

INTERNATIONAL ASSETS HOLDING CORP

Form 10-Q/A

May 12, 2009

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

Washington, D.C. 20549

**FORM 10-Q**  
**(Amendment No. 1)**

(Mark One)

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

For the Quarterly Period Ended March 31, 2009

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

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

**220 East Central Parkway, Suite 2060**  
**Altamonte Springs, Florida 32701**  
(Address of principal executive offices) (Zip Code)

**(407) 741-5300**  
(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 May 7, 2009, there were 9,082,545 shares of the registrant's common stock outstanding.

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**EXPLANATORY NOTE**

International Assets Holding Corporation is filing this Form 10-Q/A as an amendment to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 as originally filed with the U. S. Securities and Exchange Commission on May 11, 2009 (the Original Form 10-Q ) to correct certain of the tables contained within Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations , as described below:

For the table Financial Overview on page 22, the amounts shown for Minority interest in income of consolidated entities included the numbers for discontinued operations in error. As a result, the pro-forma Income from continuing operations (Non-GAAP) was incorrect. Additionally, the line below had been incorrectly labeled and included the numbers for Loss from discontinued operations, net of taxes . We have corrected the labeling and amounts shown for these items, including the percentage changes.

For the table Pro Forma Adjusted Financial Information (non-GAAP) (UNAUDITED) on page 21, the line Adjusted, pro-forma income from continuing operations has been amended to reflect the corrected results from changes to the table indicated above.

This Form 10-Q/A makes only the changes described above and does not modify or update such items in any other respect, or any other items or disclosures presented in the Original Form 10-Q.

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

(In millions, except par value and share amounts)	March 31, 2009 (Unaudited)	September 30, 2008
<b>ASSETS</b>		
Cash	\$ 32.8	\$ 48.2
Cash and cash equivalents deposited with brokers, dealers and clearing organization	16.4	14.6
Receivable from brokers, dealers and clearing organization	16.3	20.2
Receivable from customers, net	37.6	49.2
Financial instruments owned, at fair value	153.6	218.0
Physical commodities inventory, at cost	75.2	57.4
Investments in managed funds, at fair value	12.1	11.9
Deferred income taxes	1.9	
Property and equipment, net	3.1	2.5
Intangible assets, net	0.5	0.6
Goodwill	11.1	8.8
Debt issuance costs, net	0.5	0.6
Other assets	4.4	6.0
<b>Total assets</b>	<b>\$ 365.5</b>	<b>\$ 438.0</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 2.9	\$ 4.3
Financial instruments sold, not yet purchased, at fair value	132.5	151.5
Payable to lenders under loans and overdrafts	80.7	119.8
Payable to brokers, dealers and clearing organization	11.6	25.0
Payable to customers	26.6	26.3
Accrued compensation and benefits	6.5	8.0
Income taxes payable	1.2	1.0
Deferred income taxes		2.0
Other long-term liabilities	0.5	0.4
	262.5	338.3
Convertible subordinated notes payable, net	16.7	16.8
<b>Total liabilities</b>	<b>279.2</b>	<b>355.1</b>
<b>Commitments and contingencies (see Note 12)</b>		
Minority interest	7.0	8.1
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, \$.01 par value. Authorized 17,000,000 shares; 9,047,545 issued and 9,036,288 outstanding at March 31, 2009 and 8,928,711 issued and outstanding at September 30, 2008	0.1	0.1
Common stock in treasury, at cost - 11,257 shares at March 31, 2009	(0.1)	
Additional paid-in capital	50.0	48.9
Retained earnings	34.0	26.7
Accumulated other comprehensive loss	(4.7)	(0.9)

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Total stockholders' equity	79.3	74.8
Total liabilities and stockholders' equity	\$ 365.5	\$ 438.0

See accompanying notes.

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

(In millions, except share and per share amounts)	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Sales of physical commodities	\$ 15,417.7	\$ 3,481.4	\$ 25,924.0	\$ 5,605.2
Net dealer inventory and investment gains	10.1	(0.6)	35.4	29.6
Asset management fees	1.2	3.9	2.7	8.6
Other	2.7	2.1	5.8	4.0
<b>Total revenues</b>	<b>15,431.7</b>	<b>3,486.8</b>	<b>25,967.9</b>	<b>5,647.4</b>
Cost of sales of physical commodities	15,404.6	3,454.1	25,911.2	5,572.7
<b>Operating revenues</b>	<b>27.1</b>	<b>32.7</b>	<b>56.7</b>	<b>74.7</b>
Interest expense	2.3	2.8	4.6	5.8
<b>Net revenues</b>	<b>24.8</b>	<b>29.9</b>	<b>52.1</b>	<b>68.9</b>
<b>Non-interest expenses:</b>				
Compensation and benefits	10.4	11.0	24.0	21.6
Clearing and related expenses	5.0	3.9	9.9	7.7
Occupancy and equipment rental	0.3	0.3	0.7	0.7
Professional fees	0.3	0.5	1.1	1.0
Depreciation and amortization	0.3	0.3	0.5	0.5
Business development	0.5	0.6	1.0	1.3
Insurance	0.1	0.1	0.2	0.2
Other	2.8	1.7	3.6	2.3
<b>Total non-interest expenses</b>	<b>19.7</b>	<b>18.4</b>	<b>41.0</b>	<b>35.3</b>
<b>Income before income tax and minority interest</b>	<b>5.1</b>	<b>11.5</b>	<b>11.1</b>	<b>33.6</b>
Income tax expense	0.8	4.3	3.3	12.5
<b>Income before minority interest</b>	<b>4.3</b>	<b>7.2</b>	<b>7.8</b>	<b>21.1</b>
Minority interest in income of consolidated entities	0.3	0.5	0.5	1.3
<b>Income from continuing operations</b>	<b>4.0</b>	<b>6.7</b>	<b>7.3</b>	<b>19.8</b>
Loss from discontinued operations, net of taxes		0.7		0.9
<b>Net income</b>	<b>\$ 4.0</b>	<b>\$ 6.0</b>	<b>\$ 7.3</b>	<b>\$ 18.9</b>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 0.46	\$ 0.80	\$ 0.82	\$ 2.37
Discontinued operations		(0.09)		(0.11)
<b>Net basic earnings per share</b>	<b>\$ 0.46</b>	<b>\$ 0.71</b>	<b>\$ 0.82</b>	<b>\$ 2.26</b>

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Diluted earnings per share:

Income from continuing operations	\$ 0.44	\$ 0.71	\$ 0.78	\$ 2.06
Discontinued operations		(0.07)		(0.09)

Net diluted earnings per share	\$ 0.44	\$ 0.64	\$ 0.78	\$ 1.97
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Weighted average number of common shares outstanding:

Basic	8,873,440	8,437,124	8,864,298	8,362,265
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Diluted	9,898,873	9,940,890	9,972,697	9,945,082
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Net income	\$ 4.0	\$ 6.0	\$ 7.3	\$ 18.9
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Other comprehensive income:

Interest rate swap	0.4		(3.4)	
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Currency translation adjustments	(0.2)		(0.4)	
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Total comprehensive income	\$ 4.2	\$ 6.0	\$ 3.5	\$ 18.9
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See accompanying notes.



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

<b>(In millions)</b>	<b>Six Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net cash provided by (used in) operating activities	\$ 31.0	\$ (24.3)
<b>Cash flows from investing activities:</b>		
Capital contribution of consolidated joint venture partner	0.2	
Capital distribution to consolidated joint venture partner	(1.7)	(2.4)
Payments related to acquisition of joint venture interests	(3.0)	
Purchase of property and equipment	(1.2)	(0.7)
<b>Net cash used in investing activities</b>	<b>(5.7)</b>	<b>(3.1)</b>
<b>Cash flows from financing activities:</b>		
Change in payable to lenders under loans and overdrafts	(39.1)	24.1
Share repurchase	(0.1)	
Exercise of stock options	0.1	1.1
Income tax benefit on stock awards exercised		0.8
<b>Net cash (used in) provided by financing activities</b>	<b>(39.1)</b>	<b>26.0</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>0.2</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(13.6)</b>	<b>(1.4)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>62.8</b>	<b>53.7</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 49.2</b>	<b>\$ 52.3</b>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Additional goodwill in connection with acquisition	\$	\$ 1.3
Conversion of subordinated notes to common stock, net	\$ 0.1	\$
Release of trust certificates	\$	\$ 11.2

See accompanying notes.

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**INTERNATIONAL ASSETS HOLDING CORPORATION**

**Notes to Condensed Consolidated Financial Statements**

*(Unaudited)*

**Note 1 Basis of Presentation and Consolidation and Recent Accounting Pronouncements**

International Assets Holding Corporation and its subsidiaries (collectively INTL or the Company ) form a financial services group focused on select international markets. We commit our capital and expertise to market-making and dealing in financial instruments, currencies and commodities, and to asset management. The Company s activities are divided into five functional areas; international equities market-making, international debt capital markets, foreign exchange trading, commodities trading and asset management.

***Basis of Presentation and Consolidation***

The accompanying condensed consolidated balance sheet as of September 30, 2008, 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. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information 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 Regulation S-X, Rule 10-01.

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, 2008 as 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. 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.

***Recent Accounting Pronouncements***

***Recently Adopted Accounting Pronouncements***

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities. SFAS No. 161 is effective for the fiscal years and interim periods beginning after November 15, 2008. Accordingly, we adopted SFAS No. 161 effective January 1, 2009. Since SFAS No. 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS No. 161 did not affect our financial condition, results of operations or cash flows.

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The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* with effect from October 1, 2008, the beginning of the 2009 fiscal year. The Company has not applied the fair value option to any additional categories of financial assets or liabilities as a result of the adoption of SFAS No. 159. The categories of financial assets and financial liabilities reported at fair value in the Company's condensed consolidated balance sheets under Financial instruments owned, at fair value, Financial instruments sold, not yet purchased, at fair value and Investments in managed funds, at fair value at March 31, 2009 remain consistent with those reported under the same headings at September 30, 2008.

The Company adopted SFAS No. 157, *Fair Value Measurements*, with effect from October 1, 2008, the beginning of the 2009 fiscal year. The provisions of SFAS No. 157 are to be applied prospectively, with certain exceptions that do not apply to financial instruments held by the Company at September 30, 2008. Accordingly, there are no cumulative effect adjustments to be made to opening balances of retained earnings. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Note 5 below gives the information required by SFAS No. 157 relating to the Company's financial assets and liabilities that are carried at fair value.

