INTL FCSTONE INC.
Form 10-Q
August 03, 2016
Table of Contents

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 000-23554

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

As of August 1, 2016, there were 18,413,998 shares of the registrant’s common stock outstanding.

Table of Contents

INTL FCStone Inc.
Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2016
Table Of Contents

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
INTL FCStone Inc.
Condensed Consolidated Balance Sheets

(in millions, except par value and share amounts)	June 30, 2016 (Unaudited)	September 30, 2015
ASSETS		
Cash and cash equivalents	$ 364.6	$ 268.1
Cash, securities and other assets segregated under federal and other regulations (including $631.3 and $515.5 at fair value at June 30, 2016 and September 30, 2015, respectively)	974.0	756.9
Securities purchased under agreements to resell	625.8	325.3
Deposits with and receivables from:		
Exchange-clearing organizations (including $1,082.0 and $1,009.4 at fair value at June 30, 2016 and September 30, 2015, respectively)	1,483.5	1,533.5
Broker-dealers, clearing organizations and counterparties (including $(14.8) and $(52.9) at fair value at June 30, 2016 and September 30, 2015, respectively)	206.6	277.6
Receivables from customers, net	110.4	217.3
Notes receivable, net	49.9	78.4
Income taxes receivable	8.0	10.6
Financial instruments owned, at fair value (includes securities pledged as collateral that can be sold or repledged of $343.8 and $170.7 at June 30, 2016 and September 30, 2015, respectively)	1,977.2	1,421.9
Physical commodities inventory (including $40.6 and $15.2 at fair value at June 30, 2016 and September 30, 2015, respectively)	106.6	32.8
Deferred income taxes, net	27.2	28.2
Property and equipment, net	26.6	19.7
Goodwill and intangible assets, net	57.0	58.1
Other assets	48.5	41.6
Total assets	$ 6,065.9	$ 5,070.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including $0.8 and $3.3 at fair value at June 30, 2016 and September 30, 2015, respectively)	$ 137.2	$ 144.8
Payables to:		
Customers	2,687.9	2,593.5
Broker-dealers, clearing organizations and counterparties (including $3.5 and $1.6 at fair value at June 30, 2016 and September 30, 2015, respectively)	254.0	262.9
Lenders under loans	211.6	41.6
Senior unsecured notes	45.5	45.5
Income taxes payable	6.3	9.0
Payables under repurchase agreements	1,436.3	1,007.3
Financial instruments sold, not yet purchased, at fair value	871.6	568.3
Total liabilities	5,650.4	4,672.9
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, $0.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
	0.2	0.2

Common stock, $0.01 par value. Authorized 30,000,000 shares; 20,518,964 issued and 18,397,007 outstanding at June 30, 2016 and 20,184,556 issued and 18,812,803 outstanding at September 30, 2015		
Common stock in treasury, at cost - 2,121,957 and 1,371,753 shares at June 30, 2016 and September 30, 2015, respectively	(46.3)	(26.8)
Additional paid-in capital	247.6	240.8
Retained earnings	238.3	200.4
Accumulated other comprehensive loss, net	(24.3)	(17.5)
Total stockholders' equity	415.5	397.1
Total liabilities and stockholders' equity	$ 6,065.9	$ 5,070.0

See accompanying notes to condensed consolidated financial statements.

