INTERNATIONAL ASSETS HOLDING CORP
Form 10-Q
February 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended December 31, 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)

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

708 Third Avenue, Suite 1500

New York, NY 10017

(Address of principal executive offices) (Zip Code)

(212) 485-3500

(Registrant s telephone number, including area code)

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

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	x
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 x

As of February 7, 2011, there were 18,054,688 shares of the registrant s common stock outstanding.

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INTERNATIONAL ASSETS HOLDING CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL ASSETS HOLDING CORPORATION

Condensed Consolidated Balance Sheets

(in millions, except par value and share amounts)	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 78.0	$ 81.9
Cash, securities and other assets segregated under federal and other regulations (including $21.7 and $0.8 at fair value at December 31, 2010 and September 30, 2010, respectively)	47.1	15.3
Securities purchased under agreements to resell	214.8	342.0
Deposits and receivables from:		
Exchange-clearing organizations (including $761.8 and $906.4 at fair value at December 31, 2010 and September 30, 2010, respectively)	990.6	903.4
Broker-dealers, clearing organizations and counterparties (including $9.5 and $56.1 at fair value at December 31, 2010 and September 30, 2010, respectively)	114.8	173.9
Receivables from customers, net	78.8	78.0
Notes receivable, net	58.9	29.2
Income taxes receivable	7.9	9.4
Financial instruments owned, at fair value	175.3	159.8
Physical commodities inventory, at cost	153.7	125.0
Deferred income taxes	20.3	21.0
Property and equipment, net	8.1	7.3
Goodwill and intangible assets, net	57.9	53.4
Other assets	27.1	22.1
Total assets	$ 2,033.3	$ 2,021.7
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including $30.0 and $32.3 at fair value at December 31, 2010 and September 30, 2010)	$ 103.5	$ 99.4
Payables to:		
Customers	1,257.1	1,351.0
Broker-dealers, clearing organizations and counterparties	8.3	3.9
Lenders under loans and overdrafts	188.9	114.9
Income taxes payable	2.5	2.8
Financial instruments sold, not yet purchased, at fair value	208.4	189.6
	1,768.7	1,761.6
Subordinated debt		0.5
Convertible subordinated notes payable	11.2	16.7
Total liabilities	1,779.9	1,778.8
Commitments and contingencies (see Notes 12 and 13)		
Equity:		

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; 17,926,036 issued and 17,914,779 outstanding at December 31, 2010 and 17,612,792 issued and 17,601,535 outstanding at September 30, 2010	0.2	0.2
Common stock in treasury, at cost - 11,257 shares at December 31, 2010 and September 30, 2010	(0.1)	(0.1)
Additional paid-in capital	190.8	184.6
Retained earnings	63.7	59.7
Accumulated other comprehensive loss	(2.8)	(3.1)
Total International Assets Holding Corporation shareholders equity	251.8	241.3
Noncontrolling interests	1.6	1.6
Total equity	253.4	242.9
Total liabilities and equity	$ 2,033.3	$ 2,021.7

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Condensed Consolidated Income Statements

(Unaudited)

(in millions, except share and per share amounts)	**Three Months Ended December 31, 2010**	**2009**
Revenues:		
Sales of physical commodities	$ 16,208.8	$ 7,949.7
Trading gains	17.1	1.8
Commission and clearing fees	36.6	29.9
Consulting and management fees	5.4	4.2
Interest income	2.5	1.4
Other income	0.4	
Total revenues	16,270.8	7,987.0
Cost of sales of physical commodities	16,174.1	7,927.4
Operating revenues	96.7	59.6
Interest expense	3.8	2.5
Net revenues	92.9	57.1
Non-interest expenses:		
Compensation and benefits	42.5	24.1
Clearing and related expenses	20.2	18.5
Communication and data services	3.5	2.6
Introducing broker commissions	5.4	4.2
Occupancy and equipment rental	1.8	1.6
Professional fees	2.1	1.8
Depreciation and amortization	1.0	0.2
Bad debts and impairments	2.4	0.6
Other	8.1	4.0
Total non-interest expenses	87.0	57.6
Income (loss) from operations, before tax	5.9	(0.5)
Income tax expense (benefit)	2.1	(0.2)
Net income (loss) before discontinued operations	3.8	(0.3)
(Income) loss from discontinued operations, net of tax	(0.2)	0.8
Income (loss) before extraordinary loss	4.0	(1.1)
Extraordinary loss		3.4
Net income (loss)	4.0	(4.5)
Less: Net income (loss) attributable to noncontrolling interests		(0.3)
Net income (loss) attributable to International Assets Holding Corporation common shareholders	$ 4.0	$ (4.2)
Basic earnings (loss) per share:		

