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

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**FORM 10-Q**

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(Mark One)

**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

**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

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**INTL FCStone Inc.**

(Exact name of registrant as specified in its charter)

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**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)

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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  No

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  No

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  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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	September 30, 2011
	(Unaudited)	
<b>ASSETS</b>		
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
<b>Total assets</b>	<b>\$ 2,734.4</b>	<b>\$ 2,635.7</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
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
<b>Total liabilities</b>	<b>2,422.9</b>	<b>2,338.1</b>
Commitments and contingencies (Note 11)		
<b>Equity:</b>		
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)
<b>Total INTL FCStone Inc. stockholders' equity</b>	<b>311.5</b>	<b>296.3</b>
Noncontrolling interests	—	1.3
<b>Total equity</b>	<b>311.5</b>	<b>297.6</b>
<b>Total liabilities and equity</b>	<b>\$ 2,734.4</b>	<b>\$ 2,635.7</b>

See accompanying notes to condensed consolidated financial statements.

**INTL FCStone Inc.**  
**Condensed Consolidated Income Statements**  
*(Unaudited)*

(in millions, except share and per share amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
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
<b>Non-interest expenses:</b>				
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
<b>Basic earnings per share:</b>				
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
<b>Diluted earnings per share:</b>				
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
<b>Weighted-average number of common shares outstanding:</b>				
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
<b>Amounts attributable to INTL FCStone Inc. common stockholders:</b>				
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.

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

(in millions)	Nine Months Ended June 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 6.6	\$ 29.6
<b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b>		
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)
<b>Changes in operating assets and liabilities, net:</b>		
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
<b>Cash flows from investing activities:</b>		
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)
<b>Cash flows from financing activities:</b>		
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
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 5.7	\$ 5.6
Income taxes paid, net of cash refunds	\$ 4.0	\$ 7.0
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
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.



**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	<u>\$ 0.2</u>	<u>\$ (2.9)</u>	<u>\$ 210.7</u>	<u>\$ 103.7</u>	<u>\$ (0.2)</u>	<u>\$ —</u>	<u>\$ 311.5</u>

See accompanying notes to condensed consolidated financial statements.

**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



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.

## 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.

(in millions, except share amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
<b>Numerator:</b>				
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
<b>Denominator:</b>				
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

- 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.

(in millions)	June 30, 2012		September 30, 2011	
	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	—
	<u>\$ 130.1</u>	<u>\$ 176.5</u>	<u>\$ 223.1</u>	<u>\$ 390.9</u>

#### 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;

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.

(in millions)	June 30, 2012				
	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
<b>Assets:</b>					
Money market funds	\$ 0.1	\$ —	\$ —	\$ —	\$ 0.1
Certificate of deposits	10.3	—	—	—	10.3
<b>Unrestricted cash equivalents</b>	<b>10.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>10.4</b>
Commodities warehouse receipts	24.0	—	—	—	24.0
U.S. government obligations	—	48.8	—	—	48.8
<b>Securities and other assets segregated under federal and other regulations</b>	<b>24.0</b>	<b>48.8</b>	<b>—</b>	<b>—</b>	<b>72.8</b>
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)
<b>Deposits and receivables from exchange-clearing organizations</b>	<b>3,924.8</b>	<b>852.3</b>	<b>—</b>	<b>(3,489.0)</b>	<b>1,288.1</b>
U.S. government obligations	—	—	—	—	—
Derivatives	1.9	—	—	(0.9)	1.0
<b>Deposits and receivables from broker-dealers, clearing organizations and counterparties</b>	<b>1.9</b>	<b>—</b>	<b>—</b>	<b>(0.9)</b>	<b>1.0</b>
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
<b>Financial instruments owned</b>	<b>348.3</b>	<b>1,074.3</b>	<b>5.0</b>	<b>(1,297.5)</b>	<b>130.1</b>
Total assets at fair value	\$ 4,309.4	\$ 1,975.4	\$ 5.0	\$ (4,787.4)	\$ 1,502.4
<b>Liabilities:</b>					
<b>Accounts payable and other accrued liabilities - contingent liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 20.7</b>	<b>\$ —</b>	<b>\$ 20.7</b>
<b>Payables to customers - derivatives</b>	<b>3,667.8</b>	<b>—</b>	<b>—</b>	<b>(3,667.8)</b>	<b>—</b>
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
<b>Financial instruments sold, not yet purchased</b>	<b>323.9</b>	<b>1,460.9</b>	<b>—</b>	<b>(1,608.3)</b>	<b>176.5</b>
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.

September 30, 2011

(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
<b>Assets:</b>					
Money market funds	\$ 0.1	\$ —	\$ —	\$ —	\$ 0.1
Certificate of deposits	12.6	—	—	—	12.6
<b>Unrestricted cash equivalents</b>	<b>12.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>12.7</b>
Commodities warehouse receipts	19.0	—	—	—	19.0
U.S. government obligations	—	3.7	—	—	3.7
<b>Securities and other assets segregated under federal and other regulations</b>	<b>19.0</b>	<b>3.7</b>	<b>—</b>	<b>—</b>	<b>22.7</b>
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)
<b>Deposits and receivables from exchange-clearing organizations</b>	<b>8,420.9</b>	<b>479.0</b>	<b>—</b>	<b>(7,491.7)</b>	<b>1,408.2</b>
U.S. government obligations	—	0.1	—	—	0.1
Derivatives	47.3	1,073.5	—	(1,104.7)	16.1
<b>Deposits and receivables from broker-dealers, clearing organizations and counterparties</b>	<b>47.3</b>	<b>1,073.6</b>	<b>—</b>	<b>(1,104.7)</b>	<b>16.2</b>
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
<b>Financial instruments owned</b>	<b>289.5</b>	<b>634.9</b>	<b>5.1</b>	<b>(706.4)</b>	<b>223.1</b>
<b>Total assets at fair value</b>	<b>\$ 8,789.4</b>	<b>\$ 2,191.2</b>	<b>\$ 5.1</b>	<b>\$ (9,302.8)</b>	<b>\$ 1,682.9</b>
<b>Liabilities:</b>					
<b>Accounts payable and other accrued liabilities - contingent liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 22.3</b>	<b>\$ —</b>	<b>\$ 22.3</b>
<b>Payables to customers - derivatives</b>	<b>6,234.7</b>	<b>—</b>	<b>—</b>	<b>(6,234.7)</b>	<b>—</b>
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
<b>Financial instruments sold, not yet purchased</b>	<b>264.8</b>	<b>2,113.3</b>	<b>—</b>	<b>(1,987.2)</b>	<b>390.9</b>
<b>Total liabilities at fair value</b>	<b>\$ 6,499.5</b>	<b>\$ 2,113.3</b>	<b>\$ 22.3</b>	<b>\$ (8,221.9)</b>	<b>\$ 413.2</b>

(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.

**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
<b>Assets:</b>						
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
	<u>\$ 5.1</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5.0</u>
<b>Liabilities:</b>						
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
<b>Assets:</b>						
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
	<u>\$ 5.1</u>	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5.0</u>
<b>Liabilities:</b>						
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
<b>Assets:</b>						
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)	—	—
	<u>\$ 7.7</u>	<u>\$ —</u>	<u>\$ (0.6)</u>	<u>\$ (1.7)</u>	<u>\$ —</u>	<u>\$ 5.4</u>
<b>Liabilities:</b>						
Contingent liabilities	\$ 30.5	\$ —	\$ 0.3	\$ (3.1)	\$ —	\$ 27.7

**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
<b>Assets:</b>						
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)	—	—
	<u>\$ 10.2</u>	<u>\$ 0.2</u>	<u>\$ (3.3)</u>	<u>\$ (1.7)</u>	<u>\$ —</u>	<u>\$ 5.4</u>
<b>Liabilities:</b>						
Contingent liabilities	<u>\$ 32.3</u>	<u>\$ —</u>	<u>\$ 2.2</u>	<u>\$ (6.8)</u>	<u>\$ —</u>	<u>\$ 27.7</u>

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

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:**

(in millions)	Amortized Cost	Unrealized Holding <sup>(1)</sup>		Estimated Fair Value
		Gains	(Losses)	
U.S. government obligations	\$ 0.5	\$ —	\$ —	\$ 0.5
	<u>\$ 0.5</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.5</u>

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

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

(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:**

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

(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:**

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

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**

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



September 30, 2011

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

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.

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.

(in millions)	June 30, 2012		September 30, 2011	
	Assets <sup>(1)</sup>	Liabilities <sup>(1)</sup>	Assets <sup>(1)</sup>	Liabilities <sup>(1)</sup>
<b>Derivative contracts not accounted for as hedges:</b>				
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 <sup>(2)(3)</sup>	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.

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	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.

**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	<u>\$ 2.9</u>

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	<u>\$ 100.7</u>	<u>\$ 160.6</u>

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.

**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	<u>\$ 43.6</u>	<u>\$ 42.5</u>

**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:

(in millions)	June 30, 2012			September 30, 2011		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
<b>Intangible assets subject to amortization</b>						
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
	<u>16.0</u>	<u>(5.6)</u>	<u>10.4</u>	<u>15.3</u>	<u>(3.8)</u>	<u>11.5</u>
<b>Intangible assets not subject to amortization</b>						
Trade name	2.1	—	2.1	2.1	—	2.1
Total intangible assets	<u>\$ 18.1</u>	<u>\$ (5.6)</u>	<u>\$ 12.5</u>	<u>\$ 17.4</u>	<u>\$ (3.8)</u>	<u>\$ 13.6</u>

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
	<u>\$ 10.4</u>

**Note 9 – Other Expenses**

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

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	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 <sup>(1)</sup>	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

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,

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.



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 an 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

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.

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

(in millions)	Subsidiary	Regulatory Authority	Requirement Type	As of June 30, 2012	
				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.

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

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-

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

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

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.



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

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
<b>Total revenues:</b>				
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	(0.5)	0.5
Total	<u>\$ 17,351.1</u>	<u>\$ 20,573.4</u>	<u>\$ 51,592.5</u>	<u>\$ 51,427.2</u>
<b>Operating revenues (loss):</b>				
Commodity and Risk Management Services	\$ 67.0	\$ 65.5	\$ 182.7	\$ 189.1
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	3.8	3.3	10.5	9.2
Corporate unallocated	0.2	0.9	(0.5)	0.5
Total	<u>\$ 123.8</u>	<u>\$ 105.4</u>	<u>\$ 339.7</u>	<u>\$ 315.1</u>
<b>Net contribution:</b>				
(Revenues less cost of sales, clearing and related expenses, variable bonus compensation, introducing broker commissions and interest expense):				
Commodity and Risk Management Services	\$ 38.3	\$ 41.0	\$ 105.1	\$ 112.7
Foreign Exchange	11.3	9.1	31.6	26.2
Securities	4.8	3.1	14.4	12.3
Clearing and Execution Services	4.2	4.3	10.5	12.3
Other	2.7	2.3	7.4	6.2
Total	<u>\$ 61.3</u>	<u>\$ 59.8</u>	<u>\$ 169.0</u>	<u>\$ 169.7</u>
<b>Net segment income:</b>				
(Net contribution less non-variable direct segment costs):				
Commodity and Risk Management Services	\$ 18.9	\$ 25.4	\$ 50.0	\$ 69.8
Foreign Exchange	7.7	6.6	21.9	19.3
Securities	1.1	(0.2)	3.0	1.0
Clearing and Execution Services	1.0	1.7	1.6	6.0
Other	1.5	1.3	3.6	3.3
Total	<u>\$ 30.2</u>	<u>\$ 34.8</u>	<u>\$ 80.1</u>	<u>\$ 99.4</u>
<b>Reconciliation of segment income to income from continuing operations, before tax:</b>				
Net segment income	\$ 30.2	\$ 34.8	\$ 80.1	\$ 99.4
Costs not allocated to operating segments	24.3	17.5	71.3	52.9
Income from continuing operations, before tax	<u>\$ 5.9</u>	<u>\$ 17.3</u>	<u>\$ 8.8</u>	<u>\$ 46.5</u>
(in millions)	As of June 30, 2012	As of September 30, 2011		
<b>Total assets:</b>				
Commodity and Risk Management Services	\$ 1,444.0	\$ 1,540.8		
Foreign Exchange	133.9	146.1		
Securities	63.3	104.8		
Clearing and Execution Services	989.4	734.4		
Other	24.1	43.4		
Corporate unallocated	79.7	66.2		
Total	<u>\$ 2,734.4</u>	<u>\$ 2,635.7</u>		

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the control of INTL FCStone Inc. and its subsidiaries (collectively "INTL" or "the Company"), including adverse changes in economic, political and market conditions, losses from the Company's market-making and trading activities arising from counter-party failures and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of federal and state securities laws and the impact of changes in technology in the securities and commodities trading industries. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business and future market conditions, there can be no assurances that the Company's actual results will not differ materially from any results expressed or implied by the Company's forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that any forward-looking statements are not guarantees of future performance.