Effective October 10, 2008, the company adopted Financial Accounting Standards Board (FASB) FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active*. FSP FAS 157-3 is consistent with the joint press release the FASB issued with the Securities and Exchange Commission on September 30, 2008, which provides general clarification guidance on determining fair value under SFAS No. 157 when markets are inactive. FSP FAS 157-3 specifically addresses the use of judgment in determining whether a transaction in a dislocated market represents fair value, the inclusion of market participant risk adjustments when an entity significantly adjusts observable market data based on unobservable inputs, and the degree of reliance to be placed on broker quotes or pricing services. The adoption of FSP FAS 157-3 has not had a significant effect on our current fair value measurements.

In September 2008, the FASB issued FSP FAS 133-1 and FASB Interpretation No. (FIN) 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4)*. FSP FAS 133-1 and FIN 45-4 require enhanced disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument, and require additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 were effective for our financial statements for the fiscal quarter ended December 31, 2008. The adoption of FSP FAS 133-1 and FIN 45-4 has had no effect on disclosures in our financial statements.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, which amends SFAS No. 140, *Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities*, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46(R), *Consolidation of Variable Interest Entities*, to require public enterprises to provide additional disclosures about their involvement with variable interest entities. This FSP is effective for the first reporting period, interim or annual, ending after December 15, 2008, which for the Company was the quarter ended December 31, 2008. The adoption of this FSP has had no effect on disclosures in our financial statements.

FASB's Emerging Issues Task Force (EITF) has reached consensus on EITF Issue No. 08-5, *Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*. The objective of this EITF is to determine an issuer's unit of accounting for a liability issued with an inseparable third-party credit enhancement when it is measured or disclosed at fair value on a recurring basis. This EITF is effective on a prospective basis in the first reporting period beginning on or after December 15, 2008 which for the Company was the fiscal quarter ended December 31, 2008. The adoption of this pronouncement did not have any effect on disclosures in our financial statements.

In January 2009, the FASB issued FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amends the impairment guidance in EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. This FSP is effective for the first reporting period, interim or annual, ending after December 15, 2008, which for the Company was the quarter ended December 31, 2008. The adoption of this FSP has had no effect on disclosures in our financial statements.

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### *Recent Accounting Pronouncements Not Yet Adopted*

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP FAS 157-4 ). FSP FAS 157-4 provides guidance for determining when a transaction is not orderly and for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* ( FAS 157 ), when there has been a significant decrease in the volume and level of activity for an asset or liability. FSP FAS 157-4 does not change the measurement objective of FAS 157 which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FSP FAS 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. We will adopt FSP FAS 157-4 effective for our quarter ending June 30, 2009 and are currently evaluating the effect that the adoption will have on our financial position and results of operations.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ( FSP FAS 115-2 ). FSP FAS 115-2 modifies the existing other-than-temporary impairment guidance to require the recognition of an other-than-temporary impairment when an entity has the intent to sell a debt security or when it is more likely than not an entity will be required to sell the debt security before its anticipated recovery. FSP FAS 115-2 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We will adopt FSP FAS 115-2 effective for our quarter ending June 30, 2009 and are currently evaluating the effect that the adoption will have on our financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP FAS 107-1 ). FSP FAS 107-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require fair value of financial instrument disclosures whenever a publicly traded company issues financial information in interim reporting periods in addition to the annual disclosures at year-end. The provisions of FSP FAS 107-1 are effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We will adopt FSP FAS 107-1 effective for our quarter ending June 30, 2009 and are currently evaluating the effect that the adoption will have on disclosures in our financial statements.

The EITF has reached consensus on EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*. The objective of EITF 07-5 is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which for the Company means the 2010 fiscal year, beginning on October 1, 2009. We are currently evaluating the effect that the adoption of EITF 07-5 will have on disclosures in our financial statements.

### **Note 2 Reclassifications**

Effective for the fiscal quarter ended June 30, 2008, the Company reclassified certain prior period balances from professional fees to clearing and related expenses. The reclassified fees were fund service accounting charges which are based on the value of the respective fund. The net result of this change for the three months and six months ended March 31, 2008 was an increase in clearing and related expenses of \$0.1 million and \$0.2 million, respectively, with a corresponding decrease in professional fees.

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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 March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Income from continuing operations	\$ 4.0	\$ 6.7	\$ 7.3	\$ 19.8
Add: Interest on convertible debt, net of tax	0.3	0.4	0.5	0.7
Diluted income from continuing operations	4.3	7.1	7.8	20.5
Less: Loss from discontinued operations		(0.7)		(0.9)
Diluted net income	\$ 4.3	\$ 6.4	\$ 7.8	\$ 19.6
<b>Denominator:</b>				
Weighted average number of:				
Common shares outstanding	8,873,440	8,437,124	8,864,298	8,362,265
Dilutive potential common shares outstanding:				
Share-based awards	368,498	522,219	451,391	601,270
Convertible debt	656,935	981,547	657,008	981,547
Diluted weighted-average shares	9,898,873	9,940,890	9,972,697	9,945,082

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 SFAS No. 123 (R). 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 648,673 and 117,028 shares of common stock for the three months ended March 31, 2009 and 2008, respectively, and 567,603 and 117,028 shares of common stock for the six months ended March 31, 2009 and 2008, respectively, were excluded from the calculation of diluted earnings per share because they would have been anti-dilutive.

**Note 4 Other Revenues, net**

Other revenue is comprised of the following:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Fees and commissions	\$ 1.9	\$ 1.2	\$ 3.9	\$ 2.5
Dividend income (expense), net	0.2		0.3	(0.1)
Interest income	0.6	0.6	1.4	1.1
Other		0.3	0.2	0.5
Total other revenues, net	\$ 2.7	\$ 2.1	\$ 5.8	\$ 4.0

**Note 5 Financial Assets and Financial Liabilities, at Fair Value**

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The Company adopted SFAS No. 159 and SFAS No. 157 with effect from October 1, 2008. The Company's financial assets and liabilities that are carried at fair value are:

Financial instruments owned

Financial instruments sold, not yet purchased

Investments in managed funds

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The table below sets forth an analysis of financial instruments owned and financial instruments sold, not yet purchased. This is followed by tables that provide the information required by SFAS No. 157 on all financial assets and liabilities that are carried at fair value.

(In millions)	March 31, 2009		September 30, 2008	
	Owned	Sold, not yet purchased	Owned	Sold, not yet purchased
Common stock and ADR s	\$ 8.8	\$ 1.9	\$ 18.3	\$ 5.8
Exchangeable foreign ordinary equities and ADR s	21.3	21.3	35.0	35.1
Corporate and municipal bonds	41.9		80.2	
U.S. and foreign government obligations	0.3	21.6	1.3	44.6
Derivatives	14.2	20.6	31.5	13.3
Commodities	67.0	67.1	49.9	52.7
Mutual funds and other	0.1		1.8	
	\$ 153.6	\$ 132.5	\$ 218.0	\$ 151.5

*Fair Value Hierarchy*

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value as of March 31, 2009 by level within the fair value hierarchy. As required by SFAS No. 157, 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 SFAS No. 157 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).

(In millions)	March 31, 2009				Total
	Level 1	Level 2	Level 3	Netting and Collateral	
<b>Assets:</b>					
Common stock and ADR s	\$ 27.4	\$ 1.5	\$ 1.2	\$	\$ 30.1
Corporate and municipal bonds	12.9	23.8	5.2		41.9
U.S. and foreign government obligations	0.2	0.1			0.3
Derivatives	0.2	14.0			14.2
Commodities		129.6		(62.6)	67.0
Mutual funds and other	0.1				0.1
Investment in managed funds			12.1		12.1
Total assets at fair value	\$ 40.8	\$ 169.0	\$ 18.5	\$ (62.6)	\$ 165.7
<b>Liabilities:</b>					
Common stock and ADR s	\$ 22.0	\$ 1.2	\$	\$	\$ 23.2
Corporate and municipal bonds					
U.S. and foreign government obligations	21.6				21.6
Derivatives	6.9	14.3		(0.6)	20.6
Commodities		73.5		(6.4)	67.1

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Total liabilities at fair value	\$ 50.5	\$ 89.0	\$	\$	(7.0)	\$ 132.5
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**Table of Contents***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 as follows:

(In millions)	As of March 31, 2009
Total level 3 assets	\$ 18.5
Level 3 assets for which the Company bears economic exposure	\$ 18.5
Total assets	\$ 363.2
Total financial assets at fair value	\$ 165.7
Total level 3 assets as a percentage of total assets	5.1%
Total level 3 assets as a percentage of total financial assets at fair value	11.2%

The following tables sets forth a summary of changes in the fair value of the Company's level 3 financial assets and liabilities during the three months and six months ended March 31, 2009 including a summary of unrealized gains (losses) during the three and six months on the Company's level 3 financial assets and liabilities still held at March 31, 2009.

**Level 3 Financial Assets and Financial Liabilities  
For the Three Months Ended March 31, 2009**

(In millions)	Balances at prior reporting date	Realized gains (losses) during period	Unrealized gains (losses) at reporting date	Purchases, issuances, settlements	Transfers in or out of Level 3	Balances at current reporting date
<b>Assets:</b>						
Common stock and ADR's	\$ 1.8	\$ 0.2	\$ 0.2	\$ (1.1)	\$	\$ 1.1
Corporate and municipal bonds	5.5		(0.3)			5.2
Investment in managed funds	12.5	0.1	0.2	(0.6)		12.2
	\$ 19.8	\$ 0.3	\$ 0.1	\$ (1.7)	\$	\$ 18.5

**Level 3 Financial Assets and Financial Liabilities  
For the Six Months Ended March 31, 2009**

(In millions)	Balances at prior reporting date	Realized gains (losses) during period	Unrealized gains (losses) at reporting date	Purchases, issuances, settlements	Transfers in or out of Level 3	Balances at current reporting date
<b>Assets:</b>						
Common stock and ADR's	\$ 2.9	\$ 0.2	\$ 0.2	\$ (2.2)	\$	\$ 1.1
Corporate and municipal bonds	4.1	0.1	1.5	(0.5)		5.2
Mutual funds and other						
Investment in managed funds	11.9	0.1	0.3	(0.1)		12.2
	\$ 18.9	\$ 0.4	\$ 2.0	\$ (2.8)	\$	\$ 18.5

**Note 6 Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk**

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements at March 31, 2009 at the fair values of the related financial instruments. The Company will incur losses if the market value of the financial instruments increases subsequent to March 31, 2009.