Income from continuing operations attributable to International Assets Holding Corporation common shareholders	$	0.22	$	
Income (loss) from discontinued operations attributable to International Assets Holding Corporation common shareholders		0.01		(0.05)
Extraordinary loss attributable to International Assets Holding Corporation common shareholders				(0.20)
Net income (loss) attributable to International Assets Holding Corporation common shareholders	$	0.23	$	(0.25)
Diluted earnings (loss) per share				
Income from continuing operations attributable to International Assets Holding Corporation common shareholders	$	0.21	$	
Income (loss) from discontinued operations attributable to International Assets Holding Corporation common shareholders		0.01		(0.05)
Extraordinary loss attributable to International Assets Holding Corporation common shareholders				(0.20)
Net income (loss) attributable to International Assets Holding Corporation common shareholders	$	0.22	$	(0.25)
Weighted-average number of common shares outstanding:				
Basic		17,423,098		17,225,817
Diluted		18,424,125		17,225,817
Amounts attributable to International Assets Holding Corporation common shareholders:				
Income from continuing operations, net of tax	$	3.8	$	
(Income) loss from discontinued operations, net of tax		(0.2)		0.8
Extraordinary loss				3.4
Net income (loss)	$	4.0	$	(4.2)

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Condensed Consolidated Cash Flow Statements

(Unaudited)

(in millions)	Three Months Ended December 31, 2010	2009
Cash flows from operating activities:		
Net cash (used in) provided by operating activities	$ (3.1)	$ 130.4
Cash flows from investing activities:		
Cash paid for acquisitions, net	(9.3)	
Purchase of securities purchased under agreement to resell	(62.3)	
Purchase of exchange memberships and common stock	(0.4)	(1.6)
Purchase of property and equipment	(1.3)	(1.0)
Net cash used in investing activities	(73.3)	(2.6)
Cash flows from financing activities:		
Net change in payable to lenders under loans and overdrafts	74.1	(92.3)
Repayment of subordinated debt	(0.5)	(25.0)
Debt issuance costs	(1.2)	
Exercise of stock options	0.1	0.6
Income tax benefit on stock awards exercised		0.1
Net cash provided by (used in) financing activities	72.5	(116.6)
Effect of exchange rates on cash and cash equivalents		0.1
Net (decrease) increase in cash and cash equivalents	(3.9)	11.3
Cash and cash equivalents at beginning of period	81.9	60.5
Cash and cash equivalents at end of period	$ 78.0	$ 71.8
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2.0	$ 2.1
Income taxes paid, net of cash refunds	$ 1.2	$ (38.7)

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Condensed Consolidated Statements of Shareholders Equity

(Unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balances as of September 30, 2010	$ 0.2	$ (0.1)	$ 184.6	$ 59.7	$ (3.1)	$ 1.6	$ 242.9
Components of comprehensive income:							
Net income				4.0			4.0
Change in unrealized loss on derivative instruments					0.3		0.3
Total comprehensive income					0.3		$ 4.3
Exercise of stock options			0.1				0.1
Stock-based compensation			0.5				0.5
Convertible note conversions			5.6				5.6
Balances as of December 31, 2010	$ 0.2	$ (0.1)	$ 190.8	$ 63.7	$ (2.8)	$ 1.6	$ 253.4

See accompanying notes to condensed consolidated financial statements.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

International Assets Holding Corporation, a Delaware corporation, together with its consolidated subsidiaries (collectively INTL or the Company) form a financial services group focused on domestic and select international markets. The Company s services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter (OTC) products in a wide range of commodities; physical trading and hedging of precious and base metals and select other commodities; trading of more than 130 foreign currencies; market-making in international equities; debt origination and asset management.

The Company provides these services to a diverse group of 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, 2010, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. 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 interim condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes contained in the Company s Form 10-K for the fiscal year ended September 30, 2010 filed with the Securities and Exchange Commission.

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. In accordance with the Consolidation Topic of the Accounting Standards Codification (ASC), the Company consolidates any variable interest entities for which it is the primary beneficiary, as defined.

The Company has a majority interest in the Blackthorn Multi-Advisor Fund, LP (Blackthorn Fund). The Blackthorn Fund is a commodity investment pool, which allocates most of its assets to third-party commodity trading advisors and other investment managers. The Blackthorn Fund engages in the speculative trading of a wide variety of commodity futures and option contracts, securities and other financial instruments. In addition to the majority interest that was acquired, a subsidiary of the Company is also the general partner of the Blackthorn Fund. Under the provisions of the Consolidations Topic of the ASC, the Company is required to consolidate the Blackthorn Fund as a variable interest entity since it is the general partner and owns a majority interest. The creditors of the Blackthorn Fund have no recourse to the general assets of the Company.

