Fabrinet
Form 10-Q
May 03, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 29, 2013

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 001-34775

FABRINET

(Exact name of registrant as specified in its charter)

Cayman Islands **(State or other jurisdiction of incorporation or organization)**	**Not Applicable** **(I.R.S. Employer Identification No.)**

c/o Intertrust Corporate Services (Cayman) Limited

190 Elgin Avenue

George Town

Grand Cayman

Cayman Islands **KY1-9005**
(Address of principal executive offices) **(Zip Code)**

+66 2-524-9600

(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 (the Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	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 x No

As of April 26, 2013, the registrant had 34,626,335 ordinary shares, $0.01 par value, outstanding.

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FORM 10-Q

QUARTER ENDED March 29, 2013

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FABRINET

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share data)

	March 29, 2013	June 29, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 157,479	$ 115,507
Trade accounts receivable, net	122,926	128,253
Inventory, net	94,310	103,223
Deferred tax assets	2,158	4,088
Prepaid expenses	2,605	3,571
Other current assets	7,593	6,029
Total current assets	387,071	360,671
Non-current assets		
Property, plant and equipment, net	98,173	97,923
Intangibles, net	196	380
Deferred tax assets	2,435	1,764
Deposits and other non-current assets	655	624
Total non-current assets	101,459	100,691
Total assets	$ 488,530	$ 461,362
Liabilities and Shareholders Equity		
Current liabilities		
Long-term loans from bank, current portion	$ 9,668	$ 9,668
Trade accounts payable	74,329	86,000
Construction-related payable		2,222
Income tax payable	1,171	353
Deferred tax liability	1,761	1,405
Accrued payroll, bonus and related expenses	7,442	5,181
Accrued expenses	3,254	2,630
Other payables	4,760	6,601
Liabilities to third parties due to flood losses	48,390	61,198
Total current liabilities	150,775	175,258
Non-current liabilities		
Long-term loans from bank, non-current portion	21,660	28,911
Severance liabilities	5,464	4,420
Other non-current liabilities	1,618	2,064
Total non-current liabilities	28,742	35,395

Total liabilities	179,517	210,653
Commitments and contingencies (Note 13)		
Shareholders equity		
Preferred shares (5,000,000 shares authorized, $0.01 par value; no shares issued and outstanding as of March 29, 2013 and June 29, 2012)		
Ordinary shares (500,000,000 shares authorized, $0.01 par value; 34,626,335 shares and 34,470,829 shares issued and outstanding as of March 29, 2013 and June 29, 2012, respectively)	346	345
Additional paid-in capital	69,938	65,462
Retained earnings	238,729	184,902
Total shareholders equity	309,013	250,709
Total Liabilities and Shareholders equity	$ 488,530	$ 461,362

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of U.S. dollars, except share data)

	Three Months Ended		Nine Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
Revenues	$ 155,557	$ 139,019	$ 481,608	$ 421,975
Cost of revenues	(139,302)	(124,138)	(429,261)	(375,281)
Gross profit	16,255	14,881	52,347	46,694
Selling, general and administrative expenses	(6,801)	(6,586)	(18,447)	(18,543)
Income (expense) related to flooding	11,419	(55,623)	21,064	(95,888)
Operating income (loss)	20,873	(47,328)	54,964	(67,737)
Interest income	302	209	761	628
Interest expense	(239)	(64)	(788)	(206)
Foreign exchange gain, net	978	714	1,085	1,314
Other income	139	57	512	213
Income (loss) before income taxes	22,053	(46,412)	56,534	(65,788)
Income tax (expense) benefit	(927)	87	(2,707)	1,864
Net income (loss)	$ 21,126	$ (46,325)	$ 53,827	$ (63,924)
Earnings (loss) per share				
Basic	$ 0.61	$ (1.35)	$ 1.56	$ (1.86)
Diluted	0.61	(1.35)	1.55	(1.86)
Weighted average number of ordinary shares outstanding (thousands of shares)				
Basic	34,596	34,440	34,532	34,353
Diluted	34,909	34,440	34,794	34,353

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	Nine Months Ended	
	March 29, 2013	**March 30, 2012**
Cash flows from operating activities		
Net income (loss) for the period	$ 53,827	$ (63,924)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	7,512	6,995
Amortization of intangibles	185	288
Gain on disposal of property, plant and equipment	(23)	(7)
Income related to flooding	(21,064)	
Proceeds from insurers for business interruption losses related to flooding	4,741	
Proceeds from insurers for inventory losses related to flooding	11,419	
(Reversal of) allowance for doubtful accounts	(94)	28
Unrealized gain on exchange rate and fair value of derivative	(1,566)	(1,364)
Share-based compensation	3,969	3,930
Deferred income tax	1,615	(2,331)
Other non-cash expenses	598	637
(Reversal of) inventory obsolescence	(589)	528
Loss from written-off assets and liabilities to third parties due to flood losses		83,871
Changes in operating assets and liabilities		
Trade accounts receivable	3,421	(807)
Inventory	8,945	(9,550)
Other current assets and non-current assets	(2,775)	(2,758)
Trade accounts payable	(11,671)	(17,289)
Income tax payable	818	(1,038)
Other current liabilities and non-current liabilities	48	2,929
Liabilities to third parties due to flood losses	(8,059)	
Net cash provided by operating activities	51,257	138
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,634)	(26,394)
Purchase of intangibles	(1)	(17)
Purchase of assets for lease under direct financing leases		(2,940)
Proceeds from direct financing leases		1,217
Proceeds from disposal of property, plant and equipment	25	22
Proceeds from insurers in settlement of claims related to flood damage	4,904	
Net cash used in investing activities	(3,706)	(28,112)
Cash flows from financing activities		
Receipt of long-term loans from bank		28,000
Repayment of long-term loans from bank	(7,251)	(3,381)
Proceeds from issuance of ordinary shares under employee share option plans	528	984
Withholding tax related to net share settlement of restricted share units	(21)	
Net cash (used in) provided by financing activities	(6,744)	25,603

Net increase (decrease) in cash and cash equivalents	40,807	(2,371)
Movement in cash and cash equivalents		
Cash and cash equivalents at beginning of period	115,507	127,282
Increase (decrease) in cash and cash equivalents	40,807	(2,371)
Effect of exchange rate on cash and cash equivalents	1,165	499
Cash and cash equivalents at end of period	$ 157,479	$ 125,410

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Business and organization
General

Fabrinet (Fabrinet or the Company) was incorporated on August 12, 1999, and commenced operations on January 1, 2000. The Company is an exempted company incorporated in the Cayman Islands, British West Indies. Fabrinet and its subsidiaries are referred to as the Group .

The Group provides advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (OEMs) of complex products, such as optical communication components, modules and sub-systems, industrial lasers and sensors. The Group offers a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, advanced packaging, integration, final assembly and test. The Group focuses primarily on the production of low-volume, high-mix products.

The Company has the following subsidiaries:

Fabrinet Co., Ltd., (Fabrinet Thailand) incorporated in Thailand on September 27, 1999;

Fabrinet USA, Inc., incorporated in the U.S. in the State of California on October 12, 1999;

FBN New Jersey Manufacturing, Inc., incorporated in the U.S. in the State of Delaware on May 11, 2005;

Fabrinet China Holdings, incorporated in Mauritius, and CASIX Inc., incorporated in the People s Republic of China, which were both acquired on May 29, 2005;

Fabrinet Pte. Ltd., incorporated in Singapore on November 14, 2007; and

Fabrinet AB, incorporated in Sweden on September 29, 2010.

Asia Pacific Growth Fund III, L.P. and its affiliates held 17.8% and 26.3% of the Company s share capital (fully diluted) as of March 29, 2013 and June 29, 2012, respectively.

Secondary Public Offering

On March 14, 2013, certain existing shareholders of the Company sold an aggregate of 3,800,000 ordinary shares at a price of $14.00 per share, less underwriting discounts and commissions, in a secondary public offering. The Company did not receive any proceeds from the sale of ordinary shares by the selling shareholders. The Company incurred approximately $472 of expenses in connection with the secondary offering during the three months ended March 29, 2013.

2. Accounting policies
Basis of presentation

The condensed consolidated financial statements of Fabrinet included herein have been prepared on a basis consistent with the June 29, 2012 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These condensed consolidated financial statements should be read in conjunction with the June 29, 2012 audited consolidated financial statements and notes thereto. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP). Fabrinet s results of operations for the three and nine months ended March 29, 2013 and March 30, 2012 are not necessarily indicative of future operating results.

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The preparation of the Group s 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 and disclosure of contingent liabilities at the date of the financial statements, and the reported amount of total revenues and expense during the year. The Group bases estimates on historical experience and various assumptions about the future that are believed to be reasonable based on available information. The Group s reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, which are discussed below. Significant assumptions are used in accounting for share-based compensation, allowance for doubtful accounts, income taxes and inventory obsolescence, among others. In addition, as the Company continues to realize the extent of the impact on the Company s operations of the flooding in Thailand that occurred during October and November 2011, the Company has made estimates and assumptions in the determination of losses and recoveries recognized in the condensed consolidated financial statements. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates. In the event that estimates or assumptions prove to differ from actual results, adjustments will be made in subsequent periods to reflect more current information.

Fiscal years

The Company utilizes a 52-53 week fiscal year ending on the Friday in June closest to June 30. The three months ended March 29, 2013 and March 30, 2012 each consisted of 13 weeks. The nine months ended March 29, 2013 and March 30, 2012 consisted of 39 weeks and 40 weeks, respectively. Fiscal year 2013 will be comprised of 52 weeks and will end on June 28, 2013.

Concentration of credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and accounts receivable.

As of March 29, 2013, the Group s cash and cash equivalents were held in deposits and highly liquid investment products with maturities of three months or less with banks and other financial institutions having credit ratings of A minus or above. The Group had three customers that each contributed to 10% or more of its total accounts receivable as of March 29, 2013 and June 29, 2012.

Accounts receivable include amounts due from companies that are monitored by the Group for credit worthiness. Management has implemented a program to closely monitor near term cash collection and credit exposures and believes no material loss will be incurred.

Recent accounting pronouncements

In March 2013, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2013-05 Foreign Currency Matters (Topic 830) - Parents Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance in Section 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Additionally, the amendments in this Update clarify that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment) and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. This guidance is effective prospectively for fiscal years and interim reporting periods within those years beginning after December 15, 2013. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

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In February 2013, the FASB issued ASU No. 2013-04 Liabilities (Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation is Fixed at the Reporting Date. The guidance in this update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02 Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted this guidance in the third quarter of fiscal year 2013. This new guidance did not impact the Company s presentation, financial position, and results of operations.

In January 2013, the FASB issued ASU No. 2013-01 Balance Sheet (Topic 210) - Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-02 Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment. Under the amendments in ASU No. 2012-02, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. This guidance is effective for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12 Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. Under the amendments in ASU No. 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income for both annual and interim financial periods. The amendments in ASU No. 2011-12 supersede changes to those paragraphs in ASU No. 2011-05 that pertain to how, when, and where reclassification adjustments are presented. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. This guidance is effective for fiscal years,

and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The Company adopted this guidance in the first quarter of fiscal year 2013. This new guidance did not impact the Company s presentation, financial position, and results of operations.

In December 2011, the FASB issued ASU No. 2011-11 Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. The amendments in ASU No. 2011-11 will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 815-10-45. Information about offsetting and related arrangements will enable users of an entity s financial statements to understand the effect of those arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of ASU No. 2011-11. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company does not expect that the adoption of this guidance will have an effect on its consolidated financial statements.

3. Earnings (loss) per ordinary share

Basic earnings (loss) per ordinary share is computed by dividing reported net income (loss) by the weighted average number of ordinary shares outstanding during each period.

	Three Months Ended	
	March 29, 2013	**March 30, 2012**
Net income (loss) attributable to shareholders	$ 21,126	$ (46,325)
Weighted average number of ordinary shares outstanding (thousands of shares)	34,596	34,440
Basic earnings (loss) per ordinary share	$ 0.61	$ (1.35)

	Nine Months Ended	
	March 29, 2013	**March 30, 2012**
Net income (loss) attributable to shareholders	$ 53,827	$ (63,924)
Weighted average number of ordinary shares outstanding (thousands of shares)	34,532	34,353
Basic earnings (loss) per ordinary share	$ 1.56	$ (1.86)

Diluted earnings (loss) per ordinary share is computed by dividing reported net income (loss) by the weighted average number of ordinary shares and dilutive ordinary equivalent shares outstanding during each period. Dilutive ordinary equivalent shares consist of share options and restricted shares. Diluted earnings (loss) per ordinary share is calculated as follows:

	Three Months Ended	
	March 29, 2013	**March 30, 2012**
Net income (loss) used to determine diluted earnings (loss) per ordinary share	$ 21,126	$ (46,325)
Weighted average number of ordinary shares outstanding (thousands of shares)	34,596	34,440
Adjustment for incremental shares arising from the assumed exercise of share options and vesting of restricted share units (thousands of shares)	313	
Weighted average number of ordinary shares for diluted earnings (loss) per ordinary share (thousands of shares)	34,909	34,440*
Diluted earnings (loss) per ordinary share	$ 0.61	$ (1.35)

* Loss per ordinary share for the three months ended March 30, 2012 was computed using the weighted average number of ordinary shares outstanding during the period in accordance with the antidilutive provisions of ASC 260-10-45; therefore, 218,193 shares were excluded.

