

INTERNATIONAL ASSETS HOLDING CORP  
Form 10-Q  
August 12, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(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, 2010

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

**INTERNATIONAL ASSETS HOLDING CORPORATION**

(Exact name of registrant as specified in its charter)

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**59-2921318**  
(I.R.S. Employer  
Identification No.)

**708 Third Avenue, Suite 1500**

**New York, NY 10017**

(Address of principal executive offices) (Zip Code)

**(212) 485-3500**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 10, 2010, there were 17,617,830 shares of the registrant's common stock outstanding.

**Table of Contents**

**INTERNATIONAL ASSETS HOLDING CORPORATION**

**INDEX**

	<b>Page</b>
<b>Part I. FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	Financial Statements (Unaudited)
	<u>Condensed Consolidated Balance Sheets</u> 1
	<u>Condensed Consolidated Income Statements</u> 2
	<u>Condensed Consolidated Cash Flows Statements</u> 3
	<u>Condensed Consolidated Statement of Shareholders' Equity</u> 4
	<u>Notes to Condensed Consolidated Financial Statements</u> 5
<b>Item 2.</b>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 29
<b>Item 3.</b>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 50
<b>Item 4.</b>	<u>Controls and Procedures</u> 52
<b>Part II. OTHER INFORMATION</b>	
<b>Item 1.</b>	<u>Legal Proceedings</u> 52
<b>Item 1A.</b>	<u>Risk Factors</u> 53
<b>Item 6.</b>	<u>Exhibits</u> 53
	<u>Signatures</u> 54

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****INTERNATIONAL ASSETS HOLDING CORPORATION****Condensed Consolidated Balance Sheets**

(in millions, except par value and share amounts)	June 30, 2010 (Unaudited)	September 30, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 70.9	\$ 60.5
Cash and securities segregated under federal and other regulations (including \$1.2 and \$2.0 at fair value at June 30, 2010 and September 30, 2009, respectively)	11.6	14.9
Deposits and receivables from:		
Exchange-clearing organizations (including \$758.8 and \$727.9 at fair value at June 30, 2010 and September 30, 2009, respectively)	833.5	899.0
Broker-dealers, clearing organizations and counterparties (including \$17.6 and \$20.4 at fair value at June 30, 2010 and September 30, 2009, respectively)	96.7	69.6
Receivable from customers, net	97.4	56.3
Notes receivable, net	16.0	22.2
Income taxes receivable	5.1	44.9
Financial instruments owned, at fair value	213.2	209.8
Physical commodities inventory, at cost	94.4	106.9
Deferred income taxes	23.1	29.6
Property and equipment, net	6.4	4.7
Goodwill and intangible assets, net	30.8	13.7
Other assets	19.5	23.6
<b>Total assets</b>	<b>\$ 1,518.6</b>	<b>\$ 1,555.7</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 66.8	\$ 63.7
Payables to:		
Customers	975.0	935.8
Broker-dealers, clearing organizations and counterparties	8.5	4.0
Lenders under loans and overdrafts	36.0	108.7
Income taxes payable	0.9	2.3
Financial instruments sold, not yet purchased, at fair value	162.4	127.5
	1,249.6	1,242.0
Subordinated debt	0.5	56.5
Convertible subordinated notes payable	16.7	16.7
<b>Total liabilities</b>	<b>1,266.8</b>	<b>1,315.2</b>

Commitments and contingencies (see Note 12)

Equity:

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

International Assets Holding Corporation shareholders' 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; 17,612,897 issued and 17,601,640			
outstanding at June 30, 2010 and 17,361,884 issued and 17,350,627 outstanding at September 30, 2009	0.2		0.2
Common stock in treasury, at cost - 11,257 shares at June 30, 2010 and September 30, 2009	(0.1)		(0.1)
Additional paid-in capital	189.2		187.0
Retained earnings	64.2		54.3
Accumulated other comprehensive loss	(1.7)		(2.6)
<b>Total International Assets Holding Corporation shareholders' equity</b>	<b>251.8</b>		<b>238.8</b>
 Noncontrolling interests			 1.7
<b>Total equity</b>	<b>251.8</b>		<b>240.5</b>
 Total liabilities and equity		 \$ 1,518.6	 \$ 1,555.7

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****INTERNATIONAL ASSETS HOLDING CORPORATION****Condensed Consolidated Income Statements***(Unaudited)*

(in millions, except share and per share amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Sales of physical commodities	\$ 14,121.9	\$ 7,620.3	\$ 31,067.4	\$ 33,544.3
Trading gains	33.5	7.6	61.0	43.0
Commission and clearing fees	29.8	1.2	86.6	5.0
Consulting and management fees	5.2	0.6	13.9	1.2
Interest income	1.6	0.2	4.7	1.7
Other income	0.3	0.1	0.4	0.3
<b>Total revenues</b>	<b>14,192.3</b>	<b>7,630.0</b>	<b>31,234.0</b>	<b>33,595.5</b>
Cost of sales of physical commodities	14,114.2	7,607.1	31,030.9	33,518.3
<b>Operating revenues</b>	<b>78.1</b>	<b>22.9</b>	<b>203.1</b>	<b>77.2</b>
Interest expense	2.7	1.6	7.5	6.2
<b>Net revenues</b>	<b>75.4</b>	<b>21.3</b>	<b>195.6</b>	<b>71.0</b>
<b>Non-interest expenses:</b>				
Compensation and benefits	25.9	9.3	73.0	31.6
Clearing and related expenses	17.8	4.2	51.7	13.0
Communication and data services	2.7	0.6	7.9	1.5
Introducing broker commissions	5.2		14.1	
Occupancy and equipment rental	1.5	0.3	4.5	0.8
Professional fees	2.0	0.5	5.6	1.5
Depreciation and amortization	0.4	0.2	0.8	0.6
Bad debts and impairments	2.0		2.3	1.9
Other	4.5	1.0	13.1	2.9
<b>Total non-interest expenses</b>	<b>62.0</b>	<b>16.1</b>	<b>173.0</b>	<b>53.8</b>
Income from operations, before tax	13.4	5.2	22.6	17.2
Income tax expense	4.8	1.4	8.1	4.8
Net income before discontinued operations	8.6	3.8	14.5	12.4
Loss from discontinued operations, net of tax	1.1	0.2	0.7	1.0
Income before extraordinary loss	7.5	3.6	13.8	11.4
Extraordinary loss	0.8		4.2	
Net income	6.7	3.6	9.6	11.4
Less: Net income (loss) attributable to noncontrolling interests			(0.3)	0.5
Net income attributable to International Assets Holding Corporation common shareholders	\$ 6.7	\$ 3.6	\$ 9.9	\$ 10.9

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

<b>Basic earnings (loss) per share:</b>								
Income from continuing operations attributable to International Assets Holding Corporation common shareholders	\$	0.50	\$	0.43	\$	0.85	\$	1.34
Loss from discontinued operations attributable to International Assets Holding Corporation common shareholders		(0.06)		(0.02)		(0.04)		(0.11)
Extraordinary loss attributable to International Assets Holding Corporation common shareholders		(0.05)				(0.24)		
<b>Net income attributable to International Assets Holding Corporation common shareholders</b>	<b>\$</b>	<b>0.39</b>	<b>\$</b>	<b>0.41</b>	<b>\$</b>	<b>0.57</b>	<b>\$</b>	<b>1.23</b>
<b>Diluted earnings (loss) per share</b>								
Income from continuing operations attributable to International Assets Holding Corporation common shareholders	\$	0.48	\$	0.40	\$	0.83	\$	1.26
Loss from discontinued operations attributable to International Assets Holding Corporation common shareholders		(0.06)		(0.02)		(0.04)		(0.10)
Extraordinary loss attributable to International Assets Holding Corporation common shareholders		(0.04)				(0.24)		
<b>Net income attributable to International Assets Holding Corporation common shareholders</b>	<b>\$</b>	<b>0.38</b>	<b>\$</b>	<b>0.38</b>	<b>\$</b>	<b>0.55</b>	<b>\$</b>	<b>1.16</b>
<b>Weighted-average number of common shares outstanding:</b>								
Basic		17,335,362		8,916,665		17,293,058		8,879,649
Diluted		18,527,376		10,152,526		17,841,999		10,007,526
<b>Amounts attributable to International Assets Holding Corporation common shareholders:</b>								
Income from continuing operations, net of tax	\$	8.6	\$	3.8	\$	14.8	\$	11.9
Loss from discontinued operations, net of tax		1.1		0.2		0.7		1.0
Extraordinary loss		0.8				4.2		
<b>Net income</b>	<b>\$</b>	<b>6.7</b>	<b>\$</b>	<b>3.6</b>	<b>\$</b>	<b>9.9</b>	<b>\$</b>	<b>10.9</b>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****INTERNATIONAL ASSETS HOLDING CORPORATION****Condensed Consolidated Cash Flow Statements***(Unaudited)*

<b>(in millions)</b>	<b>Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net cash provided by operating activities	\$ 148.2	\$ 26.6
<b>Cash flows from investing activities:</b>		
Capital contribution of consolidated joint venture partner		0.2
Capital distribution to consolidated joint venture partner		(2.8)
Payments related to acquisition of joint venture interests		(3.0)
Additional goodwill resulting from acquisition of Gainvest		(1.4)
Acquisition of CIBSA		3.3
Additional goodwill resulting from acquisition of CIBSA	(0.8)	
Cash from deconsolidation of ICCAF		(8.2)
Disposition of INTL Consilium LLC		0.4
Investment withdrawals from managed funds		17.8
Acquisition of RMI Companies, net of cash received	(6.0)	
Deconsolidation of Agora-X subsidiary	(0.3)	
Sale of INTL Capital Limited	0.2	
Purchase of property and equipment	(2.7)	(1.9)
Net cash used in investing activities	(9.6)	4.4
<b>Cash flows from financing activities:</b>		
Net change in payable to lenders under loans and overdrafts	(72.7)	(44.0)
Repayment of subordinated debt	(56.0)	
Share repurchase		(0.1)
Exercise of stock options	0.7	0.4
Income tax benefit on stock awards exercised	0.1	
Net cash used in financing activities	(127.9)	(43.7)
Effect of exchange rates on cash and cash equivalents	(0.3)	0.2
Net increase (decrease) in cash and cash equivalents	10.4	(12.5)
Cash and cash equivalents at beginning of period	60.5	62.8
Cash and cash equivalents at end of period	\$ 70.9	\$ 50.3
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 5.7	\$ 7.2
Income taxes paid, net of refunds	\$ (38.7)	\$ 7.0
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Conversion of subordinated notes to common stock, net	\$	\$ 0.1



Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Additional consideration payable for the acquisition of RMI Companies	\$	10.7	\$
---	----	------	----

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****INTERNATIONAL ASSETS HOLDING CORPORATION****Condensed Consolidated Statements of Shareholders Equity***(Unaudited)*

	Nine Months Ended June 30, 2010							Total
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests		
Balances as of September 30, 2009	\$ 0.2	\$ (0.1)	\$ 187.0	\$ 54.3	\$ (2.6)	\$ 1.7	\$ 240.5	
Components of comprehensive income:								
Net income				9.9		(0.3)	9.6	
Deconsolidation of Agora-X						(1.4)	(1.4)	
Change in unrealized loss on derivative instruments					0.9		0.9	
Change in foreign currency translation					(0.3)		(0.3)	
Change in unrealized gain or loss on available-for-sale securities					0.3		0.3	
Total comprehensive income							\$ 9.1	
Exercise of stock options			0.8				0.8	
Stock-based compensation			1.4				1.4	
Balances as of June 30, 2010	\$ 0.2	\$ (0.1)	\$ 189.2	\$ 64.2	\$ (1.7)	\$	\$ 251.8	

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**INTERNATIONAL ASSETS HOLDING CORPORATION**

**Notes to Condensed Consolidated Financial Statements**

*(Unaudited)*

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

On September 30, 2009, International Assets Holding Corporation completed its acquisition of FCStone Group, Inc. ( FCStone ) pursuant to the merger of FCStone Group, Inc. into a wholly owned subsidiary of International Assets Holding Corporation. The accompanying condensed consolidated income statements include the results of International Assets Holding Corporation and subsidiaries and FCStone for the three months and nine months ended June 30, 2010. The condensed consolidated income statements for the three months and nine months ended June 30, 2009 do not include the results of the operations of FCStone.

International Assets Holding Corporation and its subsidiaries (collectively INTL or the Company ) form a financial services group employing 641 people in offices in eleven countries. The Company's services include comprehensive risk management advisory services for commercial customers; execution of listed futures and option contracts on all major 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 approximately 10,000 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, 2009, 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 U.S. generally accepted accounting principles ( 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. All adjustments that, in the opinion of management and consisting only of a normal and recurring nature, are necessary for a fair presentation 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 financial statements should be read in conjunction with the Company's consolidated financial statements and related notes contained in the Company's latest shareholders' annual report and the Company's Form 10-K for the fiscal year ended September 30, 2009 as filed with the Securities and Exchange Commission on December 15, 2009.

These condensed consolidated financial statements include the accounts of International Assets Holding Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation. Equity investments in which we exercise control or variable interest entities in which we are the primary beneficiary have been consolidated. Our fiscal year end is September 30, and our fiscal quarters end on December 31, March 31 and June 30. Unless otherwise stated, all dates refer to our fiscal years and fiscal periods.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. The most significant of these estimates and assumptions relate to fair value measurements for financial instruments and investments and the provision for potential losses from bad debts. Provisions for estimated bad debts are recorded on a specific identification basis. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Certain amounts in the condensed consolidated financial statements presented for the prior year have been reclassified to conform to the current year presentation. The reclassifications were not the result of accounting errors, and did not have a significant impact on the consolidated financial statements.



---

**Table of Contents**

***Recently Issued Accounting Standards***

In June 2009, the Financial Accounting Standards Board ( FASB ) established the FASB Accounting Standards Codification ( ASC ) as the single source of authoritative U.S. GAAP. Subsequent revisions to U.S. GAAP will be incorporated into the ASC through Accounting Standards Updates ( ASU ). The following are recently issued accounting standards which may have a significant impact on the Company.

In September 2006, new accounting guidance was issued which refined the definition of fair value, established a framework for measuring fair value, and expanded disclosures about fair value measurements. We adopted this guidance for financial assets and liabilities effective October 1, 2008. Effective October 1, 2009, we adopted this guidance for non-financial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis. The nonfinancial assets and liabilities, such as long lived assets, are recognized at fair value subsequent to initial recognition when they are deemed to be impaired. Also included in nonfinancial assets and liabilities measured on a nonrecurring basis are those initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

In December 2007, new accounting guidance was issued revising the method of accounting for a number of aspects of business combinations, such that more assets and liabilities acquired will be measured at fair value as of the acquisition date. Certain contingent liabilities acquired will require remeasurement at fair value in each subsequent reporting period. Noncontrolling interests will initially be measured at fair value and classified as a separate component of equity. Acquisition related costs, such as fees for attorneys, accountants, and investment bankers, will be expensed as incurred and no longer capitalized as part of the purchase price. For all acquisitions, regardless of the consummation date, deferred tax assets, valuation allowances, and uncertain tax position adjustments occurring after the measurement period will be recorded as a component of income, rather than adjusted through goodwill. Effective October 1, 2009, the Company adopted this guidance for business combinations. The acquisition of FCStone was accounted for under the previous accounting guidance.

On October 1, 2009, the Company adopted recently issued accounting guidance contained within the Consolidations Topic of the ASC, which changed the accounting and reporting for minority interests, which are now characterized as noncontrolling interests and classified as a component of equity. This recently issued guidance requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests. All other requirements under the new guidance have been applied prospectively. Noncontrolling interests of \$1.7 million as of September 30, 2009 are included as a component of shareholders equity.

In June 2008, new guidance was issued for determining whether instruments granted in share-based payment transactions are participating securities, mandating that unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of basic EPS using the two-class method. The guidance requires retrospective application for all periods presented. The Company has determined that adoption of this guidance effective October 1, 2009 did not have a material effect on the consolidated financial statements if the required disclosures were omitted. Had the required disclosures been made for the three months and nine months ended June 30, 2010 and 2009, the Company s basic earnings (loss) per share would have been reduced by less than \$.01 per share.

In June 2009, new guidance was issued on transfers and servicing of financial assets to eliminate the concept of a qualifying special-purpose entity, change the requirements for off balance sheet accounting for financial assets including limiting the circumstances where off balance sheet treatment for a portion of a financial asset is allowable, and require additional disclosures. The guidance is effective for the Company s 2011 fiscal year. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In June 2009, new guidance was issued to revise the approach to determine when a variable interest entity ( VIE ) should be consolidated. The new consolidation model for VIEs considers whether the Company has the power to direct the activities that most significantly impact the VIEs economic performance and shares in the significant risks and rewards of the entity. The guidance on VIEs requires companies to continually reassess VIEs to determine if consolidation is appropriate and provide additional disclosures. The guidance is effective for the Company s 2011 fiscal year. The Company is assessing the potential effect this guidance will have on its consolidated financial statements.

In January 2010, new guidance was issued to require new disclosures and clarify existing disclosure requirements about fair value measurements as set forth in the Fair Value Measurements and Disclosures Topic in the ASC. The guidance requires that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair

## **Table of Contents**

value measurements and describe the reasons for the transfers; and in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, the guidance clarifies that for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance is effective for the Company as of the quarter ended March 31, 2010 except for the detailed level 3 rollforward disclosure, which is effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have a material impact on the Company's disclosures in its consolidated financial statements.