1

INTL FCStone Inc.
Condensed Consolidated Income Statements
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share and per share amounts)	2016	2015	2016	2015
Revenues:				
Sales of physical commodities	$4,703.2	$ 3,847.4	$11,503.8	$31,633.3
Trading gains, net	83.4	79.7	243.8	234.8
Commission and clearing fees	58.2	46.0	159.4	142.7
Consulting and management fees	8.0	11.3	27.3	31.0
Interest income	15.6	10.6	42.8	22.7
Other income	0.1	0.1	0.2	0.3
Total revenues	4,868.5	3,995.1	11,977.3	32,064.8
Cost of sales of physical commodities	4,693.5	3,843.5	11,484.9	31,619.2
Operating revenues	175.0	151.6	492.4	445.6
Transaction-based clearing expenses	35.2	30.2	97.9	91.4
Introducing broker commissions	14.8	13.1	40.8	37.6
Interest expense	7.7	4.9	20.8	12.1
Net operating revenues	117.3	103.4	332.9	304.5
Compensation and other expenses:				
Compensation and benefits	69.4	62.8	197.7	182.3
Communication and data services	7.9	7.3	23.1	21.2
Occupancy and equipment rental	3.2	3.3	9.7	10.2
Professional fees	3.3	2.5	8.9	8.9
Travel and business development	2.9	2.5	8.4	7.8
Depreciation and amortization	2.1	1.7	6.2	5.4
Bad debts	—	0.4	4.6	3.2
Other	7.1	5.7	20.8	16.6
Total compensation and other expenses	95.9	86.2	279.4	255.6
Income before tax	21.4	17.2	53.5	48.9
Income tax expense	6.8	5.0	15.6	14.3
Net income	$14.6	$ 12.2	$37.9	$34.6
Earnings per share:				
Basic	$0.79	$ 0.64	$2.03	$1.82
Diluted	$0.78	$ 0.62	$2.00	$1.78
Weighted-average number of common shares outstanding:				
Basic	18,138,754	18,698,734	18,461,063	18,573,617
Diluted	18,322,451	19,084,747	18,655,672	18,953,171

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INTL FCStone Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Net income	$14.6	$12.2	$37.9	$34.6
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(0.1)	(0.3)	(7.0)	(1.4)
Pension liabilities adjustment	—	—	(0.2)	—
Net unrealized (loss) gain on available-for-sale securities	—	(0.7)	—	2.7
Reclassification of adjustments included in net income:				
Periodic pension costs (included in compensation and benefits)	—	—	0.4	—
Reclassification adjustment for gains included in net income:	—	—	0.4	—
Other comprehensive (loss) income	(0.1)	(1.0)	(6.8)	1.3
Comprehensive income	$14.5	$11.2	$31.1	$35.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 30,	
(in millions)	2016	2015
Cash flows from operating activities:		
Net income	$37.9	$34.6
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5.8	5.4
Bad debts	4.6	3.2
Deferred income taxes	0.9	3.9
Amortization of debt issuance costs and debt discount	0.7	0.7
Amortization of share-based compensation	3.8	2.8
Loss on sale of property and equipment	0.4	0.4
Changes in operating assets and liabilities, net:		
Cash, securities and other assets segregated under federal and other regulations	(218.0)	(421.2)
Securities purchased under agreements to resell	(301.3)	(0.8)
Deposits with and receivables from exchange-clearing organizations	51.5	579.2
Deposits with and receivables from broker-dealers, clearing organizations, and counterparties	96.1	(17.4)
Receivables from customers, net	101.8	(77.3)
Notes receivable, net	28.5	(3.5)
Income taxes receivable	1.4	(1.0)
Financial instruments owned, at fair value	(562.4)	(449.8)
Physical commodities inventory	(73.8)	(6.1)
Other assets	(7.1)	(16.1)
Accounts payable and other accrued liabilities	(2.3)	(6.5)
Payables to customers	75.6	(66.6)
Payables to broker-dealers, clearing organizations and counterparties	(8.9)	49.9
Income taxes payable	—	(1.7)
Payables under repurchase agreements	429.0	260.3
Financial instruments sold, not yet purchased, at fair value	304.0	132.3
Net cash (used in) provided by operating activities	(31.8)	4.7
Cash flows from investing activities:		
Cash paid for acquisitions, net	—	(7.8)
Purchase of exchange memberships and common stock	—	(0.7)
Purchase of property and equipment	(12.1)	(7.4)
Net cash used in investing activities	(12.1)	(15.9)
Cash flows from financing activities:		
Net change in payable to lenders under loans	170.6	48.6
Proceeds from note payable	—	4.0
Payments of note payable	(0.6)	(0.2)
Deferred payments on acquisitions	(2.7)	(2.2)
Debt issuance costs	(1.9)	(0.1)
Exercise of stock options	2.3	2.5
Share repurchases	(19.5)	(4.7)
Excess income tax benefit on stock options and awards	0.7	0.5
Net cash provided by financing activities	148.9	48.4
Effect of exchange rates on cash and cash equivalents	(8.5)	(0.5)