	Nine Months Ended	
	March 29, 2013	**March 30, 2012**
Net income (loss) used to determine diluted earnings (loss) per ordinary share	$ 53,827	$ (63,924)
Weighted average number of ordinary shares outstanding (thousands of shares)	34,532	34,353
Adjustment for incremental shares arising from the assumed exercise of share options and vesting of restricted share units (thousands of shares)	262	
Weighted average number of ordinary shares for diluted earnings (loss) per ordinary share (thousands of shares)	34,794	34,353*
Diluted earnings (loss) per ordinary share	$ 1.55	$ (1.86)

* Loss per ordinary share for the nine months ended March 30, 2012 was computed using the weighted average number of ordinary shares outstanding during the period in accordance with the antidilutive provisions of ASC 260-10-45; therefore, 214,816 shares were excluded.

Options to purchase 903,856 shares were outstanding at March 29, 2013, but were not included in the computation of diluted earnings per ordinary share for the three and nine months ended March 29, 2013, because the exercise price of the options was greater than the average market price of the underlying shares.

4. Fair value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

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The following table sets forth the Company s applicable assets measured at fair value on a recurring basis as of March 29, 2013:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Assets				
Derivative assets	$	$ 225	$	$ 225
Total assets measured at fair value	$	$ 225	$	$ 225

The above derivative assets are classified in other current assets on the condensed consolidated balance sheet.

The following table sets forth the Company s applicable liabilities measured at fair value on a recurring basis as of June 29, 2012:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
Liabilities				
Derivative liabilities	$	$ 162	$	$ 162
Total liabilities measured at fair value	$	$ 162	$	$ 162

The above derivative liabilities are classified in accrued expenses on the consolidated balance sheet.

5. Allowance for doubtful accounts

The activities and balances for allowance for doubtful accounts for the nine months ended March 29, 2013 and March 30, 2012 were as follows:

	Balance at Beginning of Period	(Credited to Income) / Charged to Expense	Balance at End of Period
Nine months ended March 29, 2013	$ 203	$ (94)	$ 109
Nine months ended March 30, 2012	$ 79	$ 28	$ 107

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6. Inventory

	March 29, 2013	June 29, 2012
Raw materials	$ 34,905	$ 45,309
Work in progress	47,137	43,879
Finished goods	7,782	8,760
Goods in transit	6,598	7,976
	96,422	105,924
Less Inventory obsolescence	(2,112)	(2,701)
Inventory, net	$ 94,310	$ 103,223

7. Investment in leases

Investment in direct financing leases primarily consists of manufacturing equipment. The following lists the components of the Company s investment in direct financing leases as of March 29, 2013 and June 29, 2012:

	March 29, 2013	June 29, 2012
Total minimum lease payments receivable	$	$ 3,522
Estimated residual values of leased equipment		
Investment in direct financing leases		3,522
Less: unearned income		(186)
	$	$ 3,336
Less: written-off of investment in direct financing leases		(3,336)
Net investment in direct financing leases	$	$

In the three months ended December 30, 2011, investment in leases of $3,336 was written-off because the underlying assets were damaged in the severe flooding that occurred in Thailand during October and November 2011.

8. Intangibles

The following tables present details of the Group s intangibles:

	March 29, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net
Software	$ 3,458	$ (3,262)	$ 196
Total intangibles	$ 3,458	$ (3,262)	$ 196

	June 29, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net
Software	$ 3,457	$ (3,077)	$ 380
Total intangibles	$ 3,457	$ (3,077)	$ 380

The Group recorded amortization expense relating to intangibles of $43 and $89 for the three months ended March 29, 2013 and March 30, 2012, respectively, and $185 and $288 for the nine months ended March 29, 2013 and March 30, 2012, respectively.

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Based on the carrying amount of intangibles as of March 29, 2013, and assuming no future impairment of the underlying assets, the estimated future amortization at the end of each fiscal year below is as follows:

2013	$ 32
2014	93
2015	64
2016	5
2017	2
Total amortization	$ 196

9. Borrowings

Bank borrowings and long-term debt was comprised of the following:

	March 29, 2013	June 29, 2012
Long-term loans from bank	$ 31,328	$ 38,579
Total borrowings	$ 31,328	$ 38,579
Long-term loans from bank consisted of:		
Current portion	$ 9,668	$ 9,668
Non-current portion	21,660	28,911

At March 29, 2013 and June 29, 2012, the Group had outstanding borrowings under long-term loan agreements with banks totaling $31,328 and $38,579, respectively, which consisted of:

	Amount		Interest Rate Per		Repayment
Contract No.	March 29, 2013	June 29, 2012	Annum (%)	Conditions	Term
1	$ 24,000	$ 28,500	LIBOR + 2.8% per annum	Repayable in quarterly installments within 6 years	June 2012 to March 2017
2	7,328	10,079	SIBOR + 1.5% per annum	Repayable in quarterly installments within 8 years	May 2009 to February 2015
Total	$ 31,328	$ 38,579			

Certain of the long-term loans are secured by certain property, plant and equipment. The carrying amount of assets secured and pledged as collateral was $22,053 and $22,766 as of March 29, 2013 and June 29, 2012, respectively. The carrying amounts of borrowings approximate their fair value.

The long-term loans prescribe maximum ratios of debt to equity and minimum levels of debt service coverage ratios. As of March 29, 2013 and June 29, 2012, the Group was in compliance with its long-term loan agreements. In addition to financial ratios, certain of the Group s packing credits and long-term loans include customary events of default.

The movements of long-term loans were as follows for the nine months ended March 29, 2013 and March 30, 2012:

	Nine Months Ended	
	March 29, 2013	March 30, 2012
Opening net book amount	$ 38,579	$ 16,377
Additional loans during the period		28,000
Repayment during the period	(7,251)	(3,381)
Closing net book amount	$ 31,328	$ 40,996

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As of March 29, 2013, future maturities of long-term debt were as follows at the end of each fiscal year below:

2013	$ 2,417
2014	9,668
2015	8,743
2016	6,000
2017	4,500
Total	$ 31,328

Credit facilities:

Undrawn available credit facilities at March 29, 2013 and June 29, 2012 totaled:

	March 29, 2013	June 29, 2012
Bank borrowings:		
Short-term loans	$ 5,800	$ 8,241

10. Income taxes

As of March 29, 2013, the liability for uncertain tax positions including accrued interest and penalties decreased to $1,440 (June 29, 2012: $1,905). The Group expects the estimated amount of liability associated with its uncertain tax positions to decrease within the next 12 months due to the lapse of the applicable statute of limitations in foreign tax jurisdictions.

The Group files several income tax returns in the U.S. and foreign tax jurisdictions. The tax years from 2008 to 2012 remain open to examination by U.S. federal and state tax authorities, and foreign tax authorities. The Group s income tax is recognized based on the best estimate of the expected annual effective tax rate for the full financial year of each entity in the Group, adjusted for discrete items arising in that quarter. If the Group s estimated annual effective tax rate changes, the Group makes a cumulative adjustment in that quarter.

The effective tax rate for the Group for the three months ended March 29, 2013 and March 30, 2012 was 4.2% and (0.2)% of net income (loss), respectively. The increase in effective tax rate for the three months ended March 29, 2013 was primarily due to the fact that the Group had net income from operations during that period, as compared to the three months ended March 30, 2012, when the Group experienced a net loss.

The effective tax rate for the Group for the nine months ended March 29, 2013 and March 30, 2012 was 4.8% and (2.8)% of net income (loss), respectively. The increase in effective tax rate for the nine months ended March 29, 2013 was primarily due to the fact that the Group had net income from operations during that period, as compared to the nine months ended March 30, 2012, when the Group experienced a net loss.

11. Share-based compensation

Share-based compensation

In determining the grant date fair value of equity awards, the Group is required to make estimates of the fair value of the Group s ordinary shares, expected dividends to be issued, expected volatility of the Group s shares, expected forfeitures of the awards, risk free interest rates for the expected term of the awards, expected terms of the awards, and the vesting period of the respective awards. Forfeitures are estimated at the time of grant and revised if necessary in subsequent periods if actual forfeitures differ from those estimates.

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The effect of recording share-based compensation expense for the three and nine months ended March 29, 2013 and March 30, 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Share-based compensation expense by type of award:				
Share options	$ 435	$ 935	$ 1,575	$ 3,005
Restricted share units	902	404	2,394	925
Total share-based compensation expense	1,337	1,339	3,969	3,930
Tax effect on share-based compensation expense				
Net effect on share-based compensation expense	$ 1,337	$ 1,339	$ 3,969	$ 3,930

Share-based compensation expense was recorded in the condensed consolidated statements of operations as follows: cost of revenues of $275 and $381 for the three months ended March 29, 2013 and March 30, 2012, respectively, and $919 and $1,292 for the nine months ended March 29, 2013 and March 30, 2012, respectively; and SG&A expenses of $1,062 and $958 for the three months ended March 29, 2013 and March 30, 2012, respectively, and $3,050 and $2,638 for the nine months ended March 29, 2013 and March 30, 2012, respectively. The Group did not capitalize any share-based compensation expense as part of any asset costs during the three and nine months ended March 29, 2013 and March 30, 2012.

Share-based award activity

Share options have been granted to directors and employees. As of March 29, 2013, there were 111,793 share options outstanding under the Amended and Restated 1999 Share Option Plan (the 1999 Plan). Additional option grants may not be made under the 1999 Plan.

On March 12, 2010, the Company s shareholders adopted the 2010 Performance Incentive Plan (the 2010 Plan). On December 20, 2010 and December 20, 2012, the Company s shareholders adopted amendments to the 2010 Plan to increase the number of ordinary shares authorized for issuance under the 2010 Plan by 500,000 and 3,700,000 shares, respectively. A total of 5,700,000 ordinary shares are authorized for issuance under the 2010 Plan, plus any shares subject to share options under the 1999 Plan outstanding as of June 24, 2010, that expire, are canceled or terminate after such date. As of March 29, 2013, there were an aggregate of 1,198,387 share options outstanding, 546,747 restricted share units outstanding, and 3,826,473 ordinary shares available for future grant under the 2010 Plan.

Share options

The Company s board of directors has the authority to determine the type of option and the number of shares subject to an option. Options generally vest and become exercisable over four years and expire, if not exercised, within 7 years of the grant date. In the case of a grantee s first grant, 25 percent of the underlying shares subject to an option vest 12 months after the vesting commencement date and 1/48 of the underlying shares vest monthly over each of the subsequent 36 months. In the case of any additional grants to a grantee, 1/48 of the underlying shares subject to an option vest monthly over four years, commencing one month after the vesting commencement date.

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The following summarizes share option activity under the 1999 Plan:

	Number of Shares Underlying Options Nine Months Ended		Weighted-Average Exercise Price Per Share Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Shares underlying options outstanding at beginning of the period	189,540	423,205	$ 5.18	$ 4.34
Granted				
Exercised	(77,747)	(222,656)*	4.98	3.56
Forfeited		(5,180)		5.98
Expired		(1,100)		5.75
Shares underlying options outstanding at end of the period	111,793	194,269	$ 5.32	$ 5.19
Shares underlying options exercisable at end of the period	86,646	122,777	$ 5.19	$ 4.86

* Included in the exercised number are 1,000 share options exercised on March 29, 2012, but not settled as of March 30, 2012.

The following summarizes information for share options outstanding as of March 29, 2013 under the 1999 Plan:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
	600	2.75	0.42	
	500	3.00	0.43	
	14,020	3.50	0.76	
	1,725	4.25	1.42	
	3,517	4.75	1.67	
	6,624	5.00	1.88	
	3,080	5.25	2.11	
	4,250	5.50	2.41	
	75,827	5.75	3.59	
	1,650	6.25	4.10	
Options outstanding	111,793		2.93	$ 1,038
Options exercisable	86,646		2.71	$ 816

As of March 29, 2013, $11 of estimated share-based compensation expense related to share options under the 1999 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 0.69 years.

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The following summarizes share option activity under the 2010 Plan:

	Number of Shares Underlying Options Nine Months Ended		Weighted-Average Exercise Price Per Share Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Shares underlying options outstanding at beginning of the period	1,280,750	925,921	$ 16.32	$ 17.37
Granted		584,837		14.84
Exercised	(9,376)	(11,619)	15.16	16.60
Forfeited	(24,262)	(73,143)	17.52	17.33
Expired	(48,725)	(1,137)	17.00	16.80
Shares underlying options outstanding at end of the period	1,198,387	1,424,859	$ 16.28	$ 16.34
Shares underlying options exercisable at end of the period	593,742	336,862	$ 16.48	$ 16.81

The following summarizes information for share options outstanding as of March 29, 2013 under the 2010 Plan:

	Number of Shares Underlying Options	Exercise Price Per Share	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
	40,000	$ 13.77	4.40	
	603,829	16.83	4.55	
	30,000	15.05	4.60	
	30,744	25.50	4.80	
	7,400	26.16	4.85	
	12,800	23.62	5.10	
	182,373	15.16	5.39	
	251,231	14.12	5.62	
	31,160	19.36	5.87	
	5,550	18.60	5.92	
	3,300	12.83	6.12	
Options outstanding	1,198,387		4.95	$ 163
Options exercisable	593,742		4.83	$ 64

As of March 29, 2013, $1,185 of estimated share-based compensation expense related to share options under the 2010 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 2.12 years.

Restricted share units

Restricted share units are one type of share-based award that may be granted under the 2010 Plan. Restricted share units granted to non-employee directors generally cliff vest 100% on the first of January, approximately 1 year from the date of grant. Restricted share units granted to employees generally vest as to 1/4th of the shares over 4 years on each anniversary of the vesting commencement date.

The following summarizes restricted share unit activity under the 2010 Plan:

	Number of Shares Underlying Restricted Share Units Nine Months Ended		Weighted-Average Grant Date Fair Value Per Share Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Unvested balance at beginning of the period	168,275	25,900	$ 14.44	$ 21.62
Granted	453,110	211,266	12.38	14.37
Issued	(70,313)	(25,900)	14.13	21.62
Forfeited	(4,325)	(16,433)	13.12	14.00
Unvested balance at end of the period	546,747	194,833	$ 12.78	$ 14.40

As of March 29, 2013, $4,082 of estimated share-based compensation expense related to restricted share units under the 2010 Plan remains to be recorded. That cost is expected to be recorded over an estimated amortization period of 3.12 years.