### *Recent Events Affecting the Financial Services Industry*

On October 31, 2011, MF Global Holdings Ltd. ("MF Global"), the parent company of the jointly registered futures commission merchant and broker-dealer, MF Global Inc., filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Following the bankruptcy filing, the CME Group Inc. selected our wholly owned subsidiary FCStone, LLC as one of a number of FCM's chosen to receive blocks of MF Global customers. During this process, FCStone, LLC opened accounts for the customers of these introducing brokers and completed the transfer of their positions. In conjunction with the block transfer and during the subsequent period, the Company has opened over 2,300 new accounts for former MF Global customers.

In addition, on November 25, 2011, the Company arranged with the administrator of MF Global's UK operations to acquire the Metals Division of MF Global UK Limited (in special administration). The Company has hired more than 50 professional staff based in London, New York, and Sydney from this metals trading business based in London. This business serves institutional investors and financial services firms in the Americas, Europe, and the Asia-Pacific region. Following this transaction, INTL FCStone (Europe) received approval from the London Metals Exchange ("LME") to upgrade its LME Category Two membership to a LME Category One ring dealing membership.

At the time of the MF Global bankruptcy filing, MF Global notified the Commodity Futures Trading Commission (the "CFTC") of potential deficiencies in customer segregated futures accounts held at MF Global Inc. In addition, on July 10, 2012 the CFTC took action to freeze the assets of Peregrine Financial Group ("PFG"), a futures commission merchant, following the discovery of potential deficiencies in customer segregated futures accounts at PFG. The CFTC has extensive regulations to provide for the safety and security of customer assets on deposit with FCMs. These regulations require that all FCMs maintain customer segregated assets in qualified depositories in excess of its customer segregated liabilities. FCM's are required to complete a daily calculation of these excess segregated assets as well as its net capital position and are required to file a CFTC Form 1-FR on a monthly basis. As of June 30, 2012, FCStone, LLC maintained \$39.9 million in segregated assets in excess of its segregated liabilities.

Following these industry events, the NFA, CFTC and CME have enacted additional regulations designed to safeguard customer assets on deposit with FCMs including semi-monthly Segregated Investment Detail Reports, direct electronic confirmations of segregated balances held at depositories and additional filing requirements involving disbursements made out of customer segregated accounts as well as an FCMs daily excess segregated assets report as described above. In addition, the CFTC enacted changes to the rules governing the acceptable investment of customer segregated assets removing investments in the general obligations of a sovereign nation and repurchase transactions with affiliated entities in otherwise allowable securities as acceptable investments of customer segregated assets. FCStone LLC primarily invests its customers segregated assets in U.S. Treasury Bills and money market mutual funds.

On July 21, 2010, the President signed into law the Dodd-Frank Act, which creates a comprehensive new regulatory regime governing the OTC and listed derivatives markets and their participants by requiring, among other things: centralized clearing of standardized derivatives (with certain stated exceptions); the trading of clearable derivatives on swap execution facilities or exchanges; and registration and comprehensive regulation of new categories of market participants as "swap dealers" and swap "introducing brokers." On July 10, 2012, the CFTC adopted joint final terms defining the term "swap." Publication in the Federal Register is currently scheduled to occur on August 13, 2012. Following this action, several previously published rules will become effective on October 12, 2012. These include the registration requirements for "Swap Dealers" and rules relating to speculative position limits, conflicts of interest, and business conduct standards. We currently expect to register our

subsidiary INTL Hanley LLC as a "swap dealer." Because many of the rules affecting this business have not been finalized or fully implemented, we cannot predict with any degree of certainty how we will be affected. The Company will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act.

## **Overview**

INTL FCStone Inc. and its consolidated subsidiaries form a financial services group, employing 1,066 people in offices in 12 countries as of June 30, 2012. 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, the sale of 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 in more than 100 countries, including producers, processors and end-users of nearly all widely-traded physical commodities; commercial counterparties who are end-users of our products and services; governmental and non-governmental organizations; and commercial banks, brokers, institutional investors and major investment banks.

The Company reports its operating segments based on services provided to customers. The Company's activities are divided into the following five functional areas consisting of Commodity and Risk Management Services ("C&RM"), Foreign Exchange, Securities, Clearing and Execution Services ("CES") and Other. Additional information on these five functional areas can be found within Note 16 of the Condensed Consolidated Financial Statements.

## **Executive Summary**

The Company experienced operating revenue growth during both the three and nine months ended June 30, 2012, compared to the prior year periods driven by significant increases in exchange traded revenues in our CES segment, increases in OTC revenues in our core C&RM segment and the addition of the LME metals team in the first quarter of fiscal 2012. OTC contract volumes in our soft commodities product line increased 52% and 47% for the three and nine months ended June 30, 2012, respectively, driven by growth in Brazil, Mexico, Latin America and Europe.

Volatility in agricultural commodities in the third quarter of 2012 resulted in exchange traded volume growth in the core C&RM segment compared to the prior year period. However, the relatively flat agricultural commodity prices and the dampening effect the bankruptcy filing of MF Global in the first quarter of the 2012 fiscal year, resulted in a decline in exchange traded volumes for the nine months ended June 30, 2012 in the C&RM segment. The growth in customers following the bankruptcy of MF Global, has contributed to significant growth in overall exchange traded contract volumes and revenues in our CES segment during the nine months ended June 30, 2012, compared to the prior year. During the first quarter of fiscal 2012, the Company acquired the Metals Division of MF Global UK Limited. This Division was a leading LME member, with more than 50 professional staff serving over 600 commercial customers, mostly involved in hedging activities. Subsequent to this transaction, the Company applied for and received a Category One ring dealing membership on the LME. The addition of this LME Metals team increased our operating revenues by \$6.9 million in the third quarter of 2012 and \$13.8 million for the nine months ended June 30, 2012.

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 are valued at \$8.4 million as of June 30, 2012. The shares held by the Company, that have been designated as available-for-sale, reflect an unrealized gain of \$6.1 million, net of income tax expense of \$1.9 million. This gain 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 profitability of our C&RM and CES segments continued to be constrained by low short term interest rates as well as increased costs associated with the expansion of these segments, particularly in London. Average customer exchange traded margin deposits for the first nine months of the fiscal year declined 18% to \$1.5 billion. However, these deposits declined only 7% to \$1.7 billion for the three months ended June 30, 2012 as exchange volumes started to recover compared to the third quarter of 2011. Our Foreign Exchange segment showed continued growth in revenues in both our global payments and customer hedging product lines. However, some of this growth was offset by a decrease in arbitrage opportunities on our arbitrage desk. The Securities segment continued to experience stronger volumes due to increased demand from retail customers of our institutional clients, our ongoing expansion into the Latin American markets and modest growth in the debt capital markets product line.

The Company has implemented several initiatives that added to the growth in operating revenues for the nine months ended

June 30, 2012, but they have not yet resulted in increased profitability. Most notable is the August 2011 acquisition of Ambrian Commodities Limited, which was renamed INTL FCStone (Europe) Limited, and the Company's subsequent acquisition of the LME metals team discussed above. This initiative included the build out of our C&RM, CES, foreign exchange prime brokerage, and OTC derivative trading capabilities in London. The Company has also expanded our investment banking and soft commodities product lines as well as our global operations staff. We have expanded our internal information technology development capabilities, which allows us to deploy OTC product offerings more rapidly.

#### *Selected Summary Financial Information*

As discussed in previous filings and elsewhere in this Form 10-Q, U.S. GAAP requires the Company to carry derivatives at fair value but physical commodities inventory at the lower of cost or fair value. These requirements may have a significant temporary impact on our reported earnings. Under U.S. GAAP, gains and losses on commodities inventory and derivatives which the Company intends to be offsetting are often recognized in different periods. Additionally, in certain circumstances, U.S. GAAP does not require us to reflect changes in estimated values of forward commitments to purchase and sell commodities. In such circumstances, the forward commitments to purchase and sell commodities, which the Company does not reflect within the condensed consolidated balance sheets, qualify for the normal purchases and sales exception in the Derivatives and Hedging Topic of the ASC.

For these reasons, management primarily assesses the Company's operating results on a marked-to-market basis. Management relies on these adjusted operating results to evaluate the performance of the Company's commodities business segment and its personnel.

Under "Adjusted Non-GAAP Data" in the tables below are the Company's adjusted operating revenues, adjusted net income and adjusted stockholders' equity, which have been adjusted to reflect the marked-to-market differences in the Company's commodities business during each period (in the case of operating revenues and net income) and the cumulative differences (in the case of stockholders' equity). The Company has also included the estimated tax liability which would have been incurred as a result of these adjustments, utilizing an estimated tax rate of 37.5%.

The Company determines the fair value of physical commodities inventory on a marked-to-market basis by applying quoted market prices to the inventory owned by the Company on the balance sheet date. In the Company's precious metals business, the Company obtains the closing COMEX nearby futures price for the last business day of the month and then adjusts that price to reflect an exchange for physical transaction, utilizing bids obtained from one or more market participants. In the Company's base metals business, for copper inventory, the Company obtains the closing COMEX or LME nearby futures price and then adjusts that price to reflect any freight charges to the relevant delivery point. For the Company's lead inventory, the Company obtains the closing LME nearby futures month price and then adjusts that price to reflect any tolling and freight charges to the relevant delivery point. If inventories were required to be valued using fair value instead of under U.S. GAAP at the lower of cost or market, our physical commodities inventory would be classified as Level 2 assets using the Fair Value Measurements and Disclosures Topic of the ASC.

### Adjusted Non-GAAP Financial Information (Unaudited)

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
<b>U.S. GAAP Data (Unaudited):</b>				
Operating revenues	\$ 123.8	\$ 105.4	\$ 339.7	\$ 315.1
Income from continuing operations, before tax	\$ 5.9	\$ 17.3	\$ 8.8	\$ 46.5
Net income attributable to INTL FCStone Inc. common stockholders	\$ 4.7	\$ 10.4	\$ 6.7	\$ 29.8
Stockholders' equity			\$ 311.5	\$ 283.0
<b>Adjusted Non-GAAP Data (Unaudited):</b>				
Data adjusted (on a marked-to-market basis):				
Operating revenues, as stated above	\$ 123.8	\$ 105.4	\$ 339.7	\$ 315.1
Marked-to-market adjustment (non-GAAP)	0.9	(1.9)	—	(3.8)
Adjusted operating revenues, marked-to-market (non-GAAP)	\$ 124.7	\$ 103.5	\$ 339.7	\$ 311.3
Income from continuing operations, before tax, as stated above	\$ 5.9	\$ 17.3	\$ 8.8	\$ 46.5
Marked-to-market adjustment (non-GAAP)	0.9	(1.9)	—	(3.8)
Adjusted income from continuing operations, before tax (non-GAAP)	\$ 6.8	\$ 15.4	\$ 8.8	\$ 42.7
Net income attributable to INTL FCStone Inc. common stockholders, as stated above	\$ 4.7	\$ 10.4	\$ 6.7	\$ 29.8
Marked-to-market adjustment (non-GAAP)	0.9	(1.9)	—	(3.8)
Tax effect at blended rate of 37.5%	(0.3)	0.7	—	1.4
Adjusted net income attributable to INTL FCStone Inc. common stockholders (non-GAAP)	\$ 5.3	\$ 9.2	\$ 6.7	\$ 27.4
Stockholders' equity, as stated above			\$ 311.5	\$ 283.0
Cumulative marked-to-market adjustment (non-GAAP)			8.6	13.2
Tax effect at blended rate of 37.5%			(3.2)	(5.0)
Adjusted stockholders' equity (non-GAAP)			\$ 316.9	\$ 291.2

Adjusted operating revenues, adjusted net income and adjusted stockholders' equity are financial measures that are not recognized by U.S. GAAP, and should not be considered as alternatives to operating revenues, net income or stockholders' equity calculated under U.S. GAAP or as an alternative to any other measures of performance derived in accordance with U.S. GAAP. The Company has included these non-GAAP financial measures because it believes that they permit investors to make more meaningful comparisons of performance between the periods presented. In addition, these non-GAAP measures are used by management in evaluating the Company's performance.