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The total of \$132.5 million at March 31, 2009 includes \$20.6 million for derivative contracts, which represent a liability to the Company based on their fair values as of March 31, 2009.

**Table of Contents****Derivatives**

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. The Company's derivative positions are included within the balance sheets under the caption "financial instruments owned, at fair value" and "financial instruments sold, not yet purchased, at fair value".

Listed below are the fair values of trading-related derivatives as of March 31, 2009 and September 30, 2008. Assets represent net unrealized gains and liabilities represent net unrealized losses.

(In millions)	March 31, 2009		September 30, 2008	
	Assets	Liabilities	Assets	Liabilities
<b>Derivative contracts for trading activities:</b>				
Equity index derivatives	\$ 0.6	\$ 1.2	\$ 1.8	\$ 0.2
Commodity price derivatives	13.6	14.3	29.7	12.6
<b>Derivative contracts accounted for as hedges under SFAS No. 133:</b>				
Interest rate derivatives		5.7		0.5
Gross fair value of derivative contracts	14.2	21.2	31.5	13.3
Cash collateral netting		(0.6)		
Fair value included in Financial instruments owned, at fair value	\$ 14.2		\$ 31.5	
Fair value included in Financial instruments sold, not yet purchased, at fair value		\$ 20.6		\$ 13.3

The derivatives as of March 31, 2009 mature as follows:

(In millions)	Total	Assets			Total	Liabilities		
		Maturing in Fiscal 2009	Maturing in Fiscal 2010	Maturing 2011 & Later		Maturing in Fiscal 2009	Maturing in Fiscal 2010	Maturing 2011 & Later
Equity index derivatives	\$ 0.6	\$ 0.2	\$ 0.2	\$ 0.2	\$ 1.2	\$ 1.2	\$	\$
Interest rate derivatives					5.7			5.7
Commodity price derivatives	13.6	12.3	1.3		13.7	12.6	1.1	
	\$ 14.2	\$ 12.5	\$ 1.5	\$ 0.2	\$ 20.6	\$ 13.8	\$ 1.1	\$ 5.7
<b>Commodity price derivatives:</b>								
Base metals	\$ 4.2	\$ 4.1	\$ 0.1	\$	\$ 6.3	\$ 7.4	\$ 0.1	\$
Precious metals	\$ 9.4	\$ 8.2	\$ 1.2	\$	\$ 7.4	\$ 6.4	\$ 1.0	\$

The Company's derivative contracts are principally held in its commodities trading business segment. The Company assists its commodities customers in protecting the value of their future production by entering into option or forward agreements with them on an over-the-counter (OTC) basis. The Company also provides its commodities customers with sophisticated option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by effecting offsetting OTC 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 SFAS No. 133.

These 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. In particular, the risks related to derivative positions may be partially offset by inventory, unrealized gains in inventory or cash collateral paid or received.



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The following table sets forth by major risk type the firm's gains/ (losses) related to trading activities, including both derivative and nonderivative financial instruments, for the three months ended March 2009 in accordance with SFAS No. 161. The gains/ (losses) set forth below are included in Net dealer inventory and investment gains in the condensed consolidated income statements.

(In millions)	Three Months Ended March 31,	
	2009	2008
Asset Management	\$ 1.6	\$ 1.1
Commodities	(5.6)	(15.7)
<b>Total</b>	<b>\$ 1.3</b>	<b>\$ (7.2)</b>

The Company invests in equity derivatives as part of its asset management business, whose total revenues, including trading revenues are shown in the table above.

The Company has two interest rate swap contracts totaling \$100 million in nominal amount at March 31, 2009, which were entered into in order to hedge potential changes in cash flows resulting from our variable rate LIBOR based borrowings, that are classified under SFAS No. 133 as cash flow hedges. The effective portion of the swap's gain or loss for the three months and six months ended March 31, 2009, as calculated using the long-haul method, was a gain of \$0.4 million and a loss of \$3.4 million, respectively, which has been reported in the balance sheets as a component of accumulated other comprehensive income (loss). This balance will be recognized in earnings over the remaining term of the swaps, as the hedged exposure affects interest expense. The ineffective portion of the swap gain or loss was a loss of \$0.3 million and \$1.4 million for the three months and six months ended March 31, 2009, respectively, which is included in Net dealer inventory and investment gains on the income statements.

**Credit Risk**

In the normal course of business, the Company purchases and sells financial instruments 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 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.

**Note 7 Physical Commodities Inventory**

Physical commodities inventory is valued at the lower of cost or market value, determined using the specific identification weighted average price method. Commodities in process include commodities in the process of being recycled. The carrying values of the Company's inventory at March 31, 2009 and September 30, 2008 are shown below.

(In millions)	March 31, 2009	September 30, 2008
Commodities in process	\$ 0.7	\$ 5.5
Finished commodities	74.5	51.9
	<b>\$ 75.2</b>	<b>\$ 57.4</b>

**Note 8 Goodwill**

The Company acquired the Gainvest group of companies ( INTL Gainvest ), specialists in local markets securitization and asset management in Argentina, Brazil and Uruguay, in May 2007. Pursuant to this acquisition, the Company is obligated to make a further payment on June 1, 2009 equal to 25% of the aggregate revenues that INTL Gainvest earns during the 12 months ending April 30, 2009. The revenues on which the 25% is calculated are subject to a minimum threshold of \$5.5 million and a maximum ceiling of \$11

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million for this period. As of March 31, 2009, the aggregate revenues of INTL Gainvest since May 1, 2008 had not exceeded the minimum threshold of \$5.5 million for the 12 months ending April 30, 2009. An amount equal to 25% of INTL Gainvest's revenues for the 12 months ending April 30, 2009 will be recorded as additional goodwill if and when the minimum revenue threshold is achieved.

The Company acquired the 50% interest held by Nilesh Ved in INTL Commodities DMCC, the Company's Dubai commodities joint venture, in February of 2009. The completion of the purchase accounting for this transaction resulted in goodwill of \$2.3 million being recorded during the quarter ended March 31, 2009.

**Note 9 Related Party Transactions**

As of March 31, 2009, the Company had investments valued at \$12.4 million in two hedge funds managed by INTL Consilium, LLC (INTL Consilium), including \$11.6 million in the INTL Consilium Convertible Arbitrage Fund (the ICCAF fund). As of March 31, 2009 the Company owned a 50.1% interest in INTL Consilium. Under the provisions of FIN 46(R), the Company is required to consolidate the ICCAF fund as a variable interest entity. Accordingly, the minority interest shown in the condensed consolidated income statements for the three and six months ended March 31, 2009 also includes the minority interests in the ICCAF fund. The creditors of the ICCAF fund have no recourse to the general assets of the Company. The Company also has an investment valued at \$11.3 million in the INTL Trade Finance Fund Limited, a fund managed by the Company's wholly-owned subsidiary, INTL Capital Limited. This fund invests primarily in global trade finance-related assets. The Company's investments in unconsolidated hedge funds are included in Investment in managed funds, at fair value on the condensed consolidated balance sheets.

**Note 10 Payable to Lenders under Loans and Overdrafts**

As of March 31, 2009, the Company had four credit facilities under which the Company may borrow up to \$200 million, subject to certain conditions. Interest expense related to the Company's credit facilities was approximately \$1.9 million and \$1.8 million for the three months ended March 31, 2009 and 2008, respectively, and approximately \$3.7 million and \$3.5 million for the six months ended March 31, 2009 and 2008.

The Company's four credit facilities at March 31, 2009 consisted of the following:

A one-year, renewable, revolving syndicated committed loan facility established on June 27, 2008 under which the Company's wholly-owned subsidiary, INTL Commodities, Inc. (INTL Commodities) is entitled to borrow up to \$125 million, subject to certain conditions. There are six 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. The interest rate for the facility depends on the ratio of borrowings to equity and ranges between 2.00% and 2.25% over the federal funds rate (0.18% at March 31, 2009) or over the LIBOR rate for the applicable term, at the Company's election.

A demand facility established on March 5, 2008, under which the Company's Dubai joint venture, INTL Commodities DMCC, may borrow up to \$15 million, subject to certain conditions. The facility is secured by inventory and receivables and is guaranteed by the Company.

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 of credit is secured by certain of the Company's assets. The other is secured by a pledge of shares held in certain of the Company's foreign subsidiaries. The interest rate on these facilities was 2.40% over one-month LIBOR (approximately 0.98% at March 31, 2009).

At March 31, 2009, the Company had the following credit facilities and outstanding borrowings:

Security	Maturity Date	Maximum Amount	Amount Outstanding
Certain foreign exchange assets	December 31, 2009	\$ 25.0	\$ 8.8
Certain pledged shares	December 31, 2009	35.0	21.9
Certain commodities assets	On demand	15.0	
Certain commodities assets	June 27, 2009	125.0	50.0





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**Note 11 Convertible Subordinated Notes and Debt Issuance Costs**

The Company had \$16.7 million and \$16.8 million in aggregate principal amount of the Company's senior subordinated convertible notes due 2011 ( Notes ) outstanding as of March 31, 2009 and September 30, 2008, respectively. 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 October 2008, Notes with a principal balance of \$0.1 million were converted into 4,359 common shares at the election of the holders of those Notes. As of March 31, 2009, the remaining Notes are convertible by the holders into 656,936 shares of common stock of the Company, at a conversion price of \$25.47 per share. 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 interest coverage ratio 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 March 31, 2009, no such increase has been necessary. Holders 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 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 ( 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 upon a failure to maintain effectiveness of the Registration Statement, 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 March 31, 2009, the Company was in compliance with its requirements under the Registration Rights Agreement.

**Note 12 Commitments and Contingencies**

As discussed in Note 8 Goodwill, the Company has a contingent liability relating to the acquisition of INTL Gainvest which may result in the payment of additional consideration in June 2009.

As discussed in Note 11 Convertible Subordinated Notes and Debt Issuance Costs, 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.