For the nine months ended March 29, 2013, the Company withheld an aggregate of 1,930 shares upon the vesting of restricted share units, based upon the closing share price on the vesting date to settle the employees minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash of $21 to the appropriate taxing authorities, and presented it in a financing activity within the condensed consolidated statements of cash flows. The payment had the effect on shares issued by the Company as it reduced the number of shares that would have been issued on the vesting date and was recorded as a reduction of additional paid-in capital.

12. Shareholders equity

Share capital

The Company s authorized share capital is 500,000,000 ordinary shares, par value of $0.01 per ordinary share, and 5,000,000 preferred shares, par value of $0.01 per preferred share.

For the nine months ended March 29, 2013, the Company issued 87,123 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of $6.08 per share, and 68,383 ordinary shares upon the vesting of restricted share units, net of shares withheld.

For the nine months ended March 30, 2012, the Company issued 233,275 ordinary shares upon the exercise of options, for cash consideration at a weighted average exercise price of $4.21 per share, and 25,900 ordinary shares upon the vesting of restricted share units.

All such issued shares are fully paid.

13. Commitments and contingencies

Bank guarantees

At March 29, 2013 and June 29, 2012, there were outstanding bank guarantees given by banks on behalf of Fabrinet Thailand for electricity usage and other normal business amounting to $717 and $660, respectively.

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Operating lease commitments

The Group leases a portion of its capital equipment, and certain land and buildings for its facilities in China and New Jersey, under operating lease arrangements that expire in various calendar years through 2015. Rental expense under these operating leases amounted to $585 and $1,487 for the nine months ended March 29, 2013 and March 30, 2012, respectively. On March 23, 2012, the Group notified its landlord of its intent to terminate the lease agreement for land and buildings at its Chokchai campus in Thailand, effective on April 30, 2012.

As of March 29, 2013, the future minimum lease payments due under non-cancelable leases were as follows at the end of each fiscal year below:

2013	196
2014	182
2015	60
2016	14
Total minimum operating lease payments	$ 452

Purchase obligations

Purchase obligations represent legally-binding commitments to purchase inventory and other commitments made in the normal course of business to meet operational requirements. Although open purchase orders are considered enforceable and legally binding, the terms generally give the Group the option to cancel, reschedule and/or adjust its requirements based on its business needs prior to the delivery of goods or performance of services. Obligations to purchase inventory and other commitments are generally expected to be fulfilled within one year.

As of March 29, 2013, there were no outstanding capital expenditure commitments.

Indemnification of directors and officers

Cayman Islands law does not limit the extent to which a company s memorandum and articles of association may provide for indemnification of directors and officers, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. The Company s amended and restated memorandum and articles of association provide for indemnification of directors and officers for actions, costs, charges, losses, damages and expenses incurred in their capacities as such, except that such indemnification does not extend to any matter in respect of any fraud or dishonesty that may attach to any of them.

In accordance with the Company s form of indemnification agreement for its directors and officers, the Company has agreed to indemnify its directors and officers against certain liabilities and expenses incurred by such persons in connection with claims by reason of their being such a director or officer. The Company has a director and officer liability insurance policy that may enable it to recover a portion of any future amounts paid under the indemnification agreements.

14. Business segments and geographic information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group s chief operating decision maker is Fabrinet s chief executive officer. As of March 29, 2013, the Group operated and internally managed a single operating segment. Accordingly, the Group does not accumulate discrete information with respect to separate product lines and does not have separate reportable segments.

The Group operates primarily in three geographic regions: North America, Asia-Pacific and Europe. The following tables present total revenues by geographic regions:

	Three Months Ended	
	March 29, 2013	March 30, 2012
North America	$ 72,333	$ 72,775
Asia-Pacific	52,627	43,327
Europe	30,597	22,917
	$ 155,557	$ 139,019

	Nine Months Ended	
	March 29, 2013	March 30, 2012
North America	$ 225,084	$ 213,016
Asia-Pacific	163,371	134,691
Europe	93,153	74,268
	$ 481,608	$ 421,975

Total revenues are attributed to a particular geographic area based on the bill-to location of the customer. As of March 29, 2013, the Group had approximately $239 of long-lived assets based in North America, with the substantial remainder of assets based in Asia-Pacific.

15. Income (expense) related to flooding

The Company suspended production at all of its manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 because of severe flooding in Thailand. The Company never resumed, and has permanently ceased, production at its Chokchai facility. The Company has completed its assessment of the extent of damage to property, inventory and equipment, including consigned assets held by the Company on behalf of its customers, as well as the impact of business interruption to the Company. For the year ended June 29, 2012, the Company recognized expenses related to flooding of $97,286. Although the Company has completed its assessment and submitted its claims for losses, the Company expects that it will take additional time to reach final settlement with its insurers. Despite the Company s diligent efforts to file and settle its claims, there are many reasons the claims are still pending more than one year after the flooding, including the extent of the losses and number of claims filed in Thailand, and the complicated nature of the Company s claims, which include owned and consigned property. The Company will continue to aggressively pursue its claims to achieve a timely resolution.

As of March 29, 2013, the Company has submitted claims to its insurers for business interruption losses attributable to the effects of flooding through the second quarter of fiscal 2013 (until October 21, 2012), as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to its buildings at Pinehurst, which it owns, and Chokchai, which it leased. In the three months ended March 29, 2013, the Company received an interim payment of $11,419 from its insurers against the Company s claims for owned inventory losses. In the nine months ended March 29, 2013, the Company received an interim payment of $11,419 from its insurers against the Company s claims for owned inventory losses, an interim payment of $4,825 from its insurers against the Company s claims for owned equipment losses, an interim payment of $4,741 against its claims for business interruption losses and a payment of $79 as full and final settlement of its claim for damage to its buildings at Pinehurst. The Company will continue to recognize insurance recoveries if and when they become realizable and probable.

A number of exclusions and limitations in the Company s policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that the Company will ultimately recover for its losses from its insurers. In addition, the Company s insurers could reject the valuation methodologies the Company has used to estimate

its losses, in whole or in part, and apply different valuation methodologies, which could also reduce the Company s aggregate recovery amount. However, based on the information that the Company has at this time, the Company believes that it will ultimately recover a majority of its losses. The Company further believes that, although the difference between its aggregate claims and its insurance recoveries may ultimately be material, this will not have a material and adverse effect on the Company s financial condition or results of operation.

The Company continues to have discussions with its customers regarding their assessments of the damage to, and valuation of, the consigned assets that were under the Company s care, custody and control at its Chokchai facility. In some cases, there may be material differences between the Company s assessments and its customers assessments. There may also be differences of opinions regarding who bears responsibility for certain losses as a result of the flooding. The Company continues to review these differences with its customers and, depending on the outcome of these discussions, the Company may incur additional costs and expenses in connection with its customers recovery efforts.

During the three months ended September 28, 2012, the Company entered into a settlement agreement with one of its customers regarding the Company s liability for the customer s losses as a result of the flooding and made an initial payment to such customer of $4,000. During the three months ended March 29, 2013, the Company amended the settlement agreement, pursuant to which it transferred equipment purchased on behalf of the customer to the customer in the amount of $2,191 and reduced net accounts receivable from such customer by $2,000, resulting in a $4,191 reduction in the Company s outstanding obligation to such customer under the terms of settlement agreement.

During the three months ended December 28, 2012, the Company entered into a settlement agreement with another customer regarding the Company s liability for the customer s losses as a result of the flooding and made an initial payment to such customer of $2,797. During the three months ended March 29, 2013, the Company offset accounts receivable related to end-of life products in the amount of $100, which such customer owed to the Company.

During the three months ended March 29, 2013, the Company entered into a settlement agreement with another customer regarding the Company s liability for the customer s losses as a result of the flooding, pursuant to which the Company made an initial payment to such customer of $1,263 and offset accounts receivable related to end-of-life products in the amount of $457, which such customer owed to the Company.

The Company s liability under the terms of the settlement agreements is consistent with the Company s original estimate, and no further provision has been made.

16. Subsequent events

Settlements of flood-related liabilities

On April 1, 2013, the Company fulfilled its obligations to one of its customers in accordance with the settlement agreement entered into during the first quarter of fiscal 2013 by transferring equipment purchased on behalf of the customer to the customer in the amount $3,430, reducing net accounts receivable from such customer by $1,226, offsetting accounts receivable related to end-of-life products in the amount of $1,913, which such customer owed to the Company, and making a final cash payment to such customer of $8,239, resulting in a $14,808 reduction in the Company s outstanding obligation to such customer under the terms of settlement agreement. Accordingly, the Company s liability to such customer for any and all flood-related losses has been satisfied in full.

On April 1, 2013, the Company fulfilled its obligations to another customer in accordance with the settlement agreement entered into in the second quarter of fiscal 2013 by making a final cash payment to such customer of $2,362. Accordingly, the Company s liability to such customer for any and all flood-related losses has been satisfied in full.

On April 16, 2013, the Company entered into a settlement agreement with one of its customer s insurers to resolve a subrogation claim related to recovery proceeds paid by such insurer to the customer for damages to customer-owned inventory, which occurred during the flooding. Under the terms of settlement agreement, the Company will pay $6,500 to the insurer by three installment payments as follows: the first payment of approximately $2,167 was made in April 2013, the second payment of approximately $2,167 will be made in May 2013, and the final payment of approximately $2,167 will be made in July 2013.

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Reduction in workforce

As part of the Group s ongoing efforts to achieve greater efficiencies in all areas of its business, during the fourth quarter of fiscal 2013, the Group implemented a reduction in workforce and incurred expenses of approximately $2.0 million, which represented severance costs incurred for the termination of approximately 200 employees in accordance with contractual obligations under local regulations.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, 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 statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

our goals and strategies;

our and our customers estimates regarding future revenues, operating results, expenses, capital requirements and liquidity;

our expectation that an increasing portion of our revenues will come from the bill-to location outside of North America in the future;

our expectation that we will incur significant incremental costs of revenue as a result of our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities;

our expectation that our fiscal 2013 SG&A expenses will increase on an absolute dollar basis and decrease as a percentage of revenue compared to fiscal 2012;

our expectation that our employee costs will increase in Thailand and the PRC;

our future capital expenditures and our needs for additional financing;

expansion of our manufacturing capacity, including into new geographies;

our expectation that we will incur incremental costs of revenue as a result of our planned expansion into new geographic markets;

the growth rates of our existing markets and potential new markets;

our ability and our customers and suppliers ability to respond successfully to technological or industry developments;

our suppliers estimates regarding future costs;

our ability to increase our penetration of existing markets and penetrate new markets;

our plans to diversify our sources of revenues;

trends in the optical communications, industrial lasers and sensors markets, including trends to outsource the production of components used in those markets;

our ability to attract and retain a qualified management team and other qualified personnel and advisors;

the impact that the October and November 2011 flooding in Thailand may continue to have on the industry and our business, results of operations and liquidity, including the expected costs and expenses that we will incur in connection with our recovery efforts and our ability to recover amounts from our insurance carriers; and

competition in our existing and new markets.

These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q and, in particular, the risks discussed under the heading Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Overview

We provide advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (OEMs) of complex products such as optical communication components, modules and sub-systems, industrial lasers and sensors. We offer a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, advanced packaging, integration, final assembly and test. Although, we focus primarily on low-volume production of a wide variety of high complexity products, which we refer to as low-volume, high-mix , we also have the capability to accommodate high-volume production. Based on our experience with, and feedback from, customers, we believe we are a global leader in providing these services to the optical communications, industrial lasers and sensors markets.

Our customer base includes companies in complex industries that require advanced precision manufacturing capabilities, such as optical communications, industrial lasers and sensors. The products that we manufacture for our OEM customers include: selective switching products; tunable transponders and transceivers; active optical cables; solid state, diode-pumped, gas and fiber lasers; and sensors. In many cases, we are the sole outsourced manufacturing partner used by our customers for the products that we produce for them.

We also design and fabricate application-specific crystals, prisms, mirrors, laser components, substrates and other custom and standard borosilicate, clear fused quartz, and synthetic fused silica glass products. We incorporate our customized optics and glass into many of the products we manufacture for our OEM customers, and we also sell customized optics and glass in the merchant market.

Thailand Flooding

We suspended production at all of our manufacturing facilities in Thailand from October 17, 2011 through November 14, 2011 because of severe flooding in Thailand. We never resumed, and have permanently ceased, production at our Chokchai facility. We have completed our assessment of the extent of damage to property, inventory and equipment, including consigned assets held by us on behalf of our customers, as well as the impact of business interruption to us. For the year ended June 29, 2012, we recognized expenses related to flooding of $97.3 million. Although we have completed our assessment and submitted our claims for losses, we expect that it will take additional time to reach final settlement with our insurers. Despite our diligent efforts to file and settle our claims, there are many reasons the claims are still pending more than one year after the flooding, including the extent of the losses and number of claims filed in Thailand, and the complicated nature of our claims, which include owned and consigned property. We will continue to aggressively pursue our claims to achieve a timely resolution.