In February 2010, new guidance was issued to no longer require disclosure of the date through which subsequent events have been evaluated in originally issued and revised financial statements as set forth in the Subsequent Events Topic in the ASC. SEC filers that are traded in a public market must evaluate subsequent events through the date the financial statements are issued, rather than the date the financial statements are available to be issued. This guidance is effective for the Company as of the quarter ended March 31, 2010 and the adoption of this guidance did not have a material impact on the Company's disclosures in its consolidated financial statements.

### **Note 2 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 of \$4.8 million and \$1.4 million for the three months ended June 30, 2010 and 2009, respectively, and income tax expense of \$8.1 million and \$4.8 million for the nine months ended June 30, 2010 and 2009, respectively, reflect estimated federal, foreign and state taxes. For the three months ended June 30, 2010, the Company's effective tax rate was 36%, compared to 26% for the prior year comparative period. For the nine months ended June 30, 2010, the Company's effective tax rate was 36%, compared to 28% for the prior year comparative period. The increase in the Company's effective tax rate in both periods is primarily a result of variation in the geographic and business mix of earnings.

The Company had \$44.9 million in income tax receivable on its consolidated balance sheet as of September 30, 2009, resulting primarily from the net operating loss of FCStone for its year ended August 31, 2009. FCStone elected to carry back the net operating loss to recapture taxes paid in the prior two fiscal years, and received income tax refunds totaling \$37.1 million during the quarter ended December 31, 2009.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction, various states, and various foreign jurisdictions. The Company recognizes potential interest and penalties on uncertain tax positions as a component of income tax expense. The Internal Revenue Service has commenced an examination of FCStone's U.S. income tax return for its fiscal year ended August 31, 2009.

### **Note 3 Earnings per Share**

Basic earnings per share 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.

**Table of Contents**

(in millions, except share and per share amounts)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Income from continuing operations, net of tax	\$ 8.6	\$ 3.8	\$ 14.8	\$ 11.9
Add: Interest on convertible debt, net of tax	0.2	0.2		0.7
Diluted income from continuing operations	8.8	4.0	14.8	12.6
Less: Loss from discontinued operations	1.1	0.2	0.7	1.0
Less: Extraordinary loss	0.8		4.2	
<b>Diluted net income</b>	<b>\$ 6.9</b>	<b>\$ 3.8</b>	<b>\$ 9.9</b>	<b>\$ 11.6</b>
<b>Denominator:</b>				
<b>Weighted average number of:</b>				
Common shares outstanding	17,335,362	8,916,665	17,293,058	8,879,649
<b>Dilutive potential common shares outstanding:</b>				
Share-based awards	535,078	578,925	548,941	470,893
Convertible debt	656,936	656,936		656,984
<b>Diluted weighted-average shares</b>	<b>18,527,376</b>	<b>10,152,526</b>	<b>17,841,999</b>	<b>10,007,526</b>

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 by the Compensation-Stock Compensation Topic of the ASC. The dilutive effect of convertible debt has been reflected in diluted net income per share by application of the if-converted method.

Options to purchase 836,822 and 139,808 shares of common stock for the three months ended June 30, 2010 and 2009, respectively, and 836,822 and 551,808 shares of common stock for the nine months ended June 30, 2010 and 2009, respectively, were excluded from the calculation of diluted earnings per share because they would have been anti-dilutive.

**Note 4 Receivables from customers and notes receivable, net**

During the three months ended June 30, 2010, the Company recorded a charge to bad debt expense of approximately \$2.3 million related to a disputed trade that was given-up to FCStone by another futures commission merchant (the FCM) for a customer that held an account with us. Despite expressly informing the FCM that the Company would not accept the give-up trade, the give-up trade was submitted through the electronic clearing process and erroneously cleared by FCStone, generating a deficit in the customer's trading account. The customer lacked the financial capacity to cover the account deficit, and FCStone has filed a complaint and is seeking legal relief through arbitration against the FCM to have the give-up transaction rescinded, with an award of appropriate damages.

Receivable from customers, net and notes receivable, net include a provision for bad debts, which reflects our best estimate of probable losses inherent in the receivable 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 is \$6.2 million and \$5.7 million at June 30, 2010 and September 30, 2009, respectively.

As a result of the merger with FCStone, the Company acquired notes receivable of \$139.9 million at September 30, 2009 including promissory notes from certain customers and an introducing broker which arose from previous customer account deficits. At June 30, 2010 and September 30, 2009, notes receivable related to these certain customer account deficits are \$128.9 million and \$133.7 million, respectively. The Company is uncertain as to the full collectability of the contractual amounts, and no assurances can be given as to the amount and timing of recovery that may be obtained under the promissory notes. The allowance for doubtful accounts related to these promissory notes is \$113.5 million at June 30, 2010 and \$117.0 at September 30, 2009, and the Company estimates the collectability on these promissory notes to be \$15.4 million at June 30, 2010. The allowance for doubtful accounts related to total notes receivable was \$114.2 at June 30, 2010 and \$117.7 million at September 30, 2009.

**Table of Contents**

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

(in millions)	June 30, 2010
Balance, September 30, 2009	\$ 123.4
Provision for bad debts	2.3
Deductions:	
Charge-offs	(4.6)
Recoveries	(0.7)
 Balance, June 30, 2010	 \$ 120.4

Additionally, in the normal course of operations the Company accepts notes receivable under sale/repurchase agreements with customers whereby the customers sell certain commodity inventory and agree to repurchase the commodity inventory at a future date at either a fixed or floating rate. These transactions are short-term in nature, and are treated as secured borrowings rather than commodity inventory in the Company's condensed consolidated financial statements. At June 30, 2010 there were no outstanding notes receivable related to this program. At September 30, 2009, the Company had outstanding notes receivable of \$4.0 million related to this program.

**Note 5 Exchange Memberships and Stock**

The Company has exchange membership seats and common stock in publicly-traded exchanges which are pledged for clearing purposes and recorded at cost. These exchange membership seats and common stock provide the Company the right to process trades directly with the various exchanges. The Company acquired additional exchange membership seats during the three months ended December 31, 2009 at a cost of \$1.6 million. The cost and fair value of the exchange memberships and common stock held by the Company was \$9.2 million and \$8.5 million at June 30, 2010, respectively. The cost basis for acquired exchange memberships and common stock was established using fair value on September 30, 2009 as a result of applying purchase accounting to FCStone's assets. The fair value for exchange memberships and common stock pledged for clearing purposes was \$7.6 million at September 30, 2009. The fair value of exchange stock is determined by quoted market prices, and the fair value of exchange memberships is determined by recent sale transactions. The carrying value of the exchange memberships and common stock are included within Other assets on the condensed consolidated balance sheets. The Company monitors the fair value of exchange membership seats and common stock on a quarterly basis, and does not consider the current unrealized loss to be anything other than temporary impairment.

**Note 6 Financial Assets and Financial Liabilities, at Fair Value**

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

Cash and cash equivalents

Securities segregated under federal and other regulations

Deposits and receivables from exchange-clearing organizations

Deposits and receivables from broker-dealers, clearing organizations and counterparties

Financial instruments owned



## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Payables to lenders under loans and overdrafts

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. 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.

- 9 -

**Table of Contents**

(in millions)	June 30, 2010		September 30, 2009	
	Owned	Sold, not yet purchased	Owned	Sold, not yet purchased
Certificates of deposits	\$	\$	\$ 10.0	\$
Common stock and ADR s	4.8	5.1	7.9	2.5
Exchangeable foreign ordinary equities and ADR s	10.6	5.5	10.5	10.5
Corporate and municipal bonds	11.7		20.0	
U.S. and foreign government obligations	35.7		6.4	
Derivatives	31.0	29.4	42.1	30.8
Commodities leases and unpriced positions	105.1	122.4	105.4	83.7
Mutual funds and other	12.3		4.8	
Investment in managed funds	2.0		2.7	
	\$ 213.2	\$ 162.4	\$ 209.8	\$ 127.5

*Fair Value Hierarchy*

The following tables set forth the Company's financial assets and liabilities accounted for at fair value as of June 30, 2010 and September 30, 2009 by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosures Topic of the ASC, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. 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 in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; 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).

**Table of Contents**

(in millions)	June 30, 2010					Total
	Level 1	Level 2	Level 3	Netting and Collateral (1)		
<b>Assets:</b>						
<b>Unrestricted cash equivalents - money market funds</b>	\$ 1.3	\$	\$	\$		\$ 1.3
U.S. and foreign government obligations		1.2				1.2
<b>Securities segregated under federal and other regulations</b>		1.2				1.2
Money market funds	893.2					893.2
U.S. and foreign government obligations		202.7				202.7
Derivatives	3,602.8			(3,939.9)		(337.1)
<b>Deposits and receivables from exchange-clearing organizations</b>	4,496.0	202.7		(3,939.9)		758.8
Derivatives		447.8		(430.2)		17.6
<b>Deposits and receivables from broker-dealers, clearing organizations and counterparties</b>		447.8		(430.2)		17.6
Certificates of deposits						
Common stock and ADR s	13.7	0.5	1.2			15.4
Corporate and municipal bonds	6.8		4.9			11.7
U.S. and foreign government obligations		35.7				35.7
Derivatives (2) (3)	70.8	117.8		(157.6)		31.0
Commodities leases and unpriced positions		137.7		(32.6)		105.1
Mutual funds and other	4.9	7.0	0.4			12.3
Investment in managed funds			2.0			2.0
<b>Financial instruments owned</b>	96.2	298.7	8.5	(190.2)		213.2
Total assets at fair value	\$ 4,593.5	\$ 950.4	\$ 8.5	\$ (4,560.3)		\$ 992.1
<b>Liabilities:</b>						
<b>Payables to customers - derivatives</b>	\$ 3,670.1	\$ 496.5	\$	\$ (4,166.6)		\$
Common stock and ADR s	10.3	0.3				10.6
Derivatives (2) (3)	77.0	115.2		(162.8)		29.4
Commodities leases and unpriced positions		183.7		(61.3)		122.4
<b>Financial instruments sold, not yet purchased</b>	87.3	299.2		(224.1)		162.4
Total liabilities at fair value	\$ 3,757.4	\$ 795.7	\$	\$ (4,390.7)		\$ 162.4

- (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.
- (2) The derivative assets and liabilities include amounts that are reclassified to deposits and receivables from broker-dealers, clearing organizations and counterparties of \$23.8 million as of June 30, 2010, as a result of netting and collateral.
- (3) The derivative assets and liabilities include amounts that are reclassified to receivables from customers of \$0.8 million as of June 30, 2010, as a result of netting and collateral.



**Table of Contents**

(in millions)	September 30, 2009					Total
	Level 1	Level 2	Level 3	Netting and Collateral (1)		
<b>Assets:</b>						
<b>Unrestricted cash equivalents - money market funds</b>	\$ 15.6	\$	\$	\$		\$ 15.6
U.S. and foreign government obligations		2.0				2.0
<b>Securities segregated under federal and other regulations</b>		2.0				2.0
Money market funds	710.1					710.1
U.S. and foreign government obligations		320.2				320.2
Derivatives	4,043.9			(4,346.3)		(302.4)
<b>Deposits and receivables from exchange-clearing organizations</b>	4,754.0	320.2		(4,346.3)		727.9
Certificates of deposits		10.0				10.0
Common stock and ADR s	15.9	1.3	1.2			18.4
Corporate and municipal bonds	14.5	1.2	4.3			20.0
U.S. and foreign government obligations	0.5	5.2	0.7			6.4
Derivatives (2)	108.8	733.8		(800.5)		42.1
Commodities leases and unpriced positions		137.3		(31.9)		105.4
Mutual funds and other	1.4	3.0	0.4			4.8
Investment in managed funds			2.7			2.7
<b>Financial instruments owned</b>	141.1	891.8	9.3	(832.4)		209.8
Total assets at fair value	\$ 4,910.7	\$ 1,214.0	\$ 9.3	\$ (5,178.7)		\$ 955.3
<b>Liabilities:</b>						
<b>Payable to customers - derivatives</b>	\$ 4,012.5	\$	\$	\$ (4,012.5)		\$
Common stock and ADR s	11.2	1.8				13.0
Derivatives (2)	115.0	683.3		(767.5)		30.8
Commodities leases and unpriced positions		109.7		(26.0)		83.7
<b>Financial instruments sold, not yet purchased</b>	126.2	794.8		(793.5)		127.5
Total liabilities at fair value	\$ 4,138.7	\$ 794.8	\$	\$ (4,806.0)		\$ 127.5

(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.

(2) The derivative assets and liabilities include amounts that are reclassified to deposits and receivables from broker-dealers, clearing organizations and counterparties of \$20.4 million as of September 30, 2009, as a result of netting and collateral.

Realized and unrealized gains and losses are included within Trading gains in the income statement.

*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 are summarized below:

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

(in millions)	As of June 30, 2010	As of September 30, 2009
Total level 3 assets	\$ 8.5	\$ 9.3
Level 3 assets for which the Company bears economic exposure	\$ 8.5	\$ 9.3
Total assets	\$ 1,518.6	\$ 1,555.7
Total financial assets at fair value	\$ 992.1	\$ 955.3
Total level 3 assets as a percentage of total assets	0.6%	0.6%
Level 3 assets for which the the Company bears economic exposure as a percentage of total assets	0.6%	0.6%
Total level 3 assets as a percentage of total financial assets at fair value	0.9%	1.0%

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, 2010 including a summary of unrealized gains (losses) during the three and nine months on the Company's level 3 financial assets and liabilities still held at June 30, 2010.

**Table of Contents**

**Level 3 Financial Assets and Financial Liabilities  
For the Three Months Ended June 30, 2010**

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases, issuances, settlements	Transfers in or (out) of Level 3	Balances at end of period
<b>Assets:</b>						
Common stock and ADR s	\$ 1.2	\$	\$	\$	\$	\$ 1.2
Corporate and municipal bonds	4.8			0.1		4.9
Mutual funds and other	0.5		(0.1)			0.4
Investment in managed funds	2.0					2.0
	\$ 8.5	\$	\$ (0.1)	\$ 0.1	\$	\$ 8.5

**Level 3 Financial Assets and Financial Liabilities  
For the Nine Months Ended June 30, 2010**

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases, issuances, settlements	Transfers in or (out) of Level 3	Balances at end of period
<b>Assets:</b>						
Common stock and ADR s	\$ 1.2	\$	\$	\$	\$	\$ 1.2
Corporate and municipal bonds	4.3		0.2	0.4		4.9
U.S. and foreign government obligations	0.7				(0.7)	
Mutual funds and other	0.4					0.4
Investment in managed funds	2.7		(0.1)	(0.6)		2.0
	\$ 9.3	\$	\$ 0.1	\$ (0.2)	\$ (0.7)	\$ 8.5

**Level 3 Financial Assets and Financial Liabilities  
For the Three Months Ended June 30, 2009**

(In millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases, issuances, settlements	Transfers in or (out) of Level 3	Balances at end of period
<b>Assets:</b>						
Common stock and ADR s	\$ 1.1	\$	\$	\$	\$	\$ 1.1
Corporate and municipal bonds	5.2		0.1	0.4		5.7
U.S. and foreign government obligations					1.2	1.2
Derivatives						
Commodities leases and unpriced positions						
Mutual funds and other					0.5	0.5
Investment in managed funds	12.2			(3.8)		8.4
	\$ 18.5	\$	\$ 0.1	\$ (3.4)	\$ 1.7	\$ 16.9

**Level 3 Financial Assets and Financial Liabilities  
For the Nine Months Ended June 30, 2009**

(In millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases, issuances, settlements	Transfers in or (out) of Level 3	Balances at end of period
<b>Assets:</b>						
Common stock and ADR s	\$ 2.9	\$ (0.3)	\$ (0.4)	\$ (1.1)	\$	\$ 1.1

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Corporate and municipal bonds	4.1	0.1	0.9	0.6		5.7
U.S. and foreign government obligations					1.2	1.2
Derivatives						
Commodities leases and unpriced positions						
Mutual funds and other					0.5	0.5
Investment in managed funds	11.9	0.2	0.3	(4.0)		8.4
	\$ 18.9	\$	\$ 0.8	\$ (4.5)	\$ 1.7	\$ 16.9

The Company accounts for its securities pledged on behalf of customers and proprietary securities in accordance with the Investments - Debt and Equity Securities Topic in the ASC. In accordance with this guidance, the Company determines the appropriate classification of its investments as trading, available-for-sale, or held-to-maturity at the time of purchase and re-evaluates the designation as of each reporting period.



**Table of Contents**

At June 30, 2010, under the provisions of the guidance, the Company has classified some of its securities as available-for-sale, which are carried at fair value based on observable or quoted market prices and associated unrealized gains or losses are recorded as a component of other comprehensive income until realized. The fair value of a security is the amount at which the security could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Company classifies those securities as available-for-sale because it would consider selling them prior to maturity to meet liquidity needs or as part of the Company's risk management program.

The Company computes the cost of its securities on a specific identification basis. Such cost includes the direct costs to acquire securities, adjusted for the amortization of any discount or premium. The amortized cost of securities is computed under the effective interest method and is included in interest income. Realized gains and losses, declines in value judged to be other than temporary and interest on available-for-sale securities are included in earnings.

As a result of its acquisition of FCStone, the Company acquired securities classified as available-for-sale at September 30, 2009. In accordance with the Business Combinations Topic of the ASC, available-for-sale securities are valued at fair value as of the acquisition date. As a result, the investment securities classified as available-for-sale did not have any unrealized gains or losses as of September 30, 2009.