**Note 13 Capital and Other Regulatory Requirements**

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 March 31, 2009, INTL Trading's net capital was \$1.5 million, which was \$0.5 million in excess of its minimum requirement.

INTL Capital Limited ( INTL Capital ) is regulated by the Dubai Financial Services Authority in the United Arab Emirates, and is subject to a minimum capital requirement of approximately \$0.5 million as of March 31, 2009.

**Note 14 Stock-Based Compensation**

Stock-based compensation expense is included within Compensation and benefits in the condensed consolidated income statements and totaled \$0.5 million and \$0.4 million for the three months, and \$0.9 million and \$0.7 million for the six months ended March 31, 2009 and 2008, respectively.

**Table of Contents****Stock Option Plans**

The Company sponsors a stock option plan for its directors, officers, employees and consultants. At March 31, 2009, 782,344 shares were authorized for future grant under our stock plan. Awards that expire or are canceled generally become available for issuance again under the plan.

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

	Six Months Ended	
	March 31,	
	2009	2008
Expected stock price volatility	71%	60%
Expected dividend yield	0%	0%
Risk free interest rate	1.67%	3.25%
Average expected life (in years)	2.80	2.99

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

The following is a summary of stock option activity through March 31, 2009:

	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, 2008	464,559	584,207	\$ 9.31	3.27	\$ 8.6
Additional shares authorized	750,000				
Granted	(432,215)	432,215	7.06		
Exercised		(23,450)	4.35		
Balances at March 31, 2009	782,344	992,972	\$ 8.45	4.01	\$ 1.7
Exercisable at March 31, 2009		489,337	\$ 6.99	2.89	\$ 1.6

The Company settles stock option exercises with newly issued shares of common stock. The total compensation cost not yet recognized for non-vested awards of \$1.6 million has a weighted average period of 2.89 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 March 31, 2009, 543,645 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.

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The following is a summary of restricted stock activity through March 31, 2009:

	Shares Available for Grant	Number of Unvested Shares Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value (\$ millions)
Balances at September 30, 2008	657,184	84,397	\$ 26.01	2.25	\$ 2.0
Granted	(113,539)	113,539	8.02		
Vested		(18,197)	26.47		
Balances at March 31, 2009	543,645	179,739	\$ 14.60	2.99	\$ 1.8

The total compensation cost not yet recognized of \$2.2 million has a weighted average period of 2.99 years over which the compensation expense is expected to be recognized. Compensation expense is amortized on a straight-line basis over the vesting period. Restricted stock grants are included in the Company's total issued and outstanding common shares.

**Note 15 Taxes**

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 on October 1, 2007 and was not required to record any cumulative effect adjustment to retained earnings as a result of this adoption. The Company recognizes potential interest and penalties as a component of income tax expense.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction and various state and foreign jurisdictions.

**Note 16 Discontinued Operations**

On August 1, 2008, the Company notified the employees of its Hong Kong subsidiary, INTL Global Currencies (Asia) Ltd., of its intention to discontinue its foreign exchange margin trading operations. The Company has effected an orderly liquidation of this subsidiary. The results of operations for INTL Global Currencies (Asia) Ltd., which were previously included within the foreign exchange trading segment, are included within discontinued operations on the income statement for all periods presented.

**Note 17 Subsequent Events**

On April 7, 2009, the Company acquired Companyia Inversora Bursatil 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 is obligated to make additional

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payments over the next two years, depending on the level of revenues achieved. The Company anticipates recording goodwill once the initial purchase allocation has been finalized, and for any subsequent payments. The acquisition of CIBSA is not expected to have an immediate material impact on the Company.

On May 8, 2009, the Company agreed to redeem its partnership interest in INTL Consilium, LLC ( INTL Consilium ), effective April 30, 2009. The Company has recorded an impairment charge in connection with this transaction of approximately \$0.5 million for the three months and six months ended March 31, 2009, which is recorded as Other within Non-interest expenses on the income statements. The results of INTL Consilium, previously consolidated, will qualify to be treated by the Company for accounting purposes as discontinued operations with effect from the fiscal quarter ending on June 30, 2009. Operating revenues for INTL Consilium were \$0.8 million and \$1.9 million for the three months and \$1.9 million and \$7.7 million for the six months ended March 31, 2009 and 2008, respectively.

### **Note 18 Segment Analysis**

The Company's activities are currently divided into five functional areas: international equities market-making, foreign exchange trading, commodities trading, international debt capital markets and asset management.

#### ***International Equities Market-Making***

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

#### ***Foreign Exchange Trading***

The Company trades currencies, with a focus on illiquid currencies of developing countries. The Company's customers are financial institutions, multi-national corporations, government organizations and charitable organizations operating in these developing countries. 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.

#### ***Commodities Trading***

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 Net dealer inventory and investment gains. All of the Company's other businesses report their revenues on a net basis. Inventory for the commodities business is valued at the lower of cost or market value, under the provisions of ARB No. 43. 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 GAAP. In such situations, unrealized gains in inventory are not recognized under GAAP, but unrealized gains and losses in related derivative positions are recognized under GAAP. As a result, the Company's reported earnings from commodities trading are subject to significant volatility.

#### ***International Debt Capital Markets***

The Company arranges international debt transactions and asset backed securitizations for issuers located primarily in emerging markets. These transactions include bond issues, syndicated loans, and asset backed securitizations, as well as forms of other negotiable debt instruments.

#### ***Asset Management***

The asset management segment 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 managed funds and proprietary accounts managed either by the Company's investment managers or by independent investment managers.



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*Other*

All other transactions that do not relate to the operating segments above are classified as *Other*. Certain cash accounts and balances were maintained to support the administration of all of the operating segments. These multi-segment assets were allocated to *Other*. Revenue reported for *Other* includes interest income but not interest expense.

The total revenues reported combine gross revenues for the 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 clearing related charges and variable trader bonus compensation. Variable trader bonus compensation represents a fixed percentage of an amount equal to revenues produced less clearing and related charges, base salaries and an overhead allocation.

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

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Information concerning operations in these segments of business is shown in accordance with SFAS No. 131 as follows:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>Total revenues:</b>				
International equities market-making	\$ 6.9	\$ 8.5	\$ 25.4	\$ 17.4
Foreign exchange trading	8.0	5.3	13.3	11.6
Commodities trading	15,413.1	3,466.0	25,925.9	5,603.1
International debt capital markets	0.5	1.0	1.2	2.1
Asset management	3.2	5.3	2.4	12.0
Other		0.7	(0.3)	1.2
<b>Total</b>	<b>\$ 15,431.7</b>	<b>\$ 3,486.8</b>	<b>\$ 25,967.9</b>	<b>\$ 5,647.4</b>
<b>Operating revenues:</b>				
International equities market-making	\$ 6.9	\$ 8.5	\$ 25.4	\$ 17.4
Foreign exchange trading	8.0	5.3	13.3	11.6
Commodities trading	8.5	11.9	14.7	30.4
International debt capital markets	0.5	1.0	1.2	2.1
Asset management	3.2	5.3	2.4	12.0
Other		0.7	(0.3)	1.2
<b>Total</b>	<b>\$ 27.1</b>	<b>\$ 32.7</b>	<b>\$ 56.7</b>	<b>\$ 74.7</b>
<b>Net contribution:</b>				
(Revenues less cost of sales, clearing and related expenses, variable bonus compensation and bad debt expense):				
International equities market-making	\$ 3.5	\$ 4.4	\$ 14.5	\$ 8.8
Foreign exchange trading	5.7	4.0	9.6	8.9
Commodities trading	6.2	10.3	10.1	27.6
International debt capital markets	0.5	0.9	1.2	1.9
Asset management	3.0	4.4	1.9	9.9
Other	(0.1)	0.7	(0.4)	1.2
<b>Total</b>	<b>\$ 18.8</b>	<b>\$ 24.7</b>	<b>\$ 36.9</b>	<b>\$ 58.3</b>
<b>Reconciliation of net contribution to income before income tax and minority interest:</b>				
Net contribution allocated to segments	\$ 18.8	\$ 24.7	\$ 36.9	\$ 58.3
Costs not allocated to operating segments	13.7	13.2	25.8	24.7
<b>Income before income tax and minority interest</b>	<b>\$ 5.1</b>	<b>\$ 11.5</b>	<b>\$ 11.1</b>	<b>\$ 33.6</b>

	Balances as of	
	March 31, 2009	September 30, 2008
<b>Total assets:</b>		
International equities market-making	\$ 33.8	\$ 48.9
Foreign exchange trading	34.8	52.9
Commodities trading	208.5	205.3
International debt capital markets	10.7	11.2

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Asset management	66.0	114.4
Other	11.7	5.3
Total	\$ 365.5	\$ 438.0

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**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 Company's control, 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.

***Principal Activities***

International Assets Holding Corporation and its subsidiaries (collectively INTL or the Company) form a financial services group focused on select international markets. The Company commits its capital and expertise to market-making and dealing in financial instruments, currencies and commodities, and to asset management. The Company's activities are divided into five reportable business segments: international equities market-making, foreign exchange trading, commodities trading, international debt capital markets and asset management.

**International Equities Market-Making.** The Company is a leading U.S. market maker in select foreign securities, including unlisted American Depository Receipts and foreign common shares. The Company provides execution and liquidity primarily to U.S.-based wire houses, regional broker-dealers and institutional investors.

**Foreign Exchange Trading.** The Company trades select illiquid currencies of developing countries. The Company's target customers are financial institutions, multi-national corporations, and governmental and charitable organizations operating in these developing countries. In addition, the Company executes trades based on the foreign currency flows inherent in its existing international securities activities. The Company primarily acts as a principal in buying and selling foreign currencies on a spot basis.

**Commodities Trading.** The Company provides a full range of over-the-counter precious and base metals trading and hedging capabilities to producers, consumers, recyclers and investors with a particular focus on transactions that include physical delivery. Acting as a principal, the Company commits its capital to buy and sell the metals on a spot and forward basis.

**International Debt Capital Markets.** The Company originates international debt transactions for issuers located primarily in emerging markets. This includes bond issues, syndicated loans, asset securitizations as well as forms of other negotiable debt instruments. The Company also actively trades a wide variety of international debt instruments including both investment grade and higher yielding emerging market bonds with particular focus on smaller emerging market sovereign, corporate and bank bonds that trade worldwide on an over-the-counter basis.

