginning October 1, 2013. The Company is expecting to adopt this guidance starting with the first quarter of fiscal year 2014. The adoption of this guidance is expected to change some of the Company's disclosures within the notes to the condensed consolidated financial statements.

In July 2012, the FASB issued final guidance on indefinite-lived intangible assets impairment testing. Under the guidance, entities testing indefinite-lived intangibles for impairment have the option of first performing a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company determines that it is more likely than not that the fair value of such an asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. However, if a company concludes otherwise, it must calculate the fair value of the asset, compare that value with its carrying amount and record an impairment charge, if any. The guidance does not revise the requirement to test indefinite-lived intangible assets annually for impairment. In addition, the guidance does not amend the requirement to test indefinite-lived intangible assets for impairment between annual tests if events or circumstances warrant, however, it does revise the examples of events and circumstances that an entity should consider. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company is currently evaluating the impact of this guidance, however, it is expected that the adoption of this guidance will not have a material impact on the Company's condensed consolidated financial statements.

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Note 2 – Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") using the two-class method which requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends and therefore participate in undistributed earnings with common stockholders be included in computing earnings per share. Under the two-class method, net earnings are reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. Restricted stock awards granted to certain employees and directors and shares held in trust for the Provident Group acquisition contain non-forfeitable rights to dividends at the same rate as common stock, and are considered participating securities.

Basic EPS has been computed by dividing net income by the weighted-average number of common shares outstanding. The following is a reconciliation of the numerator and denominator of the diluted net income per share computations for the periods presented below.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share amounts)	2012	2011	2012	2011
Numerator:				
Income from continuing operations attributable to INTL FCStone Inc. stockholders	$4.7	$10.4	$6.7	$29.6
Less: Allocation to participating securities	(0.2)	(0.3)	(0.1)	(0.8)
Interest on convertible debt, net of tax	—	—	—	0.6
Less: Allocation to participating securities	—	—	—	—
Income from continuing operations allocated to common stockholders	$4.5	$10.1	$6.6	$29.4
Income from discontinued operations	$—	$—	$—	$0.2
Less: Allocation to participating securities	—	—	—	—
Income from discontinued operations allocated to common stockholders	$—	$—	$—	$0.2
Diluted net income	$4.7	$10.4	$6.7	$30.4
Less: Allocation to participating securities	(0.2)	(0.3)	(0.1)	(0.8)
Diluted net income allocated to common stockholders	$4.5	$10.1	$6.6	$29.6
Denominator:				
Weighted average number of:				
Common shares outstanding	18,392,823	17,901,613	18,286,308	17,714,916
Dilutive potential common shares outstanding:				
Share-based awards	705,844	932,765	870,163	952,813
Convertible debt	—	446,318	—	640,932
Total dilutive potential common shares outstanding	705,844	1,379,083	870,163	1,593,745
Diluted weighted-average shares	19,098,667	19,280,696	19,156,471	19,308,661

The dilutive effect of share-based awards is reflected in diluted net income per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense required under the Compensation – Stock Compensation Topic of the ASC. The dilutive effect of convertible debt is reflected in diluted net income per share by application of the if-converted method.

Options to purchase 634,766 and 384,183 shares of common stock for the three months ended June 30, 2012 and 2011, respectively, and 749,413 and 391,031 shares of common stock for the nine months ended June 30, 2012 and 2011, respectively, were excluded from the calculation of diluted earnings per share because they would have been anti-dilutive.

Note 3 – Assets and Liabilities, at Fair Value

The Company's financial and nonfinancial assets and liabilities reported at fair value are included within the following captions on the condensed consolidated balance sheets:

- Cash and cash equivalents
- Cash, securities and other assets segregated under federal and other regulations

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- Deposits and receivables from exchange-clearing organizations
- Deposits and receivables from broker-dealers, clearing organizations and counterparties
- Notes receivable
- Financial instruments owned
- Accounts payable and other accrued liabilities
- Payables to customers
- Financial instruments sold, not yet purchased

The table below sets forth an analysis of the carrying value of financial instruments owned and financial instruments sold, not yet purchased as of June 30, 2012 and September 30, 2011. This is followed by tables that provide the information required by the Fair Value Measurements and Disclosures Topic of the ASC for all financial assets and liabilities that are carried at fair value.

	June 30, 2012		September 30, 2011	
(in millions)	Owned	Sold, not yet purchased	Owned	Sold, not yet purchased
Common stock and American Depositary Receipts ("ADRs")	$17.1	$13.7	$46.9	$23.4
Exchangeable foreign ordinary equities and ADRs	7.9	5.1	9.8	23.8
Corporate and municipal bonds	9.5	—	8.7	—
U.S. government obligations	0.8	—	0.8	—
Foreign government obligations	10.1	—	6.7	—
Derivatives	47.8	43.1	101.9	122.9
Commodities leases and unpriced positions	17.9	114.6	26.1	220.8
Commodities warehouse receipts	5.3	—	16.2	—
Exchange firm common stock	12.0	—	3.7	—
Mutual funds and other	1.7	—	1.0	—
Investment in managed funds	—	—	1.3	—
	$130.1	$176.5	$223.1	$390.9

Fair Value Hierarchy

The majority of financial assets and liabilities on the condensed consolidated balance sheets are reported at fair value. Cash is reported at the balance held at financial institutions. Cash equivalents include the value of money market funds and certificates of deposit. Cash, securities and other assets segregated under federal and other regulations include the value of cash collateral as well as the value of other pledged investments, primarily U.S. Treasury bills and obligations issued by government sponsored entities and commodities warehouse receipts. Deposits with and receivables from exchange-clearing organizations and broker-dealers, clearing organizations and counterparties and payables to customers and broker-dealers, clearing organizations and counterparties include the value of cash collateral as well as the value of money market funds and other pledged investments, primarily U.S. Treasury bills and obligations issued by government sponsored entities and mortgage-backed securities. These balances also include the fair value of exchange-traded futures and options on futures and exchange-cleared swaps and options. Notes receivable includes sale/repurchase agreements with customers whereby the customers sell certain commodity inventory and agree to repurchase the commodity inventory at a future date at a floating rate. The notes are carried at a value that is equivalent to the market price of the underlying commodities at the balance sheet date plus accrued interest and other fees. These notes are short-term in nature and this method approximates fair value. Financial instruments owned and sold, not yet purchased include the value of U.S. and foreign government obligations, corporate debt securities, derivative financial instruments, commodities, mutual funds and investments in managed funds. Notes payable and subordinated debt carry variable rates of interest and thus approximate fair value.

The fair value estimates presented in the financial statements are based on pertinent information available to management as of June 30, 2012 and September 30, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented in the financial statements.

Cash equivalents, securities, commodities warehouse receipts, derivative financial instruments and contingent liabilities are carried at fair value, on a recurring basis, and are classified and disclosed into three levels within the fair value hierarchy. The Company did not have any fair value adjustments for assets or liabilities measured at fair value on a non-recurring basis during the nine months ended June 30, 2012. The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures Topic of the ASC are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

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Level 2 - Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term; and
Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).
The following tables set forth the Company’s financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of June 30, 2012 and September 30, 2011 by level within the fair value hierarchy.

	June 30, 2012				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Money market funds	$0.1	$—	$—	$—	$0.1
Certificate of deposits	10.3	—	—	—	10.3
Unrestricted cash equivalents	10.4	—	—	—	10.4
Commodities warehouse receipts	24.0	—	—	—	24.0
U.S. government obligations	—	48.8	—	—	48.8
Securities and other assets segregated under federal and other regulations	24.0	48.8	—	—	72.8
Money market funds	674.3	—	—	—	674.3
U.S. government obligations	—	845.0	—	—	845.0
Mortgage-backed securities	—	7.3	—	—	7.3
Derivatives	3,250.5	—	—	(3,489.0)	(238.5)
Deposits and receivables from exchange-clearing organizations	3,924.8	852.3	—	(3,489.0)	1,288.1
U.S. government obligations	—	—	—	—	—
Derivatives	1.9	—	—	(0.9)	1.0
Deposits and receivables from broker-dealers, clearing organizations and counterparties	1.9	—	—	(0.9)	1.0
Common stock and ADRs	23.0	0.9	1.1	—	25.0
Corporate and municipal bonds	0.2	5.8	3.5	—	9.5
U.S. government obligations	—	0.8	—	—	0.8
Foreign government obligations	10.1	—	—	—	10.1
Derivatives	305.2	938.3	—	(1,195.7)	47.8
Commodities leases and unpriced positions	—	119.7	—	(101.8)	17.9
Commodities warehouse receipts	5.3	—	—	—	5.3
Exchange firm common stock	3.2	8.8	—	—	12.0
Mutual funds and other	1.3	—	0.4	—	1.7
Financial instruments owned	348.3	1,074.3	5.0	(1,297.5)	130.1
Total assets at fair value	$4,309.4	$1,975.4	$5.0	$(4,787.4)	$1,502.4
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$20.7	$—	$20.7
Payables to customers - derivatives	3,667.8	—	—	(3,667.8)	—
Common stock and ADRs	18.5	0.3	—	—	18.8
Derivatives	305.4	970.3	—	(1,232.6)	43.1
Commodities leases and unpriced positions	—	490.3	—	(375.7)	114.6
	323.9	1,460.9	—	(1,608.3)	176.5

Financial instruments sold, not yet purchased					
Total liabilities at fair value	$3,991.7	$1,460.9	$20.7	$(5,276.1)	$197.2

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level are included in that level.