As of March 29, 2013, we have submitted claims to our insurers for business interruption losses attributable to the effects of flooding through the second quarter of fiscal 2013 (until October 21, 2012), as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the three months ended March 29, 2013, we received an interim payment of $11.4 million from our insurers against our claims for owned inventory losses. In the nine months ended March 29, 2013, we received an interim payment of $11.4 million from our insurers against our claims for owned inventory losses, an interim payment of $4.8 million from our insurers against our claims for owned equipment losses, an interim payment of $4.7 million against our claims for business interruption losses and a payment of $0.1 million as full and final settlement of our claim for damage to our buildings at Pinehurst. We will continue to recognize insurance recoveries if and when they become realizable and probable.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately recover for our losses from our insurers. In addition, our

insurers could reject the valuation methodologies we have used to estimate our losses, in whole or in part, and apply different valuation methodologies, which could also reduce our aggregate recovery amount. However, based on the information that we have at this time, we believe that we will ultimately recover a majority of our losses. We further believe that, although the difference between our aggregate claims and our insurance recoveries may ultimately be material, this will not have a material and adverse effect on our financial condition or results of operation.

We continue to have discussions with our customers regarding their assessments of the damage to, and valuation of, the consigned assets that were under our care, custody and control at our Chokchai facility. In some cases, there may be material differences between our assessments and our customers assessments. There may also be differences of opinions regarding who bears responsibility for certain losses as a result of the flooding. We continue to review these differences with our customers and, depending on the outcome of these discussions, we may incur additional costs and expenses in connection with our customers recovery efforts.

During the three months ended September 28, 2012, we entered into a settlement agreement with one of our customers regarding our liability for the customer s losses as a result of the flooding and made an initial payment to such customer of $4.0 million. During the three months ended March 29, 2013, we amended the settlement agreement, pursuant to which we transferred equipment purchased on behalf of the customer to the customer in the amount of $2.2 million and reduced net accounts receivable from such customer by $2.0 million, resulting in a $4.2 million reduction in our outstanding obligation to such customer under the terms of the settlement agreement.

During the three months ended December 28, 2012, we entered into a settlement agreement with another customer regarding our liability for such customer s losses as a result of the flooding and made an initial payment to such customer of approximately $2.8 million. During the three months ended March 29, 2013, we offset accounts receivable related to end-of life products in the amount of $0.1 million, which such customer owed to the Company.

During the three months ended March 29, 2013, we entered into a settlement agreement with another customer regarding our liability for such customer s losses as a result of the flooding, pursuant to which we made an initial payment to such customer of approximately $1.3 million and offset accounts receivable related to end-of-life products in the amount of $0.5 million, which such customer owed to the Company.

Our liability under the terms of the settlement agreements is consistent with our original estimate, and no further provision has been made.

Revenues

Our total revenues increased by $16.5 million, or 11.9%, to $155.6 million for the three months ended March 29, 2013, as compared to $139.0 million for the three months ended March 30, 2012. This increase was primarily due to an increase in optical communication product sales volume resulting from restoration of our operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand. Our total revenues increased by $59.6 million, or 14.1%, to $481.6 million for the nine months ended March 29, 2013, as compared to $422.0 million for the nine months ended March 30, 2012. This increase was primarily due to an increase in optical communication product sales volume resulting from restoration of our operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand. We generated substantially all of our total revenues during the three and nine months ended March 29, 2013 from the optical communications products.

We believe our ability to expand our relationships with existing customers and attract new customers is due to a number of factors, including our broad range of complex engineering and manufacturing service offerings, flexible low-cost manufacturing platform, process optimization capabilities, advanced supply chain management, excellent customer service and experienced management team. While we expect the prices we charge for the products we manufacture for our customers to decrease over time due in part to competitive market forces, we believe we will be able to maintain favorable pricing for our services due to our ability to reduce cycle time, adjust our product mix by focusing on more complicated products, improve product quality and yields, and reduce material costs for the products we manufacture. We believe these capabilities have enabled us to help our OEM customers reduce their manufacturing costs while maintaining or improving the design, quality, reliability and delivery times for their products.

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Revenues by Geography

We generate revenues from three geographic regions: North America, Asia-Pacific and Europe. Revenues are attributed to a particular geographic area based on the bill-to location of our customers, notwithstanding that our customers may ultimately ship their products to end customers in a different geographic region. Virtually all of our revenues are derived from our manufacturing facilities in Asia-Pacific.

The percentage of our revenues generated from the bill-to location outside of North America increased from 49.5% in the nine months ended March 30, 2012 to 53.3% in the nine months ended March 29, 2013, primarily as a result of an increase in sales volume attributable to our customers in regions outside of North America after recovering from the October and November 2011 flooding in Thailand. We expect that an increasing portion of our revenues will come from the bill-to location outside of North America in the future.

The following table presents percentages of total revenues by geographic regions:

	Three Months Ended		Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
North America	46.5%	52.3%	46.7%	50.5%
Asia-Pacific	33.8	31.2	33.9	31.9
Europe	19.7	16.5	19.4	17.6
	100.0%	100.0%	100.0%	100.0%

Our Contracts

We enter into supply agreements with our customers that generally have an initial term of up to three years, subject to automatic renewals for subsequent one-year terms unless expressly terminated. Although there are no minimum purchase requirements in our supply agreements, our customers do provide us with rolling forecasts of their demand requirements. Our supply agreements generally include provisions for pricing and periodic review of pricing, consignment of our customer s unique production equipment to us and the sharing of benefits from cost-savings derived from our efforts. We are generally required to purchase materials, which may include long lead-time materials and materials that are subject to minimum order quantities and/or non-cancelable or non-returnable terms, to meet the stated demands of our customers. After procuring materials, we manufacture products for our customers based on purchase orders that contain terms regarding product quantities, delivery locations and delivery dates. Our customers generally are obligated to purchase finished goods that we have manufactured according to their demand requirements. Materials that are not consumed by our customers within a specified period of time, or are no longer required due to a product s cancellation or end-of-life, are typically designated as excess or obsolete inventory under our contracts. Once materials are designated as either excess or obsolete inventory, our customers are typically required to purchase such inventory from us even if they have chosen to cancel production of the related products.

Cost of Revenues

The key components of our cost of revenues are material costs, employee costs, and infrastructure-related costs. Material costs generally represent the majority of our cost of revenues. Several of the materials we require to manufacture products for our customers are customized for their products and, in many instances, sourced from a single supplier, or in some cases our own subsidiaries. Shortages from sole-source suppliers due to yield loss, quality concerns and capacity constraints, among other factors, may increase our expenses and negatively impact our gross profit margin or total revenues in a given quarter. Material costs include scrap material. Historically, our rate of scrap diminishes during a product s life cycle due to process, fixturing and test improvement and optimization.

A second significant element of our cost of revenues is employee costs, including: indirect employee costs related to design, configuration and optimization of manufacturing processes for our customers, quality testing, materials testing and other engineering services; and direct costs related to our manufacturing employees. Direct employee costs include employee salaries, insurance and benefits, merit-based bonuses, recruitment, training and retention. Historically, our employee costs have increased primarily due to increases in the number of employees necessary to support our growth and, to a lesser extent, costs

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to recruit, train and retain employees. Salary levels in Thailand and the PRC, the fluctuation of the Thai baht and RMB against our functional currency, the U.S. dollar, and our ability to retain our employees significantly impact our cost of revenues. We expect our employee costs to increase as wages continue to increase in Thailand and the PRC. For example, effective April 1, 2012, the Thai government increased minimum daily wages from 215 Thai baht to 300 Thai baht. Wage increases may impact our ability to sustain our competitive advantage and may reduce our profit margin. We seek to mitigate these cost increases through improvements in employee productivity, employee retention and asset utilization.

Our infrastructure costs are comprised of depreciation, utilities, and facilities management and overhead costs. Most of our facility leases are long-term agreements. Our depreciation costs are comprised of buildings and fixed assets, primarily at our Pinehurst Campus in Thailand, and capital equipment located at each of our manufacturing locations.

Charges included in cost of revenues for bonus distributions to non-executive employees were $0.5 million and $0.5 million for the three months ended March 29, 2013 and March 30, 2012, respectively, and $1.5 million and $1.6 million for the nine months ended March 29, 2013 and March 30, 2012, respectively.

Share-based compensation expense included in cost of revenues was $0.3 million and $0.4 million and for the three months ended March 29, 2013 and March 30, 2012, respectively, and $0.9 million and $1.3 million and for the nine months ended March 29, 2013 and March 30, 2012, respectively.

We expect to incur significant incremental costs of revenue as a result of our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities. We also expect to incur incremental costs of revenue as a result of our planned expansion into new geographic markets, though we are not able to determine the amount of these incremental expenses.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses, or SG&A expenses, primarily consist of corporate employee costs for sales and marketing, general and administrative and other support personnel, including research and development expenses related to the design of customized optics and glass, travel expenses, legal and other professional fees, share-based compensation expense, and other general expenses not related to cost of revenues. In fiscal 2013, we expect our SG&A expenses to increase on an absolute dollar basis and decrease as a percentage of revenue compared to fiscal 2012.

The compensation committee of our board of directors has approved a fiscal 2013 executive incentive plan with quantitative objectives, based on achieving certain revenue and earnings per share milestones for our fiscal year ending June 28, 2013. Bonuses under our fiscal 2013 executive incentive plan are payable after the end of fiscal 2013. We did not maintain a formal executive incentive plan for fiscal 2012. However, discretionary merit-based bonus awards were available to our non-executive employees during the three and nine months ended March 29, 2013 and March 30, 2012.

Charges included in SG&A expenses for bonus distributions to non-executive and executive employees were $0.5 million and $0.3 million for the three months ended March 29, 2013 and March 30, 2012, respectively, and $1.1 million and $0.5 million for the nine months ended March 29, 2013 and March 30, 2012, respectively. Charges included in SG&A expenses for bonus distributions to non-executive and executive employees during the three and nine months ended March 30, 2012 were lower, as compared to the three and nine months ended March 29, 2013, because of the reversal of accrued executive bonuses of $0.6 million during the three months ended December 30, 2011 due to management s expectation that we would not achieve certain financial targets as a result of the impact of the flooding on our operations, and no accrued executive bonuses for the three months ended March 30, 2012.

Share-based compensation expense included in SG&A expenses was $1.1 million and $1.0 million for the three months ended March 29, 2013 and March 30, 2012, respectively, and $3.1 million and $2.6 million for the nine months ended March 29, 2013 and March 30, 2012, respectively.

Other than incremental costs associated with growing our business generally, we do not expect to incur material incremental SG&A expenses as a result of our planned expansion into new geographic markets, our continued diversification into the industrial lasers and sensors markets and other end-markets outside of the optical communications market or our further development of customized optics and glass manufacturing capabilities.

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Additional Financial Disclosures

Foreign Exchange

As a result of our international operations, we are exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Thai baht. Although a majority of our total revenues is denominated in U.S. dollars, a substantial portion of our payroll as well as certain other operating expenses are incurred and paid in Thai baht. The exchange rates between the Thai baht and the U.S. dollar have fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We report our financial results in U.S. dollars and our results of operations have been and may continue to be negatively impacted due to Thai baht appreciation against the U.S. dollar. Smaller portions of our expenses are incurred in a variety of other currencies, including RMB, Canadian dollars, Euros and Japanese yen, the appreciation of which may also negatively impact our financial results.

In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the Bank) in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to $30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency interest rate swaps with a notional amount of $30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. As of March 30, 2012, we had drawn down the entire $30.0 million available under the term loan facility. Borrowings and interest under the term loan are scheduled to be repaid on a quarterly basis between September 2011 and March 2017. As of March 29, 2013, we had outstanding borrowings under the term loan facility of $24.0 million. Under the terms of the cross currency swap arrangement, all amounts drawn down in Thai baht were converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month U.S. LIBOR plus 2.8% per annum.

In order to manage the risks arising from fluctuations in foreign currency exchange rates, we use derivative financial instruments. We may enter into short-term forward foreign currency contracts or put option contracts to help manage currency exposures associated with certain assets and liabilities, primarily short-term obligations. The forward exchange contracts have generally ranged from one to six months in original maturity, and no forward exchange contract has had an original maturity greater than one year. All foreign currency exchange contracts are recognized on the balance sheet at fair value. As we do not apply hedge accounting to these instruments, the derivatives are recorded at fair value through earnings. The gains and losses on our forward contracts generally offset losses and gains on the assets, liabilities and transactions economically hedged and, accordingly, generally do not subject us to the risk of significant accounting losses.

As of March 29, 2013 and June 29, 2012, we had outstanding foreign currency assets and liabilities in Thai baht and RMB as follows:

	March 29, 2013			June 29, 2012		
	Currency	$	%	Currency	$	%
	(in thousands, except percentages)					
Assets						
Thai baht	607,594	20,730	51.7	526,487	16,541	50.4
RMB	121,412	19,367	48.3	103,014	16,287	49.6
		40,097	100.0		32,828	100.0
Liabilities						
Thai baht	625,061	21,326	89.3	732,502	23,013	87.0
RMB	15,935	2,542	10.7	21,752	3,439	13.0
		23,868	100.0		26,452	100.0

The Thai baht assets represent cash and cash equivalents, trade accounts receivable, deposits and other current assets. The Thai baht liabilities represent trade accounts payable, accrued expenses and other payables. We manage our exposure to fluctuations in foreign exchange rates by the use of foreign currency contracts and offsetting assets and liabilities denominated in the same currency in accordance with management s policy. As of March 29, 2013, there were $21.0 million in selling forward contracts and $4.0 million in put option contracts outstanding on the Thai baht payables and as of June 29, 2012, there were $30.0 million in selling forward contracts outstanding on the Thai baht payables.

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The RMB assets represent cash and cash equivalents, accounts receivable and other current assets. The RMB liabilities represent trade accounts payable, accrued expenses and other payables. As of March 29, 2013 and June 29, 2012, we did not have any selling RMB to U.S. dollar forward contracts.

As of March 29, 2013, unrealized gain from fair market value of derivatives amounted to $0.23 million. As of June 29, 2012 unrealized losses from fair market value of derivatives amounted to $0.16 million.