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 at June 30, 2010:

**Amounts included in financial instruments owned:**

(in millions)	Amortized Cost	Unrealized Holding <sup>(1)</sup>		Estimated Fair Value
		Gains	(Losses)	
U.S. government securities and federal agency obligations	\$ 10.0	\$	\$	\$ 10.0
Corporate bonds	5.1			5.1
	\$ 15.1	\$	\$	\$ 15.1

(1) Unrealized gain/loss on financial instruments owned as of June 30, 2010, is less than \$50 thousand.

**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 securities and federal agency obligations	\$ 170.1	\$ 0.6	\$	\$ 170.7
Mortgage-backed securities	10.5		(0.1)	10.4
	\$ 180.6	\$ 0.6	\$ (0.1)	\$ 181.1

At June 30, 2010, investments in debt securities classified as available-for-sale mature as follows:

(in millions)	Due in		Estimated Fair Value
	Less than 1 year	1 year or more	
U.S. government securities and federal agency obligations	\$ 85.2	\$ 95.5	\$ 180.7
Corporate bonds		5.1	5.1

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Mortgage-backed securities			10.4	10.4
	\$ 85.2	\$	111.0	\$ 196.2

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.

### **Note 7 Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk**

The Company accounts for derivative instruments in accordance with the provisions of the Derivatives and Hedging Topic of the ASC. The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair

- 14 -

**Table of Contents**

value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company has derivatives that are designated as cash flow hedges and derivatives that are not designated for hedging purposes. For a derivative instrument designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain (loss) is reported immediately in earnings. For a derivative instrument that is not designated as a hedge, the changes in fair value are reported immediately in earnings.

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 at June 30, 2010 at the fair values of the related financial instruments. The Company will incur losses if the market value of the underlying financial instruments increases subsequent to June 30, 2010. The total of \$162.4 million at June 30, 2010 includes \$29.4 million for derivative contracts, which represent a liability to the Company based on their fair values as of June 30, 2010.

***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 Company's derivative positions are included within the balance sheets under the caption financial instruments owned, at fair value, deposits and receivables from exchange-clearing organizations and financial instruments sold, not yet purchased, at fair value.

In April 2010, the Company implemented an interest rate risk management strategy using derivative financial instruments in the form of interest rate swaps to manage a portion of our 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, and enable us to achieve the two year moving average of the two year swap rate. These interest rate swaps, which are recorded at fair value, are not designated for hedge accounting treatment, and changes in the marked-to-market valuations of the financial instruments will be recorded in earnings on a quarterly basis.

Listed below are the fair values of trading-related derivatives as of June 30, 2010 and September 30, 2009. Assets represent net unrealized gains and liabilities represent net unrealized losses.

**Table of Contents**

(In millions)	June 30, 2010		September 30, 2009	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
<b>Derivative contracts not accounted for as hedges:</b>				
Exchange-traded commodity derivatives	\$ 3,503.6	\$ 3,579.3	\$ 4,008.0	\$ 3,974.6
OTC commodity derivatives	185.2	187.2	303.5	302.9
Exchange-traded foreign exchange derivatives	55.6	32.8	25.8	44.2
OTC Foreign exchange derivatives (2)	450.0	498.3	526.3	474.2
Interest rate derivatives	6.0	6.0	11.3	6.8
Equity index derivatives	38.8	53.8	11.6	3.4
<b>Derivative contracts accounted for as hedges:</b>				
Interest rate derivatives		1.4		4.7
Gross fair value of derivative contracts	4,239.2	4,358.8	4,886.5	4,810.8
Impact of netting and collateral	(4,527.7)	(4,329.4)	(5,146.8)	(4,780.0)
Total fair value included in Deposits and receivables from exchange-clearing organizations	\$ (337.1)		\$ (302.4)	
Total fair value included in Deposits and receivables from broker-dealers, clearing organizations and counterparties	\$ 17.6		\$	
Total fair value included in Financial instruments owned, at fair value	\$ 31.0		\$ 42.1	
Fair value included in Financial instruments sold, not yet purchased, at fair value		\$ 29.4		\$ 30.8

- (1) As of June 30, 2010 and September 30, 2009, the Company's derivative contract volume for open positions was approximately 2.9 million and 3.1 million contracts, respectively.
- (2) In accordance with agreements with counterparties, the Company is allowed to periodically take advances against its open trade fair value. Amount excludes advances against open trade fair value of \$0 and \$31.9 million outstanding at June 30, 2010 and September 30, 2009, respectively.

The Company's derivative contracts are principally held in its commodities and relationship management business segment. The Company assists its commodities and relationship management 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 commodities and relationship management customers with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by effecting offsetting trades with market counterparties. 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.

Periodically, the Company uses interest rate swap contracts to hedge certain forecasted transactions. The Company's primary objective in holding these types of derivatives is to reduce the volatility of earnings and cash flows associated with changes in interest rates. The Company has two interest rate swap contracts at June 30, 2010, each with a notional amount of \$50 million, which were entered into in order to hedge potential changes in cash flows resulting from the Company's variable rate LIBOR based borrowings. The interest rate swaps are classified under the Derivatives and Hedging Topic of the ASC as cash flow hedges. These derivatives will mature in less than a year.

As a result of a decrease in borrowings by the Company, it was determined that one of the interest rate swaps no longer met the criteria, specified under the Derivatives and Hedging Topic, to allow for the deferral of the effective portion of unrecognized hedging gains or losses in other comprehensive income or loss since all of the forecasted variable interest payments are not expected to occur. However, the Company expects that a portion of those forecasted transactions are still expected to occur. The Company discontinued hedge accounting for that swap during this quarter, which resulted in a portion of the unrecognized loss remaining in accumulated other comprehensive income or loss and the

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

deferred loss relating to those forecasted transactions that are no longer expected to occur was reclassified to earnings during the period. The amount remaining in accumulated other comprehensive income or loss relating to transactions that are still expected to occur for the discontinued hedge is a loss of \$0.6 million as of June 30, 2010. The Company reclassified a loss of \$0.4 million from accumulated other comprehensive income or loss into Trading gains on the condensed consolidated income statement for the three and nine months ended June 30, 2010.

- 16 -

---

## **Table of Contents**

The effective portion of the swaps gain or loss, including gains associated with the discontinued hedge prior to it being de-designated during the quarter, was a gain of \$0.3 million and \$0.9 million for the three months ended June 30, 2010 and June 30, 2009, respectively, and a gain of \$1.0 million and a loss of \$2.5 million for the nine months ended June 30, 2010 and June 30, 2009, respectively, which has been reported in the balance sheets as a component of accumulated other comprehensive income (loss). The remaining unrecognized loss relating to both interest rate swaps of \$1.2 million in accumulated other comprehensive income (loss) at June 30, 2010 will be recognized as the forecasted payments affect interest expense. The ineffective portion of the swap gain or loss was a gain of \$0.1 million for the three months ended June 30, 2010 and June 30, 2009, and a gain of \$0.2 million and a loss of \$1.3 million for the nine months ended June 30, 2010 and June 30, 2009, respectively, and is included in Trading gains on the condensed consolidated income statements.

### ***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 market 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 is 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 at June 30, 2010 and September 30, 2009 were adequate to minimize the risk of material loss that could be created by positions held at that time. The Company periodically purchases credit insurance and credit-default swaps that provides some coverage against counterparty risk. The Company records the insurance premiums as a prepaid asset and amortizes that over the term of the policy or contract. The Company records credit-default swaps at fair value, as a financial instrument owned. Additionally, the Company monitors collateral market 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 reduces 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

**Table of Contents**

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 8 Physical Commodities Inventory**

Physical commodities inventory is valued at the lower of cost or market value, determined using the weighted-average cost method. Commodities in process include commodities in the process of being recycled. At June 30, 2010 and September 30, 2009, \$94.4 and \$105.3 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 at June 30, 2010 and September 30, 2009 are shown below.

(in millions)	June 30, 2010	September 30, 2009
Commodities in process	\$ 5.1	\$ 8.7
Finished commodities	89.3	98.2
	\$ 94.4	\$ 106.9

**Note 9 Goodwill**

On April 7, 2009, the Company acquired Compania Inversora Bursatil S.A. Sociedad de Bolsa ( CIBSA ), a leading securities broker-dealer based in Argentina. The Company paid approximately \$1.7 million on the date of purchase and was obligated to make additional payments, depending on the level of revenues achieved. Under the purchase agreement, the Company was obligated to pay an amount equal to 25% of the net revenues if such net revenues are in excess of \$2.5 million and up to \$3 million, 35% of the net revenues in excess of \$3 million and up to \$4 million, and 40% of the net revenues in excess of \$4 million for each of the two twelve-month periods ending March 31, 2010 and 2011 to the sellers as additional consideration. Any amounts paid as additional consideration under this agreement are recorded as goodwill. The Company paid \$0.8 million in May of 2010 relating to the provisions of this agreement.

On April 1, 2010, the Company acquired Risk Management Incorporated and RMI Consulting, Inc. (the RMI Companies ). As discussed in Note 16 Acquisitions, the estimated purchase price for the RMI Companies is approximately \$16.7 million, which includes an estimated amount for an obligation to make additional payments based on the level of earnings achieved over the next three years. The Company recorded \$6.7 million as goodwill related to this acquisition.

**Note 10 Credit Facilities**

As of June 30, 2010, the Company had four credit facilities under which the Company may borrow up to \$227.0 million, subject to certain conditions. Additionally, the Company has a subordinated note, as defined by CFTC regulations, outstanding of \$0.5 million with an individual at June 30, 2010. 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 at June 30, 2010 is as follows:

A one-year, renewable, revolving syndicated committed loan facility established on June 26, 2009 under which the Company's subsidiary, INTL Commodities, Inc. ( INTL Commodities ) is entitled to borrow up to \$92.0 million, subject to certain conditions. On June 14, 2010, the credit agreement was amended to extend the expiration date to August 25, 2010. There are three commercial banks that are the underlying lenders within the syndicate group. The loan proceeds are used to finance the activities of INTL Commodities and are secured by its assets.

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Two additional lines of credit with a commercial bank under which the Company may borrow up to \$60 million, subject to certain conditions. One of these lines is secured by certain of the Company's assets.

An unsecured line of credit with a syndicate of lenders, administered by Bank of Montreal under which the Company may borrow up to \$75.0 million. On June 21, 2010, the Company's subsidiary, FCStone LLC amended and restated

- 18 -



**Table of Contents**

the credit agreement, maintaining the \$75.0 million aggregate amount of commitments. Loans made under the line of credit bear interest at a Base Rate, as defined, plus 2.00%. FCStone, LLC, will pay a commitment fee of 0.50% per annum of the commitments, and paid fees and other debt issuance costs of \$0.4 million in connection with the line of credit, which expires on June 22, 2012. This line is intended to provide short term funding of margin to exchanges as necessary and is subject to annual review.

At September 30, 2009, the Company was also a party to a senior subordinated debt agreement with a syndicate of lenders, administered by Bank of Montreal. The Company's ability to draw on the subordinated debt facility expired in July 2009, and on April 1, 2010, the remaining outstanding balance of \$5.0 million was repaid, and the senior subordinated debt agreement was terminated.

The Company's credit facilities and outstanding borrowings were as follows as of June 30, 2010 and September 30, 2009:

Security	Renewal / Expiration Date	Total Commitment	Amounts Outstanding	
			June 30, 2010	September 30, 2009
Certain foreign exchange assets	December 17, 2010	\$ 25.0	\$ 8.5	\$ 11.1
Certain pledged shares	December 17, 2010	35.0		34.9
Certain commodities assets	August 25, 2010	92.0	27.5	60.0
None	June 22, 2011	75.0		
Certain commodities assets	Terminated March, 2010			2.7
None	Terminated April, 2010			55.0
None	December 31, 2010	0.5	0.5	1.5
		\$ 227.5	\$ 36.5	\$ 165.2

During fiscal 2010, \$92 million of the Company's committed credit facilities are scheduled to expire. While there is no guarantee that we will be able to replace current agreements when they expire, based on our strong liquidity position and capital structure the Company believes it will be able to do so.

The Company's facility agreements contain covenants relating to financial measures such as minimum net worth, minimum working capital, minimum regulatory capital, minimum cumulative EBITDA and minimum interest coverage ratios. Failure to comply with any such covenants could result in the debt becoming payable on demand. As of June 30, 2010, the Company was in compliance with all of its covenants under its credit facilities.

**Note 11 Convertible Subordinated Notes**

The Company had \$16.7 million in aggregate principal amount of the Company's senior subordinated convertible notes due September 2011 (Notes) outstanding as of June 30, 2010 and September 30, 2009. The Notes are general unsecured obligations of the Company and bear interest at the rate of 7.625% per annum, payable quarterly in arrears.

During September 2009, the Company issued an additional 8,239,319 shares in conjunction with its acquisition of FCStone. As a result of this transaction, the conversion price was reduced to \$21.79 per share. As of June 30, 2010, the remaining Notes are convertible by the holders into 767,886 shares of common stock of the Company.

If the dollar-volume weighted-average price of the common stock exceeds \$38.25, subject to certain adjustments, for any twenty out of thirty consecutive trading days, the Company will have the right to require the holders of the Notes to convert all or any portion of the Notes into shares of common stock at the then-applicable conversion price.

In the event that the consolidated net interest coverage ratio, as set forth in the Notes, for the 12 months preceding the end of any fiscal quarter is less than 2.0, the interest rate on the Notes will be increased by 2.0% to 9.625% per annum, effective as of the first day of the following fiscal quarter. Through the quarter ended June 30, 2010, the consolidated net interest coverage ratio has exceeded 2.0 and no such increase has been necessary. Holders had the option to redeem their Notes at par if the consolidated net interest coverage ratio was less than 2.75 for the twelve-month period ended December 31, 2009. The consolidated net interest coverage ratio for the twelve-month period ended December 31, 2009 exceeded 2.75, so the holders are not entitled to early redemption of their Notes.



---

## **Table of Contents**

The Company entered into a separate Registration Rights Agreement with the holders of the Notes, under which the Company was required to file with the U.S. Securities and Exchange Commission (the SEC) a Registration Statement on Form S-3 within a specified period of time. The Registration Statement was declared effective by the SEC on October 24, 2006. The Company is required, under the Registration Rights Agreement, to maintain the effectiveness of the Registration Statement, failing which it could become liable to pay holders of the Notes liquidated damages of 1% of the value of the Notes, plus a further 1% for every 30 days that it remains ineffective thereafter, up to an aggregate maximum of 10% of the value of the Notes. At June 30, 2010 the Company was in compliance with its requirements under the Registration Rights Agreement.

### **Note 12 Commitments and Contingencies**

As discussed in Note 9 Goodwill, the Company has a contingent liability relating to the acquisition of CIBSA which may result in the payment of additional consideration in May of 2011. In addition, the Company has a contingent liability relating to the acquisition of Downes O Neill, LLC which may result in the payment of additional consideration calculated at December 31, 2010.

As discussed in Note 11 Convertible Subordinated Notes, the Notes may be converted into shares of common stock of the Company at any time by the holders. The Notes also contain a provision to increase the interest rate by 2%, subject to certain conditions measured on a quarterly basis.

As discussed in Note 16 Acquisitions, the Company has a contingent liability relating to the acquisition of the RMI Companies, which may result in the payment of additional consideration. The acquisition date fair value of additional consideration is estimated to be approximately \$10.7 million and will be remeasured to its fair value each quarter, with changes in fair value recorded in earnings.

On July 16, 2010, the Company's subsidiary, FCStone, LLC, filed a statement of claim against a futures commission merchant for arbitration before the CME Group, relating to the disputed give-up transaction that took place in Q3 2010 and resulted in a bad debt charge of \$2.3 million. Apart from this, there have been no material developments in previously reported litigation, and no other reportable events have occurred during the quarter or nine month period ended June 30, 2010 or through the date of this filing.

#### *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.

#### *Impairment*

The Company recorded an impairment charge of \$0.7 million in the first quarter of 2010 in connection with INTL Sieramet LLC, a corporation in which it holds a 55% equity interest. This amount is recorded in Bad debts and impairments under the Non-interest expenses section of the condensed consolidated income statements for the nine months ended June 30, 2010. The impairment charge recognizes the pending liquidation of INTL Sieramet and the possibility that there may be incomplete recovery of the full value of its assets.

#### *Change in Control Contingency*

In connection with the FCStone transaction, certain of FCStone's management and executive officers are participants in FCStone's Change in Control Severance Plan (the Severance Plan). The Severance Plan provides that if during the two-year period following the completion of the merger agreement, a participant terminates their employment for good reason or the Company terminates the participant's employment other than for cause or on account of death or disability, the Company will be committed to pay certain compensation amounts to the participant in a lump sum amount. The maximum potential commitment for all participants is \$5.4 million. At June 30, 2010, no actions have occurred or are anticipated which would trigger payments under the Severance Plan.

**Table of Contents****Note 13 Capital and Other Regulatory Requirements**

FCStone, LLC is a registered commodity futures commission merchant with the Commodity Futures Trading Commission (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. FCStone, LLC's adjusted net capital and minimum net capital requirement at June 30, 2010 were \$70.8 million and \$32.7 million, respectively. Pursuant to the requirements of the Commodity Exchange Act, funds deposited by customers of FCStone relating to futures and options on futures in regulated commodities must be carried in separate accounts which are designated as segregated customers' accounts. Funds deposited by customers and other assets, which have been aggregated as belonging to the commodity customers, and the minimum amount required to be segregated at June 30, 2010 were \$824.4 million and \$822.5 million, respectively.

The Company's wholly-owned 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. At June 30, 2010, INTL Trading's net capital was \$7.4 million, which was \$6.4 million in excess of its minimum requirement.

FCC Investments, Inc. is required to maintain certain net capital as defined by the SEC. FCC Investments, Inc.'s net capital and the minimum net capital requirement at June 30, 2010 were \$0.4 million and \$0.3 million, respectively.