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	September 30, 2011				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Money market funds	$0.1	$—	$—	$—	$0.1
Certificate of deposits	12.6	—	—	—	12.6
Unrestricted cash equivalents	12.7	—	—	—	12.7
Commodities warehouse receipts	19.0	—	—	—	19.0
U.S. government obligations	—	3.7	—	—	3.7
Securities and other assets segregated under federal and other regulations	19.0	3.7	—	—	22.7
Money market funds	1,193.5	—	—	—	1,193.5
U.S. government obligations	—	470.5	—	—	470.5
Mortgage-backed securities	—	8.5	—	—	8.5
Derivatives	7,227.4	—	—	(7,491.7)	(264.3)
Deposits and receivables from exchange-clearing organizations	8,420.9	479.0	—	(7,491.7)	1,408.2
U.S. government obligations	—	0.1	—	—	0.1
Derivatives	47.3	1,073.5	—	(1,104.7)	16.1
Deposits and receivables from broker-dealers, clearing organizations and counterparties	47.3	1,073.6	—	(1,104.7)	16.2
Common stock and ADRs	53.4	2.2	1.1	—	56.7
Corporate and municipal bonds	—	5.1	3.6	—	8.7
U.S. government obligations	—	0.8	—	—	0.8
Foreign government obligations	5.8	0.9	—	—	6.7
Derivatives	210.5	557.6	—	(666.2)	101.9
Commodities leases and unpriced positions	—	66.3	—	(40.2)	26.1
Commodities warehouse receipts	16.2	—	—	—	16.2
Exchange firm common stock	3.0	0.7	—	—	3.7
Mutual funds and other	0.6	—	0.4	—	1.0
Investment in managed funds	—	1.3	—	—	1.3
Financial instruments owned	289.5	634.9	5.1	(706.4)	223.1
Total assets at fair value	$8,789.4	$2,191.2	$5.1	$(9,302.8)	$1,682.9
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$22.3	$—	$22.3
Payables to customers - derivatives	6,234.7	—	—	(6,234.7)	—
Common stock and ADRs	44.9	2.3	—	—	47.2
Derivatives	219.9	1,679.1	—	(1,776.1)	122.9
Commodities leases and unpriced positions	—	431.9	—	(211.1)	220.8
Financial instruments sold, not yet purchased	264.8	2,113.3	—	(1,987.2)	390.9
Total liabilities at fair value	$6,499.5	$2,113.3	$22.3	$(8,221.9)	$413.2

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level are included in that level.

Realized and unrealized gains and losses are included within ‘trading gains’ in the condensed consolidated income statements.

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Information on Level 3 Financial Assets and Liabilities

The Company's financial assets at fair value classified within level 3 of the fair value hierarchy as of June 30, 2012 and September 30, 2011 are summarized below:

(in millions)	June 30, 2012	September 30, 2011
Total level 3 assets	$5.0	$5.1
Level 3 assets for which the Company bears economic exposure	$5.0	$5.1
Total assets	$2,734.4	$2,635.7
Total financial assets at fair value	$1,502.4	$1,682.9
Total level 3 assets as a percentage of total assets	0.2 %	0.2 %
Level 3 assets for which the Company bears economic exposure as a percentage of total assets	0.2 %	0.2 %
Total level 3 assets as a percentage of total financial assets at fair value	0.3 %	0.3 %

The following tables set forth a summary of changes in the fair value of the Company's level 3 financial assets and liabilities during the three and nine months ended June 30, 2012 and 2011, including a summary of unrealized gains (losses) during the respective periods on the Company's level 3 financial assets and liabilities still held as of June 30, 2012.

Level 3 Financial Assets and Financial Liabilities
For the Three Months Ended June 30, 2012

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:						
Common stock and ADRs	$1.1	$ —	$—	$—	$—	$1.1
Corporate and municipal bonds	3.6	—	(0.1)	—	—	3.5
Mutual funds and other	0.4	—	—	—	—	0.4
	$5.1	$ —	$(0.1)	$—	$—	$5.0
Liabilities:						
Contingent liabilities	$23.3	$ —	$0.5	$(3.1)	$—	$20.7

Level 3 Financial Assets and Financial Liabilities
For the Nine Months Ended June 30, 2012

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:						
Common stock and ADRs	$1.1	$ —	$—	$—	$—	$1.1
Corporate and municipal bonds	3.6	—	(0.1)	—	—	3.5
Mutual funds and other	0.4	—	—	—	—	0.4
	$5.1	$ —	$(0.1)	$—	$—	$5.0
Liabilities:						
Contingent liabilities	$22.3	$ —	$1.8	$(3.4)	$—	$20.7

Level 3 Financial Assets and Financial Liabilities
For the Three Months Ended June 30, 2011

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:						
Common stock and ADRs	$1.2	$ —	$—	$—	$—	$1.2

Corporate and municipal bonds	5.3	—	(0.6)	(0.9)	—	3.8
Mutual funds and other	0.4	—	—	—	—	0.4
Investment in managed funds	0.8	—	—	(0.8)	—	—
	$7.7	$ —	$(0.6)	$(1.7)	$—	$5.4
Liabilities:						
Contingent liabilities	$30.5	$ —	$0.3	$(3.1)	$—	$27.7

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Level 3 Financial Assets and Financial Liabilities
For the Nine Months Ended June 30, 2011

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:						
Common stock and ADRs	$1.2	$ —	$ —	$—	$—	$1.2
Corporate and municipal bonds	8.0	—	(3.3)	(0.9)	—	3.8
Mutual funds and other	0.4	—	—	—	—	0.4
Investment in managed funds	0.6	0.2	—	(0.8)	—	—
	$10.2	$ 0.2	$ (3.3)	$(1.7)	$—	$5.4
Liabilities:						
Contingent liabilities	$32.3	$ —	$ 2.2	$(6.8)	$—	$27.7

In August 2008, INTL Asia Pte, Ltd., a subsidiary of the Company, arranged a 550 million Thai Baht ("THB"), an $18 million U.S. dollar ("USD") equivalent, issue of debentures for the single asset owning company of Suriwongse Hotel located in Chiang Mai, Thailand. The debentures have a 9.5% coupon and were scheduled to mature in August 2011. The Company arranged for the sale of 375.5 million THB ($12.6 million USD) of the debentures to two investors and the Company retained debentures in the amount of 174.5 million THB ($5.4 million USD). The debentures are secured by a mortgage on the land and hotel buildings, the personal guarantee of the owner, and conditional assignments of accounts and agreements.

The proceeds of this issue were to be used to refinance the previous loan to the hotel owner, finance the hotel's renovation and fund interest up to 50.0 million THB ($1.5 million USD). Renovations were initially planned to be completed by April 2011 and the outstanding debentures were to be refinanced following the completion of renovations.

In addition, the political and economic conditions in Thailand over the past two years have impacted the performance of the hotel. Following the interest capitalization period, the hotel owner was able to meet four quarterly interest payments on the debentures, however the hotel owner defaulted on the interest payment that was due in March 2011. The Company and other debenture holders have exercised their rights under the share pledge provisions of the debentures, and held a share auction of 100% of the shares of the single asset owning company. The debenture holders won the share auction and the previous owner, who is also a personal guarantor of the debentures, has filed a complaint to revoke the completed auction. The Company intends to vigorously defend actions taken in its capacity as a debenture holder. Judgment in the lawsuit filed by the previous owner is expected subsequent to fiscal 2012.

In accordance with the Fair Value Measurements and Disclosures Topic of the ASC, the Company has estimated the fair value of the debentures on a recurring basis each period. The Company has classified its investment in the hotel within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. These cash flows are discounted employing present value techniques. At March 31, 2011, due to the issues discussed previously, the Company estimated the fair value of its investment in these debentures by using a management-developed forecast, which is based on the income approach. The Company recorded a loss of $1.7 million, representing an other than temporary impairment, during the three months ended March 31, 2011. The Company continues to monitor the hotel renovation process and evaluate the fair value of the debentures. There has been no significant change in the fair value of the debentures, and no additional loss has been recognized during the three and nine months ended June 30, 2012.

The Company is required to make additional future cash payments based on certain financial performance measures of its acquired businesses. The Company is required to remeasure the fair value of the cash earnout arrangements on a recurring basis in accordance with the guidance in the Business Combinations Topic of the ASC. The Company has classified its net liabilities for the contingent earnout arrangements within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. The estimated fair value of the contingent purchase consideration is based upon management-developed forecasts, a level 3 input in the fair value hierarchy. These cash flows are discounted employing present value techniques in arriving at the acquisition-date fair value. The discount rate was developed using market participant company data and there have been no significant changes in the discount rate environment. From the dates of acquisition to June 30, 2012, certain acquisitions have had changes in the estimates of undiscounted cash flows, based on actual performances fluctuating from estimates. During the three and nine months ended June 30, 2012, the fair value of the contingent consideration increased $0.5 million and $1.8 million, respectively, with the corresponding amount classified as 'other expense' within the condensed consolidated income statements.