#### **Results of Operations**

Set forth below is the Company's discussion of the results of its operations, as viewed by management, for the three and nine months ended June 30, 2012 and 2011, respectively. The quarters will be referred to in this discussion as "Q3 2012" and "Q3 2011", and the nine month periods as "YTD 2012" and "YTD 2011". This discussion refers to both U.S. GAAP results and adjusted non-GAAP marked-to-market information, in accordance with the information presented above under the heading 'Adjusted non-GAAP Financial Information'. For the Foreign Exchange, Securities, CES and Other segments, there are no differences between the U.S. GAAP results and the adjusted non-GAAP marked-to-market results. Only the C&RM segment has differences between the U.S. GAAP results and the adjusted non-GAAP marked-to-market results. However, this means that there are differences between the U.S. GAAP basis and the non-GAAP marked-to-market basis total operating revenues, total contribution and net income. Please note that any term below that contains the word 'adjusted' refers to non-GAAP, marked-to-market information.

The discussion below relates only to continuing operations. All revenues and expenses, including income tax expense, relating to discontinued operations have been removed from disclosures of total revenues and expenses in all periods and are reflected net, within the income from discontinued operations amount.

### Financial Overview (Unaudited)

(in millions)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
Operating revenues	\$ 123.8	17 %	\$ 105.4	\$ 339.7	8 %	\$ 315.1
Marked-to-market adjustment (non-GAAP)	0.9	n/m	(1.9)	—	n/m	(3.8)
Adjusted operating revenues (non-GAAP)	124.7	20 %	103.5	339.7	9 %	311.3
Interest expense	2.6	30 %	2.0	8.3	(9)%	9.1
Adjusted net revenues (non-GAAP)	122.1	20 %	101.5	331.4	10 %	302.2
Non-interest expenses	115.3	34 %	86.1	322.6	24 %	259.5
Adjusted income from continuing operations, before tax (non-GAAP)	\$ 6.8	(56)%	\$ 15.4	\$ 8.8	(79)%	\$ 42.7
<b>Reconciliation of net revenues from GAAP to adjusted, non-GAAP numbers:</b>						
Net revenues	\$ 121.2		\$ 103.4	\$ 331.4		\$ 306.0
Marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
Adjusted net revenues (non-GAAP)	\$ 122.1		\$ 101.5	\$ 331.4		\$ 302.2
<b>Reconciliation of income from continuing operations, before tax from GAAP to adjusted, non-GAAP numbers:</b>						
Income from continuing operations before income tax	\$ 5.9		\$ 17.3	\$ 8.8		\$ 46.5
Marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
Adjusted income from continuing operations, before tax (non-GAAP)	\$ 6.8		\$ 15.4	\$ 8.8		\$ 42.7

#### Q3 2012 Operating Revenues vs. Q3 2011 Operating Revenues

The Company's operating revenues under U.S. GAAP for Q3 2012 and Q3 2011 were 123.8 million and \$105.4 million, respectively. This increase in operating revenue was primarily driven by a 74% increase in operating revenue in the CES segment as well as 56% and 15% increases in the operating revenues of the Securities and Foreign Exchange segments, respectively. Operating revenues in the C&RM segment increased 2% in Q3 2012 compared to the prior year period. Adjusted operating revenues increased 20% from \$103.5 million in Q3 2011 to \$124.7 million in Q3 2012, including a 7% increase in adjusted operating revenues in the C&RM segment.

Operating revenues in the C&RM segment increased in Q3 2012 as a result of increases in soft commodities product line revenues driven by agricultural commodity volatility and the addition of the LME metals team in the base metals product line, which more than offset the decline in the precious metals product line. Adjusted operating revenues in the C&RM segment increased in Q3 2012, primarily due to a 52% increase in OTC contract volumes, primarily driven by increased activity in Mexico, Latin America and Europe, as well as a 9% increase in exchange traded contract volumes as a result of weather related volatility in the agricultural commodity markets. Interest income in the C&RM segment, declined 42% to \$1.8 million in Q3 2012 as a result of lower short term interest rates as well as a 10% decline in the average level of exchange traded customer deposits.

In addition, both operating revenues and adjusted operating revenues in our precious metals product line decreased as a result of a 19% decline in the number of ounces traded as well as a tightening of spreads. The addition of the LME metals team in Q1 2012, added \$6.9 million to operating revenues in our base metals product line in Q3 2012. Operating revenues in the Foreign Exchange segment in Q3 2012 increased 15% or \$2.2 million to \$16.5 million compared to the prior year period, as increases in our global payments and customer hedging product lines were offset by a decline in arbitrage opportunities on our foreign exchange arbitrage desk, which arbitrages the cash markets versus the exchange traded foreign exchange markets.

Operating revenues in the Securities segment in Q3 2012 benefited from an increase in demand from customers of our international equities market-making product line as the overall equities markets volumes recovered, as well as a \$2.4 million increase in Q3 2012 operating revenues in the debt capital markets product line. Operating revenues in the CES segment in Q3 2012 rose over the prior year period as a result of a 108% increase in exchange traded volumes. However, operating revenues in this segment continue to be constrained by low short-term interest rates. See the Q3 2012 vs. Q3 2011 Segment Analysis for additional information on activity in each of the segments.

In Q3 2012, operating revenues include realized gains of \$0.4 million and unrealized losses of \$0.3 million on interest rate

swap derivative contracts used to manage a portion of our aggregate interest rate position. In Q3 2011, operating revenues included realized gains of \$1.2 million on interest rate swap derivative contracts and unrealized gains \$1.6 million on these same derivative contracts. These interest rate swaps are not designated for hedge accounting treatment, and changes in the marked-to-market valuations of these interest rate swaps, which are volatile and can fluctuate from period to period, are recorded in earnings on a quarterly basis. 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.

The Company's adjusted operating revenues were \$124.7 million in Q3 2012, compared with \$103.5 million in Q3 2011, an increase of \$21.2 million, or 20%. The only difference between operating revenues and adjusted operating revenues, a non-GAAP measure, was the gross marked-to-market adjustment of \$0.9 million and \$(1.9) million for Q3 2012 and Q3 2011, respectively. The gross marked-to-market adjustment only affects the adjusted operating revenues in the C&RM segment. Adjusted operating revenues were identical to operating revenues in all other segments.

#### *YTD 2012 Operating Revenues vs. YTD 2011 Operating Revenues*

The Company's operating revenues under U.S. GAAP for YTD 2012 and YTD 2011 were \$339.7 million and \$315.1 million, respectively. This increase in operating revenue was primarily impacted by increases in operating revenues of 13% in the Foreign Exchange segment, 24% in the Securities segment, 38% in the CES segment and 14% in the Other segment. This increase was partially offset by a 3% decrease in the operating revenues in the C&RM segment. Adjusted operating revenues increased 9% from \$311.3 million in YTD 2011 to \$339.7 million in YTD 2012.

Adjusted operating revenues in the C&RM segment declined 1% in YTD 2012 due to decreases in exchange-traded volumes in our soft commodities product line of 6% as volume increases in Q3 2012 were more than offset by the effect of relatively flat prices in agricultural commodity markets and the dampening effect of both global economic conditions and the bankruptcy of MF Global on industry volumes in the first six months of fiscal 2012. OTC revenues in the soft commodity product line increased \$1.5 million as a result of a 47% increase in OTC contract volume increases, primarily in Brazil, Mexico, Latin America and Europe.

In addition, operating revenues and adjusted operating revenues in our precious metals product line declined \$10.4 million and \$6.4 million, respectively, as a result of a tightening of spreads and diminished activity in the Far Eastern markets. Operating revenues and adjusted operating revenues in our base metals product line increased \$7.8 million and \$7.7 million, respectively, primarily as a result of the addition of the LME metals team in Q1 2012. Operating revenues in the Foreign Exchange segment in YTD 2012 increased primarily as a result of higher volumes in the global payments business and higher commercial hedging activity, most notably in Brazil, as well as increased trading activity in our speculative customer prime brokerage business. These increases were partially offset by a 32% decrease in operating revenues in the foreign exchange arbitrage desk businesses.

Operating revenues in the Securities segment in YTD 2012 benefited from an increase in demand from customers of our international equities market-making product line as the overall equities markets volumes recovered, as well as a \$2.2 million increase in operating revenues in the debt capital markets product line. Operating revenues in the CES segment in YTD 2012 increased 38% over the prior year period primarily as a result of a 65% increase in exchange traded contract volume, as a result of new customers acquired following the bankruptcy filing of MF Global. However, operating revenues in this segment continue to be constrained by low short-term interest rates. See the YTD 2012 vs. YTD 2011 Segment Analysis for additional information on activity in each of the segments.

In YTD 2012, operating revenues include realized gains of \$2.1 million and unrealized losses of \$1.2 million on interest rate swap derivative contracts used to manage a portion of our aggregate interest rate position. In YTD 2011, operating revenues included realized gains of \$2.8 million and unrealized gains of \$0.5 million, respectively, on interest rate swap derivative contracts. These interest rate swaps are not designated for hedge accounting treatment, and changes in the marked-to-market valuations of these interest rate swaps, which are volatile and can fluctuate from period to period, are recorded in earnings on a quarterly basis. 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.

The Company's adjusted operating revenues were \$339.7 million in YTD 2012, compared with \$311.3 million in YTD 2011, a increase of \$28.4 million, or 9%. The only difference between operating revenues and adjusted operating revenues, a non-GAAP measure, was the gross marked-to-market adjustment of \$(3.8) million for YTD 2011. The gross marked-to-market adjustment only affects the adjusted operating revenues in the C&RM segment. Adjusted operating revenues were identical to operating revenues in all other segments.

#### *Q3 2012 Interest expense vs. Q3 2011 Interest expense*

**Interest expense:** Interest expense increased from \$2.0 million for Q3 2011 to \$2.6 million for Q3 2012. This increase in interest expense was primarily due to increased average borrowings during the quarter related to base and precious metals

activities. This increase in interest expense was partially offset by a decrease in borrowings related to the commodity financing and facilitation business and the result of the conversion of the remaining balance of the Company's convertible subordinated debt in September 2011.

#### YTD 2012 Interest expense vs. YTD 2011 Interest expense

**Interest expense:** Interest expense decreased from \$9.1 million for YTD 2011 to \$8.3 million for YTD 2012. This decrease in interest expense was primarily a result of the conversion of the remaining balance of the Company's convertible subordinated debt in September 2011. Additionally, a decrease in borrowings related to the commodity financing business contributed to lower interest expense. This decrease was partially offset by an increase in borrowings related to base and precious metals activities.

In 2008, the Company entered into two three-year interest rate swaps for a total notional value of \$100 million, which were originally designated as cash flow hedges. Hedge accounting for the swaps was discontinued during YTD 2011, which resulted in reclassifying a portion of the deferred loss to earnings during the period. The effective portion of the change in cash flows from the interest rate swaps during YTD 2011 had the effect of increasing the Company's reported interest expense by \$1.0 million. During YTD 2011, both interest rate swap contracts matured.

#### Non-Interest Expenses

The following table shows a summary of our non-interest expenses.

(in millions)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
<b>NON-INTEREST EXPENSES</b>						
Compensation and benefits	\$ 54.6	24 %	\$ 44.0	\$ 155.5	20 %	\$ 129.6
Clearing and related expenses	30.6	70 %	18.0	80.4	38 %	58.4
Introducing broker commissions	7.9	25 %	6.3	21.7	23 %	17.7
Other non-interest expenses:						
Communication and data services	6.3	50 %	4.2	16.5	49 %	11.1
Occupancy and equipment rental	2.7	29 %	2.1	8.2	34 %	6.1
Professional fees	3.3	14 %	2.9	9.6	39 %	6.9
Depreciation and amortization	1.9	46 %	1.3	5.3	56 %	3.4
Bad debts and impairments	0.6	(50)%	1.2	0.6	(89)%	5.7
Other expense	7.4	21 %	6.1	24.8	20 %	20.6
	22.2	25 %	17.8	65.0	21 %	53.8
Total non-interest expenses	\$ 115.3	34 %	\$ 86.1	\$ 322.6	24 %	\$ 259.5

#### Q3 2012 Non-Interest Expenses vs. Q3 2011 Non-Interest Expenses

**Total Non-Interest Expenses:** Non-interest expenses increased by 34% from \$86.1 million in Q3 2011 to \$115.3 million in Q3 2012, as a result of the factors described below.