FCStone Australia Pty Ltd is regulated by the Australian Securities and Investment Commission and is subject to a minimum capital requirement which at June 30, 2010 was \$50,000.

The Company is in compliance with all of its regulatory requirements at June 30, 2010.

**Note 14 Employee Stock-Based Compensation and Savings Plans**

Stock-based compensation expense is included within Compensation and benefits in the condensed consolidated income statements and totaled \$0.5 million and \$0.6 million for the three months ended June 30, 2010 and 2009, and \$1.4 million and \$1.5 million for the nine months ended June 30, 2010 and 2009, respectively.

**Stock Option Plans**

The Company sponsors a stock option plan for its directors, officers, employees and consultants. At June 30, 2010, 734,177 shares were authorized for future grant under this plan. Awards that expire or are canceled generally become available for issuance again under the plan. We settle 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:

	<b>Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Expected stock price volatility	85%	71%
Expected dividend yield	0%	0%
Risk free interest rate	1.46%	1.66%
Average expected life (in years)	2.80	2.80

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.



**Table of Contents**

The following is a summary of stock option activity through June 30, 2010:

	Shares Available for Grant	Number of Options Outstanding	Weighted Average Price	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (\$ millions)
Balances at September 30, 2009	782,504	1,616,654	\$ 19.91	4.58	\$ 8.7
Granted	(55,327)	55,327	\$ 15.29		
Exercised		(134,379)	\$ 6.17		
Forfeited	7,000	(35,024)	\$ 37.23		
Expired		(2,655)	\$ 18.64		
Balances at June 30, 2010	734,177	1,499,923	\$ 20.57	4.04	\$ 6.9
Exercisable at June 30, 2010		1,000,666	\$ 26.42	3.99	\$ 3.1

The total compensation cost not yet recognized for non-vested awards of \$1.3 million at June 30, 2010 has a weighted-average period of 3.13 years over which the compensation expense is expected to be recognized.

**Restricted Stock Plan**

The Company sponsors a restricted stock plan for its directors, officers and employees. At June 30, 2010, 435,815 shares were authorized for future grant under our restricted stock plan. Awards that expire or are canceled generally become available for issuance again under the plan. The Company settles restricted stock with newly issued shares of common stock.

The following is a summary of restricted stock activity through June 30, 2010:

	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 at September 30, 2009	552,449	163,528	\$ 12.99	2.68	\$ 2.7
Granted	(116,634)	116,634	\$ 16.08		
Vested		(41,343)	\$ 17.40		
Balances at June 30, 2010	435,815	238,819	\$ 13.74	2.34	\$ 3.8

The total compensation cost not yet recognized of \$2.4 million at June 30, 2010 has a weighted-average period of 2.34 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.

**Savings Plans**

Effective December 31, 2009, the Company has discontinued its Savings Incentive Match Plan for Employees IRA (SIMPLE IRA), which allowed participating U.S. employees of International Assets Holding Corporation to contribute up to 100% of their salary, but not more than statutory limits. The Company contributed a dollar for each dollar of a participant's contribution to this plan, up to a maximum contribution of 3% of a participant's earnings.

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

U.K. based employees of International Assets Holding Corporation are eligible to participate in a defined contribution pension plan ( Pension Plan ). The Company contributes double the employees' contribution up to 10% of total base salary to this plan. For this plan, employees are 100% vested in both the employee and employer contributions at all times.

As a result of the Company's acquisition of FCStone, the Company has two additional plans, the Thrift/Savings Plan for Cooperatives 401(k) plan and the FCStone Group Employee Stock Ownership Plan. The FCStone Group Employee Stock Ownership Plan has been frozen effective December 31, 2009 as a result of the acquisition. The Thrift/Savings Plan for Cooperatives 401(k) plan matches 62.5% of contributions up to 8% of a participant's earnings, but not more than statutory limits.

- 22 -

**Table of Contents****Note 15 Defined Benefit Retirement Plan**

As a result of its acquisition of FCStone, the Company has two noncontributory retirement plans, which are defined benefit plans that cover certain employees, and which were frozen to new employees prior to the acquisition. No additional benefits will be accrued for active participants under the plan. The Company's funding policy as it relates to the plans is to fund amounts that are intended to provide for benefits attributed to service to date. The Company contributed \$5.9 million to the plans during the nine months ended June 30, 2010, and expects to contribute an additional \$0.4 million to the plans prior to September 30, 2010.

Net periodic pension cost for the three and nine months ended June 30, 2010 for the defined benefit plans consist of the following components:

	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2010
Interest cost	0.5	1.5
Less expected return on plan assets	(0.4)	(1.2)
<b>Net periodic pension cost</b>	<b>\$ 0.1</b>	<b>\$ 0.3</b>

**Note 16 Acquisitions**

On April 1, 2010, the Company entered into a Stock Purchase Agreement to purchase Risk Management Incorporated and RMI Consulting, Inc. (the RMI Companies). The transaction, which is not considered significant, was also closed on April 1, 2010. Under terms of the Purchase Agreement, the Company acquired all the outstanding capital stock of the RMI Companies. The purchase price for the shares consisted of an initial payment of \$6.0 million, and three contingent payments which will be based on the combined net income of the RMI Companies for each of the three years after the closing. The estimated total purchase price, including contingent consideration, is approximately \$16.7 million.

RMI provides execution and consulting services to some of the largest natural gas consumers in North America, including municipalities and large manufacturing firms, as well as major utilities. In addition to its risk-management and brokerage services, RMI also offers a wide range of other programs, including a proprietary online energy procurement platform. The acquisition adds extensive and proven expertise in the natural gas, electricity and related energy markets where RMI has a leading presence, as well as a broad range of long-term relationships with some major organizations.

The Company has made a preliminary allocation of the purchase costs among identified intangible assets, with determinable useful lives, intangible assets with indefinite lives and goodwill. The Company is in the process of finalizing third-party valuations of the intangible assets and contingent liabilities. Purchase costs allocated to intangible assets with determinable useful lives are amortized over the remaining useful lives of the assets. The preliminary intangible assets and goodwill recognized in this transaction were assigned to the Consulting and Risk Management (C&RM) segment. The intangible assets recognized include customer relationships of \$8.0 million (20 year useful life); software programs and platforms of \$0.8 million (5 year useful life) and trade name of \$1.2 million (indefinite useful life). Amortization related to the intangible assets was \$0.1 million for the three months ended June 30, 2010. The goodwill is calculated as the excess of the fair value of the consideration transferred over the fair value of the identified net assets acquired and liabilities assumed. Purchase costs were allocated to goodwill of approximately \$6.7 million.

Under the terms of the purchase agreements, the Company has obligations to pay additional consideration if specific conditions and earnings targets are met, as described above. In accordance with the Business Combinations Topic of the ASC, the fair value of the additional consideration will be recognized as a contingent liability as of the acquisition date. The acquisition date fair value of additional consideration is estimated to be approximately \$10.7 million. The amount recorded represents the fair value of expected consideration to be paid based on the Company's forecasted sales during the three year period and a discount rate being applied to those future payments. At the end of each reporting period after the acquisition date, the contingent payment will be remeasured to its fair value, with changes in fair value recorded in earnings. The Company's consolidated financial statements include the operating results of the RMI Companies from the date of acquisition.



**Table of Contents**

**Note 17 Discontinued Operations**

On May 8, 2009, the Company agreed to sell its partnership interest in INTL Consilium, LLC ( INTL Consilium ), effective April 30, 2009. The results of INTL Consilium, which were previously included within the asset management segment, are included within discontinued operations on the condensed consolidated income statements for all periods presented.

Effective May 1, 2010, the Company sold its interest in INTL Capital Limited ( INTL Capital ) to an independent third party for a purchase price equal to book value. The subsidiary operated an asset management business in Dubai. The results of operations for INTL Capital, which were previously included within the other segment, are included within discontinued operations on the condensed consolidated income statements for all periods presented. For the three and nine months ended June 30, 2010, the Company recorded a loss, net of tax, related to INTL Capital of \$0.3 million and \$0.7 million, respectively, within discontinued operations.

At December 31, 2009, the Company owned 80% of the shares outstanding of Agora-X, LLC ( Agora ) and the Company s condensed consolidated balance sheet and income statement at December 31, 2009, reflected the Company s consolidation of Agora. On February 12, 2010 the Company and NASDAQ OMX ( NASDAQ ), the noncontrolling interest holder prior to this purchase transaction, signed a restructuring agreement, effective January 1, 2010, whereby NASDAQ acquired an additional 65% interest in Agora in exchange for an investment of \$6.6 million. In accordance with the Consolidation Topic of the ASC, since the Company no longer had a controlling financial interest, it deconsolidated the subsidiary with effect from the date of the agreement. The Company had retained a 15% noncontrolling ownership interest in Agora. The Company recorded its retained 15% noncontrolling interest under the equity method, in accordance with the guidance in the Investments Equity Method and Joint Ventures Topic of the ASC.

On June 10, 2010, the board of directors of Agora agreed to discontinue the operations of the entity. In evaluating the fair value of the Company s investment in Agora, during the third quarter of fiscal year 2010, it was determined that its carrying value would no longer be recoverable and was in fact impaired. The Company wrote down its investment in Agora to zero, which resulted in a \$0.5 million impairment charge. Since the discontinuation of operations of Agora occurred within the one year assessment period, beginning with the Company s loss of controlling interest, the Company determined that Agora had met the criteria established with the guidance in the Presentation of Financial Statements Discontinued Operations Topic of the ASC for reporting discontinued operations. In accordance with the guidance, the results of Agora, including the Company s 15% share of the losses and impairment charge for the remaining investment in Agora from January 1, 2010 through June 30, 2010, are included within discontinued operations, net of tax, on the condensed consolidated income statements for the three and nine months ended June 30, 2010. For the three months ended June 30, 2010, the Company recorded a pre-tax loss and a loss, net of tax, related to Agora of \$0.6 million and \$0.8 million, respectively, within discontinued operations. For the nine months ended June 30, 2010, the Company recorded revenues, a pre-tax gain and a gain, net of tax, related to Agora of \$3.5 million, \$1.9 million and \$12 thousand, respectively, within discontinued operations. The results of Agora were previously included within the other segment.

**Note 18 Segment Analysis**

Prior to the acquisition of FCStone in September 2009, the Company s activities were divided into five reportable segments: International Equities Market-making, Foreign Exchange Trading, Commodities Trading, International Debt Capital Markets and Asset Management. FCStone divided its activities into four reportable segments, which consisted of Commodity and Risk Management Services, Clearing and Execution Services, Financial Services, and a Corporate and Other segment. The Company revised its segment reporting as a result of the FCStone acquisition, and the Company s activities are now divided into the following five functional areas:

Commodity and Risk Management Services

Foreign Exchange

Securities

Clearing and Execution Services

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

### Other

To conform to the current segment presentation, the Company has reclassified certain prior period amounts. The condensed consolidated income statements of the Company for the three and nine months ended June 30, 2009 reflect the results of the Company prior to the FCStone transaction, as reclassified to conform to the current presentation. Segment results include allocated intersegment interest charges.

- 24 -

## **Table of Contents**

### ***Commodity and Risk Management Services ( C&RM )***

The Company serves its commercial customers through its force of 119 risk management consultants with a 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 customers, the Company may offset the customer's transaction simultaneously with one of its trading counterparties. Alternatively, the OTC trade desk will accept a customer transaction and 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 customers.

In addition, the Company provides a full range of trading and hedging capabilities to select producers, consumers, recyclers and investors in precious metals and certain base metals. 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 recorded in Trading gains . Inventory for the commodities business is valued at the lower of cost or market 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. This price risk mitigation does not generally qualify for hedge accounting under U.S. GAAP. 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.

The C&RM segment combines FCStone's Commodity and Risk Management Services segment with the activities previously reported in the Company's Commodities Trading segment.

### ***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.

The foreign exchange segment combines the activities previously reported in the Company's Foreign Exchange trading segment and FCStone's foreign exchange activity which had been reported in its Commodity and Risk Management Services segment.

### ***Securities***

Through INTL Trading, the Company acts as a wholesale market maker in select foreign securities including unlisted ADRs and foreign ordinary shares. INTL Trading provides execution and liquidity to national broker-dealers, regional broker-dealers and institutional investors.

## **Table of Contents**

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.

The Securities segment combines the activities previously reported in the Company's International Equities Market-Making and International Debt Capital Markets segments.

### ***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 Futures Commission Merchants ( FCM ).

### ***Other***

This segment combines activities previously reported in the Company's Asset Management segment and in FCStone's Financial Services and Corporate and Other segments.

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 serves as a grain financing and facilitation business lending to commercial grain-related companies against physical grain inventories. Sale and repurchase agreements are used to purchase grain evidenced by warehouse receipts at local grain elevators subject to a simultaneous agreement to sell such grain back to the original seller at a later date. These transactions are accounted for as product financing arrangements, and accordingly no grain inventory, grain purchases or grain sales are recorded. The Company also serves as a financing vehicle for a number of different commodities, including grain, energy products and renewable fuels.

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 segmental 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, and variable compensation. Variable compensation paid to traders generally represents a fixed percentage of an amount equal to revenues produced less clearing and related charges, base salaries and an overhead allocation.

The segment data also includes segment income which is calculated as net contribution less certain 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, travel, 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 counter-parties.

**Table of Contents**

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,	
	2010	2009	2010	2009
<b>Total revenues:</b>				
Commodity and risk management services	\$ 14,151.9	\$ 7,610.6	\$ 31,119.3	\$ 33,536.6
Foreign exchange	11.8	10.8	35.8	23.9
Securities	4.2	6.9	14.6	33.9
Clearing and execution services	16.9		47.5	
Other	7.4	1.2	18.0	2.4
Corporate unallocated	0.1	0.5	(1.2)	(1.3)
<b>Total</b>	<b>\$ 14,192.3</b>	<b>\$ 7,630.0</b>	<b>\$ 31,234.0</b>	<b>\$ 33,595.5</b>
<b>Operating revenues:</b>				
Commodity and risk management services	\$ 42.7	\$ 3.5	\$ 99.6	\$ 18.3
Foreign exchange	11.8	10.8	35.8	23.9
Securities	4.2	6.9	14.6	33.9
Clearing and execution services	16.9		47.5	
Other	2.4	1.2	6.8	2.4
Corporate unallocated	0.1	0.5	(1.2)	(1.3)
<b>Total</b>	<b>\$ 78.1</b>	<b>\$ 22.9</b>	<b>\$ 203.1</b>	<b>\$ 77.2</b>
<b>Net contribution (loss):</b>				
(Revenues less cost of sales, clearing and related expenses, variable bonus compensation and bad debt expense):				
Commodity and risk management services	\$ 27.3	\$ 2.0	\$ 58.8	\$ 10.7
Foreign exchange	6.7	7.3	21.0	16.1
Securities	1.7	3.8	7.4	19.8
Clearing and execution services	4.0		7.8	
Other	1.9	1.0	5.5	0.4
<b>Total</b>	<b>\$ 41.6</b>	<b>\$ 14.1</b>	<b>\$ 100.5</b>	<b>\$ 47.0</b>
<b>Net segment income (loss):</b>				
(Operating revenues less interest expense and direct costs allocated to segments):				
Commodity and risk management services	\$ 18.8	\$ 0.3	\$ 36.2	\$ 4.5
Foreign exchange	5.2	6.1	16.4	12.6
Securities	0.2	2.5	3.1	17.1
Clearing and execution services	(0.5)		0.5	
Other	1.3	0.6	3.3	(1.0)
<b>Total</b>	<b>\$ 25.0</b>	<b>\$ 9.5</b>	<b>\$ 59.5</b>	<b>\$ 33.2</b>
<b>Reconciliation of segment income (loss) to income (loss) from operations before tax:</b>				
Net contribution allocated to segments	\$ 25.0	\$ 9.5	\$ 59.5	\$ 33.2
Costs not allocated to operating segments	11.6	4.3	36.9	16.0

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Income (loss) from operations, before tax \$ 13.4 \$ 5.2 \$ 22.6 \$ 17.2

	As of June 30, 2010	As of September 30, 2009
Total assets:		
Commodity and risk management services	\$ 670.8	\$ 699.4
Foreign exchange	88.8	38.4
Securities	42.1	50.3
Clearing and execution services	640.7	708.7
Other	23.2	23.3
Corporate unallocated	53.0	35.6
Total	\$ 1,518.6	\$ 1,555.7

**Note 19 FCStone Purchase Price Allocation**

On September 30, 2009, the Company acquired FCStone through the issuance of 8,239,319 shares of the Company's common stock. The allocation of purchase price to assets acquired and liabilities assumed as of the date of acquisition resulted in negative goodwill of \$18.5 million which was recognized as an extraordinary item in the consolidated income statement for the year ended September 30, 2009.

During the three months ended December 31, 2009, management revised the estimate of state tax allocations resulting in a reduction in the consolidated effective state tax rate. As a result, the net deferred tax assets decreased by \$3.4 million,

**Table of Contents**

including a change in estimate related to the valuation of state net operating loss carryforwards. The Company's change in estimate was the result of a change in revenue apportionment factors in certain jurisdictions due to recent integration initiatives completed subsequent to the filing of the fiscal year ended September 30, 2009 financial statements. These changes will allow the Company to file certain state income tax returns on a combined or consolidated basis. Typically, changes within the measurement period that result from new information about facts and circumstances that existed at the acquisition date are recognized through a corresponding adjustment to goodwill. However, in the absence of goodwill recorded in connection with this transaction, the \$3.4 million decrease in net deferred tax assets has been reported as an extraordinary loss in the consolidated income statement for the nine months ended June 30, 2010. During January 2010, the Company paid \$1.2 million in additional consideration related to a pre-acquisition contingency that has been reported as a \$0.8 million extraordinary loss, net of taxes, in the consolidated income statement for the nine months ended June 30, 2010.