The Company reports transfers in and out of levels 1, 2 and 3, as applicable, using the fair value of the securities as of the

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beginning of the reporting period in which the transfer occurred.
The Company did not have any transfers between level 1 and level 2 fair value measurements for the three and nine months ended June 30, 2012.
The Company has recorded unrealized gains, net of income tax expense, related to U.S. government obligations and corporate bonds classified as available-for-sale securities in other comprehensive income ("OCI") as of June 30, 2012.
The following tables summarize the amortized cost basis, the aggregate fair value and gross unrealized holding gains and losses of the Company's investment securities classified as available-for-sale as of June 30, 2012 and September 30, 2011:
June 30, 2012
Amounts included in financial instruments owned:

	Amortized	Unrealized Holding (1)		Estimated
(in millions)	Cost	Gains	(Losses)	Fair Value
U.S. government obligations	$0.5	$—	$—	$0.5
	$0.5	$—	$—	$0.5

Amounts included in deposits with and receivables from exchange-clearing organizations:

	Amortized	Unrealized Holding		Estimated
(in millions)	Cost	Gains	(Losses)	Fair Value
U.S. government obligations	$789.2	$—	$—	$789.2
Mortgage-backed securities	7.2	0.1	—	7.3
	$796.4	$0.1	$—	$796.5

(1) Unrealized gain/loss on financial instruments owned as of June 30, 2012 is less than $0.1 million.
September 30, 2011
Amounts included in financial instruments owned:

	Amortized	Unrealized Holding (1)		Estimated
(in millions)	Cost	Gains	(Losses)	Fair Value
U.S. government obligations	$0.5	$—	$—	$0.5
Corporate bonds	5.0	—	—	5.0
	$5.5	$—	$—	$5.5

(1) Unrealized gain/loss on financial instruments owned as of September 30, 2011 is less than $0.1 million.

Amounts included in deposits with and receivables from exchange-clearing organizations:

	Amortized	Unrealized Holding		Estimated
(in millions)	Cost	Gains	(Losses)	Fair Value
U.S. government obligations	$440.6	$0.1	$—	$440.7
Mortgage-backed securities	8.3	0.2	—	8.5
	$448.9	$0.3	$—	$449.2

As of June 30, 2012 and September 30, 2011, investments in debt securities classified as available-for-sale ("AFS") mature as follows:
June 30, 2012

	Due in		Estimated
(in millions)	Less than 1 year	1 year or more	Fair Value
U.S. government obligations	$789.7	$—	$789.7
Mortgage-backed securities	—	7.3	7.3
	$789.7	$7.3	$797.0

September 30, 2011

(in millions)	Due in Less than 1 year	1 year or more	Estimated Fair Value
U.S. government obligations	$441.2	$—	$441.2
Corporate bonds	5.0	—	5.0
Mortgage-backed securities	—	8.5	8.5
	$446.2	$8.5	$454.7

There were no sales of AFS securities during the three and nine months ended June 30, 2012 and 2011, and as a result, no realized gains or losses were recorded for the three and nine months ended June 30, 2012 and 2011.

For the purposes of the maturity schedule, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the expected maturity of the underlying collateral. Mortgage-backed securities may mature earlier than their stated contractual maturities because of accelerated principal repayments of the underlying loans.

The Company has also classified equity investments in exchange firms' common stock not pledged for clearing purposes as available-for-sale. The investments are recorded at fair value, with unrealized gains and losses recorded, net of taxes, as a component of OCI until realized. As of June 30, 2012, the cost and fair value of all the equity investments in exchange firms was $4.4 million and $12.0 million, respectively.

On June 15, 2012, the board of London Metal Exchange (LME) Holdings Limited, the parent company of the LME, entered into a framework agreement regarding the terms of a recommended cash offer for the entire issued and outstanding ordinary share capital of LME Holdings. On July 23, 2012, the shareholders of LME Holdings voted to approve the sale of the LME to the Hong Kong Exchanges & Clearing Limited. Based on the proposed sale price of the ordinary shares, the shares of the LME held by the Company as available-for-sale are valued at $8.4 million as of June 30, 2012. The Company's shares in the LME reflect an unrealized gain of $6.1 million, net of income tax expense of $1.9 million, that is recorded in OCI as of June 30, 2012. Upon closing of the sale, the Company will reclassify the unrealized gain on the shares in accumulated OCI and recognize the realized gain in the current period's earnings.

The Company recorded unrealized losses of $0.3 million, net of income tax benefit of $0.2 million in OCI related to the remaining equity investments in exchange firms as of June 30, 2012. The Company monitors the fair value of exchange common stock on a periodic basis, and does not consider any current unrealized losses to be anything other than a temporary impairment.

Note 4 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2012 at the fair values of the related financial instruments. The Company will incur losses if the fair value of the underlying financial instruments increases subsequent to June 30, 2012. The total of $176.5 million as of June 30, 2012 includes $43.1 million for derivative contracts, which represent a liability to the Company based on their fair values as of June 30, 2012.

Derivatives

The Company utilizes derivative products in its trading capacity as a dealer in order to satisfy client needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company’s other trading activities. The majority of the Company’s derivative positions are included in the consolidated balance sheets within ‘financial instruments owned, at fair value’, ‘deposits and receivables from exchange-clearing organizations’ and ‘financial instruments sold, not yet purchased, at fair value’.

The Company continues to employ an interest rate risk management strategy, implemented in April 2010, that uses derivative financial instruments in the form of interest rate swaps to manage a portion of the aggregate interest rate position. The Company’s objective is to invest the majority of customer segregated deposits in high quality, short-term investments and swap the resulting variable interest earnings into the medium-term interest stream, by using a strip of interest rate swaps that mature every quarter, in order to achieve the two year moving average of the two year swap rate. The risk mitigation of these interest rate swaps is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC, and as a result they are recorded at fair value, with changes in the fair value of the financial instruments recorded within 'trading gains' in the condensed consolidated income statements. As of June 30, 2012, approximately $765 million in notional principal of interest rate swaps were outstanding with a weighted-average life of 9 months.

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Listed below are the fair values of the Company's derivative assets and liabilities as of June 30, 2012 and September 30, 2011. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	June 30, 2012		September 30, 2011	
(in millions)	Assets [1]	Liabilities [1]	Assets [1]	Liabilities [1]
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	$3,164.4	$3,594.6	$7,074.2	$6,062.4
OTC commodity derivatives	818.7	813.3	763.7	780.1
Exchange-traded foreign exchange derivatives	73.6	54.2	126.9	89.8
OTC foreign exchange derivatives [2][3]	423.2	462.4	1,074.3	1,118.9
Interest rate derivatives	3.0	1.6	5.5	2.8
Equity index derivatives	13.0	17.4	71.7	79.7
Gross fair value of derivative contracts	4,495.9	4,943.5	9,116.3	8,133.7
Impact of netting and collateral	(4,685.6)	(4,900.4)	(9,262.6)	(8,010.8)
Total fair value included in ‘Deposits and receivables from exchange-clearing organizations’	$(238.5)		$(264.3)	
Total fair value included in 'Deposits and receivables from broker-dealers, clearing organizations and counterparties'	$1.0		$16.1	
Total fair value included in ‘Financial instruments owned, at fair value’	$47.8		$101.9	
Fair value included in ‘Financial instruments sold, not yet purchased, at fair value’		$43.1		$122.9

(1) As of June 30, 2012 and September 30, 2011, the Company’s derivative contract volume for open positions was approximately 3.9 million and 3.9 million contracts, respectively.

(2) In accordance with agreements with counterparties, the Company is allowed to periodically take advances against its open trade fair value. There were no advances against open trade fair value outstanding as of June 30, 2012 and September 30, 2011.

(3) In accordance with agreements with counterparties, the Company has to maintain a sufficient margin collateral balance based on the value of the open positions. These amounts exclude deposits with the counterparties for margin collateral, which are included in the netting and collateral line, of $34.8 million and $53.5 million as of June 30, 2012 and September 30, 2011.

The Company’s derivative contracts are principally held in its Commodities and Risk Management Services ("C&RM") segment. The Company assists its C&RM segment customers in protecting the value of their future production by entering into option or forward agreements with them on an OTC basis. The Company also provides its C&RM segment customers with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by offsetting the customer's transaction simultaneously with one of the Company's trading counterparties or with a similar but not identical position on the exchange. The risk mitigation of these offsetting trades is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC. These derivative contracts are traded along with cash transactions because of the integrated nature of the markets for these products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies. In particular, the risks related to derivative positions may be partially offset by inventory, unrealized gains in inventory or cash collateral paid or received.

The following table sets forth the Company's gains (losses) related to derivative financial instruments for the three and nine months ended June 30, 2012 and 2011, in accordance with the Derivatives and Hedging Topic of the ASC. The gains (losses) set forth below are included within ‘trading gains’ in the condensed consolidated income statements.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2012	2011	2012	2011
Gains from derivative contracts	$76.1	$33.2	$102.7	$6.8

Credit Risk

In the normal course of business, the Company purchases and sells financial instruments, commodities and foreign currencies as either principal or agent on behalf of its customers. If either the customer or counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the fair value of the financial instrument or foreign currency is different from the contract value of the transaction.