The Blackthorn Fund has net assets of $5.4 million as of December 31, 2010. The net assets of the Blackthorn fund consisted of cash and cash equivalents of $0.6 million, deposits and receivables from broker-dealers, clearing organizations and counterparties of $3.0 million, investments in managed funds of $1.8 million and less than $0.1 million in accounts payable and other accrued liabilities at December 31, 2010. Accordingly, the noncontrolling interest shown in the balance sheet includes the noncontrolling interest of the Blackthorn Fund of $1.7 million as of December 31, 2010. See Note 6 for discussion of fair value of the financial assets and liabilities.

Our fiscal year end is September 30, and our fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to our fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

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 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 was effective for the beginning of the Company s 2011 fiscal year. The adoption of this guidance did not have a material impact on the Company s 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 was effective for the beginning of the Company s 2011 fiscal year. The adoption of this guidance did not have a material impact on the Company s 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 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 was 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 will 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 from continuing operations of $2.1 million for the first quarter of fiscal 2011 and the income tax benefit of $0.2 million for the first quarter of fiscal 2010 reflect estimated federal, foreign and state taxes. For the first quarter of fiscal 2011, the Company s effective tax rate was 34%, compared to 45% for the first quarter of fiscal 2010. The Company s effective tax rate in the first quarter of fiscal 2011 is indicative of the estimated tax rate, while the effective rate for the first quarter of 2010 was impacted adversely by small reporting amounts, and is not indicative of the estimated tax rate.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction, various states, and various foreign jurisdictions. The Internal Revenue Service has commenced an examination of FCStone Group, Inc. s (FCStone) U.S. income tax return for its fiscal year ended August 31, 2009. FCStone is a wholly owned subsidiary acquired on September 30, 2009. Additionally, both INTL and FCStone are under separate state examinations for various periods, ranging from August 31, 2006 through September 30, 2009.

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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.

(in millions, except share amounts)	Three Months Ended December 31, 2010	2009
Numerator:		
Income from continuing operations, net of tax	$ 3.8	$
Less: (income) loss from discontinued operations	(0.2)	0.8
Less: Extraordinary loss		3.4
Diluted net income	$ 4.0	$ (4.2)
Denominator:		
Weighted average number of:		
Common shares outstanding	17,423,098	17,225,817
Dilutive potential common shares outstanding:		
Share-based awards	1,001,027	
Diluted weighted-average shares	18,424,125	17,225,817

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

Options to purchase 412,503 and 1,583,735 shares of common stock for the three months ended December 31, 2010 and 2009, respectively, were excluded from the calculation of diluted earnings per share because they would have been anti-dilutive.

The Company has unvested share-based payment awards that are considered participating securities and should be included in the computation of basic EPS using the two-class method. The Company has omitted disclosures related to the two-class method as the impact of the computation does not have a material effect on the condensed consolidated financial statements. Had the required disclosures been made for the three months ended December 31, 2010 and 2009, respectively, the Company s basic earnings (loss) per share would have been reduced by less than $0.01 per share.

Note 4 Receivables from customers and notes receivable, net

Receivables from customers, net and notes receivable, net include a provision for bad debts, which reflects our best estimate of probable losses inherent in the receivables from customers and notes receivable. The Company provides for an allowance for doubtful accounts based on a specific-identification basis. The Company continually reviews its provision for bad debts. The allowance for doubtful accounts related to receivables from customers is $9.0 million and $5.0 million at December 31, 2010 and September 30, 2010, respectively.

During the three months ended December 31, 2010, the Company recorded charges to bad debt expense of $4.2 million, primarily related to a customer to whom the Company had consigned gold, in the C&RM segment and a clearing customer deficit account in the CES segment. During the three months ended December 31, 2010, the Company recorded recoveries of $1.8 million of bad debt expense, including $1.3 million following a settlement relating to a disputed trade that was given-up to FCStone during the quarter ended June 30, 2010 by another futures commission merchant (the FCM) for a customer that held an account with us.

As a result of the acquisition of 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 December 31, 2010 and September 30, 2010, notes receivable related to these certain customer account deficits were $127.7 million and $128.5 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 December 31, 2010 and September 30, 2010, respectively, and the Company estimates the collectability on these promissory notes to be $14.2 million at December 31, 2010 see Note 20. The allowance for doubtful accounts related to total notes receivable was $114.1 million at December 31, 2010 and $114.2 million at September 30, 2010.