Currency Regulation and Dividend Distribution

Foreign exchange regulation in the PRC is primarily governed by the following rules:

- Foreign Currency Administration Rules, as amended on August 5, 2008, or the Exchange Rules;
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules; and
- Notice on Perfecting Practices Concerning Foreign Exchange Settlement Regarding the Capital Contribution by Foreign-invested Enterprises, as promulgated by the State Administration of Foreign Exchange, or SAFE, on August 29, 2008, or Circular 142.

Under the Exchange Rules, RMB is freely convertible into foreign currencies for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. However, conversion of RMB for capital account items, such as direct investments, loans, security investments and repatriation of investments, is still subject to the approval of SAFE.

Under the Administration Rules, foreign-invested enterprises may only buy, sell or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from SAFE. Capital investments by foreign-invested enterprises outside of the PRC are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the State Development and Reform Commission.

Circular 142 regulates the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. Circular 142 requires that the registered capital of a foreign-invested enterprise settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of foreign-invested enterprises settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without SAFE s approval and may not be used to repay RMB loans if the proceeds of such loans have not been used.

On January 5, 2007, SAFE promulgated the Detailed Rules for Implementing the Measures for the Administration on Individual Foreign Exchange, or the Implementation Rules. Under the Implementation Rules, PRC citizens who are granted share options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures.

In addition, the General Administration of Taxation has issued circulars concerning employee share options. Under these circulars, our employees working in the PRC who exercise share options will be subject to PRC individual income tax. Our PRC subsidiary has obligations to file documents related to employee share options with relevant tax authorities and withhold individual income taxes of those employees who exercise their share options.

In addition, our transfer of funds to our subsidiaries in Thailand and the PRC are each subject to approval by governmental authorities in case of an increase in registered capital, or subject to registration with governmental authorities in case of a shareholder loan. These limitations on the flow of funds between us and our subsidiaries could restrict our ability to act in response to changing market conditions.

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Income Tax

Our effective tax rate is a function of the mix of tax rates in the various jurisdictions in which we do business. We are domiciled in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax in the Cayman Islands on income or capital gains. We have received this undertaking for a 20-year period ending August 24, 2019, and after the expiration date, we may request a renewal with the office of the Clerk of the Cabinet for another twenty years.

Throughout the period of our operations in Thailand, we have generally received income tax and other incentives from the Thailand Board of Investment. Preferential tax treatment from the Thai government in the form of a corporate tax exemption is currently available to us from July 2010 through June 2015 on income generated from the manufacture of products at Pinehurst Building 5, and from July 2012 through June 2020 on income generated from the manufacture of products at Pinehurst Building 6. Such preferential tax treatment is contingent on, among other things, the export of our customers products out of Thailand and our agreement not to move our manufacturing facilities out of our current province in Thailand for at least 15 years. In addition, in December 2011, the Thailand Revenue Department announced a reduction in corporate income tax rates for tax periods beginning on or after January 1, 2012. As a result of the announcement, corporate income tax rates for our Thai subsidiary will be reduced from 30% in fiscal 2012 to 23%, 20% and 20% in fiscal 2013, fiscal 2014 and fiscal 2015, respectively.

Our subsidiary in China has been granted a tax privilege to reduce its corporate income tax rate from 25% to 15%. This privilege is retroactive to January 1, 2011 and valid until December 31, 2013, subject to renewal at the end of each three-year period.

Critical Accounting Policies and Use of Estimates

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Because the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our condensed consolidated financial statements as their application places the most significant demands on our management s judgment.

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the fiscal year ended June 29, 2012. There were no material changes to our critical accounting policies during the three and nine months ended March 29, 2013.

Results of Operations

The following table sets forth a summary of our unaudited condensed consolidated statements of operations. We believe that period-to-period comparisons of operating results should not be relied upon as indicative of future performance.

	Three Months Ended		Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in thousands)			
Revenues	$ 155,557	$ 139,019	$ 481,608	$ 421,975
Cost of revenues	(139,302)	(124,138)	(429,261)	(375,281)
Gross profit	16,255	14,881	52,347	46,694
Selling, general and administrative expenses	(6,801)	(6,586)	(18,447)	(18,543)
Income (expense) related to flooding	11,419	(55,623)	21,064	(95,888)
Operating income (loss)	20,873	(47,328)	54,964	(67,737)
Interest income	302	209	761	628
Interest expense	(239)	(64)	(788)	(206)
Foreign exchange gain, net	978	714	1,085	1,314

Other income	139	57	512	213
Income (loss) before income taxes	22,053	(46,412)	56,534	(65,788)
Income tax (expense) benefit	(927)	87	(2,707)	1,864
Net income (loss)	$ 21,126	$ (46,325)	$ 53,827	$ (63,924)

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The following table sets forth a summary of our unaudited condensed consolidated statements of operations as a percentage of total revenues for the periods indicated.

	Three Months Ended		Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in thousands)			
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	(89.6)	(89.3)	(89.1)	(88.9)
Gross profit	10.4	10.7	10.9	11.1
Selling, general and administrative expenses	(4.4)	(4.7)	(3.8)	(4.4)
Income (expense) related to flooding	7.3	(40.0)	4.4	(22.7)
Operating income (loss)	13.4	(34.0)	11.4	(16.0)
Interest income	0.2	0.1	0.2	0.1
Interest expense	(0.2)	(0.1)	(0.2)	(0.1)
Foreign exchange gain, net	0.6	0.5	0.2	0.3
Other income	0.1	0.1	0.1	0.1
Income (loss) before income taxes	14.2	(33.4)	11.7	(15.6)
Income tax (expense) benefit	(0.6)	0.1	(0.6)	0.4
Net income (loss)	13.6%	(33.3)%	11.2%	(15.2)%

The following table sets forth our revenues by end market for the periods indicated.

	Three Months Ended		Nine Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in thousands)			
Optical communications	$ 108,214	$ 88,482	$ 337,715	$ 286,489
Lasers, sensors and other	47,343	50,537	143,893	135,486
Total	$ 155,557	$ 139,019	$ 481,608	$ 421,975

We operate and internally manage a single operating segment. As such, discrete information with respect to separate product lines and segments is not accumulated.

Comparison of Three and Nine Months Ended March 29, 2013 to Three and Nine Months Ended March 30, 2012

Total revenues

Our total revenues increased by $16.5 million, or 11.9%, to $155.6 million for the three months ended March 29, 2013, as compared to $139.0 million for the three months ended March 30, 2012. This increase was primarily due to an increase in optical communication product sales volume resulting from restoration of our operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand. Revenues from optical communications products represented 69.6% of our total revenues for the three months ended March 29, 2013, as compared to 63.6% for the three months ended March 30, 2012.

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Our total revenues increased by $59.6 million, or 14.1%, to $481.6 million for the nine months ended March 29, 2013, as compared to $422.0 million for the nine months ended March 30, 2012. This increase was primarily due to an increase in optical communication product sales volume resulting from restoration of our operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand. Revenues from optical communications products represented 70.1% of our total revenues for the nine months ended March 29, 2013, as compared to 67.9% for the nine months ended March 30, 2012.

Cost of revenues

Our cost of revenues increased by $15.2 million, or 12.2%, to $139.3 million, or 89.6% of total revenues, for the three months ended March 29, 2013, as compared to $124.1 million, or 89.3% of total revenues, for the three months ended March 30, 2012. The increase in absolute dollars was primarily due to an increase in revenues, unfavorable foreign exchange impact to local spending in Thailand due to Thai baht appreciation, and impact of daily wages adjustment in Thailand effective April 1, 2012. Cost of revenues also included share-based compensation expense of $0.3 million for the three months ended March 29, 2013, as compared to $0.4 million for the three months ended March 30, 2012.

Our cost of revenues increased by $54.0 million, or 14.4%, to $429.3 million, or 89.1% of total revenues, for the nine months ended March 29, 2013, as compared to $375.3 million, or 88.9% of total revenues, for the nine months ended March 30, 2012. The increase in absolute dollars was primarily in connection with an increase in revenues resulting from restoration of our operations after the October and November 2011 flooding in Thailand and impact of daily wages adjustment in Thailand effective April 1, 2012. Cost of revenues also included share-based compensation expense of $0.9 million for the nine months ended March 29, 2013, as compared to $1.3 million for the nine months ended March 30, 2012.

Gross profit

Our gross profit increased by $1.4 million, or 9.2%, to $16.3 million, or 10.4% of total revenues, for the three months ended March 29, 2013, as compared to $14.9 million, or 10.7% of total revenues, for the three months ended March 30, 2012. Our gross profit increased by $5.7 million, or 12.1 %, to $52.3 million, or 10.9% of total revenues, for the nine months ended March 29, 2013, as compared to $46.7 million, or 11.1% of total revenues, for the nine months ended March 30, 2012.

The increase in gross profit margin during the three and nine months ended March 29, 2013, as compared to the three and nine months ended March 30, 2012, was primarily related to an increase in revenues resulting from restoration of our operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand, during which time our revenues decreased significantly while we continued to incur fixed costs.

SG&A expenses

Our SG&A expenses increased by $0.2 million, or 3.3%, to $6.8 million, or 4.4% of total revenues, for the three months ended March 29, 2013, as compared to $6.6 million, or 4.7% of total revenues, for the three months ended March 30, 2012. Our SG&A expenses increased in absolute dollars during the three months ended March 29, 2013, as compared to the three months ended March 30, 2012, due primarily to the recognition of accrued executive bonuses of approximately $0.5 million during the three months ended March 29, 2013, as compared to no accrued executive bonuses during the three months ended March 30, 2012 and the recognition of secondary offering expenses of approximately $0.5 million during the three months ended March 29, 2013. We also recorded share-based compensation charges of $1.1 million for the three months ended March 29, 2013, as compared to $1.0 million for the three months ended March 30, 2012.

Our SG&A expenses decreased by $0.1 million, or 0.5%, to $18.4 million, or 3.8% of total revenues, for the nine months ended March 29, 2013, as compared to $18.5 million, or 4.4% of total revenues, for the nine months ended March 30, 2012. Our SG&A expenses decreased in absolute dollars during the nine months ended March 29, 2013, as compared to the nine months ended March 30, 2012, due primarily to a decrease in business development and research and development expenditures during the nine months ended March 29, 2013, offset with the recognition of accrued executive bonuses of approximately $0.9 million and the recognition of secondary offering expenses of approximately $0.5 million during the nine months ended March 29, 2013. We also recorded share-based compensation charges of $3.1 million for the nine months ended March 29, 2013, as compared to $2.6 million for the nine months ended March 30, 2012.

Income (expense) related to flooding

In the three months ended March 29, 2013, we recognized $11.4 million of income related to flooding as a result of an interim payment from our insurers of $11.4 million against our claims for owned inventory losses due to the October and November 2011 flooding in Thailand. In the nine months ended March 29, 2013, we recognized $21.0 million of income related to flooding, which consisted of an interim payment from our insurers of $11.4 million against our claims for owned inventory losses, an interim payment from our insurers of $4.8 million against our claims for owned equipment losses, an interim payment of $4.7 million against our claims for business interruption losses and a payment of $0.1 million in full and final settlement of our claim for damage to our buildings at Pinehurst.

In the three months ended March 30, 2012, we recognized $55.6 million in expenses related to flooding, which mainly consisted of owned and consigned inventory losses of $2.1 million, consigned equipment losses of $48.5 million, and other flood-related expenses of $5.0 million. In the nine months ended March 30, 2012, we recognized $95.9 million in expenses related to flooding, which mainly consisted of owned and consigned inventory losses of $28.4 million, owned equipment losses of $4.6 million, consigned equipment losses of $48.5 million, damage to our leased building at Chokchai of $2.4 million, and other flood-related expenses of $12.0 million.

Operating income (loss)

Our operating income increased by $68.2 million to $20.9 million, or 13.4% of total revenues, for the three months ended March 29, 2013, as compared to an operating loss of $(47.3) million, or (34.0)% of total revenues, for the three months ended March 30, 2012.

Our operating income increased by $122.7 million to $55.0 million, or 11.4% of total revenues, for the nine months ended March 29, 2013, as compared to an operating loss of $(67.7) million, or (16.0)% of total revenues, for the nine months ended March 30, 2012.

Interest income

Our interest income increased by $93,000 to $302,000 for the three months ended March 29, 2013, as compared to $209,000 for the three months ended March 30, 2012. Our interest income increased by $133,000 to $761,000 for the nine months ended March 29, 2013, as compared to $628,000 for the nine months ended March 30, 2012. These increases were due to increases in cash and cash equivalent balances and an increase in interest rates.

Interest expense

Our interest expense increased by $175,000 to $239,000 for the three months ended March 29, 2013, as compared to $64,000 for the three months ended March 30, 2012. Our interest expense increased by $582,000 to $788,000 for the nine months ended March 29, 2013, as compared to $206,000 for the nine months ended March 30, 2012. These increases were due to increases in interest rates as well as increases in our long-term loan balances and the cessation of capitalizing interest on Building 6 costs after completing construction in April 2012.

Income (loss) before income taxes

We recorded income before income taxes of $22.1 million and $56.5 million for the three and nine months ended March 29, 2013, respectively, as compared to loss before income taxes of $(46.4) million and $(65.8) million for the three and nine months ended March 30, 2012, respectively.

Income tax (expense) benefit

Our provision for income tax reflects an effective tax rate of 4.2% for the three months ended March 29, 2013, as compared to an effective tax rate of (0.2)% (tax benefit) for the three months ended March 30, 2012. The increase in effective tax rate for the three months ended March 29, 2013 was due to the fact that the Group had net income from operations during that period, as compared to the three months ended March 30, 2012, when the Group experienced a net loss.