The majority of the Company's transactions and, consequently, the concentration of its credit exposure are with commodity exchanges, customers, broker-dealers and other financial institutions. These activities primarily involve collateralized and uncollateralized arrangements and may result in credit exposure in the event that a counterparty fails to meet its contractual obligations. The Company's exposure to credit risk can be directly impacted by volatile financial markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counterparties' financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

The Company is a party to financial instruments in the normal course of its business through customer and proprietary trading accounts in exchange-traded and OTC derivative instruments. These instruments are primarily the execution of orders for commodity futures, options on futures and forward foreign currency contracts on behalf of its customers, substantially all of which are transacted on a margin basis. Such transactions may expose the Company to significant credit risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. The Company controls the risks associated with these transactions by requiring customers to maintain margin deposits in compliance with individual exchange regulations and internal guidelines. The Company monitors required margin levels daily and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. The Company also establishes credit limits for customers, which are monitored daily. The Company evaluates each customer's creditworthiness on a case by case basis. Clearing, financing, and settlement activities may require the Company to maintain funds with or pledge securities as collateral with other financial institutions. Generally, these exposures to both customers and exchanges are subject to master netting, or customer agreements, which reduce the exposure to the Company by permitting receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits held as of June 30, 2012 and September 30, 2011 were adequate to minimize the risk of material loss that could be created by positions held at that time. Additionally, the Company monitors collateral fair value on a daily basis and adjusts collateral levels in the event of excess market exposure. Generally, these exposures to both customers and counterparties are subject to master netting or customer agreements which reduce the exposure to the Company.

The Company is also a party to a guarantee of payment and performance by a third party of an ethanol marketing agreement with a risk management customer which would require the Company to purchase the output of the customer if the third party could not perform under the marketing agreement. The guarantee does not have a set term, and the underlying agreement cannot be terminated by the third party unless the customer breaches the agreement. The maximum potential amount of future payments required under the guarantee cannot be estimated because the underlying marketing agreement does not specify the amount or the price of the ethanol to be purchased during the term of the agreement. The price of the ethanol to be purchased is at the discretion of the Company.

Derivative financial instruments involve varying degrees of off-balance sheet market risk whereby changes in the fair values of underlying financial instruments may result in changes in the fair value of the financial instruments in excess of the amounts reflected in the condensed consolidated balance sheets. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the Company's positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in foreign exchange rates. The Company attempts to manage its exposure to market risk through various techniques. Aggregate market limits have been established and market risk measures are routinely monitored against these limits.

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Note 5 – Receivables from Customers and Notes Receivable, net

Receivables from customers, net and notes receivable, net include a provision for bad debts, which reflects the Company's best estimate of probable losses inherent in the receivables from customers and notes receivable. The Company provides for an allowance for doubtful accounts based on a specific-identification basis. The Company continually reviews its provision for bad debts. The allowance for doubtful accounts related to receivables from customers was $2.8 million and $11.8 million as of June 30, 2012 and September 30, 2011, respectively. The allowance for doubtful accounts related to notes receivable was $0.1 million as of June 30, 2012 and September 30, 2011, respectively.

Bad debt expense, net of recoveries, for the three and nine months ended June 30, 2012 was $0.7 million, respectively, and included charges to bad debt expense related to a customer deficit account within the C&RM segment. During the nine months ended June 30, 2012, the Company charged-off receivables on consigned gold transactions which were fully reserved. During the three and nine months ended June 30, 2011, the Company recorded bad debt expense, net of recoveries, of $1.2 million and $4.0 million, respectively. During the three and nine months ended June 30, 2011, increases to the allowance for doubtful accounts were $3.0 million and $7.5 million, respectively. The increase in the provision for the three months ended June 30, 2011 was primarily related to an additional loss recognized on a customer to whom the Company had consigned gold, in the C&RM segment. During the nine months ended June 30, 2011, the provision increase also included amounts for another customer to whom the Company had consigned gold, in the C&RM segment, and a clearing customer deficit account in the CES segment. During the three and nine months ended June 30, 2011, the Company recorded recoveries of $1.8 million and $3.7 million, respectively, of bad debt expense. The three months ended June 30, 2011, recovery of $1.8 million related to a decrease in the bad debt provision on a previous customer account deficit, in the C&RM segment, based on an increase in the amount considered collectible. During the nine months ended June 30, 2011, recoveries also include $1.3 million following a settlement relating to a disputed trade that was “given-up” to FCStone, LLC during the quarter ended June 30, 2010.

Activity in the allowance for doubtful accounts and notes was as follows:

(in millions)	
Balance, September 30, 2011	$11.9
Provision for bad debts	0.5
Deductions:	
Charge-offs	(9.5)
Recoveries	—
Balance, June 30, 2012	$2.9

Additionally, in the normal course of operations the Company accepts notes receivable under sale/repurchase agreements with customers. These transactions are short-term in nature, and are treated as secured borrowings rather than commodity inventory, purchases and sales in the Company’s condensed consolidated financial statements. As of June 30, 2012 and September 30, 2011, the Company had outstanding notes receivable of $10.3 million and $24.3 million, respectively, related to this program.

Note 6 – Physical Commodities Inventory

Physical commodities inventory is valued at the lower of cost or fair value, determined using the weighted-average cost method. Commodities in process include commodities in the process of being recycled. As of June 30, 2012 and September 30, 2011, $99.7 million and $159.4 million, respectively, of physical commodities inventory served as collateral under one of the Company’s credit facilities, as detailed further in Note 10. The carrying values of the Company’s inventory as of June 30, 2012 and September 30, 2011 are shown below.

(in millions)	June 30, 2012	September 30, 2011
Commodities in process	$—	$2.4
Finished commodities	100.7	158.2
Physical commodities inventory	$100.7	$160.6

As a result of declining market prices for some commodities, the Company recorded lower of cost or market ("LCM") adjustments for physical commodities inventory of $3.3 million and $21.9 million as of June 30, 2012 and September

30, 2011, respectively. The adjustments are included within 'cost of sales of physical commodities' in the condensed consolidated income statements.

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Note 7 – Goodwill

The carrying value of goodwill by segment is as follows:

(in millions)	June 30, 2012	September 30, 2011
Commodity and Risk Management Services	$32.0	$ 30.9
Foreign Exchange	6.3	6.3
Securities	5.3	5.3
Goodwill	$43.6	$ 42.5

Note 8 – Intangible Assets

The gross and net carrying values of intangible assets as of the balance sheet dates, by major intangible asset class are as follows:

	June 30, 2012			September 30, 2011		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
Noncompete agreement	$3.7	$(2.6)	$1.1	$3.7	$(1.7)	$2.0
Trade name	0.6	(0.5)	0.1	0.6	(0.5)	0.1
Software programs/platforms	2.1	(1.1)	1.0	2.1	(0.6)	1.5
Customer base	9.6	(1.4)	8.2	8.9	(1.0)	7.9
	16.0	(5.6)	10.4	15.3	(3.8)	11.5
Intangible assets not subject to amortization						
Trade name	2.1	—	2.1	2.1	—	2.1
Total intangible assets	$18.1	$(5.6)	$12.5	$17.4	$(3.8)	$13.6

Amortization expense related to intangible assets was $1.8 million for the nine months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the estimated future amortization expense was as follows:

(in millions)	
Fiscal 2012 (remaining three months)	$0.7
Fiscal 2013	2.1
Fiscal 2014	0.9
Fiscal 2015	0.7
Fiscal 2016	0.4
Fiscal 2017 and thereafter	5.6
	$10.4

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Note 9 – Other Expenses

Other expenses for the three and nine months ended June 30, 2012 and 2011 are comprised of the following:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2012	2011	2012	2011
Business development	$2.3	$2.4	$8.6	$6.3
Non-trading hardware and software maintenance and software licensing	0.4	0.7	1.8	2.1
Contingent consideration, net(1)	0.5	0.3	2.7	3.8
Insurance	0.4	0.4	1.2	1.1
Other non-income taxes	1.1	0.7	3.0	2
Advertising, meetings and conferences	0.7	0.4	1.8	1.4
Office supplies and printing	0.3	0.3	1.0	0.8
Other	1.7	0.9	4.7	3.1
Total other expenses	$7.4	$6.1	$24.8	$20.6

(1) In the nine month periods ended June 30, 2012 and 2011, contingent consideration includes remeasurement of contingent liabilities related to business combinations accounted for in accordance with the provisions of the Business Combinations Topic of the ASC (see Note 3) and additional purchase price, based on achieving specific conditions and earnings targets, relating to FCStone, LLC's previous acquisition of Downes O'Neill, LLC ("Downes O'Neill") (nine month period ended June 30, 2011 only) and Globecot, Inc. ("Globecot"). When the Downes O'Neill and Globecot acquisitions occurred, they were recorded in accordance with SFAS No. 141, Business Combinations ("SFAS 141"). As a result of the Company's merger with FCStone Group, Inc. ("FCStone") on September 30, 2009, this contingent purchase price amount was considered a pre-acquisition contingency, which was not reasonably estimable during the merger allocation period following the FCStone transaction. In accordance with SFAS 141, adjustments to pre-acquisition contingencies, made after the end of the allocation period, are included in earnings in the current period.