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

(in millions)	
Balance, September 30, 2010	$ 119.2
Provision for bad debts	4.2
Transfer in (1)	2.5
Deductions:	
Charge-offs	(1.0)
Recoveries	(1.8)
Balance, December 31, 2010	$ 123.1

(1) During the three months ended December 31, 2010, certain open position derivative contracts, which had a $2.5 million credit reserve at September 30, 2010 were closed, and the deficit account balance was reclassified from financial instruments owned to a receivable from customer. Accordingly, the previously established credit reserve amount was transferred into the allowance for doubtful accounts during the three months ended December 31, 2010.

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, purchases and sales in the Company s condensed consolidated financial statements. At December 31, 2010 and September 30, 2010, the Company had outstanding notes receivable of $44.3 million and $13.6 million, respectively, related to this program.

Note 5 Exchange Memberships and Stock

The Company holds certain commodity exchange membership seats and commodity exchange firm common stock, which are pledged for clearing purposes, providing the Company the right to process trades directly with the various exchanges. The Company acquired additional exchange firm common stock during the three months ended December 31, 2010 at a cost of $3.3 million, of which $2.9 million remained payable at December 31, 2010. Exchange memberships and common stocks pledged for clearing purposes are recorded at cost. The cost basis for exchange memberships and common stock pledged for clearing purposes was $14.0 million and $11.9 million at December 31, 2010 and September 30, 2010, respectively, and is included within Other assets on the condensed consolidated balance sheets. The fair value of the exchange memberships and common stock pledged for clearing purposes was $13.3 million and $9.9 million at December 31, 2010 and September 30, 2010, respectively. At December 31, 2010, excess shares of exchange firm common stock, with a cost basis of $1.2 million, were reclassified as trading securities. 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 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 Assets and Liabilities, at Fair Value

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

Cash and cash equivalents

Securities segregated under federal and other regulations

Securities purchased under agreements to resell

Deposits and receivables from exchange-clearing organizations

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

Financial instruments owned

Accounts payable and other accrued liabilities

Payables to customers

Financial instruments sold, not yet purchased

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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.

(in millions)	December 31, 2010 Owned	December 31, 2010 Sold, not yet purchased	September 30, 2010 Owned	September 30, 2010 Sold, not yet purchased
Common stock and ADR s	$ 20.2	$ 28.3	$ 17.4	$ 8.5
Exchangeable foreign ordinary equities and ADR s	15.6	7.1	6.6	7.5
Corporate and municipal bonds	15.2		13.1	
U.S. and foreign government obligations	22.8		8.7	0.2
Derivatives	53.8	43.5	40.2	87.6
Commodities leases and unpriced positions	42.9	129.5	69.2	85.8
Mutual funds and other	2.4		2.1	
Investment in managed funds	2.4		2.5	
	$ 175.3	$ 208.4	$ 159.8	$ 189.6

Fair Value Hierarchy

The majority of financial assets and liabilities on the condensed consolidated balance sheets are reported at fair value. Cash and cash equivalents are reported at the balance held at financial institutions. Deposits with and receivables from exchange-clearing organizations and broker-dealers and FCMs and payables to customers and exchange-clearing organizations include the value of cash collateral as well as the value of money market funds and other pledged investments, primarily U.S. Treasury bills and securities issued by government sponsored entities. These balances also include the fair value of futures and options on futures determined by prices on the applicable exchange. Financial instruments owned and sold, not yet purchased include the value of U.S. and foreign government obligations, corporate debt securities, derivative financial instruments, commodities, mutual funds and investments in managed funds. The fair value of exchange common stock is determined by quoted market prices, and the fair value of exchange memberships is determined by recent sale transactions. Notes payable and subordinated debt carry variable rates of interest and thus approximate fair value.

The following tables set forth the Company s financial and non financial assets and liabilities accounted for at fair value as of December 31, 2010 and September 30, 2010 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).