**Asset Management.** The Company provides asset management services through INTL Consilium, LLC, an asset management joint venture in which it held a 50.1% interest at March 31, 2009, and through two wholly owned subsidiaries: INTL Capital Ltd. and Gainvest S.A. Sociedad Gerente de Fondos Comunes de Inversion. INTL Consilium, LLC acts as the investment manager for private investment funds organized by INTL Consilium, LLC and others. INTL Capital Ltd. acts as the investment adviser to INTL Trade Finance Fund Ltd. Gainvest acts as an investment adviser to three investment funds organized and traded in Argentina. Subsequent to the end of the quarter, the Company agreed to discontinue its business relationship with and redeem its 50.1% interest in INTL Consilium, LLC. The results of INTL Consilium, LLC, previously consolidated and included within continuing operations, will be treated by the Company for accounting purposes as discontinued operations with effect from the fiscal quarter ending June 30, 2009.

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**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 U.S. ( GAAP ) to carry derivatives at fair market value but physical commodities inventory at the lower of cost or market value have a significant temporary impact on our reported earnings. Under GAAP, gains and losses on commodities inventory and derivatives which the Company intends to be offsetting are often recognized in different periods. Additionally, 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 marked-to-market basis in the tables below are the Company s adjusted operating revenues, pro forma income from continuing operations, pro forma net income, adjusted EBITDA and adjusted stockholders equity, which have been adjusted to reflect the marked-to-market differences in the Company s commodities business during each period (in the case of operating revenues and net income) and the cumulative differences (in the case of stockholders equity). The Company has also included the estimated tax liability which would have been incurred as a result of these adjustments, utilizing a blended tax rate of 37.5%.

**Table of Contents****Pro Forma Adjusted Financial Information (non-GAAP) (UNAUDITED)**

(In millions, except employee count and ratios)	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>As reported on a GAAP basis:</b>				
Operating revenues	\$ 27.1	\$ 32.7	\$ 56.7	\$ 74.7
Income from continuing operations	\$ 4.3	\$ 6.5	\$ 7.8	\$ 20.2
Net income	\$ 4.0	\$ 6.0	\$ 7.3	\$ 18.9
Stockholders' equity	\$ 79.3	\$ 57.1		
<b>Marked-to-market basis (unaudited, pro forma, non-GAAP):</b>				
Adjusted operating revenues	\$ 27.5	\$ 30.2	\$ 58.5	\$ 58.9
Adjusted, pro forma income from continuing operations	\$ 4.3	\$ 5.1	\$ 8.5	\$ 10.0
Adjusted, pro forma net income	\$ 4.3	\$ 4.4	\$ 8.5	\$ 9.1
Adjusted EBITDA	\$ 7.5	\$ 10.6	\$ 16.6	\$ 22.1
Adjusted stockholders' equity	\$ 83.0	\$ 66.6		
<b>Cumulative after tax adjustment to stockholders' equity</b>	<b>\$ 3.7</b>	<b>\$ 9.5</b>		
<b>Trailing twelve months on marked-to-market basis (unaudited, pro forma, non-GAAP):</b>				
Adjusted operating revenues	\$ 100	\$ 102		
Adjusted, pro forma net income	\$ 10	\$ 14		
Adjusted EBITDA	\$ 22	\$ 37		
Adjusted return on average equity	13.9%	24.5%		
<b>The following marked-to-market adjustments were made to the GAAP basis numbers shown above (unaudited, pro forma, non-GAAP management data):</b>				
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
Pro forma tax effect at 37.5%	(0.1)	0.9	(0.6)	6.0
<b>After tax marked-to-market adjustment</b>	<b>\$ 0.3</b>	<b>\$ (1.6)</b>	<b>\$ 1.2</b>	<b>\$ (9.8)</b>
<b>Reconciliation of net income to adjusted EBITDA (non-GAAP)</b>				
Net income	\$ 4.0	\$ 6.0	\$ 7.3	\$ 18.9
Minority interests	0.3	0.5	0.5	1.3
Income tax	0.8	4.3	3.3	12.5
Depreciation and amortization	0.3	0.2	0.5	0.5
Interest expense	2.3	2.8	4.6	5.8
Interest income	(0.6)	(0.7)	(1.4)	(1.1)
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
<b>Adjusted EBITDA (non-GAAP)</b>	<b>\$ 7.5</b>	<b>\$ 10.6</b>	<b>\$ 16.6</b>	<b>\$ 22.1</b>
<b>Other data (unaudited, pro forma, non-GAAP):</b>				
Employees	186	181		
Compensation and benefits / adjusted operating revenues	37.8%	36.4%	41.0%	36.7%
Leverage ratio: Total assets to equity	4.6	5.9		

Adjusted operating revenues, adjusted net income, adjusted EBITDA and adjusted stockholders' equity are financial measures that are not recognized by GAAP, and should not be considered as alternatives to operating revenues, net income or stockholders' equity calculated under GAAP or as an alternative to any other measures of performance derived in accordance with 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**

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Set forth below is the Company's discussion of the results of its operations, as viewed by management, for the fiscal quarters and six-month periods ended March 31, 2009 and 2008, respectively. The quarters will be referred to in this discussion as "Q2 2009" and "Q2 2008", and the six-month periods as "YTD 2009" and "YTD 2008", respectively. This discussion refers to both GAAP results and adjusted marked-to-market information, in accordance with the information presented above under the heading "Pro Forma Adjusted Financial Information". For the international equities, foreign exchange trading, international debt capital markets and asset management segments, there are no differences between the GAAP results and the adjusted marked-to-market results. Only the commodities trading segment has differences between the GAAP results and the adjusted marked-to-market results. However, this means that there are differences between the GAAP basis and marked-to-market 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.

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**Table of Contents****Financial Overview**

The following table shows an overview of our financial results.

(In millions)	Three Months Ended March 31, %			Six Months Ended March 31, %		
	2009	Change	2008	2009	Change	2008
<b>FINANCIAL OVERVIEW</b>						
Adjusted total operating revenues (non-GAAP)	\$ 27.5	(9)%	\$ 30.2	\$ 58.5	(1)%	\$ 58.9
Interest expense	2.3	(18)%	2.8	4.6	(21)%	5.8
Net revenues (non-GAAP)	25.2	(8)%	27.4	53.9	2%	53.1
Non-interest expenses	19.7	7%	18.4	41.0	16%	35.3
Income before income tax and minority interest (non-GAAP)	5.5	(39)%	9.0	12.9	(28)%	17.8
Pro forma income tax expense (non-GAAP)	0.9	(74)%	3.4	3.9	(40)%	6.5
Minority interest in income of consolidated entities	0.3	(40)%	0.5	0.5	(62)%	1.3
Pro forma income from continuing operations (non-GAAP)	4.3	(16)%	5.1	8.5	(15)%	10.0
Loss from discontinued operations, net of tax		(100)%	0.7		(100)%	0.9
Pro forma net income (non-GAAP)	\$ 4.3	(2)%	\$ 4.4	\$ 8.5	(7)%	\$ 9.1

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

Total operating revenues, (GAAP)	\$ 27.1		\$ 32.7	\$ 56.7		\$ 74.7
Gross marked-to-market adjustment	0.4		(2.5)	1.8		(15.8)
Operating revenues (non-GAAP)	\$ 27.5		\$ 30.2	\$ 58.5		\$ 58.9

**Reconciliation of income tax expense from GAAP to pro forma, non-GAAP numbers:**

Income tax expense (GAAP)	\$ 0.8		\$ 4.3	\$ 3.3		\$ 12.5
Pro forma taxes on gross marked-to-market adjustment at 37.5%	0.1		(0.9)	0.6		(6.0)
Pro forma income tax expense (non-GAAP)	\$ 0.9		\$ 3.4	\$ 3.9		\$ 6.5

*Q2 2009 Operating Revenues vs. Q2 2008 Operating Revenues*

The Company's operating revenues under GAAP for Q2 2009 and Q2 2008 were \$27.1 million and \$32.7 million, respectively. The Company's adjusted operating revenues were \$27.5 million in Q2 2009, compared with \$30.2 million in Q2 2008. Decreases in adjusted operating revenues of 18% in equities market-making, 5% in commodities trading, 50% in debt capital markets and 40% in asset management were partially offset by a 51% increase in foreign exchange trading adjusted operating revenues. The unusual levels of volatility in global equity markets experienced during the first quarter of fiscal 2009 were not sustained during Q2 2009. Reduced volumes during the quarter produced matching results. The commodities trading results in Q2 2009 were largely driven by precious metals activity, while those in Q2 2008 were driven by base metals trading activity. Foreign exchange trading produced its best quarter ever in Q2 2009. The lack of demand and risk intolerance caused by the global financial crisis continues to adversely affect our debt arrangement and placement business, accounted for in the debt capital markets segment. Reduced revenue in the asset management segment arose as a result of reduced investment advisory fees related to redemptions from funds under management and to declining values of assets as a result of the global financial crisis. See the segmental analysis below for additional information on activity in each of the segments.

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### *YTD 2009 Operating Revenues vs. YTD 2008 Operating Revenues*

The Company's operating revenues under GAAP for YTD 2009 and YTD 2008 were \$56.7 million and \$74.7 million, respectively. The Company's adjusted operating revenues were \$58.5 million in YTD 2009, 1% lower than the operating revenues of \$58.9 in YTD 2008. Adjusted operating revenues increased by 46% in equities market-making, 15% in foreign exchange trading and 13% in commodities trading, offset by decreases of 43% in debt capital markets and 80% in asset management. The equities market-making segment benefited from the unusual levels of volatility in global equity markets during 2009. Foreign exchange trading revenues have continued to climb during 2009 as a result of widening spreads in emerging market exchange rates and increased customer activity. The commodities trading results in YTD 2009 have been largely driven by precious metals activity, compared with base metals activity in YTD 2008. Operating revenues in the debt capital markets segment has been adversely affected in YTD 2009 by the global

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financial crisis. Reduced investment advisory fees related to redemptions from funds under management and to declining values of assets as a result of the global financial crisis, as well as marked-to-market losses in the Company's proprietary investments in certain funds and accounts managed by the Company, led to reduced revenue and losses in the asset management segment.