Note 10 – Credit Facilities

As of June 30, 2012, the Company had four committed credit facilities under which the Company may borrow up to $335 million, subject to certain conditions. Additionally, the Company had an uncommitted forward contract for commodities agreement under which the Company may borrow up to $50 million to fund forward contract commodity transactions. The amounts outstanding under these credit facilities are short term borrowings and carry variable rates of interest, thus approximating fair value.

A summary of the Company's credit facilities in place as of June 30, 2012 is as follows:

- A one-year revolving syndicated committed loan facility established on September 22, 2010 and renewed by amendment on September 21, 2011, under which the Company's subsidiary, INTL Commodities, Inc. ("INTL Commodities") is entitled to borrow up to $140 million, subject to certain conditions. The loan proceeds are used to finance the activities of INTL Commodities and are secured by its assets. The facility is guaranteed by the Company, and the Company is currently in discussions with the lender and expects to amend the facility during the fourth quarter of fiscal 2012 to extend the expiration date, and renew the facility in the first quarter of fiscal 2013.
- A three-year syndicated committed loan facility established on October 29, 2010 and amended on May 22, 2012 to increase the amount under which the Company is entitled to borrow up to $95 million, subject to certain conditions. The loan proceeds are used to finance working capital needs of the Company and certain subsidiaries. The line of credit is secured by a pledge of shares held in certain of the Company's subsidiaries.
- An unsecured syndicated committed line of credit, established on June 21, 2010 and renewed by amendment on April 12, 2012, under which FCStone, LLC may borrow up to $75 million. This line of credit is intended to provide short term funding of margin to commodity exchanges as necessary. This line of credit is subject to annual review, and the continued availability of this line of credit is subject to FCStone, LLC's financial condition and operating results continuing to be satisfactory as set forth in the agreement. The facility is guaranteed by the Company.

- A one-year syndicated committed borrowing facility established on December 2, 2010, and renewed by amendment on October 11, 2011, under which the Company’s subsidiary, FCStone Financial, Inc. ("FCStone Financial"), is entitled to

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borrow up to $25 million, subject to certain conditions. During the three months ended March 31, 2012, the Company elected to reduce the committed amount under the borrowing facility from $75 million to $25 million. Subsequent to June 30, 2012, the Company amended the facility to temporarily increase the commitment amount to $50 million through August 10, 2012. The loan proceeds are used to finance traditional commodity financing arrangements or the purchase of eligible commodities from sellers who have agreed to sell and later repurchase such commodities from FCStone Financial, and are secured by its assets. The facility is guaranteed by the Company.

- An uncommitted forward contract for commodities agreement established on June 23, 2011, under which the Company's subsidiary, FCStone Merchant Services, LLC ("FCStone Merchant Services") is entitled to borrow up to $50 million to fund forward contracts on specified commodities. The forward contract commodity transactions include a simultaneous agreement from the lender to purchase specified commodities from FCStone Merchant Services and to sell the same specified commodities to FCStone Merchant Services, on a forward sale basis. The price at which FCStone Merchant Services will be obligated to repurchase the specified commodities from the lender is calculated as the purchase price plus accrued interest on the purchase price at the cost of funds rate determined by the lender. The facility is guaranteed by the Company.

Credit facilities and outstanding borrowings as of June 30, 2012 and September 30, 2011 were as follows:

(in millions)			Amounts Outstanding	
Security	Renewal / Expiration Date	Total Commitment	June 30, 2012	September 30, 2011
Certain pledged shares	October 1, 2013	$95.0	$70.0	$ —
Certain commodities assets	September 20, 2012	140.0	97.0	60.0
None	April 11, 2013	75.0	—	—
Certain commodities assets	October 9, 2012	25.0	8.4	15.5
Certain forward commodity contracts	n/a	—	—	1.9
		$335.0	$175.4	$ 77.4

During the remainder of fiscal 2012, $140 million of the Company's committed credit facilities are scheduled to expire. While there is no guarantee that the Company will be able to renew or replace current agreements when they expire, based on its liquidity position and capital structure the Company believes it will be able to do so.

The Company's facility agreements contain certain financial covenants relating to financial measures on a consolidated basis, as well as on a certain stand-alone subsidiary basis, including minimum net worth, minimum working capital, minimum regulatory capital, minimum net unencumbered liquid assets, minimum equity, minimum interest coverage and leverage ratios and maximum net loss. Failure to comply with any such covenants could result in the debt becoming payable on demand. As of June 30, 2012, the Company was in compliance with all of its covenants under its credit facilities.

Note 11 – Commitments and Contingencies

Legal Proceedings

Certain conditions may exist as of the date that the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred at the date of the financial statements and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Neither accrual nor disclosure is required for loss contingencies that are deemed remote. The Company records legal fees related to contingent liabilities as they are incurred.

In addition to the matters discussed below, from time to time and in the ordinary course of business, the Company is involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. The Company carries insurance that provides protection against certain types of claims, up to the policy limits of the insurance. As of June 30, 2012, the condensed consolidated balance sheet includes loss contingency accruals, recorded in fiscal 2011 and during the nine months ended June 30, 2012, which are not material,

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individually or in the aggregate, to the Company's earnings, financial position or liquidity. In the opinion of management, possible exposure in these matters in excess of the amounts accrued is not material to the Company's earnings, financial position or liquidity.

The following is a summary of significant legal matters involving the Company.

Securities Litigation

FCStone and certain officers of FCStone were named as defendants in an action filed in the United States District Court for the Western District of Missouri on July 15, 2008. A consolidated amended complaint ("CAC") was subsequently filed on September 25, 2009. As alleged in the CAC, the action purports to be brought as a class action on behalf of purchasers of FCStone common stock between November 15, 2007 and February 24, 2009. The CAC seeks to hold defendants liable under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 and concerns disclosures included in FCStone's fiscal year 2008 public filings. Specifically, the CAC relates to FCStone's public disclosures regarding an interest rate hedge, a bad debt expense arising from unprecedented events in the cotton trading market, and certain disclosures beginning on November 3, 2008 related to losses it expected to incur arising primarily from a customer energy trading account. FCStone and the named officers moved to dismiss the action. The parties to the litigation reached an agreement in principle to settle this matter during May 2012. The proposed settlement would be at no cost to the Company after consideration of insurance, and is subject to approval by the court.

In August, 2008, a shareholder derivative action was filed against FCStone and certain directors of FCStone in the Circuit Court of Platte County, Missouri, alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment. An amended complaint was subsequently filed in May, 2009 to add claims based upon the losses sustained by FCStone arising out of a customer's energy trading account. On July 7, 2009, the same plaintiff filed a motion for leave to amend the existing case to add a purported class action claim on behalf of the holders of FCStone common stock.

On July 8, 2009, a purported shareholder class action complaint was filed against FCStone and its directors, as well as the Company, in the Circuit Court of Clay County, Missouri. The complaint alleged that FCStone and its directors breached their fiduciary duties by failing to maximize stockholder value in connection with the contemplated acquisition of FCStone by the Company. This complaint was subsequently consolidated with the complaint filed in the Circuit Court of Platte County, Missouri. The plaintiffs subsequently filed an amended consolidated complaint which does not assert any claims against the Company. This complaint purports to be filed derivatively on FCStone and the Company's behalf and against certain of FCStone current and former directors and officers and directly against the same individuals. The Company, FCStone and the defendants filed motions to dismiss on multiple grounds. That motion is fully briefed and pending decision.

The staff of the Fort Worth Regional Office of the SEC conducted a formal investigation of FCStone's disclosures and accounting for losses associated with the energy trading account, which occurred prior to the Company's acquisition of FCStone on September 30, 2009. During the quarters ended March 31, 2011 and June 30, 2011, certain employees of the Company testified before the SEC in connection with this investigation. The Company cooperated fully with the SEC staff in its investigation. During the quarter ended March 31, 2012, the Company was informed that the staff of the SEC had closed its investigation of FCStone, and was not taking enforcement action against FCStone or any of its current or former officers.

The Company has also received a request from the CFTC for certain information relating to the energy trading account matter. During the three months ended June 30, 2012, certain employees of the Company testified before the CFTC in this regard. The Company is cooperating fully with the staff of the CFTC, and cannot predict the scope, duration or outcome of the CFTC's review, including monetary penalties or fines, if any.

In February 2011, the Company's Board of Directors formed a special committee to conduct an independent investigation of FCStone's disclosures and accounting for losses associated with the energy trading account. The Board of Directors determined that it would be appropriate and consistent with its governance and oversight responsibilities to form the special committee to investigate these matters as they pertain to the private litigation and the SEC investigation described above. The special committee, which is comprised solely of independent directors of the Company who were not formerly directors of FCStone, retained an independent law firm to represent and assist it in its investigation.