During the three months ended June 30, 2010, the Company identified an accounting error related to the recording of goodwill in the amount of \$0.8 million, net of tax that occurred solely within the first quarter of 2010. The error arose due to the incorrect interpretation and application of authoritative accounting literature related to accounting for pre-acquisition contingencies. The Company has evaluated materiality under the guidance of SEC Staff Accounting Bulletin No. 99, Materiality, and considered relevant qualitative and quantitative factors. Based on this analysis, the Company has corrected the error through the recognition of a purchase price adjustment in the amount of \$0.8 million, net of tax, reported as an extraordinary loss in the consolidated income statement for the three months ended June 30, 2010, and a corresponding \$0.8 million, net of tax decrease in goodwill and intangible assets reported on the consolidated balance sheet at June 30, 2010. The Company's analysis supports the conclusion that this error is not material to that quarter or any prior periods impacted by the error.

**Note 20 Subsequent Events**

On July 2, 2010, FCStone, a wholly owned subsidiary of the Company, entered into a Purchase Agreement with Hanley Group Holdings, LLC; HGC Trading, LLC; HGC Asset Management, LLC; HGC Advisory Services, LLC; Hanley Alternative Trade Group, LLC; HGC Office Services, LLC; George P. Hanley; George P. Hanley Trust and George P. Hanley GRAT (the Hanley Companies or the Seller). The Hanley Companies are engaged in the business of acting as market makers and dealers in exchange traded options and futures on soft commodities; executing and trading derivatives on soft commodities in the over the counter market; and providing related advisory services.

Under the terms of the Purchase Agreement, FCStone has agreed to acquire all of the outstanding membership interests in the Hanley Companies. The purchase price for the interests will be an amount equal to the sum of the following: (1) an initial payment to be made at the closing of \$7.5 million; (2) two payments to be made within sixty days of the closing equal in aggregate to the audited adjusted net asset value (the Adjusted NAV) of the Hanley Companies as of June 30, 2010; (3) three additional payments equal to 15% of the adjusted earnings before interest and taxes (the Adjusted EBIT) of the soft commodities derivatives business of the Hanley Companies and FCStone Trading LLC (the Derivatives Division) for each twelve month period during the three year period commencing on July 1, 2010, subject to an annual limit of \$7 million and an overall maximum of \$12.5 million; and (4) a final payment based on the cumulative Adjusted EBIT of the Derivatives Division for the three year period commencing on July 1, 2010. In the event that the cumulative Adjusted EBIT equals or exceeds \$100 million, then the final EBIT Payment will be equal to \$10 million. In the event that the cumulative Adjusted EBIT is greater than \$80 million, but less than \$100 million, then the final EBIT Payment will be equal to the product of: (A) \$10 million, and (B) a fraction, the numerator of which is the amount by which the cumulative Adjusted EBIT exceeds \$80 million, and the denominator of which is \$20 million.

At the closing under the Purchase Agreement, the Company and the Seller will also enter into an option agreement (the Option Agreement), pursuant to which the Seller will have the right to elect, in its discretion, to receive up to thirty percent (30%) of the final EBIT Payment in the form of restricted shares of the common stock of the Company. The Option may be exercised by the Seller at any time during the twenty day period commencing on June 30, 2013. The option price will be equal to the greater of: (i) \$16.00 per share, or (ii) seventy five percent (75%) of the fair market value of the common stock of the Company as of June 30, 2013. The maximum number of restricted shares issuable upon the exercise of the Option is 187,500 shares. The restricted shares will be subject to restrictions on transfer which will lapse at the rate of one-third per year over the three year period commencing on June 30, 2013.

---

**Table of Contents**

**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 International Assets Holding Corporation 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.

***FCStone Transaction***

On September 30, 2009, International Assets Holding Corporation completed its acquisition of FCStone Group, Inc. (FCStone) pursuant to the merger of FCStone Group, Inc. and a wholly owned subsidiary of International Assets Holding Corporation. The acquisition of FCStone was effective on September 30, 2009, the last day of the previous fiscal year, which means that the condensed consolidated income statements of the Company for the three and nine months ended June 30, 2009 reflect the results of INTL as it existed before the transaction, while the condensed consolidated balance sheet at September 30, 2009 and June 30, 2010 and the condensed consolidated income statements for the three and nine months ended June 30, 2010 reflect the financial condition and results of INTL after the FCStone transaction.

***Recent Legislation Affecting the Financial Services Industry***

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act contains a variety of provisions designed to regulate financial markets, including credit and derivatives transactions. Many aspects of the Dodd-Frank Act are subject to rulemaking that will take effect over several years, thus making it difficult to assess the impact of the statute on the financial industry, including the Company, at this time. The Company will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act and expects to adapt successfully to any new applicable legislative and regulatory requirements.

***Principal Activities***

INTL forms a financial services group employing 641 people in offices in eleven countries. The Company's services include comprehensive risk management advisory services for commercial customers; execution of listed futures and option contracts on all major 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 approximately 10,000 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.

Prior to the acquisition of FCStone in September 2009, the Company's activities were divided into five reportable segments: International Equities Market-Making, Foreign Exchange Trading, Commodities Trading, International Debt Capital Markets and Asset Management. FCStone divided its activities into four reportable segments, which consisted of Commodity and Risk Management Services, Clearing and Execution Services, Financial Services, and a Corporate and Other segment. The Company revised its segment reporting as a result of the FCStone acquisition, and the Company's activities are now 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.



---

## **Table of Contents**

To conform to current segment presentation, the Company has reclassified certain prior period balances. The condensed consolidated income statements of the Company for the three and nine months ended June 30, 2009 reflect the results of the Company prior to the FCStone transaction, as reclassified to conform to the current segment presentation.

### ***Commodity and Risk Management Services ( C&RM )***

The Company serves its commercial customers through its force of 119 risk management consultants with a 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 may offset the customer's transaction simultaneously with one of its trading counterparties. Alternatively, the OTC trade desk will accept a customer transaction and 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 customers.

In addition, the Company provides a full range of trading and hedging capabilities to select producers, consumers, recyclers and investors in precious metals and certain base metals. 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 all of its physical commodities revenues on a gross basis. Operating revenues and losses from the Company's commodities derivatives activities are recorded in Trading gains. Inventory for the commodities business is valued at the lower of cost or market 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. This price risk mitigation does not generally qualify for hedge accounting under accounting principles generally accepted in the U.S. ( U.S. GAAP ). 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.

The C&RM segment combines FCStone's Commodity and Risk Management Services segment with the activities previously reported in the Company's Commodities Trading segment.

### ***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.

The foreign exchange segment combines the activities previously reported in the Company's Foreign Exchange Trading segment and FCStone's foreign exchange activity which had been reported in its Commodity and Risk Management Services segment.

## **Table of Contents**

### ***Securities***

Through INTL Trading, the Company acts as a wholesale market maker in select foreign securities including unlisted ADRs and foreign ordinary shares. INTL Trading provides execution and liquidity to national broker-dealers, regional broker-dealers and institutional investors.

The Company 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 occasion the Company may invest its own capital in debt instruments before selling them. It also actively trades in a variety of international debt instruments.

The Securities segment combines the activities previously reported in the Company's International Equities Market-making and International Debt Capital Markets segments.

### ***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 Futures Commission Merchants ( FCM ).

The CES segment consists of FCStone's activities previously reported in its clearing and execution services segment.

### ***Other***

This segment combines activities previously reported in the Company's Asset Management segment and in FCStone's Financial Services and Corporate and Other segments.

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 serves as a grain financing and facilitation business lending to commercial grain-related companies against physical grain inventories. Sale and repurchase agreements are used to purchase grain evidenced by warehouse receipts at local grain elevators subject to a simultaneous agreement to sell such grain back to the original seller at a later date. These transactions are accounted for as product financing arrangements, and accordingly no grain inventory, grain purchases or grain sales are recorded. The Company also serves as a financing vehicle for a number of different commodities, including grain, energy products and renewable fuels.

### ***Executive Summary***

During the first nine months of fiscal year 2010 many of the Company's businesses were constrained by the effect of historically low interest rates and the diminished level of global business activity. While interest rates continued to affect the business during the three months ended June 30, 2010, commercial client volumes have strengthened compared with the levels experienced in the first six months of the fiscal year. The Company was able to preserve bottom line profitability in spite of these difficult economic conditions due to the maintenance of key commercial relationships and a flexible cost structure.

In the three and nine months ended June 30, 2010, decreased levels of activity in our equities and debt capital markets businesses and exchange traded clearing business limited the profitability in our Securities and CES segments, while the increased activity with our commercial client base has benefited our C&RM and Foreign Exchange segments. While customer assets on deposit increased in the third quarter, historically low short term interest rates constrained the level of interest income recognized during both the quarter and year to date periods. Customer volumes in the foreign exchange business continue to grow with the addition of new customers in the treasury and global payments area most notably from financial institutions. These gains were partially offset by a narrowing of spreads in the currencies in which we transact.



**Table of Contents**

Selected Summary Financial Information

As discussed in previous filings and elsewhere in this Form 10-Q, the requirements of accounting principles generally accepted in the United States ( U.S. GAAP ) to carry derivatives at fair value but physical commodities inventory at the lower of cost or market value 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, U.S. GAAP does not require us to reflect changes in estimated values of forward commitments to purchase and sell commodities.

For these reasons, management 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 shareholders 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 shareholders equity). The Company has also included the estimated tax liability which would have been incurred as a result of these adjustments, utilizing a blended 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 valued as fair value assets under GAAP, our physical commodities inventory would be classified as level 2 assets.

**Table of Contents****Adjusted Non-GAAP Financial Information (Unaudited)**

(in millions, except ratio)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
<b>U.S. GAAP Data:</b>				
Operating revenues	\$ 78.1	\$ 22.9	\$ 203.1	\$ 77.2
Income from operations, before tax	\$ 13.4	\$ 5.2	\$ 22.6	\$ 17.2
Net income attributable to International Assets Holding Corporation common shareholders	\$ 6.7	\$ 3.6	\$ 9.9	\$ 10.9
Shareholders' equity	\$ 251.8	\$ 84.2	\$ 251.8	\$ 84.2
<b>Adjusted Non-GAAP Data (Unaudited):</b>				
Data adjusted (on a marked to market basis):				
Operating revenues as stated above	\$ 78.1	\$ 22.9	\$ 203.1	\$ 77.2
Marked-to-market adjustment	(5.6)	1.0	(4.8)	2.8
Adjusted operating revenues, marked to market	\$ 72.5	\$ 23.9	\$ 198.3	\$ 80.0
Income from operations, before tax as stated above	\$ 13.4	\$ 5.2	\$ 22.6	\$ 17.2
Marked-to-market adjustment	(5.6)	1.0	(4.8)	2.8
Adjusted income from operations, before tax	\$ 7.8	\$ 6.2	\$ 17.8	\$ 20.0
Net income attributable to International Assets Holding Corporation common shareholders as stated above	\$ 6.7	\$ 3.6	\$ 9.9	\$ 10.9
Marked-to-market adjustment	(5.6)	1.0	(4.8)	2.8
Tax effect at blended rate of 37.5%	2.1	(0.4)	1.8	(1.0)
Adjusted net income attributable to International Assets Holding Corporation common shareholders	\$ 3.2	\$ 4.2	\$ 6.9	\$ 12.7
Shareholders' equity as stated above	\$ 251.8	\$ 84.2		
Cumulative marked-to-market adjustment	6.2	6.9		
Tax effect at blended rate of 37.5%	(2.3)	(2.6)		
Adjusted shareholders' equity (non-GAAP)	\$ 255.7	\$ 88.5		

Adjusted operating revenues, adjusted net income and adjusted shareholders' 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 shareholders' 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, 2010 and 2009, respectively. The quarters will be referred to in this discussion as "Q3 2010" and "Q3 2009", and the nine month periods as "YTD 2010" and "YTD 2009". This discussion refers to both U.S. GAAP results and adjusted marked-to-market information, in accordance with the information presented above under the heading "Adjusted Non-GAAP Financial Information". For the Foreign Exchange, Securities, Clearing and Execution Services and Other segments, there are no differences between the U.S. GAAP results and the adjusted marked-to-market results. Only the Commodity and Risk Management Services segment has differences between the U.S. GAAP results and the adjusted marked-to-market results. This means that there are differences between the U.S. GAAP basis and the non-GAAP basis numbers for 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.

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

The discussion below relates only to continuing operations. All revenues and expenses relating to discontinued operations have been removed from disclosures of total revenues and expenses in all periods and are reflected in a net discontinued operations number.

- 33 -

**Table of Contents****Financial Overview (Unaudited)**

(in millions)	Three Months Ended June 30, %			Nine Months Ended June 30, %		
	2010	Change	2009	2010	Change	2009
Operating revenues	\$ 78.1	241%	\$ 22.9	\$ 203.1	163%	\$ 77.2
Marked-to-market adjustment (Non-GAAP)	(5.6)	n/m	1.0	(4.8)	n/m	2.8
Adjusted operating revenues (non-GAAP)	72.5	203%	23.9	198.3	148%	80.0
Interest expense	2.7	69%	1.6	7.5	21%	6.2
Adjusted net revenues (non-GAAP)	69.8	213%	22.3	190.8	159%	73.8
Non-interest expenses	62.0	285%	16.1	173.0	222%	53.8
Adjusted income from operations, before tax (non-GAAP)	\$ 7.8	26%	\$ 6.2	\$ 17.8	(11)%	\$ 20.0

**Reconciliation of net revenues from GAAP to adjusted, non-GAAP numbers:**

Net revenues	\$ 75.4		\$ 21.3	\$ 195.6		\$ 71.0
Marked-to-market adjustment (Non-GAAP)	(5.6)		1.0	(4.8)		2.8
Adjusted net revenues (non-GAAP)	\$ 69.8		\$ 22.3	\$ 190.8		\$ 73.8

**Reconciliation of income from operations, before tax from GAAP to adjusted, non-GAAP numbers:**

Income before income tax and minority interest	\$ 13.4		\$ 5.2	\$ 22.6		\$ 17.2
Marked-to-market adjustment (Non-GAAP)	(5.6)		1.0	(4.8)		2.8
Adjusted income from operations, before tax (non-GAAP)	\$ 7.8		\$ 6.2	\$ 17.8		\$ 20.0

*Q3 2010 Operating Revenues vs. Q3 2009 Operating Revenues*

The acquisition of FCStone was completed on September 30, 2009, therefore the results of FCStone are reflected in the results of operations for the Company for the three months ended June 30, 2010, but are not reflected in the three months ended June 30, 2009.

The Company's operating revenues under U.S. GAAP for Q3 2010 and Q3 2009 were \$78.1 million and \$22.9 million, respectively. This 241% increase in operating revenue was primarily a result of the FCStone acquisition. The operations of FCStone contributed \$50.5 million in operating revenues for Q3 2010. For the three months ended May 31, 2009, FCStone reported total revenues of \$57.5 million. There were increases in operating revenues of 1,120% in the C&RM segment and 9% in the Foreign Exchange segment, partially offset by a decrease of 39% in the Securities segment. The CES segment which consists entirely of revenues from FCStone contributed \$16.9 million in operating revenues in Q3 2010, while the Other segment contributed \$2.4 million in operating revenues compared to \$1.2 million in Q3 2009.

Operating revenues increased in C&RM in Q3 2010 with both exchange traded and OTC volumes increasing in the soft commodities business over the prior year period. Additionally, our precious metals business was affected by increased demand in both Singapore and Dubai, and our base metals business benefited from the effect of higher base metals prices. Operating revenues in the Foreign Exchange segment in Q3 2010 were affected by the narrowing of spreads in the global payments business, partially offset by an increase in the number of transactions handled. Operating revenues in the Securities segment in Q3 2010 were affected by continued low levels of volume and volatility, and had an adverse effect on our international equities market-making business. Operating revenues in the CES segment in Q3 2010 were constrained by continued low short term interest rates, despite an increase in customer deposits, and adversely affected by lower exchange traded volumes. While the lack of demand and risk intolerance caused by the global financial crisis continues to adversely affect our debt arrangement and placement business, the acquisition effective April 2009 of Compania Inversora Bursatil S.A. Sociedad de Bolsa ( CIBSA ) in Argentina has increased our debt trading revenues. See the segmental analysis below for additional information on activity in each of the segments.

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Operating revenues for Q3 2010 include a mark-to-market gain of \$1.1 million on interest rate swaps entered into during the quarter to manage a portion of our aggregate interest rate position.

The Company's adjusted operating revenues were \$72.5 million in Q3 2010, compared with \$23.9 million in Q3 2009, an increase of \$48.6 million. The only difference between operating revenues and adjusted operating revenues, a non-GAAP measure, is the gross marked-to-market adjustment of (\$5.6) million and \$1.0 million for Q3 2010 and Q3 2009, respectively. The gross marked-to-market adjustment only affects the adjusted operating revenues in the C&RM segment. Adjusted operating revenues are identical to operating revenues in all other segments.

- 34 -



**Table of Contents***YTD 2010 Operating Revenues vs. YTD 2009 Operating Revenues*

The acquisition of FCStone was completed on September 30, 2009. As a result, the operating revenues of FCStone are reflected in the results of operations for the Company for the nine months ended June 30, 2010, but are not reflected in the nine months ended June 30, 2009.