*Q2 2009 Interest expense vs. Q2 2008 Interest expense*

**Interest expense:** Interest expense decreased by 18% from \$2.8 million in Q2 2008 and \$2.3 million in Q2 2009 as a result of decreased average borrowings and lower interest rates. 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. See Note 10 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 most of Q2 2009, resulting in a net interest expense on the swaps. The effective portion of the interest expense on the swaps during Q2 2009 had the effect of increasing the Company's reported interest expense by \$0.6 million.

*YTD 2009 Interest expense vs. YTD 2008 Interest expense*

**Interest expense:** Interest expense decreased by 21% from \$5.8 million in YTD 2008 to \$4.6 million in YTD 2009 as a result of decreased average borrowings and lower interest rates. The effective portion of the interest expense on the interest rate swaps (referred to in the paragraph above) during YTD 2009 had the effect of increasing the Company's reported interest expense by \$0.8 million.

## Non-interest expenses

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

(In millions)	Three Months Ended March 31, %			Six Months Ended March 31, %		
	2009	Change	2008	2009	Change	2008
<b>NON-INTEREST EXPENSES</b>						
Compensation and benefits	\$ 10.4	(5)%	\$ 11.0	\$ 24.0	11%	\$ 21.6
Clearing and related expenses	5.0	28%	3.9	9.9	29%	7.7
Other non-interest expenses						
- Occupancy and equipment rental	0.3	0%	0.3	0.7	0%	0.7
- Professional fees	0.3	(40)%	0.5	1.1	10%	1.0
- Depreciation and amortization	0.3	0%	0.3	0.5	0%	0.5
- Business development	0.5	(17)%	0.6	1.0	(23)%	1.3
- Insurance	0.1	0%	0.1	0.2	0%	0.2
- Other	2.8	65%	1.7	3.6	57%	2.3
<b>Total other non-interest expenses</b>	<b>4.3</b>	<b>23%</b>	<b>3.5</b>	<b>7.1</b>	<b>18%</b>	<b>6.0</b>
<b>Total non-interest expenses</b>	<b>\$ 19.7</b>	<b>7%</b>	<b>\$ 18.4</b>	<b>\$ 41.0</b>	<b>16%</b>	<b>\$ 35.3</b>

*Q2 2009 Non-Interest Expenses vs. Q2 2008 Non-Interest Expenses*

**Total Non-Interest Expenses:** Non-interest expenses increased by 7% from \$18.4 million in Q2 2008 to \$19.7 million in Q2 2009.

**Compensation and Benefits:** Compensation and benefits expense decreased by 5% from \$11.0 million to \$10.4 million. These represented 53% of total non-interest expenses in Q2 2009, compared with 60% in Q2 2008. The variable portion of compensation and benefits decreased by 5% from \$5.7 million in Q2 2008 to \$5.4 million in Q2 2009, mainly as a result of decreased revenues. The fixed portion of compensation and benefits decreased 6% from \$5.3 million to \$5.0 million, resulting from reduced base salaries. The number of employees declined from 190 at the beginning of Q2 2009 to 186 at the end of Q2 2009, compared with 181 employees at the end of Q2 2008. Stock-based compensation expense was \$0.5 million and \$0.4 million for Q2 2009 and Q2 2008, respectively.





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**Clearing and Related Expenses:** Clearing and related expenses increased by 28% from \$3.9 million in Q2 2008 to \$5.0 million in Q2 2009. The increase was mainly a result of increased equities volumes and third-party commissions paid in the foreign exchange trading business.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 23% from \$3.5 million in Q2 2008 to \$4.3 million in Q2 2009. In Q2 2009 these included \$1.8 million of bad debt write-offs, compared with \$1.1 million in Q2 2008, and \$0.5 million as an impairment charge relating to the Company's joint venture interest in INTL Consilium, LLC, which the Company agreed to redeem effective April 30, 2009. The 40% decrease in professional fees was as a result of adjustments made to accruals in the prior quarter. Business development costs decreased by 17%, from \$0.6 million to \$0.5 million.

**Provision for Taxes:** The effective income tax rate on a GAAP basis was 16% in Q2 2009, compared with 37% in Q2 2008. This change was primarily due to changes in the geographic mix of profits and losses.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings, the level of our pre-tax earnings and the level of our tax credits.

**Minority Interest:** The minority interest in income of consolidated entities decreased from \$0.5 million in Q2 2008 to \$0.3 million in Q2 2009. This represents the minority interests in our joint venture, INTL Consilium, LLC, and 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.

**Loss from Discontinued Operations:** On August 1, 2008, the Company notified the employees of its Hong Kong subsidiary, INTL Global Currencies (Asia) Ltd., of its intention to discontinue its foreign exchange margin trading operations. The subsidiary has been closed down without any material expenses incurred beyond those accrued at September 30, 2008. The loss from discontinued operations, net of taxes, was \$0.7 million in Q2 2008.

### *YTD 2009 Non-Interest Expenses vs. YTD 2008 Non-Interest Expenses*

**Total Non-Interest Expenses:** Non-interest expenses increased by 16% from \$35.3 million in YTD 2008 to \$41.0 million in YTD 2009.

**Compensation and Benefits:** Compensation and benefits expense increased by 11% from \$21.6 million to \$24.0 million. These represented 59% of total non-interest expenses in YTD 2009, compared with 61% in YTD 2008. The variable portion of compensation and benefits increased by 26% from \$11.4 million in YTD 2008 to \$14.4 million in YTD 2009. Although total revenues decreased by 1%, variable compensation numbers for the YTD 2009 period are unusual because of very high equities market-making revenues in the quarter ended December 31, 2008 and because losses, such as the asset management losses in the same period, do not result in a corresponding credit to the variable compensation expense. The fixed portion of compensation and benefits decreased 6% from \$10.2 million to \$9.6 million, as a result of having fewer employees. The number of employees declined from 195 at the beginning of YTD 2009 to 186 at the end of YTD 2009, compared with 181 employees at the end of YTD 2008. Stock-based compensation expense was \$0.9 million and \$0.7 million for YTD 2009 and YTD 2008, respectively.

**Clearing and Related Expenses:** Clearing and related expenses increased by 29% from \$7.7 million in YTD 2008 to \$9.9 million in YTD 2009. The increase was mainly a result of increased equities volumes and third-party commissions paid in the foreign exchange trading business.

**Other Non-Interest Expenses:** Other non-interest expenses increased by 18% from \$6.0 million in YTD 2008 to \$7.1 million in YTD 2009. In YTD 2009 these included \$1.9 million of bad debt write-offs, compared with \$1.1 million in YTD 2008, and a \$0.5 million impairment charge relating to the Company's joint venture interest in INTL Consilium, LLC, which the Company agreed to redeem, effective April 30, 2009. Business development costs decreased by 23%, from \$1.3 million to \$1.0 million.

**Provision for Taxes:** The effective income tax rate on a GAAP basis was 30% in YTD 2009, compared with 37% in YTD 2008. This change was primarily due to changes in the geographic mix of profits and losses.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings, the level of our pre-tax earnings and the level of our tax credits.



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**Minority Interest:** The minority interest in income of consolidated entities decreased from \$1.3 million in YTD 2008 to \$0.5 million in YTD 2009. This represents the minority interests in our two joint ventures, INTL Consilium, LLC and INTL Commodities DMCC, and 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.

**Loss from Discontinued Operations:** On August 1, 2008, the Company notified the employees of its Hong Kong subsidiary, INTL Global Currencies (Asia) Ltd., of its intention to discontinue its foreign exchange margin trading operations. The subsidiary has been closed down without any material expenses incurred beyond those accrued at September 30, 2008. The loss from discontinued operations, net of taxes, was \$0.9 million in YTD 2008.

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

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

(In millions)	Three Months Ended March 31,			Six Months Ended March 31,		
	2009	% Change	2008	2009	% Change	2008
<b>SEGMENTAL RESULTS</b>						
International equities market-making						
- operating revenues	\$ 6.9	(19)%	\$ 8.5	\$ 25.4	46%	\$ 17.4
- variable expenses	3.4	(17)%	4.1	10.9	27%	8.6
- contribution	3.5	(20)%	4.4	14.5	65%	8.8
Foreign exchange trading						
- operating revenues	8.0	51%	5.3	13.3	15%	11.6
- variable expenses	2.3	77%	1.3	3.7	37%	2.7
- contribution	5.7	43%	4.0	9.6	8%	8.9
Commodities trading						
- adjusted operating revenues (non-GAAP)	8.9	(5)%	9.4	16.5	13%	14.6
- variable expenses	2.3	44%	1.6	4.6	64%	2.8
- adjusted contribution (non-GAAP)	6.6	(15)%	7.8	11.9	1%	11.8
International debt capital markets						
- operating revenues	0.5	(50)%	1.0	1.2	(43)%	2.1
- variable expenses		(100)%	0.1		(100)%	0.2
- contribution	0.5	(44)%	0.9	1.2	(37)%	1.9
Asset management						
- operating revenues	3.2	(40)%	5.3	2.4	(80)%	12.0
- variable expenses	0.2	(78)%	0.9	0.5	(76)%	2.1
- contribution	3.0	(32)%	4.4	1.9	(81)%	9.9
Other						
- operating revenues		(100)%	0.7	(0.3)	n/m	1.2
- variable expenses	0.1	n/m		0.1	n/m	
- contribution	(0.1)	n/m	0.7	(0.4)	n/m	1.2
Total Segmental Results						
- adjusted operating revenues (non-GAAP)	27.5	(9)%	30.2	58.5	(1)%	58.9
- variable expenses	8.3	4%	8.0	19.8	21%	16.4
- adjusted contribution (non-GAAP)	\$ 19.2	(14)%	\$ 22.2	\$ 38.7	(9)%	\$ 42.5

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

Total operating revenues, (GAAP)	\$ 8.5	\$ 11.9	\$ 14.7	\$ 30.4
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
Adjusted operating revenues (non-GAAP)	\$ 8.9	\$ 9.4	\$ 16.5	\$ 14.6

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

Total commodities trading contribution, (GAAP)	\$ 6.2	\$ 10.3	\$ 10.1	\$ 27.6
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
Commodities trading adjusted contribution (non-GAAP)	\$ 6.6	\$ 7.8	\$ 11.9	\$ 11.8

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

Total operating revenues, (GAAP)	\$ 27.1	\$ 32.7	\$ 56.7	\$ 74.7
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
Adjusted operating revenues (non-GAAP)	\$ 27.5	\$ 30.2	\$ 58.5	\$ 58.9

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

Total contribution, (GAAP)	\$ 18.8	\$ 24.7	\$ 36.9	\$ 58.3
Gross marked-to-market adjustment	0.4	(2.5)	1.8	(15.8)
Adjusted contribution (non-GAAP)	\$ 19.2	\$ 22.2	\$ 38.7	\$ 42.5

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### *Q2 2009 vs. Q2 2008 Segmental Analysis*

The adjusted contribution of all the Company's business segments was \$19.2 million in Q2 2009, compared with \$22.2 million in Q2 2008. Contribution consists of operating revenues less direct clearing and clearing related charges and variable compensation paid to traders. Variable compensation is paid to traders on the basis of a fixed percentage of the aggregate of revenues less clearing and related charges, base salaries and a fixed overhead allocation. Contribution is one of the key measures used by management to assess the performance of each segment.