Convertible Note Holder Litigation

In November 2009, an investor in a principal amount of $3.7 million of the Company’s senior subordinated convertible notes due 2011 (the “Notes”) filed a notice of motion for summary judgment on the Company, claiming that the FCStone transaction resulted in a change of control as defined in the Notes; and that, as a result, the Company should have afforded the investor the opportunity to have the Notes redeemed at a 15% premium. The investor also claimed default interest at the rate of 15% per annum established in the Notes. The investor's motion was denied in March, 2010, and the investor filed an amended complaint in April, 2010. The remaining three holders of the Notes, holding Notes in an aggregate amount of $13.0 million, filed a similar lawsuit on the Company on October 20, 2010.

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During the year ended September 30, 2011, the holders of the Notes converted the principal amount and accrued interest into shares of common stock of the Company. Subsequent to conversion, two holders of the Notes, each a holder of $4.0 million in principal amount of the convertible notes as of September 30, 2009, persisted in their claim against the Company. During the quarter ended March 31, 2012, the Company entered into an agreement with the two holders of the Notes, pursuant to which the Company paid the plaintiffs the amount of $0.2 million in settlement of all claims.

Sentinel Litigation

In August 2008, the bankruptcy trustee for Sentinel Management Group, Inc. ("Sentinel") filed adversary proceedings against one of the Company's subsidiaries, FCStone, LLC, and a number of other futures commission merchants ("FCMs") in the U.S. Bankruptcy Court for the Northern District of Illinois. This case was subsequently reassigned to the United States District Court for the Northern District of Illinois. In the complaint, the trustee is seeking avoidance of alleged transfers or withdrawals of funds received by the Company and other FCMs within 90 days prior to the filing of the Sentinel bankruptcy petition, as well as avoidance of post-petition distributions and disallowance of the proof of claim filed by the FCStone, LLC. The trustee seeks recovery of pre- and post-petition transfers totaling approximately $15.5 million. In April 2009, the trustee filed an amended complaint adding a claim for unjust enrichment. FCStone, LLC answered the complaints and all parties entered into the discovery phase of the litigation. On January 21, 2011 the trustee filed a motion for summary judgment on various counts in the adversary proceedings filed in August, 2008 against FCStone, LLC and a number of other FCMs. The motion has since been fully briefed, and is pending before the court awaiting decision. On January 13, 2012, the Company filed a motion for summary judgment in its favor with respect to the transfer of approximately $1.1 million to its customer segregated account on August 17, 2007 pursuant to the "safe harbor" provisions of Section 546(e) of the U.S. Bankruptcy Code. On April 17, 2012, the Company and all other FCM defendants filed a motion to dismiss a portion of the claims made by the Trustee in its amended complaint. FCStone, LLC intends to continue to defend the matter vigorously, and to coordinate its defense with the other FCMs. The court has now set a trial date of October 1, 2012 for this matter.

Contractual Commitments

Contingent Liabilities - Acquisitions

Under the terms of the purchase agreements related to the acquisitions listed below, the Company has obligations to pay additional consideration if specific conditions and earnings targets are met. In accordance with the Business Combinations Topic of the ASC, the fair value of the additional consideration is recognized as a contingent liability as of the acquisition date. The contingent liability for these estimated additional purchase price considerations are included within ‘accounts payable and other accrued liabilities’ in the condensed consolidated balance sheets as of June 30, 2012. The acquisition date fair value of additional consideration is remeasured to its fair value each reporting period, with changes in fair value recorded in current earnings.

The Company has a contingent liability relating to the November 2011 acquisition of Coffee Network which may result in the payment of additional purchase price consideration, see Note 14.

The Company has a contingent liability relating to the October 2010 acquisition of Hencorp Becstone Futures, L.C., subsequently renamed INTL Hencorp Futures, LLC ("Hencorp Futures"), which may result in the payment of additional purchase price consideration. The contingent liability recorded represents the fair value of the expected consideration to be paid, based on the forecasted adjusted pre-tax net earnings during the second, third and fourth fiscal years following the closing of the acquisition and a discount rate being applied to those future payments. The change in fair value for the three and nine months ended June 30, 2012 was a increase of thirty-six thousand and $0.1 million, respectively, included within ‘other expense’ in the condensed consolidated income statements. The present value of the estimated total purchase price, including contingent consideration, is $6.5 million as of June 30, 2012, of which $2.5 million has not been paid and is included within ‘accounts payable and other liabilities’ in the condensed consolidated balance sheets.

The Company has a contingent liability relating to the July 2010 acquisition of the Hanley Companies, which may result in the payment of additional purchase price consideration. The contingent liability recorded represents the fair value of the expected consideration to be paid, based on the contingent payments equal to 15% of the forecasted adjusted earnings before interest and taxes ("Adjusted EBIT") of the soft commodities derivatives business of the acquired Hanley Companies and INTL Hanley, LLC (the “Derivatives Division”) for the two twelve-month periods ending June 30, 2012 and June 30, 2013 and a final contingent payment based on the cumulative Adjusted EBIT of the Derivatives Division for the three year period commencing on July 1, 2010, with a discount rate being applied to those future payments. The change in fair value for the three and nine months ended June 30, 2012 was an increase of $0.3 million and $1.7 million, respectively, included within ‘other expense’ in the condensed consolidated income statements. The present value of the estimated total purchase price, including contingent consideration, is $53.3 million as of June 30, 2012, of which $15.2 million has not been paid and is included within ‘accounts payable and other liabilities’ in the condensed consolidated balance sheets.

The Company has a contingent liability relating to the April 2010 acquisition of the RMI Companies, which may result in the

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payment of additional consideration. The contingent liability recorded represents the fair value of expected consideration to be paid based on the forecasted sales during the two twelve-month periods ending March 31, 2012 and 2013, and a discount rate being applied to those future payments. The change in fair value for the three and nine months ended June 30, 2012 was an increase of $0.1 million and a decrease of eleven thousand, respectively, included within ‘other expense’ in the condensed consolidated income statements. The present value of the estimated total purchase price, including contingent consideration, is $15.2 million as of June 30, 2012, of which $3.0 million has not been paid and is included within ‘accounts payable and other liabilities’ in the condensed consolidated balance sheets.

The Company has a contingent liability relating to the February 2008 acquisition of Globecot, Inc. by FCStone, LLC. Under the terms of the purchase agreement, the Company has an obligation to pay additional consideration if specific conditions and earnings targets are met in the twelve-month period ending December 31, 2012. Although this transaction was made prior to the Company's acquisition of FCStone, any additional consideration would be considered an adjustment to a pre-acquisition contingency made after the end of the allocation period, and included in earnings in the current period. The additional consideration is limited to $0.4 million for the twelve-month period.

Exchange Member Guarantees

The Company is a member of various exchanges that trade and clear futures and option contracts. Associated with its memberships, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchanges. While the rules governing different exchange memberships vary, in general the Company’s guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the condensed consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Note 12 – Capital and Other Regulatory Requirements

The Company's subsidiary FCStone, LLC is a commodity futures commission merchant registered with the CFTC servicing customers primarily in grain, energy and food service-related businesses. Pursuant to the rules, regulations, and requirements of the CFTC and other regulatory agencies, FCStone, LLC is required to maintain certain minimum net capital as defined in such rules, regulations, and requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. Pursuant to the requirements of the Commodity Exchange Act, funds deposited by customers of FCStone, LLC relating to futures and options on futures in regulated commodities must be carried in separate accounts which are designated as segregated customers’ accounts.

The Company’s subsidiary INTL Trading, Inc. ("INTL Trading") is a registered broker dealer and member of the Financial Industry Regulatory Authority ("FINRA") and is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital, and requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1. A further requirement is that equity capital may not be withdrawn if this ratio would exceed 10 to 1 after such withdrawal.

The Company’s subsidiary FCStone Australia Pty Ltd ("FCStone Australia") is regulated by the Australian Securities and Investment Commission and is subject to a surplus liquid funds requirement. FCStone Australia is also regulated by New Zealand Clearing Limited, and is subject to a capital adequacy requirement.

The Company’s subsidiary FCC Investments, Inc. is a registered broker-dealer and a member of FINRA, and is subject to the SEC Uniform Net Capital Rule 15c3-1.

The Company's subsidiaries Risk Management Incorporated and Hencorp Futures are regulated by the CFTC and the National Futures Association and are both subject to a minimum capital requirement.

The Company's subsidiaries INTL FCStone (Europe) and INTL Global Currencies Limited are regulated by the Financial Services Authority ("FSA"), the regulator of the financial services industry in the United Kingdom, and subject to a consolidated net capital requirement. Pursuant to the requirements of the FSA, funds deposited by customers of INTL FCStone (Europe) for the purpose of covering actual or contingent or prospective obligations must be carried in separate accounts which are designated as segregated accounts except in the case of non-retail clients who agree to the transfer ownership of those funds to the company.