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(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
	December 31, 2010				
Assets:					
Unrestricted cash equivalents - money market funds	$ 2.3	$	$	$	$ 2.3
Commodities warehouse receipts	20.8				20.8
U.S. and foreign government obligations		0.9			0.9
Securities and other assets segregated under federal and other regulations	20.8	0.9			21.7
Securities purchased under agreements to resell	214.8				214.8
Money market funds	166.0				166.0
U.S. and foreign government obligations		1,317.1			1,317.1
Mortgage-backed securities		9.7			9.7
Derivatives	8,434.5			(9,165.5)	(731.0)
Deposits and receivables from exchange-clearing organizations	8,600.5	1,326.8		(9,165.5)	761.8
Common stock and ADR s	33.3	1.3	1.2		35.8
Corporate and municipal bonds		7.1	8.1		15.2
U.S. and foreign government obligations	5.1	17.7			22.8
Derivatives (2)	347.8	1,007.6		(1,301.6)	53.8
Commodities leases and unpriced positions		89.4		(46.5)	42.9
Mutual funds and other	2.0		0.4		2.4
Investment in managed funds		1.8	0.6		2.4
Financial instruments owned	388.2	1,124.9	10.3	(1,348.1)	175.3
Total assets at fair value	$ 9,226.6	$ 2,452.6	$ 10.3	$ (10,513.6)	$ 1,175.9
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$	$	$ 30.0	$	$ 30.0
Payables to customers - derivatives	10,324.6			(10,324.6)	
Common stock and ADR s	34.1	1.3			35.4
Derivatives (2)	356.0	958.8		(1,271.3)	43.5
Commodities leases and unpriced positions		171.6		(42.1)	129.5
Financial instruments sold, not yet purchased	390.1	1,131.7		(1,313.4)	208.4
Total liabilities at fair value	$ 10,714.7	$ 1,131.7	$ 30.0	$ (11,638.0)	$ 238.4

(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 derivatives include net unrealized gains (losses) that are reclassified to deposits and receivables from broker-dealers, clearing organizations and counterparties and receivables from customers of $9.5 million as of December 31, 2010, as a result of netting and collateral.

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(in millions)	September 30, 2010 Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - money market funds	$ 0.3	$	$	$	$ 0.3
U.S. and foreign government obligations		0.8			0.8
Securities segregated under federal and other regulations		0.8			0.8
Securities purchased under agreements to resell	342.0				342.0
Money market funds	428.2				428.2
U.S. and foreign government obligations		988.1			988.1
Mortgage-backed securities		10.0			10.0
Derivatives	4,228.1			(4,748.0)	(519.9)
Deposits and receivables from exchange-clearing organizations	4,656.3	998.1		(4,748.0)	906.4
Common stock and ADR s	22.1	0.7	1.2		24.0
Corporate and municipal bonds		5.1	8.0		13.1
U.S. and foreign government obligations	2.8	5.9			8.7
Derivatives (2)	186.0	897.9		(1,043.7)	40.2
Commodities leases and unpriced positions		201.9		(132.7)	69.2
Mutual funds and other	1.7		0.4		2.1
Investment in managed funds		1.9	0.6		2.5
Financial instruments owned	212.6	1,113.4	10.2	(1,176.4)	159.8
Total assets at fair value	$ 5,211.2	$ 2,112.3	$ 10.2	$ (5,924.4)	$ 1,409.3
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$	$	$ 32.3	$	$ 32.3
Payables to customers - derivatives	5,451.0			(5,451.0)	
Common stock and ADR s	15.5	0.5			16.0
U.S. and foreign government obligations		0.2			0.2
Derivatives (2)	189.3	859.5		(961.2)	87.6
Commodities leases and unpriced positions		127.2		(41.4)	85.8
Financial instruments sold, not yet purchased	204.8	987.4		(1,002.6)	189.6
Total liabilities at fair value	$ 5,688.1	$ 987.4	$	$ (6,453.6)	$ 221.9

(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 derivatives include net unrealized gains (losses) that are reclassified to deposits and receivables from broker-dealers, clearing organizations and counterparties and receivables from customers of $56.1 million as of September 30, 2010, 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:

(in millions)	As of December 31, 2010	As of September 30, 2010
Total level 3 assets	$ 10.3	$ 10.2
Level 3 assets for which the Company bears economic exposure	$ 10.3	$ 10.2
Total assets	$ 2,033.3	$ 2,021.7
Total financial assets at fair value	$ 1,175.9	$ 1,409.3
Total level 3 assets as a percentage of total assets	0.5%	0.5%
Level 3 assets for which the Company bears economic exposure as a percentage of total assets	0.5%	0.5%
Total level 3 assets as a percentage of total financial assets at fair value	0.9%	0.7%

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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 months ended December 31, 2010 including a summary of unrealized gains (losses) during the three months on the Company s level 3 financial assets and liabilities still held at December 31, 2010.

	Level 3 Financial Assets and Financial Liabilities For the Three Months Ended December 31, 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