Our provision for income tax reflects an effective tax rate of 4.8% for the nine months ended March 29, 2013, as compared to an effective tax rate of (2.8)% (tax benefit) for the nine months ended March 30, 2012. The increase in effective tax rate for the nine months ended March 29, 2013 was due to the fact that the Group had net income from operations during that period, as compared to the nine months ended March 30, 2012, when the Group experienced a net loss.

Net income (loss)

We recorded net income of $21.1 million, or 13.6% of total revenues, for the three months ended March 29, 2013, as compared to a net loss of $(46.3) million, or (33.3)% of total revenues, for the three months ended March 30, 2012.

We recorded net income of $53.8 million, or 11.2% of total revenues, for the nine months ended March 29, 2013, as compared to a net loss of $(63.9) million, or (15.2)% of total revenues, for the nine months ended March 30, 2012.

Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have primarily financed our operations through cash flow from operations, drawdowns under our commercial loans, and the sale of ordinary shares in our initial public offering in June 2010. As of March 29, 2013, we had approximately $157.5 million in cash and cash equivalents and approximately $31.3 million of outstanding debt. As of March 30, 2012, we had approximately $125.4 million in cash and cash equivalents and approximately $41.0 million of outstanding debt.

Our cash and cash equivalents primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less which are placed with banks and other financial institutions. The weighted average interest rate on our cash and cash equivalents was 0.9% and 0.9%, respectively, for the three and nine months ended March 29, 2013, respectively, and 0.9% and 0.7% for the three and nine months ended March 30, 2012, respectively.

We expect that our cash position will continue to be impacted by expenditures related to recovery from the flooding of our facilities in Thailand and lost revenue. We have incurred, and expect to continue to incur, certain charges and expenses related to the flooding, some of which will be cash charges and expenses, such as those described in Note 15 to the Notes to Unaudited Condensed Consolidated Financial Statements. We also have to pay significantly more for our current property and casualty insurance for our operations in Thailand. We have submitted claims to our insurers for business interruption losses attributable to the effects of flooding through the second quarter of fiscal 2013 (until October 21, 2012), as well as claims for owned and consigned inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the three months ended March 29, 2013, we received an interim payment of $11.4 million from our insurers against our claims for owned inventory losses. In the nine months ended March 29, 2013, we recognized $21.0 million of income related to flooding, which consisted of an interim payment from our insurers of $11.4 million against our claims for owned inventory losses, an interim payment from our insurers of $4.8 million against our claims for owned equipment losses, an interim payment of $4.7 million against our claims for business interruption losses and a payment of $0.1 million in full and final settlement of our claim for damage to our buildings at Pinehurst. We will continue to recognize insurance recoveries if and when they become realizable and probable.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately recover for our losses from our insurers. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses, in whole or in part, and apply different valuation methodologies, which could also reduce our aggregate recovery amount. However, based on the information that we have at this time, we believe that we will ultimately recover a majority of our losses. We further believe that, although the difference between our aggregate claims and our insurance recoveries may ultimately be material, this will not have a material and adverse effect on our financial condition or results of operation.

We continue to have discussions with our customers regarding their assessments of the damage to, and valuation of, consigned inventory and assets that were under our care, custody and control at our Chokchai facility. In some cases, there may be material differences between our assessments and our customers assessments. There may also be differences of opinion regarding who bears responsibility for certain losses as a result of the flooding. We continue to review these differences with our customers and, depending on the outcome of these discussions, we may incur additional costs and expenses in connection with our customers recovery efforts.

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During the three months ended September 28, 2012, we entered into a settlement agreement with one of our customers regarding our liability for the customer s losses as a result of the flooding and made an initial payment to such customer of $4.0 million. During the three months ended March 29, 2013, we amended the settlement agreement, pursuant to which we transferred equipment purchased on behalf of the customer to the customer in the amount of $2.2 million and reduced net accounts receivable from such customer by $2.0 million, resulting in a $4.2 million reduction in our outstanding obligation to such customer under the terms of the settlement agreement.

During the three months ended December 28, 2012, we entered into a settlement agreement with another customer regarding our liability for such customer s losses as a result of the flooding and made an initial payment to such customer of approximately $2.8 million. During the three months ended March 29, 2013, we offset accounts receivable related to end-of life products in the amount of $0.1 million, which such customer owed to the Company.

During the three months ended March 29, 2013, we entered into a settlement agreement with another customer regarding our liability for such customer s losses as a result of the flooding, pursuant to which we made an initial payment to such customer of approximately $1.3 million and offset accounts receivable related to end-of-life products in the amount of $0.5 million, which such customer owed to the Company.

Our liability under the terms of the settlement agreements is consistent with our original estimate, and no further provision has been made.

In addition, the impact of the flooding may continue to affect some of our customers ability to pay us amounts that they owe us, which could materially impact the timing of the realization of our receivables. Therefore, because of the uncertainty of the timing of these recoveries, the potential impact to our receivables and the fact that we could be required to use significant amounts of our cash to pay for flood-related expenses and losses before we receive any proceeds from our insurers, our liquidity and capital resources could be materially and adversely affected by such cash outlays unless and until we are able to collect on these recoveries from our insurers. Notwithstanding the foregoing, we believe that our current cash and cash equivalents, and cash flow from operations will be sufficient to meet our working capital and capital expenditure needs for the next 12 months. Our ability to sustain our working capital position is subject to a number of risks that we discuss in Part II, Item 1A of this Quarterly Report on Form 10-Q.

In June 2010, we entered into an agreement to purchase land in Thailand for the construction of Pinehurst Building 6. The land purchase was completed in August 2010 and construction of Building 6 was completed in April 2012. We believe that our current manufacturing capacity is sufficient to meet anticipated production requirements for the next few years. We maintain a long-term credit facility associated with construction of production facilities at our Pinehurst campus in Thailand that will come due within the next 48 months. We anticipate that our internally generated working capital, along with our cash and cash equivalents will be adequate to repay this obligation.

The following table shows our net cash provided by operating activities, net cash used in investing activities and net cash (used in) provided by financing activities for the periods indicated:

	Nine Months Ended	
	March 29, 2013	March 30, 2012
	(in thousands)	
Net cash provided by operating activities	$ 51,257	$ 138
Net cash used in investing activities	(3,706)	(28,112)
Net cash (used in) provided by financing activities	(6,744)	25,603
Net increase (decrease) in cash and cash equivalents	40,807	(2,371)
Cash and cash equivalents, beginning of period	115,507	127,282
Cash and cash equivalents, end of period	157,479	125,410

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Operating Activities

Net cash provided by operating activities increased by $51.1 million, or 37,042.8%, to $51.3 million for the nine months ended March 29, 2013, as compared to net cash provided by operating activities of $0.1 million for the nine months ended March 30, 2012. This increase was primarily due to an increase in net income resulting from restoration of operations, which had been temporarily suspended during the three months ended December 30, 2011 due to the October and November 2011 flooding in Thailand, as compared to net loss due to the flooding effect for the nine months ended March 30, 2012, offset by a decrease of $8.1 million in liabilities to third parties due to flood losses.

Investing Activities

Net cash used in investing activities decreased by $24.4 million, or 86.8%, to $3.7 million for the nine months ended March 29, 2013, as compared to $28.1 million for the nine months ended March 30, 2012. The decrease in net cash used in investing activities was primarily due to a decrease in payments for construction of Pinehurst Building 6, which was completed in April 2012, and the receipt of $4.9 million of proceeds from insurers against claims related to flood damage to owned equipment and our buildings at Pinehurst.

Financing Activities

Net cash used in financing activities increased by $32.3 million, or 126.3%, to $6.7 million for the nine months ended March 29, 2013, as compared to net cash provided by financing activities of $25.6 million for the nine months ended March 30, 2012. This increase in net cash used in financing activities was primarily due to scheduled repayments of long-term loans for Pinehurst Building 5 and Building 6 and no new draw downs during the nine months ended March 29, 2013, as compared to a draw down of $28.0 million in the nine months ended March 30, 2012 for construction of Pinehurst Building 6.

Off-Balance Sheet Commitments and Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are not reflected in our condensed consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We also do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Recent Accounting Pronouncements

See Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents totaling $157.5 million and $115.5 million as of March 29, 2013 and June 29, 2012, respectively. Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in highly liquid investments with maturities of three months or less from the original dates of purchase. The cash and cash equivalents are held for working capital purposes. We have not used derivative financial instruments in our investment portfolio. We have not been exposed nor do we anticipate being exposed to material risks due to changes in market interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates had declined by 10 basis points during the nine months ended March 29, 2013 and March 30, 2012, our interest income would have decreased by approximately $0.1 million and $0.1 million, respectively, assuming consistent investment levels.

Interest rate risk also refers to our exposure to movements in interest rates associated with our interest bearing liabilities. The interest bearing liabilities are denominated in U.S. dollars and the interest expense is based on the Singapore Inter-Bank Offered Rate, or SIBOR, and the London Inter-Bank Offered Rate, or LIBOR, plus an additional margin, depending on the lending institution. If the SIBOR and the LIBOR had increased by 100 basis points during the nine months ended March 29, 2013 and March 30, 2012, our interest expense would have increased by approximately $0.2 million and $0.3 million, respectively, assuming consistent borrowing levels.

Foreign Currency Risk

As a result of our foreign operations, we have significant expenses, assets and liabilities that are denominated in foreign currencies. Substantially all of our employees and most of our facilities are located in Thailand and the PRC. Therefore, a substantial portion of our payroll as well as certain other operating expenses are paid in Thai baht or RMB. The significant majority of our revenues are denominated in U.S. dollars because our customer contracts generally provide that our customers will pay us in U.S. dollars.

As a consequence, our gross profit margins, operating results, profitability and cash flows are adversely impacted when the dollar depreciates relative to the Thai baht or the RMB. We have a particularly significant currency rate exposure to changes in the exchange rate between the Thai baht and the U.S. dollar. We must translate foreign currency-denominated results of operations, assets and liabilities for our foreign subsidiaries to U.S. dollars in our unaudited condensed consolidated financial statements. Consequently, increases and decreases in the value of the U.S. dollar compared to such foreign currencies will affect our reported results of operations and the value of our assets and liabilities on our unaudited condensed consolidated balance sheets, even if our results of operations or the value of those assets and liabilities has not changed in its original currency. These transactions could significantly affect the comparability of our results between financial periods or result in significant changes to the carrying value of our assets, liabilities and shareholders equity.

In addition, we are exposed to foreign exchange risk in connection with the credit facility and cross currency swap arrangements we entered into with TMB Bank Public Company Limited (the Bank) in May 2011 for the construction of Pinehurst Building 6. The terms of the contract with the Bank provide the following facilities: (1) a term loan facility for up to Thai baht 960 million (equal to $30.0 million) with a fixed interest rate of 5.28% per annum, (2) a hedging facility for currency swaps with a notional amount of $30.0 million, and (3) a settlement limit of Thai baht 65 million, subject to certain terms and conditions as set forth therein. As of March 30, 2012, we had drawn down the entire $30.0 million available under the credit facility. Borrowings and interest under the term loan are scheduled to be repaid on a quarterly basis between September 2011 and March 2017. As of March 29, 2013, we had outstanding borrowings under the term loan facility of $24.0 million. Under the terms of the cross currency interest rate swap arrangement, all amounts drawn down in Thai baht were converted to U.S. dollars for repayment by us on a quarterly basis at the floating rate of 3-month U.S. LIBOR plus 2.8% per annum.

We attempt to hedge against these exchange rate risks by entering into hedging contracts that are typically one to six months in duration, leaving us exposed to longer term changes in exchange rates. We realized foreign currency gains of $1.0 million and $1.1 million during the three and nine months ended March 29, 2013, respectively, and foreign currency gains of $0.7 million and $1.3 million during the three and nine months ended March 30, 2012, respectively. As foreign currency exchange rates fluctuate relative to the U.S. dollar, we expect to incur foreign currency translation adjustments and may incur foreign currency exchange losses. For example, a 10% weakening in the U.S. dollar against the Thai baht and the RMB as of March 29, 2013 and June 29, 2012 would have resulted in an increase in our net dollar position of approximately $1.8 million and $0.7 million, respectively. We cannot give any assurance as to the effect that future changes in foreign currency rates will have on our condensed consolidated financial position, operating results or cash flows.

Credit Risk

Credit risk refers to our exposures to financial institutions, suppliers and customers that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the global economy. As of March 29, 2013, our cash and cash equivalents were held in deposits and highly liquid investment products with maturities of three months or less with banks and other financial institutions having credit ratings of A minus or above. We generally monitor the financial performance of our suppliers and customers, as well as other factors that may affect their access to capital and liquidity. Presently, we believe that we will not incur material losses due to our exposures to such credit risk.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our chief executive officer and chief financial officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Management s assessment of the effectiveness of our internal control over financial reporting is expressed at the level of reasonable assurance because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system s objectives will be met.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 29, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising in the ordinary course of our business. There are currently no material claims or actions pending or threatened against us.

ITEM 1A. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should carefully consider the following risks, as well as the other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and the related notes, before investing in our ordinary shares. The risks and uncertainties described below are not the only ones that we may face. Additional risks and uncertainties of which we are unaware, or that we currently deem immaterial, also may become important factors that affect us or our ordinary shares. If any of the following risks actually occur, they may harm our business, financial condition and operating results. In this event, the market price of our ordinary shares could decline and you could lose some or all of your investment.

Risks Related to Our Business

Severe flooding in Thailand during October and November 2011, which resulted in the temporary suspension of production at our Pinehurst facilities and the permanent cessation of production at our Chokchai facility, has had and will continue to have a material and adverse effect on our business, financial condition and results of operations in the near-term and potentially beyond.