Net increase in cash and cash equivalents	96.5	36.7
Cash and cash equivalents at beginning of period	268.1	231.3
Cash and cash equivalents at end of period	$364.6	$268.0
Supplemental disclosure of cash flow information:		
Cash paid for interest	$18.9	$7.8
Income taxes paid, net of cash refunds	$12.4	$12.4
Supplemental disclosure of non-cash investing and financing activities:		
Identified intangible assets and goodwill on acquisitions	$—	$3.0
Additional consideration payable related to acquisitions, net	$0.3	$1.9
Acquisition of business:		
Assets acquired	$—	$1,011.4
Liabilities assumed	—	(995.1)
Total net assets acquired	$—	$16.3
Deferred consideration payable related to acquisitions	$—	$5.0
Escrow deposits related to acquisitions	$—	$5.0

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances as of September 30, 2015	$ 0.2	$ (26.8)	$ 240.8	$ 200.4	$ (17.5)	$ 397.1
Net income				37.9		37.9
Other comprehensive loss					(6.8)	(6.8)
Exercise of stock options			3.0			3.0
Share-based compensation			3.8			3.8
Repurchase of stock		(19.5)	—			(19.5)
Balances as of June 30, 2016	$ 0.2	$ (46.3)	$ 247.6	$ 238.3	$ (24.3)	$ 415.5

See accompanying notes to condensed consolidated financial statements.

Table of Contents

INTL FCStone Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
Note 1 – Basis of Presentation and Consolidation and Recently Issued Accounting Standards
INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively “INTL” or “the Company”), form a diversified, global financial services organization providing financial products and advisory and execution services to help clients access market liquidity, maximize profits and manage risk. The Company’s services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter (“OTC”) products in a wide range of commodities; physical trading and hedging of precious metals and select other commodities; trading of more than 150 foreign currencies; market-making in international equities; fixed income; debt origination and asset management. The Company provides these services to a diverse group of more than 20,000 accounts, representing approximately 11,000 consolidated clients located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the firm’s products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.
Basis of Presentation and Consolidation
The accompanying condensed consolidated balance sheet as of September 30, 2015, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X.
Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. It is suggested that these interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes contained in the Company’s Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC.
These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.
The Company’s fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.
The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurement for financial instruments and investments, revenue recognition, the provision for potential losses from bad debts, valuation of inventories, valuation of goodwill and intangible assets, self-insurance liabilities, incomes taxes and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.
In the condensed consolidated income statements, the total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. The subtotal ‘operating revenues’ in the condensed consolidated income statements is calculated by deducting physical commodities cost of sales from total revenues. The subtotal ‘net operating revenues’ in the condensed consolidated income statements is calculated as operating revenues less transaction-based clearing expenses, introducing broker commissions and interest expense. Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing

organizations and banks in relation to our transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to the Company. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

Table of Contents

Change in Precious Metals Accounting

The Company engages in trading activities in a variety of physical commodities, including actively trading precious metals whereby the Company provides a full range of trading and hedging capabilities, including OTC products, to select producers, consumers, and investors. In the Company's precious metals trading activities, it acts as a principal, committing its own capital to buy and sell precious metals on a spot and forward basis.

On April 10, 2015 (the "transfer date"), the Company transitioned the portion of its precious metals business conducted through its unregulated domestic subsidiary, INTL Commodities Inc., to its United Kingdom based broker-dealer subsidiary, INTL FCStone Ltd. INTL FCStone Ltd is regulated by the Financial Conduct Authority ("FCA"), the regulator of the financial services industry in the United Kingdom.

In anticipation of the transfer of the precious metals business, INTL Commodities Inc. liquidated all of its precious metals inventory as of the transfer date. Subsequent to the transfer, precious metals inventory held by INTL FCStone Ltd. is measured at fair value, with changes in fair value included as a component of 'trading gains, net' on the condensed consolidated income statement, in accordance with U.S. GAAP accounting requirements for broker-dealers. Precious metals inventory held by subsidiaries that are not broker-dealers continues to be valued at the lower of cost or market value.