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The subsidiaries of the Company are in compliance with all of their regulatory requirements as of June 30, 2012, as follows:

(in millions)			As of June 30, 2012	
Subsidiary	Regulatory Authority	Requirement Type	Actual	Minimum Requirement
FCStone, LLC	CFTC	Net capital	$110.0	$ 78.7
FCStone, LLC	CFTC	Segregated funds	$1,552.3	$ 1,512.4
INTL Trading	SEC	Net capital	$2.0	$ 1.0
FCC Investments, Inc.	SEC	Net capital	$0.4	$ 0.3
FCStone Australia	Australian Securities and Investment Commission	Net capital	$3.6	$ 0.9
FCStone Australia	New Zealand Clearing Ltd	Capital adequacy	$12.0	$ 1.5
Risk Management Incorporated	CFTC	Net capital	$0.4	$ 0.1
Hencorp Futures	CFTC	Net capital	$0.6	$ 0.1
INTL FCStone (Europe)	FSA	Net capital	$25.1	$ 16.3
INTL FCStone (Europe)	FSA	Segregated funds	$6.9	$ 6.9
FCStone Europe	Central Bank of Ireland	Net capital	$1.5	$ 0.4
INTL Global Currencies Limited	FSA	Net capital	$7.6	$ 1.0
TRX Futures Limited	FSA	Capital adequacy	$13.1	$ 6.0

Certain other non-U.S. subsidiaries of the Company are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 30, 2012, these subsidiaries were in compliance with their local capital adequacy requirements.

Note 13 – Stock-Based Compensation

Stock-based compensation expense is included within 'compensation and benefits' in the condensed consolidated income statements and totaled $1.5 million and $0.5 million for the three months ended June 30, 2012 and 2011, respectively, and $3.8 million and $1.6 million for the nine months ended June 30, 2012 and 2011, respectively.

Stock Option Plan

The Company sponsors a stock option plan for its directors, officers, employees and consultants. As of June 30, 2012, 875,936 shares were authorized for future grant under this plan. Awards that expire or are canceled generally become available for issuance again under the plan. The Company settles stock option exercises with newly issued shares of common stock.

Fair value is estimated at the grant date based on a Black-Scholes-Merton option-pricing model using the following weighted-average assumptions:

	Nine Months Ended June 30, 2012	
Expected stock price volatility	57	%
Expected dividend yield	—	%
Risk free interest rate	1.53	%
Average expected life (in years)	7.86	

Expected stock price volatility rates are based on the historical volatility of the Company’s common stock. The Company has not paid dividends in the past and does not currently expect to do so in the future. Risk free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option or award. The average expected life represents the estimated period of time that options or awards granted are expected to be outstanding, based on the Company’s historical share option exercise experience for similar option grants. The weighted average fair value of options issued during the nine months ended June 30, 2012 was $13.57.

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The following is a summary of stock option activity for the nine months ended June 30, 2012:

	Shares Available for Grant	Number of Options Outstanding	Weighted Average Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value ($ millions)
Balances as of September 30, 2011	750,481	1,344,646	$ 21.05	$ 8.93	3.06	$ 9.8
Additional shares authorized	1,000,000					
Granted	(925,000)	925,000	$ 25.71	$ 13.57		
Exercised		(197,207)	$ 8.02	$ 5.56		
Forfeited	2,500	(2,500)	$ 21.83	$ 10.88		
Expired	47,955	(81,142)	$ 38.15	$ 12.92		
Balances as of June 30, 2012	875,936	1,988,797	$ 23.81	$ 11.26	5.73	$ 6.2
Exercisable as of June 30, 2012		749,365	$ 27.64	$ 11.37	2.93	$ 2.9

The total compensation cost not yet recognized for non-vested awards of $12.7 million as of June 30, 2012 has a weighted-average period of 6.42 years over which the compensation expense is expected to be recognized. The total intrinsic value of options exercised during the nine months ended June 30, 2012 and 2011 was $3.0 million, and $1.6 million, respectively.

On February 23, 2012, the Company's shareholders approved an amendment to the stock option plan that increased the maximum number of shares that may be issued under the stock option plan from 2,250,000 to 3,250,000 shares.

Restricted Stock Plan

The Company sponsors a restricted stock plan for its directors, officers and employees. On January 31, 2012, the Company's 2007 restricted stock plan expired. On February 23, 2012, shareholders approved the Company's 2012 restricted stock plan authorizing up to 1.5 million shares to be issued. As of June 30, 2012, 1,449,607 shares were authorized for future grant under the 2012 restricted stock plan. Awards that expire or are canceled generally become available for issuance again under the plan. The Company utilizes newly issued shares of common stock to make restricted stock grants.

The following is a summary of restricted stock activity through June 30, 2012:

	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value ($ millions)
Balances as of September 30, 2011	290,963	299,118	$ 17.71	1.92	$ 6.2
Expiration of 2007 Plan	(25,728)				
2012 Plan shares authorized by shareholders	1,500,000				
Granted	(315,628)	315,628	$ 24.34		
Vested		(119,087)	$ 16.04		
Balances as of June 30, 2012	1,449,607	495,659	$ 22.34	2.08	$ 9.6

The total compensation cost not yet recognized of $8.6 million as of June 30, 2012 has a weighted-average period of 2.08 years over which the compensation expense is expected to be recognized. Compensation expense is amortized on a straight-line basis over the vesting period. Restricted stock grants are included in the Company’s total issued and outstanding common shares.

Note 14 – Acquisitions

Coffee Network

In November 2011, the Company entered into an agreement to acquire 100% of the ownership interests in Coffee Network LLC ("Coffee Network"), an online news and analysis portal for the global coffee industry. Coffee Network provides up-to-the-minute news and in-depth analysis to subscribers around the globe from a network of correspondents and commodity analysts located in key coffee producing and consuming regions. These services provide a unique information solution to subscribers and a competitive advantage in today's information-driven marketplace.

The purchase price for the Coffee Network acquisition consists of an initial payment of $0.2 million, three additional annual

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contingent payments and a final contingent payment. The value of certain assets and liabilities are preliminary in nature, and are subject to adjustment as additional information is obtained, including but not limited to the calculation of the contingent consideration and valuation of separately identifiable intangible assets. These areas are subject to change within the measurement period (up to one year from the acquisition date) as valuations are finalized. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in adjustments to separately identifiable intangible assets and goodwill. The purchase provisional amounts recorded and the total purchase price for the acquisition of Coffee Network are not material.

MF Metals Team

On November 25, 2011, INTL FCStone (Europe) Ltd, the Company's wholly owned subsidiary in the United Kingdom ("UK"), arranged with the administrator of MF Global's UK operations to acquire the Metals Division of MF Global UK Limited (in special administration). As part of the arrangement, the Company received an assignment of customer accounts and customer account documentation. Additionally, as part of the transaction, the Company hired more than 50 professional staff from MF Global's metals trading business based in London. The Company has allocated equity capital to integrate these brokers and their customers into the Company's operations, through a combination of increased regulatory capital to support the accounts of these customers. The amount of the required capital depends upon the activity in and balances of the customer accounts.

The allocation of the purchase price to separately identifiable intangible assets is preliminary in nature, and is subject to adjustment as additional information is obtained. The provisional intangible asset amounts recorded and the total purchase price of this transaction are not material.

TRX Futures Limited

In December 2011, the Company's wholly-owned subsidiary in the UK, INTL Holding (UK) Limited, entered into a memorandum of understanding with Neumann Gruppe GmbH to acquire 100% of the outstanding shares of its subsidiary TRX Futures Limited ("TRX"). TRX is a London-based niche clearing firm for commercial coffee and cocoa customers, as well as energy and financial products. The acquisition was contingent upon the approval by the UK Financial Services Authority of the proposed change of control of TRX, which was granted in April 2012. The transaction closed on April 30, 2012. The purchase price was equal to the tangible net asset value ("NAV") of TRX, which was approximately $12.9 million. There are no additional payments remaining for this acquisition. The valuation of certain assets and liabilities is preliminary in nature, and is subject to adjustment as additional information is obtained, including but not limited to the valuation of separately identifiable intangible assets, if applicable. These areas are subject to change within the measurement period (up to one year from the acquisition date) as valuations are finalized. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in adjustments to separately identifiable intangible assets and goodwill. The acquisition is not expected to have any immediate impact on the Company's earnings, and this transaction is not considered to be material.

Aporte DTVM

In February 2012, the Company's subsidiaries, INTL Participacoes LTDA and FCStone do Brasil, acquired 100% of the shares of Aporte DTVM (“DTVM”). DTVM is based in Brazil and its activities consist of stock trading, IPOs, trustee services, structured financial services, management of portfolios, as well as financial consulting.

The purchase price for the acquisition of the shares of DTVM was $1.5 million. There are no additional payments remaining for this acquisition. The value of certain assets and liabilities are preliminary in nature, and are subject to adjustment as additional information is obtained, including but not limited to the valuation of separately identifiable intangible assets, if applicable. These areas are subject to change within the measurement period as valuations are finalized. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in adjustments to separately identifiable intangible assets and goodwill. The provisional asset and liability amounts recorded and the total purchase price for the acquisition of DTVM are not material.