**Compensation and Benefits:** Compensation and benefits expense increased by 24% from \$44.0 million to \$54.6 million, and represented 47% and 51% of total non-interest expenses in Q3 2012 and Q3 2011, respectively. Total compensation and benefits were 44% of operating revenues and 44% of adjusted operating revenues in Q3 2012, respectively, compared to 42% and 43% in Q3 2011, respectively. The variable portion of compensation and benefits increased by 20% from \$22.1 million in Q3 2011 to \$26.6 million in Q3 2012, mainly as a result of the 20% increase in adjusted operating revenues. The fixed portion of compensation and benefits increased 28% from \$21.9 million in Q3 2011 to \$28.0 million in Q3 2012, primarily as a result of the acquisition of Ambrian Commodities Limited, the LME metals team and TRX Futures Limited, as well as an expansion of investment banking and information technology development departments. Administrative and executive bonuses were \$3.8 million in Q3 2012, compared with \$4.3 million in Q3 2011. Stock-based compensation, including stock option and restricted stock expense, in Q3 2012 was \$1.5 million, compared with \$0.5 million in Q3 2011. The number of employees remained relatively constant, with 1,061 at the beginning of Q3 2012 and 1,066 at the end of Q3 2012.

**Clearing and Related Expenses:** Clearing and related expenses increased by 70% from \$18.0 million in Q3 2011 to \$30.6 million in Q3 2012. This increase was primarily due to a 95% increase in exchange-traded customer volume, a 52% increase in



OTC trading volumes in the C&RM segment within the Hanley Companies, as well as an increase in trading volume in our equities market-making business and activity from the acquisitions of Ambrian Commodities Limited and TRX Futures Limited.

**Introducing Broker Commissions:** Introducing broker commissions increased by 25% from \$6.3 million in Q3 2011 to \$7.9 million in Q3 2012. This increase was primarily due to an increase in exchange-traded volumes from our introducing brokers, particularly in our CES segment as several new introducing broker relationships were opened following the bankruptcy filing of MF Global.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 25% from \$17.8 million in Q3 2011 to \$22.2 million in Q3 2012. Communication and data services expenses increased \$2.1 million, primarily due to increases in market information expenses and trading software costs following the acquisitions of Ambrian Commodities Limited, the LME metals team and TRX Futures Limited, as well as expansion of our soft commodities and foreign exchange activities. Occupancy and equipment rental increased \$0.6 million, primarily as a result of the relocation of our London offices, in conjunction with these acquisitions discussed directly above. Depreciation and amortization increased \$0.6 million, primarily due to the increase in depreciation of additional technology infrastructure placed into service since Q3 2011.

Other non-interest expenses include bad debt expense, net of recoveries, and impairments of \$0.6 million and \$1.2 million in Q3 2012 and Q3 2011, respectively. During Q3 2012, the Company recorded charges to bad debt expense related to a customer deficit in the C&RM segment. Q3 2011 included bad debt expense of \$3.0 million, primarily due to a \$2.7 million charge related to a precious metals customer to whom the Company had consigned gold. Q3 2011 also included the recoveries of bad debts 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 a revision to the amount expected to be collected against a promissory note.

Additionally, the Company recorded \$0.5 million and \$0.3 million within 'other expense' during Q3 2012 and Q3 2011, respectively, related to the revaluation of contingent liabilities related to estimated additional consideration to be paid for the acquisitions of the RMI Companies, the Hanley Companies and Hencorp Futures.

**Provision for Taxes:** The effective income tax rate on a U.S. GAAP basis was 20% in Q3 2012, compared with 40% in Q3 2011. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings. Our effective income tax rate during Q3 2012 was lower than the U.S. federal statutory rate and our prior year effective rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions. The effective tax rate during Q3 2011 was negatively impacted by a foreign jurisdiction non-deductible item and a loss incurred in a foreign jurisdiction with lower statutory rates.

#### *YTD 2012 Non-Interest Expenses vs. YTD 2011 Non-Interest Expenses*

**Total Non-Interest Expenses:** Non-interest expenses increased by 24% from \$259.5 million in YTD 2011 to \$322.6 million in YTD 2012, as a result of the factors described below.

**Compensation and Benefits:** Compensation and benefits expense increased by 20% from \$129.6 million to \$155.5 million, and represented 48% and 50% of total non-interest expenses in YTD 2012 and YTD 2011, respectively. Total compensation and benefits were 46% of operating revenues and adjusted operating revenues in YTD 2012, respectively, compared to 41% and 42% in YTD 2011, respectively. The variable portion of compensation and benefits increased by 6% from \$71.2 million in YTD 2011 to \$75.5 million in YTD 2012, mainly as a result of the 9% increase in adjusted operating revenues. The fixed portion of compensation and benefits increased 37% from \$58.4 million in YTD 2011 to \$80.0 million in YTD 2012, primarily as a result of the acquisition of certain assets of Hudson Capital Energy, Ambrian Commodities Limited, the LME metals team and TRX Futures Limited, as well as an expansion of investment banking and information technology development departments. Administrative and executive bonuses were \$10.6 million in YTD 2012, compared with \$9.7 million in YTD 2011. Stock-based compensation, including stock option and restricted stock expense, in YTD 2012 was \$3.8 million, compared with \$1.6 million in YTD 2011. The number of employees increased 18% from 904 at the end of fiscal 2011 to 1,066 at the end of Q3 2012, primarily as a result of the acquisitions of Ambrian Commodities Limited, the LME metals team and TRX Futures Limited. The number of employees at the end of Q3 2011 was 872.

**Clearing and Related Expenses:** Clearing and related expenses increased by 38% from \$58.4 million in YTD 2011 to \$80.4 million in Q3 2012. This increase was primarily due to a 55% increase in exchange-traded customer volume, a 47% increase in OTC trading volumes in the C&RM segment within the Hanley Companies, as well as an increase in trading volume in our equities market-making business and activity from the acquisitions of Ambrian Commodities Limited and TRX Futures Limited.

**Introducing Broker Commissions:** Introducing broker commissions increased by 23% from \$17.7 million in YTD 2011 to \$21.7 million in Q3 2012. This increase was primarily due to an increase in exchange-traded volumes from our introducing brokers, particularly in our CES segment as several new introducing broker relationships were opened following the

bankruptcy filing of MF Global.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 21% from \$53.8 million in YTD 2011 to \$65.0 million in YTD 2012. Communication and data services expenses increased \$5.4 million, primarily due to increases in market information expenses and trading software costs following the acquisitions of Hudson Capital Energy, Ambrian Commodities Limited, the LME metals team and TRX Futures Limited, as well as expansion of our soft commodities and foreign exchange activities. Occupancy and equipment rental increased \$2.1 million, primarily as a result of the relocation of our London offices, in conjunction with the acquisitions of Ambrian Commodities Limited, the LME metals team and TRX Futures Limited. Depreciation and amortization increased \$1.9 million, primarily due to the increase in depreciation of additional technology infrastructure placed into service since Q3 2011.

Other non-interest expenses include bad debt expense, net of recoveries, and impairments of \$0.6 million and \$5.7 million in YTD 2012 and YTD 2011, respectively. During YTD 2012, the Company recorded charges to bad debt expense related to a customer deficit in the C&RM segment. YTD 2011 included bad debt expense of \$7.7 million, primarily related to a customer to whom the Company had consigned gold and a clearing customer deficit account in the CES segment. Additionally, YTD 2011 included impairment charges for loss of \$1.7 million related to the fair value adjustment of its investment in debentures for the single asset owning company of Suriwongse Hotel located in Chiang Mai, Thailand, originally issued in August 2008, as more fully described in Note 3 - Assets and Liabilities, at Fair Value to the condensed consolidated financial statements. Partially offsetting the bad debt expense and impairment, during YTD 2011, the Company recorded recoveries on bad debts of \$3.7 million, including recovery of \$1.8 million related to a bad debt provision decrease on a previous customer account deficit, in the C&RM segment, based on a revision to the amount expected to be collected against a promissory note, and a recovery of \$1.3 million following a settlement relating to a disputed trade that was "given-up" to FCStone, LLC during Q3 2010.

Additionally, the Company recorded \$1.8 million and \$2.2 million within 'other expense' during YTD 2012 and YTD 2011, respectively, related to the revaluation of contingent liabilities related to estimated additional consideration to be paid for the acquisitions of the RMI Companies, the Hanley Companies and Hencorp Futures. The Company also accrued additional contingent consideration during YTD 2012 and YTD 2011 of \$0.4 million and \$1.6 million, respectively, related to the acquisitions of Downes & O'Neill and Globecot, Inc. Also, as a result of recent acquisitions made in the last twelve months and expansion of our offices in Australia, London, Singapore and South America, employee travel expenses included within 'other expense' increased \$2.3 million in YTD 2012 as compared to YTD 2011.

**Provision for Taxes:** The effective income tax rate on a U.S. GAAP basis was 25% in YTD 2012, compared with 37% in YTD 2011. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings. Our effective income tax rate during YTD 2012 was lower than the U.S. federal statutory rate and our prior year effective rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions.

#### Variable vs. Fixed Expenses

(in millions)	Three Months Ended June 30,				Nine Months Ended June 30,			
	2012	% of Total	2011	% of Total	2012	% of Total	2011	% of Total
<b>VARIABLE vs. FIXED EXPENSES</b>								
Variable compensation and benefits	\$ 26.6	23%	\$ 22.1	26%	\$ 75.5	23%	\$ 71.2	27%
Variable clearing and related expenses	29.9	26%	17.3	20%	78.3	24%	56.4	22%
Introducing broker commissions	7.9	7%	6.4	7%	21.7	7%	17.7	7%
Total variable expenses	64.4	56%	45.8	53%	175.5	54%	145.3	56%
Fixed expenses	50.3	44%	39.1	45%	146.5	46%	108.5	42%
Bad debts and impairments	0.6	1%	1.2	2%	0.6	—%	5.7	2%
Total non-variable expenses	50.9	44%	40.3	47%	147.1	46%	114.2	44%
Total non-interest expenses	\$ 115.3	100%	\$ 86.1	100%	\$ 322.6	100%	\$ 259.5	100%

The Company seeks to make its non-interest expenses variable to the greatest extent possible, and to keep its fixed costs as low as possible. The table above shows an analysis of the Company's total non-interest expenses for the three and nine months ended June 30, 2012 and 2011, respectively.

The Company's variable expenses include variable compensation paid to traders and risk management consultants, bonuses paid to operational employees, clearing and related expenses and introducing broker commissions. As a percentage of total non-interest expenses, variable expenses were 56% in Q3 2012 compared to 53% in Q3 2011. As a percentage of total non-interest expenses, variable expenses were 54% in YTD 2012 compared to 56% in YTD 2011.

## Segment Information

The Company reports its operating segments based on services provided to customers. The following table shows information concerning the Company's principal business segments.