**International equities market-making** Operating revenues decreased by 19% from \$8.5 million in Q2 2008 to \$6.9 million in Q2 2009. Operating revenues in this segment are largely dependent on overall volume and volatility. During Q2, 2009, volume and volatility both declined. 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 contribution attributable to this segment decreased 20% from \$4.4 million to \$3.5 million. Variable expenses expressed as a percentage of operating revenues increased from 48% to 49

**Foreign exchange trading** Operating revenues were at a record level in Q2 2009, increasing by 51% from \$5.3 million in Q2 2008 to \$8.0 million in Q2 2009. Operating revenues increased due to wider spreads on currencies of developing countries in response to the global financial crisis, and an increased customer base.

The contribution attributable to this segment increased 43% from \$4.0 million to \$5.7 million. Variable expenses expressed as a percentage of operating revenues increased from 25% to 29%, mainly as a result of commissions paid to third-party introducers.

**Commodities trading** Operating revenues under GAAP decreased from \$11.9 million in Q2 2008 to \$8.5 million in Q2 2009. Adjusted operating revenues decreased by 5% from \$9.4 million in Q2 2008 to \$8.9 million in Q2 2009.

Precious metals adjusted operating revenues increased from \$4.1 million in Q2 2008 to \$6.9 million in Q2 2009. Base metals adjusted operating revenues decreased from \$5.3 million in Q2 2008 to \$2.0 million in Q2 2009. Precious metals operating revenues have increased as a result of increased customer business and increasing revenue flows from our Dubai subsidiary and from our Singapore office. Base metals operating revenues decreased due to the substantial decline in prices of base metals since Q2 2008, which has made recycling less profitable and resulted in decreased activity.

The adjusted contribution attributable to this segment decreased 15% from \$7.8 million to \$6.6 million. Variable expenses expressed as a percentage of operating revenues increased from 17% to 26%.

**International debt capital markets** Operating revenues decreased by 50% from \$1.0 million in Q2 2008 to \$0.5 million in Q2 2009. The business focuses on the arranging and placing of debt issues and asset backed securitization. Operating revenues have been adversely affected by the lack of market demand and intolerance for risk caused by the global financial crisis.

The contribution attributable to this segment decreased 44% from \$0.9 million to \$0.5 million.

**Asset management** 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.

Operating revenues decreased 40% from \$5.3 million in Q2 2008 to \$3.2 million in Q2 2009. Redemptions from and losses in funds managed by the Company during Q2 2009 reduced total third party assets under management in this segment from \$1.2 billion at September 30, 2008 to \$0.7 billion at March 31, 2009. Assets under management at March 31, 2008 were \$2.2 billion. Management fees, earned on a lower asset base, and other income were \$1.6 million during Q2 2009. Net marked-to-market gains in proprietary investments were \$1.6 million. During Q2 2009, the Company redeemed or sold certain of its proprietary investments, the fair value of which was \$27.8 million at March 31, 2009 and \$36.7 million at December 31, 2008.

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The contribution attributable to this segment decreased 32% from \$4.4 million in Q2 2008 to \$3.0 million in Q2 2009. On May 8, 2009, the Company agreed to discontinue its business relationship with and redeem its partnership interest in INTL Consilium, LLC effective April 30, 2009. The results of INTL Consilium, previously consolidated, will qualify for accounting purposes to be treated as discontinued operations with effect from the fiscal quarter ending June 30, 2009. Operating revenues for INTL Consilium were \$0.8 million and \$1.9 million for Q2 2009 and Q2 2008, respectively.

### *YTD 2009 vs. YTD 2008 Segmental Analysis*

The adjusted contribution of all the Company's business segments was \$38.7 million in YTD 2009, compared with \$42.5 million in YTD 2008.

**International equities market-making** Operating revenues increased by 46% from \$17.4 million in YTD 2008 to \$25.4 million in YTD 2009. Operating revenues in this segment are largely dependent on overall volume and volatility. Market volatility reached unprecedented levels during the quarter ended December 31, 2008, in response to the global financial crisis, but then declined significantly during the quarter ended March 31, 2009. 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 contribution attributable to this segment increased 65% from \$8.8 million to \$14.5 million. Variable expenses expressed as a percentage of operating revenues decreased from 49% to 43%.

**Foreign exchange trading** Operating revenues increased by 15% from \$11.6 million in YTD 2008 to \$13.3 million in 2009, due to a larger customer base and wider spreads in developing market currency exchange rates.

The contribution attributable to this segment increased 8% from \$8.9 million to \$9.6 million. Variable expenses expressed as a percentage of operating revenues increased from 23% to 28%, mainly as a result of commissions paid to third-party introducers.

**Commodities trading** Operating revenues under GAAP decreased from \$30.4 million in YTD 2008 to \$14.7 million in YTD 2009. Adjusted operating revenues increased by 13% from \$14.6 million in YTD 2008 to \$16.5 million in YTD 2009.

Precious metals adjusted operating revenues increased from \$5.2 million in YTD 2008 to \$12.9 million in YTD 2009. Base metals adjusted operating revenues decreased from \$9.4 million in YTD 2008 to \$3.6 million in YTD 2009. Precious metals operating revenues have increased as a result of increased customer business and increasing revenue flows from our Dubai subsidiary and from our Singapore office. Base metals operating revenues decreased due to the substantial decline in prices since Q2 2008, which has made recycling less profitable and resulted in decreased activity.

The adjusted contribution attributable to this segment increased 1% from \$11.8 million to \$11.9 million. Variable expenses expressed as a percentage of operating revenues increased from 19% to 28%.

**International debt capital markets** Operating revenues decreased by 43% from \$2.1 million in YTD 2008 to \$1.2 million in YTD 2009. The business focuses on the arranging and placing of debt issues and asset backed securitization. Operating revenues have been adversely affected by the lack of market demand and intolerance for risk caused by the global financial crisis.

The contribution attributable to this segment decreased 37% from \$1.9 million to \$1.2 million.

**Asset management** 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.

Operating revenues decreased 80% from \$12.0 million in YTD 2008 to \$2.4 million in YTD 2009. Redemptions from and losses in funds managed by the Company during YTD 2009 reduced total third party assets under management in this segment from \$1.2 billion at September 30, 2008 to \$0.7 billion at March 31, 2009. Assets under management at March 31, 2008 were \$2.2 billion. Management fees, earned on a lower asset base, and other income were \$3.6 million during YTD 2009. Net marked-to-market losses in proprietary investments were \$1.2 million. During the six-month period to March 31, 2009, the Company redeemed or sold certain of its proprietary investments, the fair value of which was \$27.8 million at March 31, 2009 and \$37.9 million at September 30, 2008.





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The contribution attributable to this segment decreased 81% from \$9.9 million in YTD 2008 to \$1.9 million in YTD 2009. On May 8, 2009, the Company agreed to discontinue its business relationship with and redeem its partnership interest in INTL Consilium, LLC effective April 30, 2009. The results of INTL Consilium, previously consolidated, will qualify to be treated for accounting purposes as discontinued operations with effect from the fiscal quarter ending on June 30, 2009. Operating revenues for INTL Consilium were \$1.9 million and \$7.7 million for YTD 2009 and YTD 2008, respectively.

## Variable vs. Fixed Expenses

(In millions)	Three Months Ended March 31,				Six Months Ended March 31,			
	2009	% of Total	2008	% of Total	2009	% of Total	2008	% of Total
<b>VARIABLE vs. FIXED EXPENSES</b>								
Variable clearing and related expenses	\$ 4.5	23%	\$ 3.2	17%	\$ 8.8	21%	\$ 6.6	19%
Variable compensation	5.4	27%	5.7	31%	14.4	35%	11.3	32%
Bad debts and impairment	2.3	12%	1.1	6%	2.4	6%	1.1	3%
Total variable expenses	12.2	62%	10.0	54%	25.6	62%	19.0	54%
Fixed expenses	7.5	38%	8.4	46%	15.4	38%	16.3	46%
Total non-interest expenses	\$ 19.7	100%	\$ 18.4	100%	\$ 41.0	100%	\$ 35.3	100%

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 quarters and six-month periods ended March 31, 2009 and 2008, respectively. Variable expenses consist of clearing and related expenses, variable compensation paid to traders, bonuses paid to operational, administrative and managerial employees and bad debts and impairment expenses. As a percentage of total non-interest expenses, variable expenses increased from 54% in both periods shown for 2008 to 62% in both periods shown for 2009.

**Liquidity, Financial Condition and Capital Resources**

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

At March 31, 2009, the Company had total equity capital of approximately \$79.3 million, convertible subordinated notes of approximately \$16.7 million, and bank loans of approximately \$80.7 million.

A substantial portion of the Company's assets are liquid. The majority of the assets consist of financial instruments, which fluctuate depending on the level of customer business. At March 31, 2009, approximately 94% of the Company's assets consisted of cash, cash equivalents, receivables from brokers, dealers, clearing organization and customers, marketable financial instruments, physical commodities inventory and investments in managed funds. All assets are financed by the Company's equity capital, subordinated convertible notes, bank loans, short-term borrowings from financial instruments sold, not yet purchased, metals leases and other payables.

The Company's assets and liabilities may vary significantly from period to period due to changing customer requirements, and economic and market conditions, as well as the growth of the Company. The Company's total assets at March 31, 2009 and September 30, 2008, were \$365.5 million and \$438 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.