The consequences of the October and November 2011 flooding in Thailand, including the temporary suspension of production at our Pinehurst facilities and permanent cessation of production at our Chokchai facility, have adversely affected and will continue to adversely affect our business, results of operations and financial condition in the near-term and potentially beyond. Material risks and uncertainties include, but are not limited to, the following:

Insurance. Prior to January 1, 2012, we maintained insurance coverage that provided for reimbursement of losses resulting from flood damage. Under the terms of our policies that were in effect during the flooding, our property and casualty insurance covered loss or damage to our property and third-party property over which we have custody and control (the latter of which we refer to as consigned property), as well as losses associated with business interruption and building damage, subject to a number of exclusions and limitations (such as coinsurance, facilities location sub-limits and policy covenants). We have completed our assessment of losses with respect to business interruption, customer-owned inventory, consigned equipment from our customers, and our own inventory, equipment and facilities. We have recorded known losses in our consolidated statements of operations. As of March 29, 2013, we have submitted claims to our insurers for business interruption losses attributable to the effects of flooding through the second quarter of fiscal 2013 (until October 21, 2012), as

well as claims for inventory losses, owned and consigned equipment losses, and damage to our buildings at Pinehurst, which we own, and Chokchai, which we leased. In the three months ended March 29, 2013, we received an interim payment of $11.4 million from our insurers against our claims for owned inventory losses. In the nine months ended March 29, 2013, we received an interim payment of $11.4 million from our insurers against our claims for owned inventory losses, an interim payment of $4.8 million from our insurers against our claims for owned equipment losses, an interim payment of $4.7 million against our claims for business interruption losses and a payment of $0.1 million as full and final settlement of our claim for damage to our buildings at Pinehurst.

A number of exclusions and limitations in our policies (such as coinsurance, facilities location sub-limits and policy covenants) may reduce the aggregate amount that we will ultimately collect for our losses. In addition, our insurers could reject the valuation methodologies we have used to estimate our losses, in whole or in part, and apply different valuation methodologies, which could also reduce our aggregate recovery amount. Even if we ultimately recover material amounts from our insurers, there may be a substantial delay between when we pay for flood-related expenses and when we receive proceeds from our insurers as reimbursement for these expenses, which could adversely affect our cash flows and liquidity. The insurance claims process has required a significant amount of time from management, and we expect this to continue until the claims process has been resolved. Further, as a result of the flooding in Thailand, our property and casualty insurance premiums have risen dramatically, as compared to premiums paid in periods prior to the flooding.

Customers. We continue to have discussions with our customers regarding the valuation of the consigned property that were damaged as a result of the flooding and who bears the responsibility for such losses In some cases, there may be material differences between our assessments and our customers assessments on the matters of valuation and responsibility. Some customers may choose to manufacture products internally or relocate their production to manufacturers outside of Thailand because of the fear of future flooding in Thailand. Other customers may be so reliant on us for their manufacturing capabilities that the suspension of our operations may have materially and adversely affected their own businesses, which could potentially lead to customer bankruptcies or liquidations. Customer bankruptcies or liquidations would mean less revenue for us and could also require us to write off any accounts receivable and inventory associated with those customers. Other customers may simply walk away from their obligations to pay us for equipment, inventory and finished goods for which we feel that they have a contractual obligation to us or may delay payment of amounts that they owe us for prior services rendered. The flooding may also make it more difficult for us to win business from new customers, or force us to offer more attractive payment terms in order to maintain business with existing customers. These consequences would materially and adversely affect our business, financial condition and results of operations.

Recovery and Related Charges and Expenses. We expect to continue to incur certain charges and expenses related to the recovery from the flooding of our Thailand facilities and its impact on our operations, including items such as fixed asset impairments, inventory write-downs, charges related to cancellation of purchase orders for excess materials and charges for restoration and recovery work. We incurred a significant amount of these various flood-related charges and expenses during the fiscal year ended June 29, 2012. However, we expect that we will also incur expenses and charges in future periods, and the ultimate timing of these future charges and expenses is uncertain.

Our sales depend on and may continue to depend on a small number of customers. A reduction in orders from any of these customers, the loss of any of these customers, or a customer exerting significant pricing and margin pressures on us could harm our business, financial condition and operating results.

We have depended, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our total revenues. During the three months ended March 29, 2013 and March 30, 2012, we had two and three customers that each contributed 10% or more of our total revenues, respectively. These customers together accounted for 44% and 51% of our total revenues, respectively, during the periods. During the nine months ended March 29, 2013 and March 30, 2012, we had two and three customers, respectively, that each contributed 10% or more of our total revenues. These customers together accounted for 47% and 48% of our total revenues, respectively, during the periods. Dependence on a small number of customers means that a reduction in orders from, a loss of, or other adverse actions by any one of these customers could have an adverse effect on our business, operating results and share price.

Further, our customer concentration increases the concentration of our accounts receivable and our exposure to payment default by any of our key customers. Many of our existing and potential customers have substantial debt burdens, have experienced financial distress or have static or declining revenues, all of which may have been exacerbated by the impact of the flooding in Thailand. Certain of our customers have gone out of business, been acquired, or announced their withdrawal from

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segments of the optics market. We generate significant accounts payable and inventory for the services that we provide to our customers, which could expose us to substantial and potentially unrecoverable costs if we do not receive payment from our customers.

Reliance on a small number of customers gives those customers substantial purchasing power and leverage in negotiating contracts with us. In addition, although we enter into master supply agreements with our customers, the level of business to be transacted under those agreements is not guaranteed. Instead, we are awarded business under those agreements on a project-by-project basis. Some of our customers have at times significantly reduced or delayed the volume of manufacturing services that they order from us. If we are unable to maintain our relationships with our existing significant customers, our business, financial condition and operating results could be harmed.

Natural disasters, including the recent flooding in Thailand, epidemics, acts of terrorism and other political and economic developments could harm our business, financial condition and operating results.

Natural disasters, such as the October and November 2011 flooding in Thailand, where most of our manufacturing operations are located, could severely disrupt our manufacturing operations and increase our supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for our services, make it difficult or impossible for us to manufacture and deliver products and for our suppliers to deliver components allowing us to manufacture those products, require large expenditures to repair or replace our facilities, or create delays and inefficiencies in our supply chain. For example, the October and November 2011 flooding in Thailand forced us to temporarily shut down all of our manufacturing facilities in Thailand and cease production permanently at our Chokchai facility in Thailand, which adversely affected our ability to meet our customers demands during fiscal 2012. In some countries in which we operate, including the PRC and Thailand, potential outbreaks of infectious diseases such as the H1N1 influenza virus, severe acute respiratory syndrome (SARS) or bird flu could disrupt our manufacturing operations, reduce demand for our customers products and increase our supply chain costs. In addition, increased international political instability, evidenced by the threat or occurrence of terrorist attacks, enhanced national security measures, conflicts in the Middle East and Asia, strained international relations arising from these conflicts and the related decline in consumer confidence and economic weakness, may hinder our ability to do business. Any escalation in these events or similar future events may disrupt our operations and the operations of our customers and suppliers, and may affect the availability of materials needed for our manufacturing services. Such events may also disrupt the transportation of materials to our manufacturing facilities and finished products to our customers. These events have had, and may continue to have, an adverse impact on the U.S. and world economy in general, and customer confidence and spending in particular, which in turn could adversely affect our total revenues and operating results. The impact of these events on the volatility of the U.S. and world financial markets also could increase the volatility of the market price of our ordinary shares and may limit the capital resources available to us, our customers and our suppliers.

We are not fully insured against all potential losses. Natural disasters or other catastrophes could adversely affect our business, financial condition and results of operations.

The occurrence of one or more natural disasters, such as tropical storms and floods, in Thailand, where most of our manufacturing operations are located, could adversely affect our operations and financial performance. Any losses that we would incur could have a material adverse effect on our business for an indeterminate period of time.

Our current property and casualty insurance covers loss or damage to our property and third-party property over which we have custody and control, as well as losses associated with business interruption, subject to specified exclusions and limitations such as coinsurance, facilities location sub-limits and other policy limitations and covenants. This includes flood insurance for property and business interruption with an aggregate limit of approximately $25 m> $28.1 $45.2 $73.3

Pro forma adjustments in the table above under IAHC Marked-to-Market Adjustments are reflected as follows:

A. There were no marked-to-market or other adjustments required to be made to the operating revenues or net income of the Company for the year ended September 30, 2005, or to the stockholders equity at that date.

Results of Operations

Set forth below is the Company s discussion of the results of its operations, as viewed by management, for the fiscal years 2009, 2008, and 2007, respectively. This discussion refers to both GAAP results and adjusted marked-to-market information, in accordance with the information presented in Item 6, Selected Financial Data . For the international equities, international debt capital markets, foreign exchange trading 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 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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The discussion below relates only to continuing operations. All revenues and expenses relating to discontinued operations have been removed from disclosures of total revenues and expenses in all periods and are reflected in a net discontinued operations number.

Financial Overview

The following table shows an overview of our financial results.

(in millions)

Year Ended September 30,	**2009**	**% Change**	**2008**	**% Change**	**2007**
FINANCIAL OVERVIEW					
Adjusted total operating revenues (non-GAAP)	$ 98.2	9%	$ 90.1	27%	$ 70.7
Interest expense	8.0	(29)%	11.2	20%	9.3
Net revenues (non-GAAP)	90.2	14%	78.9	29%	61.4
Non-interest expenses	70.4	12%	62.9	32%	47.6
Income before income tax and minority interest (non-GAAP)	19.8	24%	16.0	16%	13.8
Pro forma income tax expense (non-GAAP)	5.1	(16)%	6.1	13%	5.4
Minority interest in income of consolidated entities	0.5	n/m	(1.0)	67%	(0.6)
Income from continuing operations	14.2	30%	10.9	21%	9.0
Income (loss) from discontinued operations, net of taxes	0.7	n/m	(0.1)	(91)%	(1.1)
Income before extraordinary gain	13.5	23%	11.0	9%	10.1
Extraordinary gain	18.5	n/m		n/m	
Pro forma net income (non-GAAP)	$ 32.0	191%	$ 11.0	9%	$ 10.1
Reconciliation of operating revenues from GAAP to adjusted, non-GAAP numbers:					
Total operating revenues, (GAAP)	$ 91.3		$ 117.0		$ 47.3
Gross marked to market adjustment	6.9		(26.9)		23.4
Adjusted operating revenues (non-GAAP)	$ 98.2		$ 90.1		$ 70.7
Reconciliation of income tax expense from GAAP to pro forma, non-GAAP numbers:					
Income tax expense (benefit) (GAAP)	$ 2.6		$ 16.2		$ (3.4)
Pro forma taxes on gross marked to market adjustment at 37.5%	2.5		(10.1)		8.8
Pro forma income tax expense (non-GAAP)	$ 5.1		$ 6.1		$ 5.4

2009 Operating Revenues vs. 2008 Operating Revenues

The Company s operating revenues under GAAP for 2009 and 2008 were $91.3 million and $117.0 million, respectively. The Company s adjusted operating revenues were $98.2 million in 2009, 9% higher than the operating revenues of $90.1 in 2008. This was mainly attributable to adjusted operating revenue increases of 28% in foreign exchange trading and 14% in commodities trading. Wider spreads produced by the global financial crisis were part of the reason for the increased foreign exchange trading revenues. Declining base metal prices reduced base metals adjusted operating revenues, offset in precious metals by an increased customer base. There were also increases, off a lower base, in asset management revenues (78%) and international debt capital markets revenues (14%). Although our international equities market-making business enjoyed a record first half-year in 2009, partly because of near-panic conditions in the equities markets in the quarter ended December 31, 2008, there was a steep decline during the second half-year, caused by a lack of activity and volatility, with the result that operating revenues for the year were $33.8 million compared with $33.9 million in 2008. See the segmental analysis below for additional information on activity in each of

the segments.

2008 Operating Revenues vs. 2007 Operating Revenues

The Company s operating revenues under GAAP for 2008 and 2007 were $117.0 million and $47.3 million, respectively. The Company s adjusted operating revenues were $90.1 million in 2008, 27% higher than the operating revenues of $70.7 million in 2007. This was attributable to adjusted operating revenue increases of 68% in foreign exchange trading, 61% in commodities trading and 23% in equities market-making, offset by decreases of 33% in debt capital markets and 77% in asset management. Our trading and market-making segments generally performed well throughout the year, with the equities and foreign exchange trading businesses both experiencing a strong fourth quarter and the commodities trading business performing very well in the first half of the year. However, total adjusted operating revenues during the second half of the year and particularly in the fourth quarter were adversely affected by losses in the asset management segment. These arose as a result of reduced investment advisory fees and marked-to-market losses on the Company s seed capital investments, directly related to redemptions from funds under management and to

declining values of assets as the global financial crisis gathered pace. The Company s assets under management in the asset management segment increased from $1.3 billion at September 30, 2007 to $2.3 billion at June 30, 2008 but then declined to $1.2 billion by September 30, 2008. The debt arrangement and placement business, accounted for in our debt capital markets segment, was also adversely affected by a sharp reduction in investment appetite during the year. See the segmental analysis below for additional information on activity in each of the segments.

2009 Expenses vs. 2008 Expenses

Interest expense: Interest expense decreased by 29% from $11.2 million in 2008 to $8.0 million in 2009 as a result of decreased average borrowings during the year, at lower absolute interest rates. Effective Q4 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 8 to the 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 during fiscal 2009, resulting in a net interest expense on the swaps. The effective portion of the interest expense on the swaps during fiscal 2009 had the effect of increasing the Company s reported interest expense by $2.0 million.

Non-interest expenses: The following table sets forth information concerning non-interest expenses.