The Company's operating revenues under U.S. GAAP for YTD 2010 and YTD 2009 were \$203.1 million and \$77.2 million, respectively. This 163% increase in operating revenue was primarily a result of the FCStone acquisition. The operations of FCStone contributed \$135.8 million in operating revenues for YTD 2010. For the nine months ended May 31, 2009, FCStone reported total revenues of \$199.7 million. There were increases in operating revenues of 444% in the C&RM segment and 50% in the Foreign Exchange segment, partially offset by a decrease of 57% in the Securities segment. The CES segment which consists entirely of revenues from FCStone operations contributed \$47.5 million in operating revenues in YTD 2010, while the Other segment contributed \$6.8 million in operating revenues compared to \$2.4 million in YTD 2009.

While operating revenues increased in C&RM in YTD 2010, our soft commodities business was affected by a decrease in over-the-counter business from the prior year period which had benefited from the de-leveraging in the commodities markets. Exchange traded contract volumes increased over the prior year period, primarily in the agricultural commodities. Additionally, our precious metals business was affected by elevated prices, which constrained volumes and customer activity, and our base metals business was affected increased customer demand and wider spreads which augmented trading profits. Operating revenues in the Foreign Exchange segment in YTD 2010 were affected by narrower spreads, despite an increase in customer trade volumes, primarily with financial institutions. Operating revenues in the Securities segment in YTD 2010 were affected by low levels of volume and volatility in the international equities markets, which had reached unprecedented levels in YTD 2009. Operating revenues in the CES segment in YTD 2010 were constrained by continued low short term interest rates, despite an increase in customer deposits, and adversely affected by a trading loss on positions acquired from an under-margined clearing customer. While the lack of demand and risk intolerance caused by the global financial crisis continues to adversely affect our debt arrangement and placement business, the acquisition effective April 2009 of CIBSA in Argentina has increased our debt trading revenues. See the segmental analysis below for additional information on activity in each of the segments.

The Company's adjusted operating revenues were \$198.3 million in YTD 2010, compared with \$80.0 million in YTD 2009, an increase of \$118.3 million. The only difference between operating revenues and adjusted operating revenues, is the gross marked-to-market adjustment of (\$4.8) million and \$2.8 million, for YTD 2010 and YTD 2009, respectively. The gross marked-to-market adjustment only affects the adjusted operating revenues in the C&RM segment. Adjusted operating revenues are identical to operating revenues in all other segments.

*Q3 2010 Interest expense vs. Q3 2009 Interest expense*

**Interest expense:** Interest expense increased from \$1.6 million for Q3 2009 to \$2.7 million for Q3 2010. Excluding interest expense in the FCStone operations of \$0.7 million, interest expense increased by \$0.4 million, or 25%, as a result of increased average borrowings. In mid-2008 the Company entered into two three-year interest rate swaps for a total of \$100 million. These were designated as cash flow hedges. The Company discontinued hedge accounting for one of the swaps during the quarter, which resulted in reclassifying a portion of the deferred loss to earnings during the period. See Note 7 to the condensed consolidated financial statements for further information. The Company pays a fixed 3.66% (on average), and receives a variable rate equal to one-month LIBOR. One-month LIBOR was lower than the fixed rate of 3.66% paid by the Company for much of Q3 2010, resulting in a net interest expense on the swaps. The effective portion of the change in cash flows from the hedge of the remaining forecasted payments during Q3 2010 had the effect of increasing the Company's reported interest expense by \$0.5 million.

*YTD 2010 Interest expense vs. YTD 2009 Interest expense*

**Interest expense:** Interest expense increased by 21% from \$6.2 million in YTD 2009 to \$7.5 million in YTD 2010. Excluding interest expense in the FCStone operations of \$2.3 million, interest expense declined \$1.0 million, or 16% as a result of decreased average borrowings and lower interest rates. The effective portion of the change in cash flows from the hedge of the remaining forecasted payments (referred to in the paragraph above) during YTD 2010 had the effect of increasing the Company's reported interest expense by \$1.7 million.

**Table of Contents**

## 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, %		
	2010	Change	2009	2010	Change	2009
<b>NON-INTEREST EXPENSES</b>						
Compensation and benefits	\$ 25.9	178%	\$ 9.3	\$ 73.0	131%	\$ 31.6
Clearing and related expenses	17.8	324%	4.2	51.7	298%	13.0
Other non-interest expenses						
- Communication and data services	2.7	350%	0.6	7.9	427%	1.5
- Introducing broker commissions	5.2	n/m		14.1	n/m	
- Occupancy and equipment rental	1.5	400%	0.3	4.5	463%	0.8
- Professional fees	2.0	300%	0.5	5.6	273%	1.5
- Depreciation and amortization	0.4	100%	0.2	0.8	33%	0.6
- Bad debts and impairments	2.0	n/m		2.3	21%	1.9
- Other expense	4.5	350%	1.0	13.1	352%	2.9
	18.3	604%	2.6	48.3	425%	9.2
<b>Total non-interest expenses</b>	<b>\$ 62.0</b>	<b>285%</b>	<b>\$ 16.1</b>	<b>\$ 173.0</b>	<b>222%</b>	<b>\$ 53.8</b>

*Q3 2010 Non-Interest Expenses vs. Q3 2009 Non-Interest Expenses*

**Total Non-Interest Expenses:** Non-interest expenses increased by 285% from \$16.1 million in Q3 2009 to \$62.0 million in Q3 2010. Excluding expenses in the FCStone operations of \$46.1 million, non-interest expenses decreased \$0.2 million, or 1%.

**Compensation and Benefits:** Compensation and benefits expense increased by 178% from \$9.3 million to \$25.9 million, and represented 42% and 58% of total non-interest expenses in Q3 2010 and Q3 2009, respectively. Total compensation and benefits were 33% of operating revenues in Q3 2010 compared to 41% in Q3 2009. The variable portion of compensation and benefits increased by 203% from \$3.7 million in Q3 2009 to \$11.2 million in Q3 2010, mainly as a result of the 241% increase in operating revenues compared to the prior year. The fixed portion of compensation and benefits increased 163% from \$5.6 million to \$14.7 million. The number of employees increased from 630 at the beginning of Q3 2010 to 641 at the end of Q3 2010, compared with 185 employees at the end of Q3 2009 primarily as a result of the FCStone acquisition.

**Clearing and Related Expenses:** Clearing and related expenses increased by 324% from \$4.2 million in Q3 2009 to \$17.8 million in Q3 2010. This increase was primarily driven by the Company's addition of the CES segment, as a result of the FCStone acquisition, and increased clearing costs in CIBSA, acquired in April 2009. This increase was partially offset by a significant decline in clearing costs in the Securities segment related to the lower volumes in the international equities business.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 604% from \$2.6 million in Q3 2009 to \$18.3 million in Q3 2010. The operations of FCStone contributed \$14.4 million in other non-interest expenses in Q3 2010. Other non-interest expenses include bad debt expense, net of \$2.0 million. During Q3 2010, FCStone recorded a charge to bad debt expense of approximately \$2.3 million related to a disputed trade that was given-up to FCStone by another futures commission merchant (the FCM) for a customer that held an account with us. Despite expressly informing the FCM that the Company would not accept the give-up trade, the give-up trade was submitted through the electronic clearing process and erroneously cleared by FCStone, generating a deficit in the customer's trading account. The customer lacked the financial capacity to cover the account deficit, and FCStone has filed a complaint and is seeking legal relief through arbitration against the FCM to have the give-up transaction rescinded, with an award of appropriate damages.

**Provision for Taxes:** The effective income tax rate on a U.S. GAAP basis was 36% in Q3 2010, compared with 26% in Q3 2009. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

## Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

**Non-controlling Interest:** This represents the non-controlling interests in INTL Gainvest Capital Uruguay S.A. During February 2009, the Company acquired the 50% interest held by our joint venture partner in INTL Commodities DMCC, making this company a wholly-owned subsidiary for all of Q3 2010. During Q1 of 2010, the Company discontinued and began the process of effecting an orderly liquidation of its joint venture, INTL Sieramet, LLC.

- 36 -

**Table of Contents**

**Loss (Income) from Discontinued Operations:** Effective June 30, 2009, the Company discontinued the operations of Agora-X, LLC, as it was determined that its carrying value would no longer be recoverable and was in fact impaired. The current and historic results are included within discontinued operations on the condensed consolidated income statements with effect from the December 31, 2009 quarter. Effective April 30, 2009, the Company sold its interest in INTL Consilium, LLC, whose current and historic results are included within discontinued operations on the condensed consolidated income statements with effect from the June 30, 2009 quarter. There was a loss of \$1.1 million from discontinued operations, net of taxes for Q3 2010 and a loss of \$0.2 million, net of taxes, for Q3 2009.

*YTD 2010 Non-Interest Expenses vs. YTD 2009 Non-Interest Expenses*

**Total Non-Interest Expenses:** Non-interest expenses increased by 222% from \$53.8 million in YTD 2009 to \$173.0 million in YTD 2010. Excluding expenses in the FCStone operations of \$125.4 million, non-interest expenses decreased \$6.2 million, or 12%.

**Compensation and Benefits:** Compensation and benefits expense increased by 131% from \$31.6 million to \$73.0 million, and represented 42% and 59% of total non-interest expenses in YTD 2010 and YTD 2009, respectively. Total compensation and benefits were 36% of operating revenues for YTD 2010 compared to 41% for YTD 2009. The variable portion of compensation and benefits increased by 113% from \$15.2 million in YTD 2009 to \$32.3 million in YTD 2010, mainly as a result of the increase in operating revenues as compared to the prior year. The fixed portion of compensation and benefits increased 148% from \$16.4 million to \$40.7 million. The number of employees increased from 625 at the beginning of fiscal year 2010 to 641 at the end of Q3 2010, compared with 185 employees at the end of YTD 2009 primarily as a result of the FCStone acquisition.

**Clearing and Related Expenses:** Clearing and related expenses increased by 298% from \$13.0 million in YTD 2009 to \$51.7 million in YTD 2010. This increase was primarily driven by the Company's addition of the CES segment, as a result of the FCStone acquisition, and increased clearing costs in CIBSA, acquired in April 2009. This increase was primarily offset by a significant decline in clearing costs in the Securities segment related to the lower volumes in the international equities business.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 425% from \$9.2 million in YTD 2009 to \$48.3 million in YTD 2010. The operations of FCStone contributed \$35.8 million in other non-interest expenses in Q3 2010. Other non-interest expenses include bad debt expense, net of \$1.6 million, primarily related to the disputed trade given-up to FCStone causing a customer deficit, as discussed above, and an impairment charge of \$0.7 million related to the Company's investment in INTL Sieramet in Q1 2010.

**Provision for Taxes:** The effective income tax rate on a U.S. GAAP basis was 36% in YTD 2010, compared with 28% in YTD 2009. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

**Non-controlling Interest:** This represents the non-controlling interests in INTL Gainvest Capital Uruguay S.A. for the nine months ended June 30, 2010. During February 2009, the Company acquired the 50% interest held by our joint venture partner in INTL Commodities DMCC, making this company a wholly-owned subsidiary for all of Q3 2010. During Q1 of 2010, the Company discontinued and began the process of effecting an orderly liquidation of its joint venture, INTL Sieramet, LLC. During Q2 of 2010, the Company sold its majority interest in Agora-X, LLC to its joint venture partner.

**Loss (Income) from Discontinued Operations:** Effective June 30, 2009, the Company discontinued the operations of Agora-X, LLC, as it was determined that its carrying value would no longer be recoverable and was in fact impaired. The current and historic results are included within discontinued operations on the condensed consolidated income statements with effect from the December 31, 2009 quarter. Effective April 30, 2009, the Company sold its interest in INTL Consilium, LLC, whose current and historic results are included within discontinued operations on the condensed consolidated income statements with effect from the June 30, 2009 quarter. There was a loss of \$0.7 million from discontinued operations, net of taxes for YTD 2010, and a loss of \$1.0 million for YTD 2009.

**Table of Contents****Variable vs. Fixed Expenses**

(in millions)	Three Months Ended June 30,			
	2010	% of Total	2009	% of Total
<b>VARIABLE vs. FIXED EXPENSES</b>				
Variable clearing and related expenses	\$ 17.1	28%	\$ 4.2	26%
Variable compensation	11.2	18%	3.7	23%
Introducing broker commissions	5.2	8%		0%
<b>Total variable expenses</b>	<b>33.5</b>	<b>54%</b>	<b>7.9</b>	<b>49%</b>
Fixed expenses	26.0	42%	8.2	51%
Bad debts and impairments	2.5	4%		0%
<b>Total non-variable expenses</b>	<b>28.5</b>	<b>46%</b>	<b>8.2</b>	<b>51%</b>
<b>Total non-interest expenses</b>	<b>\$ 62.0</b>	<b>100%</b>	<b>\$ 16.1</b>	<b>100%</b>

(in millions)	Nine Months Ended June 30,			
	2010	% of Total	2009	% of Total
<b>VARIABLE vs. FIXED EXPENSES</b>				
Variable clearing and related expenses	\$ 50.3	29%	\$ 13.0	24%
Variable compensation	32.3	19%	15.2	28%
Introducing broker commissions	14.1	8%		0%
<b>Total variable expenses</b>	<b>96.7</b>	<b>56%</b>	<b>28.2</b>	<b>52%</b>
Fixed expenses	74.1	43%	23.7	44%
Bad debts and impairments	2.2	1%	1.9	4%
<b>Total non-variable expenses</b>	<b>76.3</b>	<b>44%</b>	<b>25.6</b>	<b>48%</b>
<b>Total non-interest expenses</b>	<b>\$ 173.0</b>	<b>100%</b>	<b>\$ 53.8</b>	<b>100%</b>

The Company aims 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, 2010 and 2009, respectively. Variable expenses consist of clearing and related expenses, variable compensation paid to traders, bonuses paid to operational employees and introducing broker commissions. As a percentage of total non-interest expenses, variable expenses increased from 49% in Q3 2009 to 54% in Q3 2010. As a percentage of total non-interest expenses, variable expenses increased from 52% in YTD 2009 to 56% in YTD 2010.

**Table of Contents****Segment Information**

The following table shows information concerning the Company's principal business segments.

(in millions)	Three Months Ended June 30, %			Nine Months Ended June 30, %		
	2010	Change	2009	2010	Change	2009
<b>SEGMENTAL RESULTS</b>						
<b>Commodity &amp; Risk Management Services (C&amp;RM)</b>						
Operating revenues	\$ 42.7	1,120%	\$ 3.5	\$ 99.6	444%	\$ 18.3
Gross marked-to-market adjustment (non-GAAP)	(5.6)	n/m	1.0	(4.8)	n/m	2.8
Adjusted operating revenues (non-GAAP)	37.1	724%	4.5	94.8	349%	21.1
- Interest expense	2.1	425%	0.4	4.5	150%	1.8
- Variable direct expenses	13.3	1,109%	1.1	36.3	526%	5.8
Adjusted net contribution (non-GAAP)	21.7	623%	3.0	54.0	300%	13.5
- Non-variable direct expenses	8.5	400%	1.7	22.6	265%	6.2
Adjusted segment income (non-GAAP)	13.2	915%	1.3	31.4	330%	7.3
<b>Foreign Exchange</b>						
Operating revenues	\$ 11.8	9%	\$ 10.8	\$ 35.8	50%	\$ 23.9
- Interest expense	0.2	100%	0.1	0.5	67%	0.3
- Variable direct expenses	4.9	44%	3.4	14.4	92%	7.5
Net contribution	6.7	(8)%	7.3	20.9	30%	16.1
- Non-variable direct expenses	1.5	25%	1.2	4.5	29%	3.5
Segment income	5.2	(15)%	6.1	16.4	30%	12.6
<b>Securities</b>						
Operating revenues	\$ 4.2	(39)%	\$ 6.9	\$ 14.6	(57)%	\$ 33.9
- Interest expense	0.1	n/m		0.3	n/m	
- Variable direct expenses	2.3	(26)%	3.1	6.8	(52)%	14.1
Net contribution	1.8	(53)%	3.8	7.5	(62)%	19.8
- Non-variable direct expenses	1.6	23%	1.3	4.4	63%	2.7
Segment income	0.2	(92)%	2.5	3.1	(82)%	17.1
<b>Clearing &amp; Execution Services (CES)</b>						
Operating revenues	\$ 16.9	n/m	\$	\$ 47.5	n/m	\$
- Interest expense	0.3	n/m		1.5	n/m	
- Variable direct expenses	12.7	n/m		38.2	n/m	
Net contribution	3.9	n/m		7.8	n/m	
- Non-variable direct expenses	4.4	n/m		7.3	n/m	
Segment income	(0.5)	n/m		0.5	n/m	

Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

**Other**

Operating revenues	\$ 2.4	100%	\$ 1.2	\$ 6.8	183%	\$ 2.4
- Interest expense	0.1	n/m		0.1	(92)%	1.2
- Variable direct expenses	0.4	100%	0.2	1.2	50%	0.8
Net contribution	1.9	90%	1.0	5.5	1,275%	0.4
- Non-variable direct expenses	0.6	50%	0.4	2.2	57%	1.4
Segment income	1.3	117%	0.6	3.3	n/m	(1.0)

**Total Segmental Results**

Operating revenues	\$ 78.0	248%	\$ 22.4	\$ 204.3	160%	\$ 78.5
Gross marked-to-market adjustment (non-GAAP)	(5.6)	n/m	1.0	(4.8)	n/m	2.8
Adjusted operating revenues (non-GAAP)	72.4	209%	23.4	199.5	145%	81.3
- Interest expense	2.8	460%	0.5	6.9	109%	3.3
- Variable direct expenses	33.6	331%	7.8	96.9	244%	28.2
Adjusted net contribution (non-GAAP)	36.0	138%	15.1	95.7	92%	49.8
- Non-variable direct expenses	16.6	261%	4.6	41.0	197%	13.8
Adjusted net segment income (non-GAAP)	\$ 19.4	85%	\$ 10.5	\$ 54.7	52%	\$ 36.0