Prior to the transfer, INTL Commodities Inc. precious metals sales and costs of sales were recorded on a gross basis in accordance with the Revenue Recognition Topic of the Accounting Standards Codification ("ASC"). Subsequent to the transfer, INTL FCStone Ltd. precious metals sales and cost of sales are presented on a net basis and included as a component of 'trading gains, net' on the condensed consolidated income statements, in accordance with U.S GAAP accounting requirements for broker-dealers. Precious metals sales and cost of sales for subsidiaries that are not broker-dealers continue to be recorded on a gross basis.

The change had no effect on the Company's operating revenues, income before tax, or net income. Management has historically assessed the performance of the physical commodities businesses on an operating revenues basis, and continues to do so.

Recent Accounting Pronouncements

In June 2016, the FASB issued new accounting guidance for recognition of credit losses on financial instruments, which is effective January 1, 2020, with early adoption permitted on January 1, 2019. The guidance introduces a new credit reserving model known as the Current Expected Credit Loss ("CECL") model, which is based on expected losses, and differs significantly from the incurred loss approach used today. The CECL model requires measurement of expected credit losses not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information and will likely result in earlier recognition of credit reserves. The Company is currently evaluating the impact the new guidance will have on its financial position, results of operations and cash flows.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services. These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. Entities have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. The Company is currently evaluating the requirements of these standards and has not yet determined the impact on our condensed consolidated financial

statements.
In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies the accounting for share-based payment award transactions including: income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2018. The Company is currently evaluating the requirements of ASU 2016-09 and has not yet determined the impact on our condensed consolidated financial statements.

Table of Contents

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. This ASU is based on the principle that entities should recognize assets and liabilities arising from leases. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. The ASU's primary change is the requirement for entities to recognize a lease liability for payments and a right of use asset representing the right to use the leased asset during the term on operating lease arrangements. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. Lessors' accounting under the ASC is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2020. The Company has not determined the potential effects on the condensed consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments--Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU No. 2016-01 addresses the recognition, measurement, presentation and disclosure of financial assets and liabilities. The guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This guidance is effective for the Company in the first quarter of fiscal 2019, and early adoption is not permitted, with certain exceptions. The amendments are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact, if any, the guidance may have upon adoption.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In June 2015, the FASB issued ASU 2015-15 as an amendment to this guidance to address the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements. The SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The ASU is effective for public entities for annual periods beginning after December 15, 2015, and interim periods within those annual reporting periods. Early adoption is permitted for financial statements that have not been previously issued. The guidance will be applied on a retrospective basis. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2017. The adoption of this standard is not expected to have a material impact on the condensed consolidated financial statements.

Note 2 – Earnings per Share

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

Table of Contents

The following is a reconciliation of the numerator and denominator of the diluted net income per share computations for the periods presented below.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share amounts)	2016	2015	2016	2015
Numerator:				
Net income	$14.6	$ 12.2	$37.9	$ 34.6
Less: Allocation to participating securities	(0.3)	(0.3)	(0.6)	(0.8)
Net income allocated to common stockholders	$14.3	$ 11.9	$37.3	$ 33.8
Diluted net income	$14.6	$ 12.2	$37.9	$ 34.6
Less: Allocation to participating securities	(0.3)	(0.3)	(0.6)	(0.8)
Diluted net income allocated to common stockholders	$14.3	$ 11.9	$37.3	$ 33.8
Denominator:				
Weighted average number of:				
Common shares outstanding	18,138,754	18,698,734	18,461,063	17,573,617
Dilutive potential common shares outstanding:				
Share-based awards	183,697	386,013	194,609	379,554
Diluted weighted-average shares	18,322,451	19,084,747	18,655,672	17,953,171

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

Options to purchase 1,009,055 and 910,792 shares of common stock for the three months ended June 30, 2016 and 2015, respectively, and options to purchase 933,678 and 1,078,792 shares of common stock for the nine months ended June 30, 2016 and 2015, respectively, were excluded from the calculation of diluted earnings per share as they would have been anti-dilutive.