Note 15 – Income Taxes

In determining the quarterly provision for income taxes, management uses an estimated annual effective tax rate which is based on the expected annual income and statutory tax rates in the various jurisdictions in which it operates. The Company’s effective tax rate differs from the U.S. statutory rate primarily due to state and local taxes, and differing statutory tax rates applied to the income of non-U.S. subsidiaries. The Company records the tax effect of certain discrete items, including the effects of changes in tax laws, tax rates and adjustments with respect to valuation allowances or other unusual or nonrecurring tax adjustments, in the interim period in which they occur, as an addition to, or reduction from, the income tax provision, rather than being included in the estimated effective annual income tax rate. In addition, jurisdictions with a projected loss for the year or a year-

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to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective income tax rate. The Company is required to assess its deferred tax assets and the need for a valuation allowance at each reporting period. This assessment requires judgment on the part of management with respect to benefits that may be realized. The Company will record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized.

The income tax expense from continuing operations of $1.2 million and $7.0 million for the three months ended June 30, 2012 and 2011, respectively, and income tax expense from continuing operations of $2.2 million and $17.1 million for the nine months ended June 30, 2012 and 2011, respectively, reflect estimated federal, foreign and state taxes. For the three months ended June 30, 2012, the Company's effective tax rate was 20%, compared to 40% for the three months ended June 30, 2011. For the nine months ended June 30, 2012, the Company's effective tax rate was 25%, compared to 37% for the nine months ended June 30, 2011.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction and various state and foreign jurisdictions. In January 2012, the Internal Revenue Service concluded its examination of the U.S. income tax return of FCStone for its fiscal year ended August 31, 2009, which was prior to acquisition, and there were no adjustments. FCStone is a wholly-owned subsidiary acquired on September 30, 2009. Both INTL FCStone Inc. and FCStone are under separate state examinations for various periods, ranging from August 31, 2006 through September 30, 2009.

Note 16 – Segment Analysis

The Company reports its operating segments based on services provided to customers. The Company's activities are divided into the following five functional areas:

- Commodity and Risk Management Services
- Foreign Exchange
- Securities
- Clearing and Execution Services
- Other

Commodity and Risk Management Services (C&RM)

The Company serves its commercial customers by providing high value-added-service that differentiates us from other competitors and maximizes the opportunity to retain customers. The Integrated Risk Management Program ("IRMP®") involves providing customers with commodity risk management consulting services that are designed to develop a customized long term hedging program to help them mitigate their exposure to commodity price risk and maximize the amount and certainty of their operating profits. Customers are assisted in the execution of their hedging strategies through the Company's exchange-traded futures and options clearing and execution operations and through access to more customized alternatives provided by the OTC trading desk. Generally, customers direct their own trading activity and risk management consultants do not have discretionary authority to transact trades on behalf of customers. When transacting OTC contracts with a customer, the Company mitigates its risk by offsetting the customer's transaction simultaneously with one of the Company's trading counterparties or with a similar but not identical position on the exchange.

In addition, the Company provides a full range of trading and hedging capabilities to select producers, consumers, recyclers and investors in both precious and base metals, as well as certain other related commodities. This includes acting as a Category One ring dealing member of the LME, providing execution, clearing and advisory services in exchange traded futures and OTC products. Acting as a principal, the Company commits its own capital to buy and sell the metals on a spot and forward basis.

The Company records its physical commodities revenues on a gross basis. Operating revenues and losses from the Company's commodities derivatives activities are included within 'trading gains' in the condensed consolidated income statements. Inventory for the commodities business is valued at the lower of cost or fair value, under the provisions of the Inventory Topic of the ASC. The Company generally mitigates the price risk associated with commodities held in inventory through the use of derivatives. The Company does not elect hedge accounting under U.S. GAAP in accounting for this price risk mitigation. In such situations, unrealized gains in inventory are not recognized under U.S. GAAP, but unrealized gains and losses in related derivative positions are recognized under U.S. GAAP. As a result, the Company’s reported earnings from commodities trading may be subject to significant volatility when calculated under U.S. GAAP.

Foreign Exchange

The Company provides treasury, global payment and foreign exchange services to financial institutions, multi-national corporations, government organizations and charitable organizations as well as assisting commercial customers with the execution of foreign exchange hedging strategies. The Company transacts in over 130 currencies and specializes in smaller, more difficult emerging markets where there is limited liquidity. In addition, the Company executes trades based on the foreign

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currency flows inherent in the Company’s existing business activities. The Company primarily acts as a principal in buying and selling foreign currencies on a spot basis. The Company derives revenue from the difference between the purchase and sale prices.

The Company also provides spot foreign currency trading for a customer base of eligible contract participants and high net worth retail customers as well as operating a proprietary foreign exchange desk which arbitrages the futures and cash markets.

Securities

Through INTL Trading, the Company acts as a wholesale market maker in select foreign securities including unlisted ADRs and foreign ordinary shares and provides execution in select debt instruments and exchange-traded funds ("ETFs"). INTL Trading provides execution and liquidity to national broker-dealers, regional broker-dealers and institutional investors.

The Company makes markets in approximately 800 ADRs and foreign ordinary shares traded in the OTC market. In addition, the Company will, on request, make prices in more than 8,000 other ADRs and foreign common shares. As a market-maker, the Company provides trade execution services by offering to buy shares from, or sell shares to, broker-dealers and institutions. The Company displays the prices at which it is willing to buy and sell these securities and adjusts its prices in response to market conditions. When acting as principal, the Company commits its own capital and derives revenue from the difference between the prices at which the Company buys and sells shares. The Company also earns commissions by executing trades on an agency basis.

While the Company’s customers are other broker-dealers and institutions, the business tends to be driven by the needs of the private clients of those broker-dealers and institutions. The size of private client trades may be uneconomical for the in-house international equities trading desks of our customers to execute. The Company is able to provide execution of smaller trades at profitable margins.

The Company provides a full range of investment banking advisory services to commercial customers including the issuance of loans or equity. The Company also originates, structures and places a wide array of emerging market debt instruments in the international and domestic capital markets. These instruments include complex asset backed securities, unsecured bond and loan issues, negotiable notes and other trade-related debt instruments used in cross-border trade finance. On occasions the Company may invest its own capital in debt instruments before selling them. It also actively trades in a variety of international debt instruments.

Clearing and Execution Services (CES)

The Company seeks to provide competitive and efficient clearing and execution of exchange-traded futures and options for the institutional and professional trader market segments. Through its platform, customer orders are accepted and directed to the appropriate exchange for execution. The Company then facilitates the clearing of customers’ transactions. Clearing involves the matching of customers’ trades with the exchange, the collection and management of margin deposits to support the transactions, and the accounting and reporting of the transactions to customers. The Company seeks to leverage its capabilities and capacity by offering facilities management or outsourcing solutions to other FCMs.

Other

This segment consists of the Company’s asset management and commodity financing and facilitation business. The asset management revenues include fees, commissions and other revenues received by the Company for management of third party assets and investment gains or losses on the Company’s investments in funds and proprietary accounts managed either by the Company’s investment managers or by independent investment managers.

The Company operates a commodity financing and facilitation business which provides financing to commercial commodity-related companies against physical inventories, including grain, lumber, meats, energy products and renewable fuels. Sale and repurchase agreements are used to purchase commodities evidenced by warehouse receipts, subject to a simultaneous agreement to sell such commodities back to the original seller at a later date. These transactions are accounted for as product financing arrangements, and accordingly no commodity inventory, purchases or sales are recorded. Additionally, the Company, as a principal, engages in physical purchase and sale transactions related to inputs to the renewable fuels and feed ingredient industries.

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The total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. In order to reflect the way that the Company’s management views the results, the tables below also reflect the segment contribution to ‘operating revenues’, which is shown on the face of the condensed consolidated income statements and which is calculated by deducting physical commodities cost of sales from total revenues. Segment data includes the profitability measure of net contribution by segment. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions regarding the allocation of the Company’s

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resources. Net contribution is calculated as revenue less direct cost of sales, clearing and related expenses, variable compensation, introducing broker commissions and interest expense. Variable compensation paid to risk management consultants / traders generally represents a fixed percentage of an amount equal to revenues generated, and in some cases, revenues produced less clearing and related charges, base salaries and an overhead allocation.

Segment data also includes segment income which is calculated as net contribution less non-variable direct expenses of the segment. These non-variable direct expenses include trader base compensation and benefits, operational employee compensation and benefits, communication and data services, business development, professional fees, bad debt expense and other direct expenses.

Inter-segment revenues, charges, receivables and payables are eliminated upon consolidation, except revenues and costs related to foreign currency transactions undertaken on an arm’s length basis by the foreign exchange trading business for the securities business. The foreign exchange trading business competes for this business as it does for any other business. If its rates are not competitive, the securities businesses buy or sell their foreign currency through other market counterparties.

On a recurring basis, the Company sweeps excess cash from certain operating segments to a centralized corporate treasury function in exchange for an intercompany receivable asset. The intercompany receivable asset is eliminated during consolidation, and therefore this practice may impact reported total assets between segments.

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Information concerning operations in these segments of business is shown in accordance with the Segment Reporting Topic of the ASC as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2012	2011	2012	2011
Total revenues:				
Commodity and Risk Management Services	$17,266.8	$20,518.5	$51,341.5	$51,274.3
Foreign Exchange	16.5	14.3	47.4	41.8
Securities	8.6	5.5	28.8	23.2
Clearing and Execution Services	27.7	15.9	70.8	51.3
Other	31.3	18.3	104.5	36.1
Corporate unallocated	0.2	0.9	(0	