**Reconciliation of C&RM net contribution from GAAP to adjusted, non-GAAP numbers:**

Total C&RM net contribution	\$ 27.3		\$ 2.0	\$ 58.8		\$ 10.7
Gross marked-to-market adjustment (non-GAAP)	(5.6)		1.0	(4.8)		2.8
C&RM adjusted net contribution (non-GAAP)	\$ 21.7		\$ 3.0	\$ 54.0		\$ 13.5

**Reconciliation of C&RM segment income from GAAP to adjusted, non-GAAP numbers:**

Total C&RM segment income	\$ 18.8		\$ 0.3	\$ 36.2		\$ 4.5
Gross marked-to-market adjustment (non-GAAP)	(5.6)		1.0	(4.8)		2.8
C&RM adjusted segment income (non-GAAP)	\$ 13.2		\$ 1.3	\$ 31.4		\$ 7.3

**Reconciliation of total operating revenues from GAAP to adjusted, non-GAAP numbers:**

Total operating revenues	\$ 78.1		\$ 22.9	\$ 203.1		\$ 77.2
Gross marked-to-market adjustment (non-GAAP)	(5.6)		1.0	(4.8)		2.8
Operating revenue not assigned to a segment	(0.1)		(0.5)	1.2		1.3
Adjusted segment operating revenues (non-GAAP)	\$ 72.4		\$ 23.4	\$ 199.5		\$ 81.3

**Reconciliation of net contribution from GAAP to adjusted, non-GAAP numbers:**

Total net contribution	\$ 41.6		\$ 14.1	\$ 100.5		\$ 47.0
Gross marked-to-market adjustment (non-GAAP)	(5.6)		1.0	(4.8)		2.8
Adjusted net contribution (non-GAAP)	\$ 36.0		\$ 15.1	\$ 95.7		\$ 49.8

**Reconciliation of segment income from GAAP to adjusted, non-GAAP numbers:**

Total net segment income	\$ 25.0		\$ 9.5	\$ 59.5		\$ 33.2
Gross marked-to-market adjustment (non-GAAP)	(5.6)		1.0	(4.8)		2.8
Adjusted net segment income (non-GAAP)	\$ 19.4		\$ 10.5	\$ 54.7		\$ 36.0





---

**Table of Contents**

*Q3 2010 vs. Q3 2009 Segmental Analysis*

The net contribution of all the Company's business segments was \$41.6 million in Q3 2010, compared with \$14.1 million in Q3 2009. The adjusted net contribution of all the Company's business segments was \$36.0 million in Q3 2010, compared with \$15.1 million in Q3 2009. The operations of FCStone contributed \$22.5 million to both net contribution and adjusted net contribution in Q3 2010.

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 traders represents a fixed percentage of an amount equal to revenues produced less clearing and related charges, base salaries and an overhead allocation.

Total segment income was \$25.0 million in Q3 2010, compared with \$9.5 million in Q3 2009. Total adjusted segment income was \$19.4 million in Q3 2010, compared with \$10.5 million in Q3 2009. The operations of FCStone contributed \$10.9 million to both total segment income and adjusted segment income in Q3 2010.

Segment income is calculated as net contribution less certain 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, travel, professional fees and bad debt expense.

**Commodity and Risk Management Services** Operating revenues under U.S. GAAP increased from \$3.5 million in Q3 2009 to \$42.7 million in Q3 2010. Adjusted operating revenues increased by 724% from \$4.5 million in Q3 2009 to \$37.1 million in Q3 2010. The operations of FCStone contributed \$27.9 million to both operating revenues and adjusted operating revenues in Q3 2010.

Exchange traded and over the counter volumes and revenues increased over the year ago period in the soft commodity business, which includes primarily agricultural and energy commodities. An increase in underlying volatility in agricultural commodities, combined with significant levels of inventory which has to be marketed in advance of the new years harvest were the main drivers of the increase in exchange traded volumes. Over the counter volumes and revenues increased over the year ago period as commercial customers primarily in the agricultural commodities markets have started to implement the Company's risk management strategies, particularly in the international markets including Brazil. While the absolute level of customer deposits has modestly increased over the year ago period, historically low short term interest rates continued to negatively affect the level of interest income earned in this segment during the three months ended June 30, 2010.

Precious metals operating revenues increased from \$4.1 million in Q3 2009 to \$8.1 million in Q3 2010. Precious metals adjusted operating revenues increased from \$2.5 million in Q3 2009 to \$5.8 million in Q3 2010. These increases were primarily a result of a significant increase in business activity in Singapore and Dubai markets.

Base metals operating revenues increased from a loss of \$0.6 million in Q3 2009 to \$6.7 million in Q3 2010. Base metals adjusted operating revenues increased from \$2.0 million in Q3 2009 to \$3.4 million in Q3 2010. Base metals operating revenues increased primarily due to the effect higher base metal prices as compared to the prior year period. Low base metals pricing in the year ago period, resulted in lower level of recycling activity in that period driving down volumes in that business.

Segment income increased from \$0.3 million in Q3 2009 to \$18.8 million in Q3 2010. Adjusted segment income increased from \$1.3 million to \$13.2 million. The operations of FCStone contributed \$9.6 million to both segment income and adjusted segment income in Q3 2010.

**Foreign exchange trading** Operating revenues increased by 9% from \$10.8 million in Q3 2009 to \$11.8 million in Q3 2010. The operations of FCStone contributed \$5.4 million to operating revenues in Q3 2010. The volume of trades in the Company's global payments business increased from the prior year period. However spreads in the currencies in which we deal narrowed from the prior year period, which had benefited from the effects of the global economic crisis. The volumes in the global payments business continued to benefit from an increase in customers consisting primarily of financial institutions and our ability to offer an electronic transaction order system to our customers.

---

**Table of Contents**

In the third quarter of 2010, the customer speculative foreign exchange business increased slightly over prior year levels and the proprietary foreign exchange arbitrage desk experienced an increase in the level of arbitrage opportunities in the cash versus futures markets.

Segment income decreased 15% from \$6.1 million to \$5.2 million, with the operations of FCStone contributing \$1.5 million in Q3 2010. Variable expenses expressed as a percentage of operating revenues increased from 31% to 42%, primarily as a result of the addition of the FCStone operations.

**Securities** Operating revenues decreased by 39% from \$6.9 million in Q3 2009 to \$4.2 million in Q3 2010. Operating revenues in the equities market-marking business decreased 14% from the prior year quarter, or \$0.7 million. Operating revenues in the debt capital markets business decreased from \$2.0 million in Q3 2009 to break even in Q3 2010.

Operating revenues in the equities market-making business are largely dependent on overall volume and volatility, which has continued in abatement since the onset of the global financial crisis in late 2008. While overall trading volume increased over the prior year period, spreads have narrowed in the current trading environment. 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 in the condensed consolidated income statements as clearing and related expenses.

The debt capital markets business focuses on the arranging and placing of debt issues and asset backed securitization, and debt trading in CIBSA and in Singapore. Operating revenues declined in the current quarter primarily as a result of trading losses realized on Argentinean fixed income securities.

Segment income decreased 92% from \$2.5 million to \$0.2 million. Variable expenses expressed as a percentage of operating revenues increased from 45% to 55%.

**Clearing and execution services** Operating revenues in the segment were \$16.9 million for Q3 2010 and are primarily generated from two sources: commission and clearing fee revenues from the execution and clearing of exchange-traded futures and options contracts, and interest income derived from cash balances in our customers' accounts.

Operating revenues were affected by continued low volatility in the exchange-traded markets as a result of the macro-economic conditions, as well as historically low short term interest rates. Exchange traded volumes were significantly lower than the prior year period, primarily as a result of the Company's reduction in the number of high volume professional trading customers which it provided clearing services to in the current quarter.

The segment realized a \$0.5 million loss for Q3 2010, primarily as a result of a \$2.3 million bad debt provision. The bad debt provision related to a disputed trade that was given-up to FCStone by another futures commission merchant (the FCM) for a customer that held an account with us. Despite expressly informing the FCM that the Company would not accept the give-up trade, the give-up trade was submitted through the electronic clearing process and erroneously cleared by FCStone, generating a deficit in the customer's trading account. The customer lacked the financial capacity to cover the account deficit, and FCStone has filed a complaint and is seeking legal relief through arbitration against the FCM to have the give-up transaction rescinded, with an award of appropriate damages.

Variable expenses, which are primarily clearing and related expenses, were 75% expressed as a percentage of operating revenues.

**Other** The Company's asset management segment 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. With the acquisition of FCStone, the Other segment's revenues now 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 industry.

Operating revenues increased 100% from \$1.2 million in Q3 2009 to \$2.4 million in Q3 2010. The operations of FCStone contributed \$0.3 million to operating revenues in Q3 2010. Assets under management at June 30, 2010 were approximately \$417 million compared with approximately \$707 million at June 30, 2009. Management fees increased by 25% from \$0.8 million in Q3 2009 to \$1.0 million in Q3 2010 as a result of an increase in rates, partially offset by the decline in assets under management.

---

**Table of Contents**

Segment income was \$1.3 million in Q3 2010 as compared to \$0.6 million in Q3 2009. On May 8, 2009, the Company agreed to sell its partnership interest in INTL Consilium, LLC ( INTL Consilium ) effective April 30, 2009. The results of INTL Consilium, previously consolidated, have been treated as discontinued operations with effect from the fiscal quarter ending June 30, 2009.

*YTD 2010 vs. YTD 2009 Segmental Analysis*

The net contribution of all the Company's business segments was \$100.5 million in YTD 2010, compared with \$47.0 million in YTD 2009. The adjusted net contribution of all the Company's business segments was \$95.7 million in YTD 2010, compared with \$49.8 million in YTD 2009. The operations of FCStone contributed \$55.1 million to both net contribution and adjusted net contribution in YTD 2010.

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 traders represents a fixed percentage of an amount equal to revenues produced less clearing and related charges, base salaries and an overhead allocation.

Total segment income was \$59.5 million in YTD 2010, compared with \$33.2 million in YTD 2009. Total adjusted segment income was \$54.7 million in YTD 2010, compared with \$36.0 million in YTD 2009. The operations of FCStone contributed \$28.5 million to both total segment income and adjusted segment income for YTD 2010.

Segment income is calculated as net contribution less certain 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, travel, professional fees and bad debt expense.

**Commodity and Risk Management Services** Operating revenues under U.S. GAAP increased from \$18.3 million in YTD 2009 to \$99.6 million in YTD 2010. Adjusted operating revenues increased by 349% from \$21.1 million in YTD 2009 to \$94.8 million in YTD 2010. The operations of FCStone contributed \$70.2 million to both operating revenues and adjusted operating revenues in YTD 2010.

For the YTD 2010, the soft commodity business, which includes primarily agricultural and energy commodities, has been constrained by global economic conditions, however recent volatility as well as the marketing of inventories from the prior year harvest has resulted in year over year increases in exchange traded volumes. OTC volumes are still lower than the prior year period which benefited from the de-leveraging of commodity markets, however volumes have begun to increase recently particularly in the international markets. Moderate increases in customer assets on deposit have been more than offset by continued historically low short term interest rates, which continued to negatively affect the level of interest income earned on customer deposits during the nine months ended June 30, 2010.

Precious metals operating revenues decreased from \$17.2 million in YTD 2009 to \$13.9 million in YTD 2010. Precious metals adjusted operating revenues decreased from \$15.6 million in YTD 2009 to \$13.3 million in YTD 2010. These declines have primarily been a result of business activity being dampened by the effect of higher prices.

Base metals operating revenues increased from \$1.1 million in YTD 2009 to \$15.4 million in YTD 2010. Base metals adjusted operating revenues increased from \$5.6 million in YTD 2009 to \$11.3 million in YTD 2010. Base metals operating revenues increased primarily due to increased demand from the Far East and wider spreads augmenting trading profits while rising lead prices contributed to greater arbitrage opportunities.

Segment income increased from \$4.5 million in YTD 2009 to \$36.2 million in YTD 2010. Adjusted segment income increased from \$7.3 million in YTD 2009 to \$31.4 million in YTD 2010. The operations of FCStone contributed \$21.7 million to both segment income and adjusted segment income for YTD2010.

**Foreign exchange trading** Operating revenues increased by 50% from \$23.9 million in YTD 2009 to \$35.8 million in YTD 2010. The operations of FCStone contributed \$17.1 million to operating revenues in YTD 2010. The volume of trades

---

**Table of Contents**

in the Company's global payments business increased from the prior year period, however a narrowing of spreads in the currencies in which we deal which were affected by the global economic crisis in the prior year period, offset the increase in volumes. The volumes in the global payments business continued to benefit from an increase in customers consisting primarily of financial institutions and our ability to offer an electronic transaction order system to our customers.

In YTD 2010, the customer speculative foreign exchange business experienced low volumes which were offset by activity on the proprietary foreign exchange arbitrage desk which capitalized on arbitrage opportunities in the cash versus futures markets.

Segment income increased 30% from \$12.6 million to \$16.4 million, with FCStone operations contributing \$5.8 million in YTD 2010. Variable expenses expressed as a percentage of operating revenues increased from 31% to 40%, primarily as a result of the FCStone acquisition.

**Securities** Operating revenues decreased by 57% from \$33.9 million in YTD 2009 to \$14.6 million in YTD 2010. Operating revenues in the equities market-making business decreased 57% from the prior year, or \$17.5 million. Operating revenues in the debt capital markets business decreased by 53% from the prior year, or \$1.9 million.

Operating revenues in the equities market-making business are largely dependent on overall volume and volatility, which reached unprecedented levels during the beginning of the nine months ended June 30, 2009 in response to the global financial crisis. Volume and volatility declined considerably by mid-2009 and remained in abatement through the nine months ended June 30, 2010. 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 in the condensed consolidated income statements as clearing and related expenses.

Operating revenues in the debt capital markets business declined as a result of reduced business activity which continues as a result of negative sentiment stemming from the financial crisis as well as trading losses in the third quarter on Argentinean fixed income securities, partially offset by acquisition of CIBSA. The business focuses on the arranging and placing of debt issues and asset backed securitization, and debt trading in the newly-acquired CIBSA and in Singapore.

Segment income decreased 82% from \$17.1 million to \$3.1 million. Variable expenses expressed as a percentage of operating revenues increased from 41% to 47%.

**Clearing and execution services** Operating revenues in the segment were \$47.5 million for YTD 2010 and are primarily generated from two sources: commission and clearing fee revenues from the execution and clearing of exchange-traded futures and options contracts, and interest income derived from cash balances in our customers' accounts.

Operating revenues were affected by low volatility in the exchange-traded markets as a result of the macro-economic conditions, as well as historically low short term interest rates. In addition, volumes in this segment were significantly lower than the prior year to date period as a result of the Company's reduction in the number of high volume professional trading customers which it provided clearing services to in the prior year. Operating revenues for YTD 2010 include a trading loss of \$2.3 million related to open commodity positions acquired from an under-margined customer.

Segment income was \$0.5 million for YTD 2010, primarily as a result of a \$2.3 million bad debt provision recorded in the Q3 2010, related to a disputed trade that was given-up to FCStone by another futures commission merchant for a customer that held an account with us. See Q3 2010 vs. Q3 2009 Segmental Analysis. Variable expenses, which are primarily clearing and related expenses, were 80% expressed as a percentage of operating revenues.

**Other** The Company's asset management segment 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. With the acquisition of FCStone, the Other segment's revenues now 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 industry.

Operating revenues were \$2.4 million in YTD 2009 as compared to \$6.8 million in YTD 2010. The operations of FCStone contributed \$0.9 million to operating revenues in YTD 2010. Assets under management at June 30, 2010 were approximately

## **Table of Contents**

\$417 million compared with approximately \$707 million at June 30, 2009. Management fees decreased by 19% from \$3.2 million in YTD 2009 to \$2.6 million in YTD 2010, primarily as a result of lower assets under management. Fees and commissions increased by 178% from \$0.9 million in YTD 2009 to \$2.5 million in YTD 2010 as the environment in Argentina for asset-backed securitizations improved.

Segment income was \$3.3 million in YTD 2010 as compared to a segment loss of \$1.0 million in YTD 2009. On May 8, 2009, the Company agreed to sell its partnership interest in INTL Consilium, LLC ( INTL Consilium ) effective April 30, 2009. The results of INTL Consilium, previously consolidated, have been treated as discontinued operations with effect from the fiscal quarter ending June 30, 2009.

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

### *Overview*

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 shareholders' equity and debt, as well as available credit facilities can appropriately support the anticipated financing needs of its operating subsidiaries.

At June 30, 2010, the Company had total equity capital of \$251.8 million, bank loans of \$36.0 million, subordinated debt of \$0.5 million and convertible subordinated notes of \$16.7 million.

A substantial portion of the Company's assets are liquid. At June 30, 2010, approximately 93% of the Company's assets consisted of cash; deposits and receivables from exchange-clearing organizations, broker-dealers, clearing organizations, FCMs, and counterparties; customer receivables, marketable financial instruments and investments, and physical commodities inventory, at cost. All assets that are not customer and counterparty deposits, are financed by the Company's equity capital, convertible subordinated notes, subordinated debt, 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 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.

---

**Table of Contents**

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.

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. The Company has primarily carried trade credit insurance in amounts in excess of its exposure to each of its counterparties and will adjust levels of insurance or positions with a given counterparty based on the exposure to that counterparty.