Approximately \$21 million of exchangeable foreign ordinary equities and ADRs are included within financial instruments owned and financial instruments sold, not yet purchased, respectively, on the Company's condensed consolidated balance sheet at March 31, 2009.



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At March 31, 2009, the Company had bank facilities under which the Company could borrow up to a maximum of \$200 million, subject to certain conditions. At March 31, 2009 the total outstanding under all of these facilities was \$80.7 million. The Company is in compliance with all of its covenants to lenders.

The Company's largest bank facility is a renewable, revolving syndicated committed loan facility under which the Company's wholly-owned subsidiary, INTL Commodities, Inc., is entitled to borrow up to \$125 million, subject to certain conditions. There are six commercial banks that are the underlying lenders within the syndicate group. The loan proceeds are used to finance the activities of INTL Commodities, Inc. and are secured by its assets. This facility is scheduled to expire on June 27, 2009. The Company has two credit facilities with a commercial bank that are committed until December 31, 2009, a general facility for \$35 million and a facility used by the Company's subsidiary, INTL Global Currencies, for \$25 million. The Company's Dubai subsidiary, INTL Commodities DMCC, has an uncommitted bank facility at March 31, 2009 of \$15 million.

The interest rate on all of the Company's bank facilities is variable. In mid-2008 the Company entered into two three-year interest rate swaps for a total of \$100 million as a hedge against movements in LIBOR-based interest rates. The Company pays a fixed 3.66% (on average), and receives a variable rate equal to one-month LIBOR. One-month LIBOR has been lower than the fixed rate of 3.66% paid by the Company for most of YTD 2009, resulting in a net interest expense on the swaps and an increase in total interest expense reported.

The Company receives cash from precious metals customers in Dubai and Singapore as collateral against margin trading positions. Where a right of setoff exists with the same counterparty under master netting agreements, the Company nets collateral balances against financial instruments. At March 31, 2009 the gross value of collateral balances held by the Company from its customers was approximately \$90 million, of which approximately \$41 million was netted against financial instrument balances. The net funding available to the Company's commodities business from collateral balances at March 31, 2009 was thus approximately \$49 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 March 31, 2009, INTL Trading had regulatory net capital of \$1.5 million, which was \$0.5 million in excess of its minimum net capital requirement.

The Company's ability to receive distributions from INTL Trading is restricted by regulations of the SEC and FINRA. The Company's right to receive distributions from its subsidiaries is also subject to the rights of the subsidiaries' creditors, including customers of INTL Trading. INTL Trading paid dividends to the Company of approximately \$2.5 million and \$7.5 million during YTD 2008 and YTD 2009, respectively.

In September 2006 the Company completed a private placement of \$27 million of 7.625% subordinated convertible notes (the Notes), of which \$16.7 million in principal amount remain outstanding and unconverted. The Notes mature in September 2011. They are convertible at any time at the option of the holders at \$25.47 per share. The Notes contain customary anti-dilutive provisions. At the current conversion price, conversion would result in the issuance of 656,936 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. Holders 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 Company may redeem the Notes at 110% of par on March 11, 2010.

The Company entered into an agreement on April 30, 2007 to acquire the Gainvest group of companies (INTL Gainvest) in South America. Pursuant to this acquisition, the Company made a payment of \$1.4 million to the sellers on June 1, 2008, equal to 25% of the aggregate revenues of INTL Gainvest earned for the year ended April 30, 2008, which has been recorded as additional goodwill. The Company is obligated to make a further payment on June 1, 2009 equal to 25% of the aggregate revenues of INTL Gainvest earned during the 12 months ended April 30, 2009. The revenues on which the 25% is calculated are subject to a minimum threshold of \$5.5 million and a maximum ceiling of \$11 million for this period. The aggregate revenues of INTL Gainvest in the eleven-month period from May 1 to March 31, 2009 had not exceeded the minimum threshold of \$5.5 million and, accordingly, no accrual was made for deferred acquisition consideration at March 31, 2009. If the threshold is exceeded, the Company will make a payment of at least \$1.4 million on June 1, 2009.

Certain subsidiaries of the Company that are regulated in foreign jurisdictions are subject to minimum capital requirements. INTL Capital Ltd. is regulated by the Dubai Financial Services Authority, in the United Arab Emirates, and is subject to a minimum capital requirement which at March 31, 2009 was approximately \$0.5 million. INTL Capital Ltd. was in compliance with its capital requirements at March 31, 2009.

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The Company's cash and cash equivalents decreased from approximately \$62.8 million at September 30, 2008 to approximately \$49.2 million at March 31, 2009, a net decrease of approximately \$13.6 million. Operating activities provided net cash of \$31 million. Bank facilities were paid down by \$39.1 million and net cash of \$5.7 million was used in investing activities.

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.

## **Critical Accounting Policies**

The Company's condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles. The Company's significant accounting policies are described in the Summary of Significant Accounting Policies in the consolidated financial statements set forth in the Company's 10-K for the year ended September 30, 2008.

As disclosed in Note 1 to the condensed consolidated financial statements, the Company has adopted Statement of Financial Accounting Standards (SFAS) 159 and SFAS 157 with effect from Q1 2009. The adoption of SFAS 159 has not resulted in the valuation of any additional categories of financial assets or liabilities at fair value than was the case before adoption. The adoption of SFAS 157 has resulted in additional disclosures which are set forth in Note 5 to the condensed consolidated financial statements. At March 31, 2009 the Company had a total of \$18.5 million of financial assets at fair value in the level 3 category, representing 5.1% of total assets and 11.2% of total financial assets at fair value. Of the \$18.5 million, \$11.3 million relates to the Company's investment in the INTL Trade Finance Fund, whose underlying assets are short-term, trade-related debt instruments and \$5.2 million relates to corporate bonds. These assets are purchased and sold on a principal-to-principal basis and their value is dependent on estimates of yields in small, inactive and specialized markets. The remaining \$2.0 million is comprised of \$1.2 million in pre-IPO proprietary investments, valued at cost less an appropriate liquidity provision, and \$0.8 million in hedge fund investments.

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 results of operations and the financial position of the Company.

**Valuation of Financial Instruments, Investments in Managed Funds and Foreign Currencies.** The Company's financial instruments and investments in managed funds are reflected in the financial statements at fair value or amounts that approximate fair value. Unrealized gains and losses related to these financial instruments are reflected in net earnings. Where available, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. In some cases, even where the value of a financial instrument 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 their 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. The accuracy of the valuation process allows the Company to report accurate financial information. 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. Given the wide availability of pricing information and the high degree of liquidity of the majority of the Company's assets, 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 valuing financial instruments or investments in managed funds has not undergone any change.

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**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 Net dealer inventory and investment 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 valued at the lower of cost or market value, determined using the specific identification weighted average price method. The Company separately discloses the value of commodities in process, which include commodities in the process of being recycled, and finished commodities. The Company generally seeks to mitigate 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 GAAP. Any unrealized gains in physical commodities inventory are not recognized under GAAP, but unrealized gains and losses in related derivative positions are recognized under 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 6 to the condensed consolidated financial statements, Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit 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;

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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 six months ended March 31, 2009.

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 six months ended March 31, 2009, the Company's greatest gross, average gross, greatest net long, greatest net short and average net day-end positions by business segment.

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(In millions)	Greatest Gross	Average Gross	Greatest Net Long	Greatest Net Short	Average Net
Equity	\$ 18.9	\$ 10.6	\$ 12.6	\$ (5.4)	\$ 5.2
Foreign Exchange	20.1	9.3	13.3	(6.5)	3.5
Commodities	4.8	2.2	2.4	(4.7)	(1.7)
Asset Management (Funds & Other Investment)	n/a	n/a	89.3	n/a	31.1

**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 March 31, 2009. The Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2009.

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 March 31, 2009 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**

In light of the nature of the Company's activities, it is possible that the Company may be involved in litigation in the future, which could have a material adverse impact on the Company and its financial condition and results of operations.

**Item 1A. Risk Factors**

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, 2008. 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.

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

The following table sets forth the information with respect to purchases made by or on behalf of the Company, of our common stock during the six months ended March 31, 2009.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs
Q1, 2009	11,257	\$ 10.52	11,257	\$ 5,000,000
Total	11,257	\$ 10.52	11,257	\$ 5,000,000

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On November 20, 2008, the Company's Board of Directors renewed the Company's share repurchase authorization for an amount of \$5 million in shares of the Company's common stock. No share repurchases have occurred since the date of this authorization.

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**Table of Contents****Item 4. Submission of Matters to a Vote of Security Holders**

The Company's annual meeting of shareholders was held on February 26, 2009. The shareholders elected the following seven persons to serve as directors: Diego J. Veitia, Sean M. O'Connor, Scott J. Branch, Robert A. Miller, John Radziwill, Justin R. Wheeler and John M. Fowler. The shareholders approved an amendment to the Company's 2003 Stock Option Plan increasing the total number of shares authorized for issuance under the plan from 1,500,000 shares to 2,250,000 shares. The shareholders approved an amendment to the Company's 2007 Executive Performance Plan to amend the criteria utilized to determine the level of compensation payable under the plan. The shareholders also ratified the appointment of Rothstein, Kass & Company, P.C. as the Company's independent registered public accounting firm for the Company's fiscal year ending September 30, 2009.

The numbers of shares voted with respect to each matter considered at the annual meeting were as follows:

	Votes		Votes Withheld
	For	Against	
<b>Election of Directors</b>			
Diego J. Veitia	7,668,765		67,235
Sean M. O'Connor	7,691,335		44,665
Scott J. Branch	7,650,396		85,604
Robert A. Miller	7,627,876		108,124
John Radziwill	7,664,687		71,313
Justin R. Wheeler	7,669,290		36,710
John M. Fowler	7,666,466		69,534
<b>Ratification of Rothstein, Kass &amp; Company, P.C. as auditors</b>	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Withheld</b>
	7,695,710	31,806	8,481
<b>Amendment to the Company's 2003 Stock Option Plan</b>	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Withheld</b>
	5,257,276	779,955	2,619
<b>Amendment to the Company's 2007 Executive Performance Plan</b>	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Withheld</b>
	5,967,700	64,987	7,163

**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.

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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 May 12, 2009

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

Date May 12, 2009

/s/ Brian T. Sephton  
Brian T. Sephton  
Chief Financial Officer and Treasurer

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Exhibit Index

<b>Exhibit</b>	<b>Description</b>
(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.