Note 3 – Assets and Liabilities, at Fair Value

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

- Cash and cash equivalents
- Cash, securities and other assets segregated under federal and other regulations
- Deposits with and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties
- Financial instruments owned and sold, not yet purchased
- Physical commodities inventory
- Accounts payable and other accrued liabilities
- Payables to broker-dealers, clearing organizations and counterparties

Fair Value Hierarchy

The majority of financial assets and liabilities on the condensed consolidated balance sheets are reported at fair value. Cash is reported at the balance held at financial institutions. Cash equivalents includes money market funds, which are valued at period-end at the net asset value provided by the fund's administrator, and certificates of deposit, which are stated at cost plus accrued interest, which approximates fair value. Cash, securities and other assets segregated under federal and other regulations include the value of cash collateral as well as the value of other pledged investments, primarily U.S. Treasury bills and obligations issued by government sponsored entities and commodities warehouse receipts. Deposits with and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties include the value of cash collateral as well as the value of money market funds and other pledged investments, primarily U.S. Treasury bills and obligations issued by government sponsored entities and mortgage-backed and asset-backed securities. These balances also include the fair value of exchange-traded futures and options on futures and exchange-cleared swaps and options determined by prices on the applicable exchange. Financial instruments owned and sold, not yet purchased include the value of U.S. and foreign government obligations, corporate debt securities, derivative financial instruments, exchange stock, commodities warehouse receipts and leases, mutual funds and investments in managed funds. The fair value of exchange common stock is determined by quoted market prices. Physical commodities inventory includes precious metals that are a part of the trading activities of the regulated broker-dealer subsidiary and is recorded at fair value using spot prices. The carrying value of receivables from customers, net and notes receivable, net approximates fair value, given their short duration. Payables to lenders under loans carry variable rates of interest and thus approximate fair value. The fair value of the Company’s senior unsecured notes is estimated to be $46.9 million (carrying value of $45.5 million) as of June 30, 2016, based on the transaction prices at public exchanges for this issuance.

Table of Contents

Receivables from broker-dealers, clearing organizations and counterparties include amounts receivable for securities sold but not yet delivered by the Company on settlement date (“fails-to-deliver”) and net receivables arising from unsettled trades. Payables to broker-dealers, clearing organizations and counterparties primarily include amounts payable for securities purchased, but not yet received by the Company on settlement date (“fails-to-receive”), net payables arising from unsettled trades and bonds loaned transactions. Due to their short-term nature, receivables from and payables to broker-dealers, clearing organizations and counterparties approximate fair value.

The fair value estimates presented in the condensed consolidated financial statements are based on pertinent information available to management as of June 30, 2016 and September 30, 2015. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented in the condensed consolidated financial statements.

Cash equivalents, securities, commodities warehouse receipts, derivative financial instruments, commodities leases, exchange common stock and contingent liabilities are carried at fair value, on a recurring basis, and are classified and disclosed into three levels in the fair value hierarchy. Except as disclosed in Note 6, the Company did not have any fair value adjustments for assets or liabilities measured at fair value on a non-recurring basis during the nine months ended June 30, 2016.

The three levels of the fair value hierarchy under the Fair Value Measurement Topic of the ASC are:

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

Level 2 - Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Table of Contents

The following tables set forth the Company’s financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of June 30, 2016 by level in the fair value hierarchy. There were no assets or liabilities that were measured at fair value on a nonrecurring basis as of June 30, 2016.