(in millions)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
<b>SEGMENT RESULTS</b>						
<b>Commodity and Risk Management Services (C&amp;RM)</b>						
Operating revenues	\$ 67.0	2 %	\$ 65.5	\$ 182.7	(3)%	\$ 189.1
Gross marked-to-market adjustment (non-GAAP)	0.9	n/m	(1.9)	—	n/m	(3.8)
Adjusted operating revenues (non-GAAP)	67.9	7 %	63.6	182.7	(1)%	185.3
Interest expense	1.5	(42)%	2.6	5.2	(24)%	6.8
Variable direct expenses	27.2	24 %	21.9	72.4	4 %	69.6
Adjusted net contribution (non-GAAP)	39.2	— %	39.1	105.1	(3)%	108.9
Non-variable direct expenses	19.4	24 %	15.6	55.1	28 %	42.9
Adjusted segment income (non-GAAP)	19.8	(16)%	23.5	50.0	(24)%	66.0
<b>Foreign Exchange</b>						
Operating revenues	\$ 16.5	15 %	\$ 14.3	\$ 47.4	13 %	\$ 41.8
Interest expense	0.3	50 %	0.2	0.7	(13)%	0.8
Variable direct expenses	4.9	(2)%	5.0	15.1	2 %	14.8
Net contribution	11.3	24 %	9.1	31.6	21 %	26.2
Non-variable direct expenses	3.6	44 %	2.5	9.7	41 %	6.9
Segment income	7.7	17 %	6.6	21.9	13 %	19.3
<b>Securities</b>						
Operating revenues	\$ 8.6	56 %	\$ 5.5	\$ 28.8	24 %	\$ 23.2
Interest expense	0.1	n/m	—	0.3	50 %	0.2
Variable direct expenses	3.7	54 %	2.4	14.1	32 %	10.7
Net contribution	4.8	55 %	3.1	14.4	17 %	12.3
Non-variable direct expenses	3.7	12 %	3.3	11.4	1 %	11.3
Segment income	1.1	n/m	(0.2)	3.0	200 %	1.0
<b>Clearing &amp; Execution Services (CES)</b>						
Operating revenues	\$ 27.7	74 %	\$ 15.9	\$ 70.8	38 %	\$ 51.3
Interest expense	0.1	(50)%	0.2	0.3	(57)%	0.7
Variable direct expenses	23.4	105 %	11.4	60.0	57 %	38.3
Net contribution	4.2	(2)%	4.3	10.5	(15)%	12.3
Non-variable direct expenses	3.2	23 %	2.6	8.9	41 %	6.3
Segment income	1.0	(41)%	1.7	1.6	(73)%	6.0
<b>Other</b>						
Operating revenues	\$ 3.8	15 %	\$ 3.3	\$ 10.5	14 %	\$ 9.2
Interest expense	—	(100)%	0.3	0.6	(45)%	1.1
Variable direct expenses	1.1	57 %	0.7	2.5	32 %	1.9
Net contribution	2.7	17 %	2.3	7.4	19 %	6.2
Non-variable direct expenses	1.2	20 %	1.0	3.8	31 %	2.9
Segment income	1.5	15 %	1.3	3.6	9 %	3.3

(continued)

(in millions)	Three Months Ended June 30,			Nine Months Ended June 30,		
	2012	% Change	2011	2012	% Change	2011
<b>Total Segment Results</b>						
Operating revenues	\$ 123.6	18 %	\$ 104.5	\$ 340.2	8 %	\$ 314.6
Gross marked-to-market adjustment (non-GAAP)	0.9	n/m	(1.9)	—	n/m	(3.8)
Adjusted operating revenues (non-GAAP)	124.5	21 %	102.6	340.2	9 %	310.8
Interest expense	2.0	(39)%	3.3	7.1	(26)%	9.6
Variable direct expenses	60.3	46 %	41.4	164.1	21 %	135.3
Adjusted net contribution (non-GAAP)	62.2	7 %	57.9	169.0	2 %	165.9
Non-variable direct expenses	31.1	24 %	25.0	88.9	26 %	70.3
Adjusted net segment income (non-GAAP)	\$ 31.1	(5)%	\$ 32.9	\$ 80.1	(16)%	\$ 95.6
<b>Reconciliation of C&amp;RM net contribution from GAAP to adjusted, non-GAAP numbers:</b>						
Total C&RM net contribution	\$ 38.3		\$ 41.0	\$ 105.1		\$ 112.7
Gross marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
C&RM adjusted net contribution (non-GAAP)	\$ 39.2		\$ 39.1	\$ 105.1		\$ 108.9
<b>Reconciliation of C&amp;RM segment income from GAAP to adjusted, non-GAAP numbers:</b>						
Total C&RM segment income	\$ 18.9		\$ 25.4	\$ 50.0		\$ 69.8
Gross marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
C&RM adjusted segment income (non-GAAP)	\$ 19.8		\$ 23.5	\$ 50.0		\$ 66.0
<b>Reconciliation of total operating revenues from GAAP to adjusted, non-GAAP numbers:</b>						
Total operating revenues	\$ 123.8		\$ 105.4	\$ 339.7		\$ 315.1
Gross marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
Operating revenue not assigned to a segment	(0.2)		(0.9)	0.5		(0.5)
Adjusted segment operating revenues (non-GAAP)	\$ 124.5		\$ 102.6	\$ 340.2		\$ 310.8
<b>Reconciliation of net contribution from GAAP to adjusted, non-GAAP numbers:</b>						
Total net contribution	\$ 61.3		\$ 59.8	\$ 169.0		\$ 169.7
Gross marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
Adjusted net contribution (non-GAAP)	\$ 62.2		\$ 57.9	\$ 169.0		\$ 165.9
<b>Reconciliation of segment income from GAAP to adjusted, non-GAAP numbers:</b>						
Total net segment income	\$ 30.2		\$ 34.8	\$ 80.1		\$ 99.4
Gross marked-to-market adjustment (non-GAAP)	0.9		(1.9)	—		(3.8)
Adjusted net segment income (non-GAAP)	\$ 31.1		\$ 32.9	\$ 80.1		\$ 95.6

### Q3 2012 vs. Q3 2011 Segment Analysis

The net contribution of all the Company's business segments increased to \$61.3 million in Q3 2012 from \$59.8 million in Q3 2011. The adjusted net contribution of all the Company's business segments increased 7% to \$62.2 million in Q3 2012 from \$57.9 million in Q3 2011.

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 resources. Net contribution is calculated as revenue less direct cost of sales, interest expense, clearing and related expenses, introducing broker commissions and variable compensation. Variable compensation paid to risk management consultants and 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.

Total segment income was \$30.2 million in Q3 2012, compared with \$34.8 million in Q3 2011. Total adjusted segment income was \$31.1 million in Q3 2012, compared with \$32.9 million in Q3 2011.

Segment income 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, trade errors and direct marketing expenses.

**Commodity and Risk Management Services** – Operating revenues under U.S. GAAP increased from \$65.5 million in Q3 2011 to \$67.0 million in Q3 2012. Adjusted operating revenues increased by 7% from \$63.6 million in Q3 2011 to \$67.9 million in Q3 2012. Operating revenues within this segment are primarily driven by the soft commodities, precious metals and base metals product lines.

Within the soft commodities product line, operating revenues increased 7% from \$51.3 million in Q3 2011 to \$54.7 million in Q3 2012. Exchange-traded contract volumes increased 9% and OTC contract volumes increased 52%, respectively over the prior year comparative period, which includes primarily agricultural and energy commodities. The increase in exchange traded contract volumes, driven by volatility in agricultural commodities, contributed to an increase of 7%, or \$1.1 million in commission and clearing fee revenues compared to the prior year period. The strong growth in OTC contract volumes, primarily in agricultural commodities and driven by volatility caused by weather conditions in the United States, contributed to a \$3.0 million increase in overall OTC revenues. Interest income decreased 64% from the prior year period to \$0.9 million as a result of lower short term interest rates, a 10% decrease in the average level of exchange traded customer deposits to \$857 million in Q3 2011 and lower overall OTC margin deposits.

Precious metals operating revenues decreased from \$12.1 million in Q3 2011 to \$2.9 million in Q3 2012. Precious metals adjusted operating revenues decreased from \$6.6 million in Q3 2011 to \$2.8 million in Q3 2012. Operating revenues and adjusted operating revenues declined from the prior year period primarily as a result of a 19% decline in the number of ounces traded as well as a tightening of spreads.

Base metals operating revenues increased from \$2.2 million in Q3 2011 to \$9.5 million in Q3 2012. Base metals adjusted operating revenues increased from \$5.7 million in Q3 2011 to \$10.4 million in Q3 2012. These increases in revenues were both driven by the addition of the LME metals team in Q1 2012, which contributed \$6.9 million in both operating revenues and adjusted operating revenues in Q3 2012.

Segment income decreased from \$25.4 million in Q3 2011 to \$18.9 million in Q3 2012. Adjusted segment income decreased from \$23.5 million to \$19.8 million. Variable expenses expressed as a percentage of operating revenues increased from 34% to 40%. Variable expenses expressed as a percentage of adjusted operating revenues increased from 34% to 40%, year-over-year.

**Foreign exchange trading** – Operating revenues increased by 15% from \$14.3 million in Q3 2011 to \$16.5 million in Q3 2012. The operating revenues in the Company's global payments product line increased from \$7.4 million in Q3 2011 to \$10.0 million in Q3 2012. This increase was driven by a 24% increase in the volume of trades in the Company's global payments product line as the Company continued to benefit from an increase in financial institutions utilizing our global payments platform.

The customer speculative foreign exchange product line operating revenues declined \$0.1 million to \$1.9 million in Q3 2012 compared to Q3 2011. Operating revenues from customer hedging activity increased 38% from the prior year period to \$2.2 million, primarily driven by an increase of hedging by customers of our Brazil operations. The proprietary foreign exchange arbitrage desk, which arbitrages the cash versus the exchange traded markets, experienced a 25% decrease in operating revenues to \$2.4 million primarily as a result of a decrease in arbitrage opportunities in the exchange traded foreign exchange markets.

Segment income increased 17% from \$6.6 million in Q3 2011 to \$7.7 million in Q3 2012. Variable expenses expressed as a percentage of operating revenues decreased from 35% to 30%, primarily as a result of the change in mix of revenues in the current period.

**Securities** – Operating revenues increased by 56% from \$5.5 million in Q3 2011 to \$8.6 million in Q3 2012. Operating revenues in the equities market-making product line increased 13% from the prior year period to \$5.1 million, driven by a 7% increase in the number of trades as compared to the prior year period. Operating revenues in the debt capital markets product line increased from \$1.0 million in Q3 2011 to \$3.5 million in Q3 2012.

Operating revenues in the equities market-making product line are largely dependent on overall volume and volatility, and with the increased levels of activity in the global equity markets, the retail customer business which drives the Company's equity market making activities has increased. Equity market-making operating revenues include the trading profits earned by the Company before the related expense deduction for ADR conversion fees. These ADR fees are included within the condensed consolidated income statements as 'clearing and related expenses'.

While operating revenues in the debt capital markets product line increased over the prior year period, they remained

constrained during Q3 2012 as a result of global economic conditions. This business focuses on a wide range of services including the arranging and placing of debt issues, merger and acquisition advisory services and asset backed securitization as well as debt trading in the international markets.

Segment income was \$1.1 million in Q3 2012 as compared to a segment loss of \$0.2 million in Q3 2011, primarily as a result of the increase in operating revenue in the debt capital markets product line. Variable expenses expressed as a percentage of operating revenues were 43% in Q3 2012 compared to 44% in the prior year period.

**Clearing and execution services** – Operating revenues in the segment were \$27.7 million for Q3 2012 compared to \$15.9 million for Q3 2011. Operating revenues are primarily generated from two sources: commission and clearing fee revenues from the execution and clearing of exchange-traded futures and options on futures contracts, and interest income derived from cash balances in our customers' accounts.

Commission and clearing fee revenues increased 89% from \$14.2 in Q3 2011 to \$26.9 million in Q3 2012, as a result of a 108% increase in exchange-traded volumes. This increase was primarily driven by accounts transferred to the Company from MF Global during Q1 2012, including a large introducing broker whose clients generally have higher volumes and lower commission rates per contract than the average client in this segment. Interest income declined 20% to \$0.4 million in Q3 2012 as a result of lower short term interest rates as well as a 3% decline in average customer deposits to \$804.1 million.

Segment income decreased \$0.7 million from \$1.7 million in Q3 2011 to \$1.0 million in Q3 2012, primarily as a result of an increase in clearing and related expenses and introducing broker commissions, lower interest income and increased fixed compensation as the Company has increased the number of employees in this segment as compared to the prior year period. In addition, segment income in Q3 2011 includes a trading gain of \$0.8 million related to open commodity positions acquired from an under-margined customer. Variable expenses as a percentage of operating revenues increased from 72% to 84% and are primarily clearing and related expenses.

**Other** – The Company's asset management revenues include management and performance 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 or proprietary accounts managed either by the Company's investment managers or by independent investment managers. In addition, this segment's revenues include interest income and fees earned in relation to commodity financing transactions as well as a limited amount of principal physical commodity sales transactions related to inputs to the renewable fuels and feed ingredient industries.

Operating revenues in the segment were \$3.8 million for Q3 2012 compared to \$3.3 million for Q3 2011. Assets under management as of June 30, 2012 were \$489.6 million compared with \$352.0 million as of June 30, 2011. Operating revenues in the asset management product line increased \$0.3 million to \$2.3 million in Q3 2012 as compared to the prior year period. Operating revenues in the grain financing and physical commodity origination product line increased \$0.1 million to \$1.5 million in Q3 2012 primarily related to an increase in physical commodity origination sales. Segment income was \$1.5 million in Q3 2012 compared to \$1.3 million in Q3 2011.

#### *YTD 2012 vs. YTD 2011 Segment Analysis*

The net contribution of all the Company's business segments decreased to \$169.0 million in YTD 2012 compared to \$169.7 million in YTD 2011. The adjusted net contribution of all the Company's business segments increased 2% to \$169.0 million in YTD 2012 from \$165.9 million in YTD 2011.