As a result of the merger with FCStone, the Company acquired notes receivable from certain customers and an introducing broker which arose from previous customer account deficits. At June 30, 2010, notes receivable related to these customer account deficits are \$128.9 million. The Company is uncertain as to the full collectability of the contractual amounts, and no assurances can be given as to the amount and timing of recovery that may be obtained under the promissory notes. The Company estimates the collectability on these notes to be \$15.4 million at June 30, 2010.

During Q3 2010, the Company recorded a charge to bad debt expense of approximately \$2.3 million related to a disputed trade that was given-up to FCStone by another FCM for a customer that held an account with us. Despite expressly informing the FCM that the Company would not accept the give-up trade, the give-up trade was submitted through the electronic clearing process and erroneously cleared by FCStone, generating a deficit in the customer's trading account. The customer lacked the financial capacity to cover the account deficit, and FCStone has filed a complaint and is seeking legal relief through arbitration against the FCM to have the give-up transaction rescinded, with an award of appropriate damages.

*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 at June 30, 2010 and September 30, 2009, were \$1,518.6 million and \$1,555.7 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. FCStone, LLC has historically utilized subordinated debt to increase its excess regulatory capital as needed.

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 Treasury and Agency securities and AA-rated money market investments.

At June 30, 2010, approximately \$10.6 million of the Company's financial instruments owned and \$5.5 million of financial instruments sold, not yet purchased, are exchangeable foreign equities and American Depository Receipts.

As of June 30, 2010, the Company had bank credit facilities of \$227.0 million, of which \$36.0 million was outstanding. As of September 30, 2009, the Company had bank facilities of \$287.0 million, of which \$163.7 million was outstanding. On January 10, 2010, the Company's subsidiary, INTL Commodities, amended its revolving syndicated loan facility, increasing the amount available under the facility to \$92.0 million. Additionally, this facility was amended on June 14, 2010, extending its commitment date until August 25, 2010. The Company is currently negotiating the renewal and possible expansion of this facility, which management expects to complete prior to August 25, 2010. The Company's subsidiary, INTL Global Currencies Limited, has a \$25.0 million facility, committed until December 17, 2010. On June 21, 2010, the Company's subsidiary, FCStone, LLC amended and restated its \$75.0 million syndicated margin line credit facility available for funding



**Table of Contents**

daily and intraday margin calls at exchanges, committed through June 22, 2011. The Company has its own \$35.0 million facility, committed until December 17, 2010. During the fourth quarter of fiscal 2010, \$92.0 million of the Company's committed credit facilities are scheduled to expire. The Company is actively negotiating renewal or replacement of the expiring facilities, and while there is no guarantee that we will be able to replace current agreements when they expire, management believes it will be able to do so.

Prior to April 1, 2010, the Company had a subordinated debt facility with a syndicate of lenders, that was being utilized as capital for regulatory purposes. On April 1, 2010, the Company repaid in full the outstanding subordinated debt, and the commitment was terminated as the ability of the Company to draw on this subordinated debt facility expired on July 22, 2009. The Company does not expect to replace this facility, and management believes the termination of this subordinated debt facility will not significantly impact our overall business operations. We expect to increase excess regulatory capital, if needed, through income from operations and available internal cash reserves.

The Company's facility agreements contain covenants relating to financial measures such as minimum net worth, minimum working capital, minimum regulatory capital and minimum interest coverage ratios. Failure to comply with any such covenants could result in the debt becoming payable on demand. The Company and its subsidiaries are in compliance with all of its covenants under the outstanding facilities.

The Company collected \$41.1 million during the nine months ended June 30, 2010, relating to income tax receivables recorded on its condensed consolidated balance sheet as of September 30, 2009. The income tax receivable related to the net operating loss of FCStone Group, Inc. for its fiscal year ended August 31, 2009 and a refund of estimates paid in during that fiscal year. The Company elected to carry back the net operating loss to recapture taxes paid in the prior two fiscal years.

In September 2006, the Company completed a private placement of \$27 million of 7.625% subordinated convertible notes (the "Notes"). The Notes mature in September 2011. They are convertible at any time at the option of the noteholder at a current conversion price of \$21.79 per share. The Notes contain customary anti-dilutive provisions. During the 2006 fiscal year, \$2 million in principal amount of the Notes, together with accrued interest, were converted into a total of 79,562 shares of common stock of the Company. During the 2008 fiscal year, approximately \$8.2 million in principal amount of the Notes, together with accrued interest, were converted into a total of 325,755 shares of common stock of the Company. During the 2009 fiscal year, approximately \$0.1 million in principal amount of the Notes, together with accrued interest, were converted into a total of 4,359 shares of common stock of the Company, leaving \$16.7 million in principal amount of Notes outstanding. At the current conversion price, conversion would result in the issue of 767,886 new shares of common stock. The Company may require conversion at any time if the dollar volume-weighted-average share price exceeds \$38.25 for 20 out of any 30 consecutive trading days. Noteholders may redeem their Notes at par if the interest coverage ratio set forth in the Notes is less than 2.75 for the twelve-month period ending December 31, 2009. The consolidated net interest coverage ratio for the twelve-month period ended December 31, 2009 exceeded 2.75, so the holders are not entitled to early redemption of their Notes.

Set forth below is the calculation of consolidated EBITDA and consolidated cash interest expense, as defined in the Notes, for the trailing twelve month period ended June 30, 2010:

	<b>For the Trailing Twelve Months Ended June 30, 2010</b>	
<b>(in millions)</b>	<b>(non-GAAP)</b>	
Income from continuing operations	\$	10.0
Noncontrolling interests		(0.3)
Income tax		10.0
Depreciation and amortization		1.2
Stock compensation amortization		1.7
Interest expense		9.3
Change in unrealized fair market value gain in physical commodities inventory		(1.7)
Other marked-to-market adjustments		1.0
<b>Consolidated EBITDA (non-GAAP)</b>	<b>\$</b>	<b>31.2</b>
Interest expense	\$	9.3



Edgar Filing: INTERNATIONAL ASSETS HOLDING CORP - Form 10-Q

Less: amortization of deferred financing costs		(0.2)
<b>Consolidated cash interest expense (non-GAAP)</b>	\$	9.1

- 46 -

---

**Table of Contents**

Adjusted consolidated EBITDA is a financial measure that is not recognized by U.S. GAAP, and should not be considered as an alternative to any other measures of performance derived in accordance with U.S. GAAP. The Company has included this non-GAAP financial measure because it required under the terms of the Notes.

As previously reported in the Company's Form 10-K for the fiscal year ended September 30, 2009, one of the noteholders has commenced litigation against the Company. In this litigation, the noteholder has alleged that the transaction with FCStone constituted a change of control under the Notes and that, as a result, the Company should have afforded the noteholder the opportunity to redeem the Notes at a 15% premium. The Company is of the view that the FCStone transaction did not result in a change of control as defined in the Notes and intends to continue to defend the matter vigorously.

On December 31, 2007, FCStone LLC acquired Downes-O'Neill, LLC, a registered brokerage group and risk management consulting firm specializing in serving the dairy industry. Under the terms of the purchase agreement, FCStone LLC is obligated to pay additional consideration if specific conditions and earnings targets are met annually, based on a calendar year period, through December 31, 2010. If the earnings targets are met, additional consideration of \$1.0 million is triggered, plus an additional twenty percent of the excess over the earnings target. For the calendar year period ended December 31, 2009, the specific conditions and earnings targets were reached and additional consideration of \$1.2 million was distributed during the quarter ended March 31, 2010. The additional consideration was a pre-acquisition contingency, and reported as an extraordinary loss in the consolidated income statement for the three months ended June 30, 2010.

On April 7, 2009, the Company acquired CIBSA, a leading securities broker-dealer based in Argentina. The Company paid approximately \$1.7 million on the date of purchase and was obligated to make additional payments over the next two years, depending on the level of revenues achieved. Under the purchase agreement, the Company was obligated to pay an amount equal to 25% of the net revenues in excess of \$2.5 million up to \$3 million, 35% of the net revenues in excess of \$3 million up to \$4 million, and 40% of the net revenues in excess of \$4 million for each of the two twelve-month periods ending June 30, 2010 and 2011 to the sellers as additional consideration. Any amounts paid under this agreement are recorded as goodwill.

On April 1, 2010, the Company acquired Risk Management Incorporated and RMI Consulting, Inc. (the RMI Companies). Under terms of the purchase agreement, the Company acquired all the outstanding capital stock of the RMI Companies. The purchase price for the shares consisted of an initial payment of \$6.0 million, and three contingent payments which will be based on the combined net income of the RMI companies for each of the three years after the closing. The estimated total purchase price, including contingent consideration is approximately \$16.7 million.

On July 2, 2010, FCStone, acquired Hanley Group Holdings, LLC; HGC Trading, LLC; HGC Asset Management, LLC; HGC Advisory Services, LLC; Hanley Alternative Trade Group, LLC; HGC Office Services, LLC (the Hanley Companies). The Hanley Companies are engaged in the business of acting as market makers and dealers in exchange traded options and futures on soft commodities; executing and trading derivatives on soft commodities in the over the counter market; and providing related advisory services.

Under the terms of the purchase agreement, the Company acquired all of the outstanding membership interests in the Hanley Companies. The purchase price for the interests will be an amount equal to the sum of the following: (1) an initial payment to be made at the closing of \$7.5 million; (2) two payments to be made within sixty days of the closing equal in aggregate to the audited adjusted net asset value (the Adjusted NAV) of the Hanley Companies as of June 30, 2010; (3) three additional payments equal to 15% of the adjusted earnings before interest and taxes (the Adjusted EBIT) of the soft commodities derivatives business of the Hanley Companies and FCStone Trading LLC (the Derivatives Division) for each twelve month period during the three year period commencing on July 1, 2010, subject to an annual limit of \$7 million and an overall maximum of \$12.5 million; and (4) a final payment based on the cumulative Adjusted EBIT of the Derivatives Division for the three year period commencing on July 1, 2010. In the event that the cumulative Adjusted EBIT equals or exceeds \$100 million, then the final EBIT Payment will be equal to \$10 million. In the event that the cumulative Adjusted EBIT is greater than \$80 million, but less than \$100 million, then the final EBIT Payment will be equal to the product of: (A) \$10 million, and (B) a fraction, the numerator of which is the amount by which the cumulative Adjusted EBIT exceeds \$80 million, and the denominator of which is \$20 million.

At the closing under the Purchase Agreement, the Company and the Seller will also enter into an option agreement (the Option Agreement), pursuant to which the Seller will have the right to elect, in its discretion, to receive up to thirty percent (30%) of the final EBIT Payment in the form of restricted shares of the common stock of the Company. The Option may be exercised by the Seller at any time during the twenty day period commencing on June 30, 2013. The option price will be equal

## **Table of Contents**

to the greater of: (i) \$16.00 per share, or (ii) seventy five percent (75%) of the fair market value of the common stock of the Company as of June 30, 2013. The maximum number of restricted shares issuable upon the exercise of the Option is 187,500 shares. The restricted shares will be subject to restrictions on transfer which will lapse at the rate of one-third per year over the three year period commencing on June 30, 2013.

### *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. FCStone LLC had adjusted net capital at June 30, 2010 of \$70.8 million, which was \$38.1 million in excess of its minimum net capital requirement of \$32.7 million.

INTL Trading, the Company's broker-dealer subsidiary, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels. At June 30, 2010, INTL Trading had regulatory net capital of \$7.4 million, which was \$6.4 million in excess of its minimum net capital requirement of \$1.0 million. 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. During the three months and nine months ended June 30, 2010, INTL Trading paid dividends of \$5.0 million to the Company.

FCC Investments, Inc., a broker-dealer subsidiary of FCStone, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels. At June 30, 2010, FCC Investments, Inc. had regulatory net capital of \$0.4 million, and its minimum net capital requirement was \$0.3 million.

FCStone Australia Pty Ltd is regulated by the Australian Securities and Investment Commission and is subject to a minimum capital requirement which at June 30, 2010 was \$50,000.

The Company contributed \$5.9 million to its defined benefit pension plans during the nine months ended June 30, 2010, and expects to contribute an additional \$0.4 million to the plan prior to September 30, 2010.

### *Cash Flows*

The Company's cash and cash equivalents increased from \$60.5 million at September 30, 2009 to \$70.9 million at June 30, 2010, a net increase of \$10.4 million. Net cash of \$148.2 million was provided by operating activities, \$9.6 million was used in investing activities and net cash of \$127.9 million was used in financing activities, of which \$72.7 million was used to reduce amounts payable to lenders under loans and overdrafts and \$56.0 million was repayment of subordinated debt. Fluctuations in exchange rates had a negative effect of \$0.3 million on the Company's cash and cash equivalents.

The Company is continuously evaluating opportunities to expand its business. Expansion of the Company's activities will require funding and will have an effect on liquidity.

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 12 of the condensed consolidated financial statements.

The Company's senior subordinated convertible notes, as described in note 11 of the Notes to the condensed consolidated financial statements, are due in September 2011 if they are not converted or redeemed prior to their due date.

### *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



---

**Table of Contents**

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 at June 30, 2010 and September 30, 2009, at fair value of the related financial instruments, totaling \$162.4 million and \$127.5 million, respectively. These positions are held to offset the risks related to financial assets owned and reported on the Company's condensed consolidated balance sheets under Financial instruments owned, at fair value, and Physical commodities inventory, at cost. The Company will incur losses if the fair value of the financial instruments sold, not yet purchased, increases subsequent to June 30, 2010 and September 30, 2009, which might be partially or wholly offset by gains in the value of assets held at June 30, 2010 and September 30, 2009. The total of \$162.4 million and \$127.5 million includes a net liability of \$29.4 million and \$30.8 million for derivatives, based on their market value as of June 30, 2010 and September 30, 2009, 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, the Company will generally offset the customer's transaction simultaneously with one of our trading counterparties when transacting OTC and foreign exchange contracts with our customers. On a limited basis, our OTC and foreign exchange trade desks will accept a customer transaction and 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, 2010 and September 30, 2009.

*Critical Accounting Policies*

The Company's condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The Company's significant accounting policies are described in the Summary of Significant Accounting Policies in the condensed consolidated financial statements set forth in the Company's 10-K for the year ended September 30, 2009.

The Company believes that of its significant accounting policies, those described below may, in limited instances, involve a high degree of judgment and complexity. These critical accounting policies may require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the condensed consolidated financial statements. 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, cash equivalents, and 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, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values

---

## **Table of Contents**

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 the Company's total assets. Valuations for substantially all of the financial instruments held by the Company 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 the Company's 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 the Company. The basis for estimating the valuation of any financial instruments has not undergone any change.

**Revenue Recognition.** The revenues of the Company are derived principally from realized and unrealized trading income in securities, derivative instruments, commodities and foreign currencies purchased or sold for the Company's 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 market value with related changes in unrealized appreciation or depreciation reflected in Trading gains. 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 for the Company is recording all known transactions as of the trade date of each transaction for the financial period. The Company has developed systems for each of its 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 the Company's clearing firm.

**Physical Commodities Inventory.** Physical commodities inventory is stated at the lower of cost or market value, determined using the weighted-average price method. The Company generally mitigates the price risk associated with physical commodities held in inventory through the use of derivatives. This price risk mitigation does not generally qualify for hedge accounting under U.S. GAAP. Any unrealized gains in physical commodities 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 commodities trading earnings are subject to volatility.

### **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 7 to the condensed consolidated financial statements, Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk.

**Table of Contents**

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, 2010.

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. The table below illustrates, for the nine months ended June 30, 2010, the Company's greatest gross, average gross, greatest net long, greatest net short and average net day-end positions by business segment.

**Table of Contents**

(in millions)	Greatest Gross	Average Gross	Greatest Net Long	Greatest Net Short	Average Net
Securities (net of long and short)	\$ 19.0	\$ 13.7	\$ 12.2	(3.4)	\$ 4.2
Foreign Exchange	25.6	10.7	10.4	(9.6)	0.9
Commodity and Risk Management	6.2	1.3	4.0	(5.6)	(0.4)
Other	n/a	n/a	5.4	n/a	3.6
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 and Agency securities, reverse repurchase agreements involving U.S. Treasury and Agency securities or AA rate 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.

In April 2010, we implemented an interest rate risk management strategy using 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. These interest rate swaps are not designated for hedge accounting treatment, and changes in the marked-to-market valuations of the financial instruments are recorded in earnings on a quarterly basis.

We manage interest expense using floating rate debt and through interest rate swap transactions. Refer to Note 7 to the condensed consolidated Financial Statements for information on the interest rate swap transactions. The debt instruments are carried at their unpaid principal balance which approximates fair value. All of the debt outstanding at June 30, 2010, has a variable interest rate and matures within the next 12 months.

**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, 2010. 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, 2010.

A control system 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, 2010 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

On July 16, 2010, the Company's subsidiary, FCStone, LLC, filed a statement of claim against a futures commission merchant for arbitration before the CME Group, relating to the disputed "give-up" transaction that took place in Q3 2010 and resulted in a bad debt charge of \$2.3 million. Apart from this, there have been no material developments in previously reported litigation, and no other reportable events have occurred during the quarter or nine month period ended June 30, 2010 or through the date of this filing.



**Table of Contents**

**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, 2009. 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 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.

**Table of Contents**

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.

INTERNATIONAL ASSETS HOLDING CORPORATION

Date August 12, 2010

/s/ Sean M. O Connor  
Sean M. O Connor  
Chief Executive Officer

Date August 12, 2010

/s/ William J. Dunaway  
William J. Dunaway  
Chief Financial Officer

- 54 -