	June 30, 2016				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificate of deposits	$4.1	$—	$ —	$—	$4.1
Commodities warehouse receipts	33.9	—	—	—	33.9
U.S. government obligations	—	597.4	—	—	597.4
Securities and other assets segregated under federal and other regulations	33.9	597.4	—	—	631.3
Money market funds	713.9	—	—	—	713.9
U.S. government obligations	—	320.1	—	—	320.1
Derivatives	2,691.9	—	—	(2,643.9)	48.0
Deposits with and receivables from exchange-clearing organizations	3,405.8	320.1	—	(2,643.9)	1,082.0
"To be announced" (TBA) and forward settling securities	—	3.4	—	(1.9)	1.5
Derivatives	—	345.8	—	(362.1)	(16.3)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	—	349.2	—	(364.0)	(14.8)
Common and preferred stock and American Depositary Receipts (“ADRs”)	29.4	2.4	0.3	—	32.1
Exchangeable foreign ordinary equities and ADRs	17.5	1.9	—	—	19.4
Corporate and municipal bonds	30.7	0.9	3.0	—	34.6
U.S. government obligations	—	689.9	—	—	689.9
Foreign government obligations	—	12.4	—	—	12.4
Mortgage-backed securities	—	907.4	—	—	907.4
Derivatives	364.1	3,179.5	—	(3,307.4)	236.2
Commodities leases	—	197.1	—	(166.7)	30.4
Exchange firm common stock	5.9	—	—	—	5.9
Mutual funds and other	8.9	—	—	—	8.9
Financial instruments owned	456.5	4,991.5	3.3	(3,474.1)	1,977.2
Physical commodities inventory	40.6	—	—	—	40.6
Total assets at fair value	$3,940.9	$6,258.2	$ 3.3	$(6,482.0)	$3,720.4
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 0.8	$—	$0.8
TBA and forward settling securities	—	5.4	—	(1.9)	3.5
Derivatives	2,572.5	379.5	—	(2,952.0)	—
Payable to broker-dealers, clearing organizations and counterparties	2,572.5	384.9	—	(2,953.9)	3.5
Common and preferred stock and ADRs	21.2	0.2	—	—	21.4
Exchangeable foreign ordinary equities and ADRs	18.2	1.4	—	—	19.6
Corporate and municipal bonds		0.1	—	—	0.1
U.S. government obligations	—	544.9	—	—	544.9
Derivatives	348.8	3,007.0	—	(3,130.3)	225.5
Commodities leases	—	160.8	—	(100.7)	60.1

Financial instruments sold, not yet purchased	388.2	3,714.4	—	(3,231.0)	871.6
Total liabilities at fair value	$2,960.7	$4,099.3	$ 0.8	$(6,184.9)	$875.9

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

11

Table of Contents

The following table sets forth the Company’s financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of September 30, 2015 by level in the fair value hierarchy.

	September 30, 2015				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificates of deposits	$ 1.3	$ —	$ —	$ —	$ 1.3
Commodities warehouse receipts	22.1	—	—	—	22.1
U.S. government obligations	—	493.4	—	—	493.4
Securities and other assets segregated under federal and other regulations	22.1	493.4	—	—	515.5
Money market funds	431.8	—	—	—	431.8
U.S. government obligations	—	501.4	—	—	501.4
Derivatives	3,615.9	—	—	(3,539.7)	76.2
Deposits with and receivables from exchange-clearing organizations	4,047.7	501.4	—	(3,539.7)	1,009.4
TBA and forward settling securities	—	1.2	—	(1.0)	0.2
Derivatives	0.1	537.9	—	(591.1)	(53.1)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	0.1	539.1	—	(592.1)	(52.9)
Common and preferred stock and ADRs	23.7	1.9	0.5	—	26.1
Exchangeable foreign ordinary equities and ADRs	82.9	6.6	—	—	89.5
Corporate and municipal bonds	26.1	2.0	3.2	—	31.3
U.S. government obligations	—	513.4	—	—	513.4
Foreign government obligations	—	12.1	—	—	12.1
Mortgage-backed securities	—	699.5	—	—	699.5
Derivatives	278.5	1,702.0	—	(1,949.9)	30.6
Commodities leases	—	64.6	—	(57.0)	7.6
Commodities warehouse receipts	2.8	—	—	—	2.8
Exchange firm common stock	5.6	—	—	—	5.6
Mutual funds and other	3.4	—	—	—	3.4
Financial instruments owned	423.0	3,002.1	3.7	(2,006.9)	1,421.9