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 resources. Net contribution is calculated as revenue less direct cost of sales, interest expense, clearing and related expenses, introducing broker commissions and variable compensation. Variable compensation paid to risk management consultants and 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.

Total segment income was \$80.1 million in YTD 2012 as compared with \$99.4 million in YTD 2011. Total adjusted segment income was \$80.1 million in YTD 2012, compared with \$95.6 million in YTD 2011.

Segment income 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, trade errors and direct marketing expenses.

**Commodity and Risk Management Services** – Operating revenues under U.S. GAAP decreased from \$189.1 million in YTD 2011 to \$182.7 million in YTD 2012. Adjusted operating revenues decreased by 1% from \$185.3 million in YTD 2011 to \$182.7 million in YTD 2012. Operating revenues within this segment are primarily driven by the soft commodities, precious metals and base metals product lines.

Within the soft commodities product line, operating revenues decreased 3% from \$153.1 million in YTD 2011 to \$149.2

million in YTD 2012. Exchange-traded contract volumes decreased 6% and OTC contract volumes increased 47%, respectively, over the prior year comparative period, which includes primarily agricultural and energy commodities. While volatility in agricultural commodities drove an increase in exchange traded contract volumes in Q3 2012, economic and industry conditions in Q1 2012 more than offset those increases, resulting in the volume decline in the YTD 2012 period. During the first quarter of 2012, low underlying volatility, relatively flat prices in the agricultural commodity markets and the dampening effect of both global economic conditions and the bankruptcy of MF Global resulted in lower exchange-traded volumes. Exchange traded commission and clearing fee revenues declined \$4.6 million to \$46.8 million in YTD 2012 as a result of this decline in volumes as well as the effect of lost revenues from clients introduced by RMI and Hencorp Futures to MF Global. The majority of the clients previously introduced to MF Global have subsequently opened accounts directly with FCStone LLC. Overall OTC revenues, primarily reflected within 'trading gains' in our condensed consolidated income statements, increased \$1.5 million as compared to the prior year period. This increase was a result of the strong growth in OTC contract volumes, driven by an increase in volume in Mexico, Latin America and Europe, which was partially offset by lower structured OTC product volumes, particularly in the Brazil markets during YTD 2012. Interest income decreased 44% to \$3.2 million as compared to the prior year period, driven by a 14% decrease in the average level of customer deposits to \$860.5 million and lower short term interest rates.

Precious metals operating revenues decreased from \$20.5 million in YTD 2011 to \$10.1 million in YTD 2012. Precious metals adjusted operating revenues decreased from \$16.8 million in YTD 2011 to \$10.4 million in YTD 2012. These decreases were primarily a result of a tightening of spreads and a decrease in the number of ounces traded primarily in the Far Eastern markets.

Base metals operating revenues increased from \$15.5 million in YTD 2011 to \$23.3 million in YTD 2012. Base metals adjusted operating revenues increased from \$15.4 million in YTD 2011 to \$23.1 million in YTD 2012. These increases were driven by the addition of the LME metals team in Q1 2012, which added \$13.8 million in operating revenues in YTD 2012, partially offset by a tightening of spreads in the physical base metals business.

Segment income decreased from \$69.8 million in YTD 2011 to \$50.0 million in YTD 2012. Adjusted segment income decreased from \$66.0 million to \$50.0 million. Variable expenses expressed as a percentage of adjusted operating revenues increased from 38% in YTD 2011 to 39% in YTD 2012. Segment income in YTD 2012 was primarily affected by the decrease in revenues, as discussed above, along with increases in non-variable compensation and benefits and communications and data services primarily resulting from the acquisition of the LME metals team. Segment income in YTD 2011 was affected by a bad debt provision of \$6.0 million related to two precious metals customers to whom the Company had consigned gold, which was partially offset by \$1.7 million in recoveries of bad debt expense, primarily related to a bad debt provision decrease on a previous customer account deficit based on a revision to the amount expected to be collected against a promissory note.

**Foreign exchange trading** – Operating revenues increased by 13% from \$41.8 million in YTD 2011 to \$47.4 million in YTD 2012. The operating revenues in the Company's global payments product line increased from \$22.9 million in YTD 2011 to \$29.1 million in YTD 2012. This increase was driven by a 19% increase in the volume of trades in the Company's global payments product line as the Company continued to benefit from an increase in financial institutions and other customers as well as our ability to offer an electronic transaction order system to our customers.

The customer speculative foreign exchange product line operating revenues increased from \$5.3 million in YTD 2011 to \$6.1 million in YTD 2012. Operating revenues from customer hedging activity increased 88% from the prior year period to \$4.9 million, primarily driven by an increase of hedging by customers of our Brazil operations. The proprietary foreign exchange arbitrage desk, which arbitrages the cash versus the exchange traded markets, experienced a 32% decrease in operating revenues to \$7.4 million.

Segment income increased 13% from \$19.3 million in YTD 2011 to \$21.9 million in YTD 2012. Variable expenses expressed as a percentage of operating revenues decreased from 35% to 32%, primarily as a result of the change in mix of revenues in the current period.

**Securities** – Operating revenues increased by 24% from \$23.2 million in YTD 2011 to \$28.8 million in YTD 2012. Operating revenues in the equities market-making product line increased 21% from the prior year period to \$18.8 million. Operating revenues in the debt capital markets product line increased from \$7.7 million in YTD 2011 to \$9.9 million in YTD 2012.

Operating revenues in the equities market-making product line are largely dependent on overall volume and volatility, and with the increased levels of activity in the global equity markets, the retail customer business which drives the Company's equity market making activities has increased. Equity market-making operating revenues include the trading profits earned by the Company before the related expense deduction for ADR conversion fees. These ADR fees are included within the condensed consolidated income statements as 'clearing and related expenses'.

Operating revenues in the debt capital markets product line remained constrained during YTD 2012 as a result of global economic conditions. This business focuses on a wide range of services including the arranging and placing of debt issues, merger and acquisition advisory services and asset backed securitization as well as debt trading in the international markets.

Segment income increased 200%, from \$1.0 million in YTD 2011 to \$3.0 million in YTD 2012, primarily as a result of the increase in operating revenues. Segment income for YTD 2011 includes a \$1.7 million loss related to the fair value adjustment of the Company's investment in debentures of the single asset owning company of Suirwongse Hotel located in Chiang Mai, Thailand. Variable expenses expressed as a percentage of operating revenues increased from 46% to 49%.

**Clearing and execution services** – Operating revenues in the segment were \$70.8 million for YTD 2012 compared to \$51.3 million for YTD 2011. Operating revenues are primarily generated from two sources: commission and clearing fee revenues from the execution and clearing of exchange-traded futures and options on futures contracts, and interest income derived from cash balances in our customers' accounts.

Commission and clearing fee revenues increased 45% to \$68.1 million in YTD 2012, as a result of a 65% increase in exchange-traded volumes. This increase was primarily driven by accounts transferred to the Company from MF Global during Q1 2012, including a large introducing broker whose clients generally have higher volumes and lower rates per contract than the average client in this segment. Interest income declined 24% to \$1.6 million in YTD 2012 as average customer deposits declined 24% to \$638 million due to industry conditions in the first and second fiscal quarters of 2012 following the bankruptcy of MF Global.

Segment income decreased \$4.4 million from \$6.0 million in YTD 2011 to \$1.6 million in YTD 2012, primarily as a result of an increase in clearing and related expenses and introducing broker commissions, lower interest income and increased fixed compensation as the Company has increased the number of employees in this segment as compared to the prior year period. Segment income for YTD 2011 included a \$0.5 million net recovery of bad debt expense as well as a trading gain of \$0.8 million related to open commodity positions acquired from an under-margined customer. Variable expenses as a percentage of operating revenues increased from 75% to 85% and are primarily clearing and related expenses.

**Other** – The Company's asset management revenues include management and performance 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 or proprietary accounts managed either by the Company's investment managers or by independent investment managers. In addition, this segment's revenues include interest income and fees earned in relation to commodity financing transactions as well as a limited amount of principal physical commodity sales transactions related to inputs to the renewable fuels and feed ingredient industries.

Operating revenues in the segment were \$10.5 million for YTD 2012 compared to \$9.2 million for YTD 2011. Assets under management as of June 30, 2012 were \$489.6 million compared with \$352.0 million as of June 30, 2011. Operating revenues in the asset management product line increased \$0.2 million to \$5.7 million in YTD 2012. Operating revenues in the grain financing and physical commodity origination product line increased 26% to \$4.8 million in YTD 2012, driven by the establishment of a committed credit facility to finance commodities, which facilitated additional business as well as the expansion of our physical inputs business into the feed ingredient industry and increased demand for fats and oils origination from commercial customers. Segment income was \$3.6 million in YTD 2012 as compared to \$3.3 million in YTD 2011.

## **Liquidity, Financial Condition and Capital Resources**

### *Overview*

Liquidity is defined as our ability to generate sufficient amounts of cash to meet all of our cash needs. Liquidity is of critical importance to us and imperative to maintain our operations on a daily basis. In FCStone, LLC, the Company's FCM subsidiary, we have responsibilities to meet margin calls at all exchanges on a daily basis and intra-day basis, if necessary. Our customers are required to make any required margin deposits the next business day, and we require our largest customers to make intra-day margin payments during periods of significant price movement. Margin required to be posted to the exchanges is a function of the net open positions of our customers and the required margin per contract.

In addition, in our commodities trading, C&RM OTC, securities and foreign exchange trading activities, we may be called upon to meet margin calls with our various trading counterparties based upon the underlying open transactions we have in place with those counterparties.

The Company continuously reviews its overall credit and capital needs to ensure that its capital base, both stockholders' equity and debt, as well as available credit facilities can appropriately support the anticipated financing needs of its operating subsidiaries.

As of June 30, 2012, the Company had total equity capital of \$311.5 million and outstanding bank loans of \$175.4 million. Total equity as of June 30, 2012 includes an unrealized gain of \$6.1 million, net of income tax expense of \$1.9 million, that is recorded in OCI, related to shares of The London Metal Exchange (LME) held by the Company, that have been designated as available-for-sale. In July 2012, the shareholders of London Metal Exchange Holdings Limited, the parent company of the LME, voted to accept the sale of the LME by Hong Kong Exchanges & Clearing Limited.



A substantial portion of the Company's assets are liquid. As of June 30, 2012, approximately 95% of the Company's assets consisted of cash; deposits and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties; customer receivables, marketable financial instruments and investments, and physical commodities inventory, at the lower of cost or fair value. All assets that are not customer and counterparty deposits are financed by the Company's equity capital, bank loans, short-term borrowings from financial instruments sold, not yet purchased, and other payables.

#### *Customer and Counterparty Credit and Liquidity Risk*

Our operations expose us to credit risk of default of our customers and counterparties. The risk includes liquidity risk to the extent our customers or counterparties are unable to make timely payment of margin or other credit support. These risks expose us indirectly to the financing and liquidity risks of our customers and counterparties, including the risks that our customers and counterparties may not be able to finance their operations. Throughout the commodities and securities industries, continued volatility in commodity prices has required increased lines of credit, and placed a strain on working capital debt facilities. In many cases, our customers have been forced to increase leverage to unprecedented levels in order for them to continue to carry inventory and properly execute hedging strategies. Continuing volatility in the financial markets has tightened credit further.

As a clearing broker, we act on behalf of our customers for all trades consummated on exchanges. We must pay initial and variation margin to the exchanges, on a net basis, before we receive the required payments from our customers. Accordingly, we are responsible for our customers' obligations with respect to these transactions, which exposes us to significant credit risk. Our customers are required to make any required margin deposits the next business day, and we require our largest customers to make intra-day margin payments during periods of significant price movement. Our clients are required to maintain initial margin requirements at the level set by the respective exchanges, but we have the ability to increase the margin requirements for customers based on their open positions, trading activity, or market conditions.

With OTC derivative transactions, we act as a principal, which exposes us to the credit risk of both our customers and the counterparties with which we offset our customer positions. As with exchange-traded transactions, our OTC transactions require that we meet initial and variation margin payments on behalf of our customers before we receive the required payment from our customers. OTC customers are required to post sufficient collateral to meet margin requirements based on Value-at-Risk models as well as variation margin requirement based on the price movement of the commodity or security in which they transact. Our customers are required to make any required margin deposits the next business day, and we may require our largest clients to make intra-day margin payments during periods of significant price movement. We have the ability to increase the margin requirements for customers based on their open positions, trading activity, or market conditions. On a limited basis, we provide credit thresholds to certain customers, based on internal evaluations and monitoring of customer creditworthiness.

In addition, with OTC transactions, we are at risk that a counterparty will fail to meet its obligations when due. We would then be exposed to the risk that the settlement of a transaction which is due a customer will not be collected from the respective counterparty with which the transaction was offset. We continuously monitor the credit quality of our respective counterparties and mark our positions held with each counterparty to market on a daily basis.

Information related to bad debt expense, net of recoveries, for the three and nine months ended June 30, 2012 and 2011 can be found within Note 5 of the Condensed Consolidated Financial Statements.

#### *Primary Sources and Uses of Cash*

The Company's assets and liabilities may vary significantly from period to period due to changing customer requirements, economic and market conditions and the growth of the Company. The Company's total assets as of June 30, 2012 and September 30, 2011, were \$2,734.4 million and \$2,635.7 million, respectively. The Company's operating activities generate or utilize cash as a result of net income or loss earned or incurred during each period and fluctuations in its assets and liabilities. The most significant fluctuations arise from changes in the level of customer activity, commodities prices and changes in the balances of financial instruments and commodities inventory. FCStone, LLC, our FCM subsidiary, occasionally uses its margin line credit facilities, on a short-term basis, to meet intraday settlements with the commodity exchanges prior to collecting margin funds from our customers.

The majority of the assets of FCStone, LLC are restricted from being transferred to its parent or other affiliates due to specific regulatory requirements. These restrictions have no impact on the ability of the Company to meet its cash obligations, and no impact is expected in the future.

We have liquidity and funding policies and processes in place that are intended to maintain significant flexibility to address both company-specific and industry liquidity needs. The majority of our excess funds are held with high quality institutions, under highly-liquid reverse repurchase agreements, with a maturity of typically three days or less, U.S. government obligations and AA-rated money market investments. The Company does not hold any direct investments in the general obligations of a sovereign nation ("sovereign debt").

As of June 30, 2012, \$103.3 million of cash, cash equivalent and available-for-sale investment securities was held by our

foreign subsidiaries. If these funds are needed for operations in the United States, the Company would be required to accrue and pay U.S. taxes to repatriate these funds, up to the amount of undistributed foreign earnings of \$87.3 million. However, our intent is to indefinitely reinvest these funds outside of the U.S., and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

As of June 30, 2012, approximately \$7.9 million of the Company's financial instruments owned and \$5.1 million of financial instruments sold, not yet purchased, are exchangeable foreign equities and ADRs.

As of June 30, 2012, the Company had four committed bank credit facilities and an uncommitted forward contract for commodities agreement, totaling \$335 million and \$50 million, respectively, of which \$175.4 million was outstanding. Additional information regarding the committed bank credit facilities and the uncommitted forward contract for commodities agreement can be found within Note 10 of the Condensed Consolidated Financial Statements.

The Company's credit 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 and its subsidiaries were in compliance with all of its financial covenants under the outstanding facilities.

In December 2011, the Company's wholly-owned subsidiary in the United Kingdom ("UK"), INTL Holding (UK) Limited, entered into a memorandum of understanding with Neumann Gruppe GmbH to acquire 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 is contingent upon the approval by the UK Financial Services Authority of the proposed change of control of TRX. The purchase price is expected to be equal to the tangible net asset value ("NAV") of TRX, which is estimated to be approximately \$12.9 million. The acquisition is not expected to have any immediate impact on the Company's earnings, and this transaction is not considered to be material.

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 stocks trading, IPOs, trustee services, structured financial services, management of portfolios, as well as financial consulting. DTVM's most prominent services are brokerage and commission and trustee services.

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 Company has contingent liabilities relating to several acquisitions it has completed since February 2008. See Note 11 to the Condensed Consolidated Financial Statements for additional information on these contingent liabilities. Under the terms of the purchase agreements, 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 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 contingent liabilities for these estimated additional purchase price considerations total \$20.7 million as of June 30, 2012, and are included within 'accounts payable and other accrued liabilities' in the condensed consolidated balance sheets. The Company estimates cash payments during the remainder of fiscal 2012, related to these contingent liabilities, to be \$6.2 million.

The Company contributed \$0.8 million to its defined benefit pension plans during the nine months ended June 30, 2012, and expects to contribute \$0.7 million to the plans during the remainder of fiscal 2012, which represents the minimum funding requirement.

#### *Other Capital Considerations*

Our FCM subsidiary, FCStone, LLC, is subject to various regulations and capital adequacy requirements. Pursuant to the rules, regulations, and requirements of the CFTC and other self-regulatory organizations, FCStone, LLC is required to maintain certain minimum net capital as defined in such rules, regulations, and requirements. Net capital will fluctuate on a daily basis.

INTL Trading, one of our broker-dealer subsidiaries, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels. The Company's ability to receive distributions from INTL Trading is restricted by regulations of the

SEC. The Company's right to receive distributions from its subsidiaries is also subject to the rights of the subsidiaries' creditors, including customers of INTL Trading.

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.

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 the New Zealand Clearing Limited, and is subject to a capital adequacy requirement.

FCC Investments, Inc., another broker-dealer subsidiary, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels.

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.

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.

The subsidiaries of the Company are in compliance with all of their capital regulatory requirements as of June 30, 2012. Additional information on these net capital and minimum net capital requirements can be found within Note 12 of the Condensed Consolidated Financial Statements.

On July 21, 2010, the President signed into law the Dodd-Frank Act, which creates a comprehensive new regulatory regime governing the OTC and listed derivatives markets and their participants by requiring, among other things: centralized clearing of standardized derivatives (with certain stated exceptions); the trading of clearable derivatives on swap execution facilities or exchanges; and registration and comprehensive regulation of new categories of market participants as "swap dealers" and swap "introducing brokers." On July 10, 2012, the CFTC adopted joint final terms defining the term "swap." Publication in the Federal Register is currently scheduled to occur on August 13, 2012. Following this action, several previously published rules will become effective on October 12, 2012. These include the registration requirements for "swap dealers" and rules relating to speculative position limits, conflicts of interest, and business conduct standards. We currently expect to register our subsidiary INTL Hanley LLC as a "swap dealer." Because many of the rules affecting this business have not been finalized or fully implemented, we cannot predict with any degree of certainty how we will be affected. The Company will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act.

#### *Cash Flows*

The Company's cash and cash equivalents decreased from \$220.6 million as of September 30, 2011 to \$213.7 million as of June 30, 2012, a net decrease of \$6.9 million. Net cash of \$81.6 million was used in operating activities, \$18.2 million was used in investing activities and net cash of \$93.5 million was provided by financing activities, of which \$98.0 million was borrowed from lines of credit and increased the amounts payable to lenders under loans and overdrafts. Fluctuations in exchange rates had no material effect on the Company's cash and cash equivalents.

In the commodities industry, companies report trading activities in the operating section of the statement of cash flows. Due to the daily price volatility in the commodities market, as well as changes in margin requirements, fluctuations in the balances of deposits held at various exchanges, marketable securities and customer commodity accounts may occur from day-to-day. A use of cash, as calculated on the consolidated statement of cash flows, includes unrestricted cash transferred and pledged to the exchanges or guarantee funds. These funds are held in interest-bearing deposit accounts at the exchanges, and based on daily exchange requirements, may be withdrawn and returned to unrestricted cash. Additionally, within our unregulated OTC and Forex operations, cash deposits received from customers are reflected as cash provided from operations. Subsequent transfer of these cash deposits to counterparties or exchanges to margin their open positions will be reflected as an operating use of cash to the extent the transfer occurs in a different period than the cash deposit was received.

The Company is continuously evaluating opportunities to expand its business. For the year-to-date period through June 30, 2012, the Company paid \$11.7 million, included in investing activities, for acquisitions, and \$3.4 million in payments, included in financing activities, relating to earn-outs on acquisitions. See Note 14 to the Condensed Consolidated Financial Statements for additional information on acquisitions. Investing activities include \$6.9 million in capital expenditures for property, plant and equipment in Q3 2012, compared to \$7.0 million in Q3 2011. Continuing expansion of the Company's activities will require funding and will have an effect on liquidity.

On August 12, 2011, the Company's Board of Directors authorized the repurchase of up to one million shares of the Company's outstanding common stock. During Q3 2012, the Company repurchased 150,000 shares of its outstanding common stock in open market transactions, in the aggregate amount of \$2.8 million.

Apart from what has been disclosed above, there are no known trends, events or uncertainties that have had or are likely to

have a material impact on the liquidity, financial condition and capital resources of the Company.

#### *Commitments*

Information about the Company's commitments and contingent liabilities is contained in Note 11 of the Condensed Consolidated Financial Statements.

#### *Off Balance Sheet Arrangements*

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer and futures commission merchant and from its market-making and proprietary trading in the foreign exchange and commodities trading business. As part of these activities, the Company carries short positions. For example, it sells financial instruments that it does not own, borrows the financial instruments to make good delivery, and therefore is obliged to purchase such financial instruments at a future date in order to return the borrowed financial instruments. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2012 and September 30, 2011, at fair value of the related financial instruments, totaling \$176.5 million and \$390.9 million, respectively. These positions are held to offset the risks related to financial assets owned, and reported in the Company's condensed consolidated balance sheets within 'financial instruments owned, at fair value', and 'physical commodities inventory'. The Company will incur losses if the fair value of the financial instruments sold, not yet purchased, increases subsequent to June 30, 2012, which might be partially or wholly offset by gains in the value of assets held as of June 30, 2012. The total of \$176.5 million and \$390.9 million includes a net liability of \$43.1 million and \$122.9 million for derivatives, based on their fair value as of June 30, 2012 and September 30, 2011, respectively.

In the Company's foreign exchange and commodities trading business segments, the Company will hold options and futures contracts resulting from market-making and proprietary trading activities in the Company's foreign exchange/commodities trading business segment. The Company assists its customers in its commodities trading business to protect the value of their future production (precious or base metals) by selling them put options on an OTC basis. The Company also provides its commodities trading business customers with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by effecting offsetting options with market counterparties or through the purchase or sale of exchange-traded commodities futures. The risk mitigation of offsetting options is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC.

In the Company's C&RM segment, when transacting OTC and foreign exchange contracts with our customers, our OTC and foreign exchange trade desks will generally offset the customer's transaction simultaneously with one of our trading counterparties or will offset that transaction with a similar but not identical position on the exchange. These unmatched transactions are intended to be short-term in nature and are conducted to facilitate the most effective transaction for our customer.

Derivative contracts are traded along with cash transactions because of the integrated nature of the markets for such 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.

The Company is a member of various commodity exchanges and clearing organizations. Under the standard membership agreement, all members are required to guarantee the performance of other members and, accordingly, in the event another member is unable to satisfy its obligations to the exchange, may be required to fund a portion of the shortfall. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral at the exchanges. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability for these arrangements has been recorded in the condensed consolidated balance sheets as of June 30, 2012 and September 30, 2011, respectively.

#### *Critical Accounting Policies*

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The accounting estimates and assumptions discussed in this section are those that the Company considers the most critical to the financial statements. The Company believes these estimates and assumptions can involve a high degree of judgment and complexity. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Therefore, understanding these policies is important in understanding the reported and potential future results of operations and the financial position of the Company.

**Valuation of Financial Instruments and Foreign Currencies.** Substantially all financial instruments are reflected in the

condensed consolidated financial statements at fair value or amounts that approximate fair value. These financial instruments include: cash and cash equivalents; cash, securities and other assets segregated under federal and other regulations; financial instruments purchased under agreements to resell; deposits with clearing organizations; financial instruments owned; and financial instruments sold but not yet purchased. Unrealized gains and losses related to these financial instruments, which are not customer owned positions, are reflected in earnings. Where available, we use prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. In some cases, even though the value of a security is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value. The value of foreign currencies, including foreign currencies sold, not yet purchased, are converted into its U.S. dollar equivalents at the foreign exchange rates in effect at the close of business at the end of the accounting period. For foreign currency transactions completed during each reporting period, the foreign exchange rate in effect at the time of the transaction is used.

The application of the valuation process for financial instruments and foreign currencies is critical because these items represent a significant portion of our total assets. Valuations for substantially all of the financial instruments held are available from independent publishers of market information. The valuation process may involve estimates and judgments in the case of certain financial instruments with limited liquidity and OTC derivatives. Given the wide availability of pricing information, the high degree of liquidity of the majority of our assets, and the relatively short periods for which they are typically held in inventory, there is insignificant sensitivity to changes in estimates and insignificant risk of changes in estimates having a material effect on our financial statements. The basis for estimating the valuation of any financial instruments has not undergone any change.

**Revenue Recognition.** A significant portion of our revenues are derived principally from realized and unrealized trading income in securities, derivative instruments, commodities and foreign currencies purchased or sold for our account. Realized and unrealized trading income is recorded on a trade date basis. Securities owned and securities sold, not yet purchased and foreign currencies sold, not yet purchased, are stated at fair value with related changes in unrealized appreciation or depreciation reflected within 'trading gains' in the condensed consolidated income statements. Fee and interest income are recorded on the accrual basis and dividend income is recognized on the ex-dividend date.

Revenue on commodities that are purchased for physical delivery to customers and that are not readily convertible into cash is recognized at the point in time when the commodity has been shipped, title and risk of loss has been transferred to the customer, and the following conditions have been met: persuasive evidence of an arrangement exists, the price is fixed and determinable, and collectability of the resulting receivable is reasonably assured.

The critical aspect of revenue recognition is recording all known transactions as of the trade date of each transaction for the financial period. We have developed systems for each of our businesses to capture all known transactions. Recording all known transactions involves reviewing trades that occur after the financial period that relate to the financial period. The accuracy of capturing this information is dependent upon the completeness and accuracy of data capture of the operations systems and our clearing firms.

**Valuation of Goodwill and Intangible Assets.** We record the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired as goodwill. Goodwill is tested for impairment annually, as well as when an event or change in circumstance indicates an impairment may have occurred. Goodwill is tested for impairment by comparing the fair value of our individual reporting units to their carrying amount to determine if there is a potential goodwill impairment. If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill of the reporting unit is less than its carrying value.

For purposes of performing the impairment test for goodwill, our reporting units are primarily units that are one level below our reportable operating segments as defined within the Segment Reporting Topic of the ASC. We estimate the fair value of these reporting units using a discounted cash flow analysis. Determining the fair value of a reporting unit is a matter of judgment and often involves the use of significant estimates and assumptions. Our estimate of the fair value of each of the reporting units were in excess of their respective carrying values at the time of their annual goodwill impairment tests for 2011.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the intangible asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived assets involves significant estimates on the part of management. If there is a material change in economic conditions or other circumstances influencing the estimate of future cash flows or fair value, we could be required to recognize impairment

charges in the future. We evaluate the remaining useful lives of our intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining estimated amortization period.

**Income Taxes.** We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining the consolidated provision for income taxes and in evaluating tax positions, including evaluating uncertainties. As a result, the company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when despite our belief that our tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by the relevant tax authorities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income, and the feasibility of ongoing tax planning strategies. In the event that we changes our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve series of complex judgments about future events. To the extent that new information becomes available which causes us to change our judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact income tax expense in the period in which such determination is made. The consolidated provision for income taxes will change period to period based on non-recurring events, such as the settlement of income tax audits and changes in tax law, as well as recurring factors including the geographic mix of income before taxes, state and local taxes, and the effects of various global income tax strategies.

### **Effects of Inflation**

Because the Company's assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. Increases in the Company's expenses, such as compensation and benefits, clearing and related expenses, occupancy and equipment rental, due to inflation, may not be readily recoverable from increasing the prices of services offered by the Company. In addition, to the extent that inflation results in rising interest rates or has other adverse effects on the financial markets and on the value of the financial instruments held in inventory, it may adversely affect the Company's financial position and results of operations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

See also Note 4 to the Condensed Consolidated Financial Statements, 'Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk'.

#### *Market Risk*

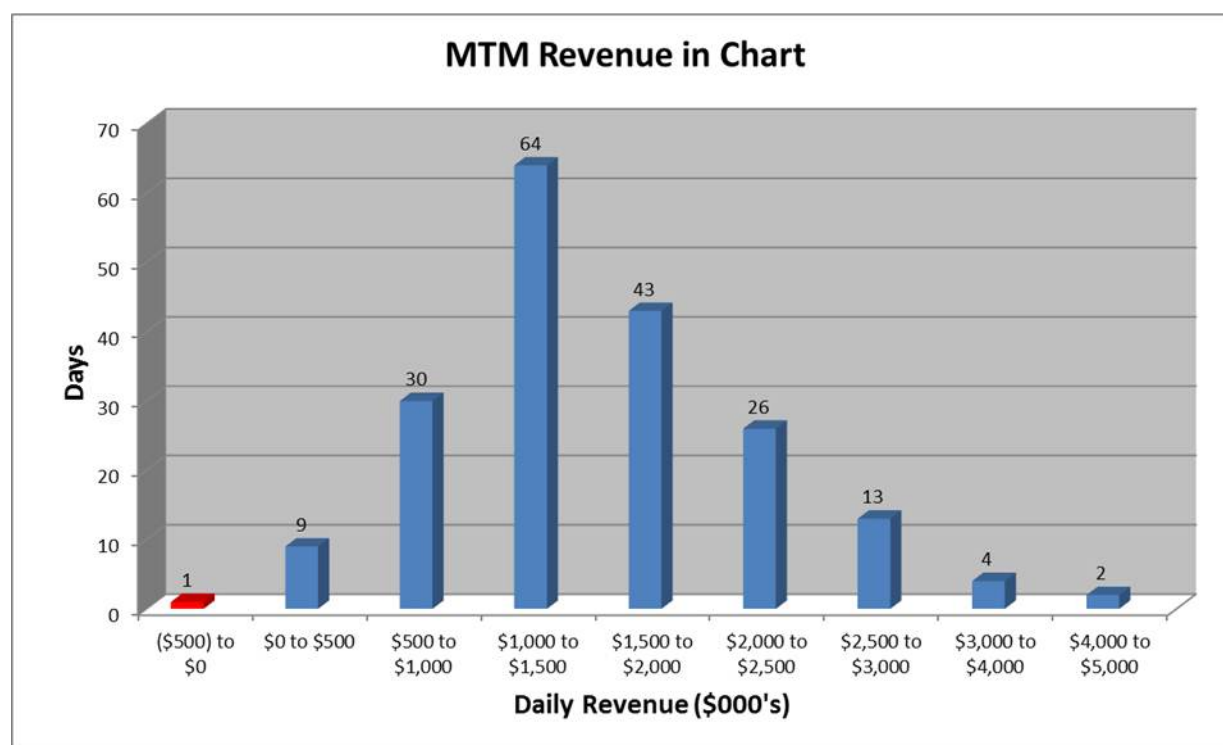
The Company conducts its market-making and trading activities predominantly as a principal, which subjects its capital to significant risks. These risks include, but are not limited to, absolute and relative price movements, price volatility and changes in liquidity, over which the Company has virtually no control. The Company's exposure to market risk varies in accordance with the volume of client-driven market-making transactions, the size of the proprietary positions and the volatility of the financial instruments traded.

The Company seeks to mitigate exposure to market risk by utilizing a variety of qualitative and quantitative techniques:

- Diversification of business activities and instruments;
- Limitations on positions;
- Allocation of capital and limits based on estimated weighted risks; and
- Daily monitoring of positions and mark-to-market profitability.

The Company utilizes derivative products in a trading capacity as a dealer 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.

Management believes that the volatility of revenues is a key indicator of the effectiveness of its risk management techniques. The graph below summarizes volatility of the Company's daily revenue, determined on a marked-to-market basis, during the nine months ended June 30, 2012.



In the Company's securities market-making and trading activities, the Company maintains inventories of equity and debt securities. In the Company's commodities market-making and trading activities, the Company's positions include physical inventories, forwards, futures and options. The Company's commodity trading activities are managed as one consolidated book for each commodity encompassing both cash positions and derivative instruments. The Company monitors the aggregate position for each commodity in equivalent physical ounces or metric tons.

#### *Interest Rate Risk*

In the ordinary course of our operations, we have interest rate risk from the possibility that changes in interest rates will affect the values of financial instruments and impact interest income earned. We generate interest income from the positive spread earned on customer deposits. We typically invest in U.S. Treasury bills and obligations issued by government sponsored entities, reverse repurchase agreements involving U.S. Treasury bills and government obligations or AA rated money market funds. We have an investment policy which establishes acceptable standards of credit quality and limits the amount of funds that can be invested within a particular fund and institution.

We continue 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 our aggregate interest rate position. Our 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, and enable us to achieve the two year moving average of the two year swap rate. In Q3 2012, operating revenues include realized gains of \$0.4 million and unrealized losses of \$0.3 million on interest rate swap derivative contracts used to manage a portion of our aggregate interest rate position. In Q3 2011, operating revenues included realized gains of \$1.2 million and unrealized gains of \$1.6 million, respectively, on interest rate swap derivative contracts. These interest rate swaps are not designated for hedge accounting treatment, and changes in the marked-to-market valuations of these interest rate swaps, which are volatile and

can fluctuate from period to period, are recorded in earnings on a quarterly basis. 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.

We manage interest expense using floating rate debt and periodically through interest rate swap transactions. The debt instruments are carried at their unpaid principal balance which approximates fair value. All of the Company's outstanding debt as of June 30, 2012, has a variable interest rate.

#### **Item 4. Controls and Procedures**

In connection with the filing of this Form 10-Q, the Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2012. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2012.

There are limitations inherent in any internal control, such as the possibility of human error and the circumvention or overriding of controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As a result, there can be no assurance that a control system will succeed in preventing all possible instances of error and fraud. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the conclusions of the Company's Chief Executive Officer and Chief Financial Officer are made at the "reasonable assurance" level.

There were no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2012 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II

### Item 1. 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. We assess 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, our 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. We accrue 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, we are involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. We carry insurance that provides protection against certain types of claims, up to the policy limits of our 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, 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's 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.

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 a settlement 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 of Sentinel Management Group, Inc. ("Sentinel") filed adversary proceedings against one of the Company's subsidiaries, FCStone, LLC, and a number of other FCMs in the Bankruptcy Court for the Northern District of Illinois. The 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 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 against FCStone, LLC 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 Trustee's claims set forth 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.

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, information regarding risks affecting the Company appears in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011. These are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that management currently considers to be non-material may in the future adversely affect the Company's business, financial condition and operating results. There have been no material changes to our risk factors since the filing of the Company's Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Purchases of Equity Securities** - The following table presents the common stock repurchases during each month for the three months ended June 30, 2012:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program (a)</b>	<b>Maximum Number of Shares Remaining to be Purchased Under the Program (a)</b>
April 1, 2012 to April 30, 2012	—	\$ —	—	999,700
May 1, 2012 to May 31, 2012	87,243	18.66	87,243	912,457
June 1, 2012 to June 30, 2012	62,757	18.36	62,757	849,700
Total	150,000	\$ 18.53	150,000	

(a) On August 12, 2011, the Company's Board of Directors authorized the repurchase of up to one million shares of the Company's outstanding common stock from time to time in open market purchases and private transactions as permitted by securities laws.

**Item 6. Exhibits**

31.1 Certification of Chief Executive Officer, pursuant to Rule 13a—14(a).

31.2 Certification of Chief Financial Officer, pursuant to Rule 13a—14(a).

32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTL FCStone Inc.

Date: August 8, 2012

/s/ Sean M. O'Connor

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Sean M. O'Connor  
Chief Executive Officer

Date: August 8, 2012

/s/ William J. Dunaway

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William J. Dunaway  
Chief Financial Officer

**SECTION 302 CERTIFICATION**

I, Sean M. O'Connor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of INTL FCStone Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2012

/S/ SEAN M. O'CONNOR

Sean M. O'Connor

Chief Executive Officer

**SECTION 302 CERTIFICATION**

I, William J. Dunaway certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of INTL FCStone Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2012

/S/ WILLIAM J. DUNAWAY

William J. Dunaway  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of INTL FCStone Inc. (the Company) on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Sean M. O'Connor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2012

/S/ SEAN M. O'CONNOR

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Sean M. O'Connor

Chief Executive Officer

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to INTL FCStone Inc. and will be retained by INTL FCStone Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of INTL FCStone Inc. (the Company) on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, William J. Dunaway, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2012

/S/ WILLIAM J. DUNAWAY

William J. Dunaway

Chief Financial Officer

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to INTL FCStone Inc. and will be retained by INTL FCStone Inc. and furnished to the Securities and Exchange Commission or its staff upon request.