(in millions)

Year Ended September 30,	**2009**	**% Change**	**2008**	**% Change**	**2007**
NON-INTEREST EXPENSES					
Compensation and benefits	$ 40.8	12%	$ 36.5	25%	$ 29.2
Clearing and related expenses	17.5	19%	14.7	31%	11.2
Other non-interest expenses					
- Occupancy and equipment rental	1.3	0%	1.3	18%	1.1
- Professional fees	2.2	5%	2.1	17%	1.8
- Depreciation and amortization	0.9	0%	0.9	50%	0.6
- Business development	2.0	(17)%	2.4	50%	1.6
- Insurance	0.4	33%	0.3	0%	0.3
- Other	5.3	13%	4.7	161%	1.8
	12.1	3%	11.7	63%	7.2
Total non-interest expenses	$ 70.4	12%	$ 62.9	32%	$ 47.6

Non-interest expenses: Non-interest expenses increased by 12% from $62.9 million in 2008 to $70.4 million in 2009.

Compensation and Benefits: Compensation and benefits expense grew by 12% from $36.5 million to $40.8 million. These represented 58% of total non-interest expenses in both 2009 and 2008. Total variable compensation paid to traders decreased marginally from $16.5 million in 2008 to $16.4 million in 2009. Administrative and executive bonuses, including deferred compensation expenses (a proportion of current year bonuses allocated to restricted stock awards is deferred and expensed as vesting occurs), were $6.4 million, compared with $1.9 million in 2008. Stock option expense in 2009 was $1.0 million, compared with $0.8 million in 2008. Salaries and benefits increased marginally from $17.5 million in 2008 to $17.6 million. The number of employees in the Company grew 221% from 195 at the end of 2008 to 625 at the end of 2009, primarily as a result of the FCStone acquisition. Excluding the FCStone transaction, the number of employees in the Company declined to 193 from 195 at the end of 2008.

Clearing and Related Expenses: Clearing and related expenses increased by 19% from $14.7 million in 2008 to $17.5 million in 2009. The increase was mainly a result of increased equities volumes and commissions paid in the foreign exchange trading business. Clearing and related expenses include bank charges, which increased from $1.2 million in 2008 to $1.7 million in 2009. Bank charges include commitment and arrangement fees paid to banks.

Other Non-Interest Expenses: Other non-interest expenses increased by 3% from $11.7 million in 2008 to $12.1 million in 2009. Business development costs decreased 17% from $2.4 million in 2008 to $2.0 million in 2009. $2.4 million of the other non-interest expenses in 2008 relates to the write-off of a receivable from one of the Company s customers, compared with $1.8 million in 2009. Also included in other non-interest expenses for 2009 was an impairment charge of $1.1 million relating to the Company s INTL Sieramet, LLC partnership.

Provision for Taxes: The effective income tax rate on a GAAP basis was 20% in 2009, compared with 38% in 2008. This change was primarily due to changes in the geographic mix of profits or 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 changed from a loss of $1.0 million in 2008 to income of $0.5 million in 2009. This represents the minority interest in the commodities joint venture, INTL Commodities DMCC, acquired by the Company in February 2009, the minority interest in INTL Sieramet, LLC, and the minority interest in INTL Gainvest Capital Uruguay S.A.

Loss or Gain from Discontinued Operations: Discontinued operations produced a gain, net of taxes, of $0.1 million in 2008, and a loss, net of taxes, of $0.7 million in 2009. Discontinued operations relate to the discontinuation of the Company s margin foreign exchange trading operations in Hong Kong in August 2008 and the disposal of its interest in the asset management joint venture, INTL Consilium, LLC in April 2009.

2008 Expenses vs. 2007 Expenses

Interest expense: Interest expense increased by 20% from $9.3 million in 2007 to $11.2 million in 2008 as a result of increased average borrowings during the year, though at lower absolute interest rates. As discussed above, the Company entered into two three-year interest rate swaps for a total of $100 million that are designated as cash flow hedges. 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 Q4 2008, resulting in a net interest expense on the swaps. The effective portion of the interest expense on the swaps during fiscal 2008 had the effect of increasing the Company s reported interest expense by $0.1 million.

Non-interest expenses: Non-interest expenses increased by 32% from $47.6 million in 2007 to $62.9 million in 2008.

Compensation and Benefits: Compensation and benefits expense grew by 25% from $29.2 million to $36.5 million. These represented 58% of total non-interest expenses in 2008, compared with 61% in 2007. Total variable compensation paid to traders increased 24% from $13.3 million in 2007 to $16.5 million in 2008, as a result of increased revenues. Administrative and executive bonuses, including deferred compensation expenses (a proportion of current year bonuses allocated to restricted stock awards is deferred and expensed as vesting occurs), were $1.9 million, compared with $2.8 million in 2007. Stock option expense in 2008 was $0.8 million, compared with $0.7 million in 2007. Salaries and benefits increased 36% from $12.9 million in 2007 to $17.5 million. The number of employees in the Company grew 15% from 170 at the end of 2007 to 195 at the end of 2008.

Clearing and Related Expenses: Clearing and related expenses increased by 31% from $11.2 million in 2007 to $14.7 million in 2008. The increase was mainly a result of increased equities volumes and commissions paid in the foreign exchange trading business. Clearing and related expenses include bank charges, which increased from $0.8 million in 2007 to $1.3 million in 2008. Bank charges include commitment and arrangement fees paid to banks.

Other Non-Interest Expenses: Other non-interest expenses increased by 63% from $7.2 million in 2007 to $11.7 million in 2008. $2.4 million of the amount in 2008 relates to the write-off of a receivable from one of the Company s customers. The Company provided for $1.2 million of this amount during the second fiscal quarter of 2008. Following deterioration of the value of the customer s assets from which payment might have been expected, the Company decided to write off the balance of the amount owing. There was a 17% increase in professional fees, which included fees for legal action taken against the defaulting customer referred to above, additional fees for tax advice and increased audit fees. Business development costs increased by 65%, from $1.6 million to $2.4 million, largely as a result of establishing and building new customer bases from offices that were set up during 2007, and additional management travel. Other increases related to the general expansion of the Company s business.

Provision for Taxes: The effective income tax rate on a GAAP basis was 38% in 2008, compared with 35% in 2007. This change was primarily due to changes in the geographic mix of profits or 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 losses of consolidated entities increased from $0.6 million in 2007 to $1.0 million in 2008. This represents the minority interests in a joint venture, INTL Commodities DMCC, which the Company purchased in February 2009, and in INTL Gainvest Capital Uruguay S.A.

Loss from Discontinued Operations: The loss from discontinued operations, net of taxes, was $1.1 million in 2007 and $0.1 million in 2008. Discontinued operations relate to the discontinuation of the Company s margin foreign exchange trading operations in Hong Kong in August 2008 and the disposal of its interest in the asset management joint venture, INTL Consilium, LLC in April 2009.

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Segment Information: The following table sets forth information concerning the Company s principal business segments.

(in millions)

Year Ended September 30,	**2009**	**% Change**	**2008**	**% Change**	**2007**
SEGMENTAL RESULTS					
International equities market-making					
- operating revenues	$ 33.8	(0)%	$ 33.9	23%	$ 27.5
- variable expenses	15.5	(5)%	16.3	19%	13.7
- contribution	18.3	4%	17.6	28%	13.8
Foreign exchange trading					
- operating revenues	30.4	28%	23.8	68%	14.2
- variable expenses	8.6	41%	6.1	97%	3.1
- contribution	21.8	23%	17.7	59%	11.1
Commodities trading					
- adjusted operating revenues (non-GAAP)	26.1	14%	22.8	61%	14.2
- variable expenses	6.9	53%	4.5	61%	2.8
- contribution (non-GAAP)	19.2	5%	18.3	61%	11.4
International debt capital markets					
- operating revenues	4.9	14%	4.3	(33)%	6.4
- variable expenses	0.7	40%	0.5	(72)%	1.8
- contribution	4.2	11%	3.8	(17)%	4.6
Asset management					
- operating revenues	3.2	78%	1.8	(77)%	7.7
- variable expenses	0.9	(55)%	2.0	0%	2.0
- contribution	2.3	n/m	(0.2)	n/m	5.7
Other					
- operating revenues	(0.2)	n/m	3.5	400%	0.7
- variable expenses	0.1	(50)%	0.2	100%	0.1
- contribution	(0.3)	n/m	3.3	450%	0.6
Total Segmental Results					
- operating revenues (non-GAAP)	98.2	9%	90.1	27%	70.7
- variable expenses	32.7	10%	29.6	26%	23.5
- contribution (non-GAAP)	$ 65.5	8%	$ 60.5	28%	$ 47.2

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

	2009	2008	2007
Total operating revenues, (GAAP)	$ 19.2	$ 49.7	$ (9.2)
Gross marked to market adjustment	6.9	(26.9)	23.4

Operating revenues (non-GAAP)	$ 26.1	$ 22.8	$ 14.2

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

Total commodities trading contribution, (GAAP)	$ 12.3	$ 45.2	$ (12.0)
Gross marked to market adjustment	6.9	(26.9)	23.4
Commodities trading contribution (non-GAAP)	$ 19.2	$ 18.3	$ 11.4

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

Total operating revenues, (GAAP)	$ 91.3	$ 117.0	$ 47.3
Gross marked to market adjustment	6.9	(26.9)	23.4
Operating revenues (non-GAAP)	$ 98.2	$ 90.1	$ 70.7

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

Total contribution, (GAAP)	$ 58.6	$ 87.4	$ 23.8
Gross marked to market adjustment	6.9	(26.9)	23.4
Contribution (non-GAAP)	$ 65.5	$ 60.5	$ 47.2

2009 vs. 2008 Segmental Analysis

The adjusted net contribution of all the Company s business segments increased 8% from $60.5 million in 2008 to $65.5 million in 2009. Net 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. Net contribution is one of the key measures used by management to assess the performance of each segment.

International equities market-making Operating revenues decreased marginally from $33.9 million in 2008 to $33.8 million in 2009. Operating revenues in this segment are largely dependent on overall volume and volatility. More than half of the revenues, $18.5 million, were produced during the first fiscal quarter ended December 31, 2008, demonstrating the extreme volatility in the equity markets during fiscal 2009. The volume of trades was 4% higher in 2009 than in 2008. 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 consolidated income statements as clearing and related expenses.

The contribution attributable to this segment increased 4% from $17.6 million to $18.3 million. Variable expenses expressed as a percentage of operating revenues decreased from 48% to 46%.

Foreign exchange trading Operating revenues increased by 28% from $23.8 million in 2008 to $30.4 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 23% from $17.7 million to $21.8 million. Variable expenses expressed as a percentage of operating revenues increased from 26% to 28%, mainly as a result of commissions paid to third-party introducers.

Commodities trading Operating revenues under GAAP decreased from $49.7 million in 2008 to $19.2 million in 2009. Adjusted operating revenues increased by 14% from $22.8 million in 2008 to $26.1 million in 2009.

Precious metals adjusted operating revenues increased 70% from $10.6 million in 2008 to $18.0 million in 2009. Base metals adjusted operating revenues decreased 34% from $12.2 million in 2008 to $8.1 million in 2009. Precious metals operating revenues have increased as a result of increased customer business in our Dubai and Singapore subsidiaries. Base metals operating revenues benefited during the first half of 2008 from a disparity between the price of auto batteries, which the Company recycles for their lead content, and the price at which it was able to sell lead to customers. With the rapid decline in lead prices during calendar 2008 and persistently low prices during much of 2009, this disparity also declined to the extent that recycling became less attractive in the second half of fiscal 2008 and most of fiscal 2009. Increased copper revenues to some extent compensated for the decline in lead revenues.

The adjusted contribution attributable to this segment increased 5% from $18.3 million to $19.2 million. Variable expenses expressed as a percentage of operating revenues increased from 20% to 26%.

International debt capital markets Operating revenues increased by 14% from $4.3 million in 2008 to $4.9 million in 2009. The business activities in this segment include the arranging and placing of debt issues, asset backed securitization and debt trading, which grew off an insignificant base with effect from the third fiscal quarter of 2009, with the acquisition of CIBSA in April 2009 and the hiring of a debt trading team in Singapore. Fee revenues have been adversely affected by the lack of market demand and intolerance for risk caused by the global financial crisis but segmental revenues have been augmented by the new trading activities. Fee revenues were $2.2 million and trading revenues $2.7 million in 2009, compared with $3.9 million and $0.3 million, respectively, in 2008.

The contribution attributable to this segment increased 11% from $3.8 million to $4.2 million. Variable expenses expressed as a percentage of operating revenues increased marginally from 12% to 14%.

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 registered funds or proprietary accounts managed either by the Company s investment managers or by independent investment managers.

On May 8, 2009, the Company agreed to discontinue its business relationship with and redeem its partnership interest in INTL Consilium, LLC (INTL Consilium) effective April 30, 2009. The results of INTL Consilium, previously consolidated, have been treated as discontinued operations with effect from the fiscal quarter ending June 30, 2009.

Operating revenues increased by 78% from $1.8 million in 2008 (made up of fee income of $4.3 million and proprietary losses of $2.5 million) to $3.2 million in 2009 (made up of fee income of $3.8 million and proprietary losses of $0.6 million). The fair value of the Company s proprietary investments was $5.8 million at September 30, 2009 and $37.9 million at September 30, 2008.

The contribution attributable to this segment increased from a net loss of $0.2 million to net contribution of $2.3 million.

2008 vs. 2007 Segmental Analysis

The adjusted net contribution of all the Company s business segments increased 28% from $47.2 million in 2007 to $60.5 million in 2008. Net 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. Net contribution is one of the key measures used by management to assess the performance of each segment.

International equities market-making Operating revenues increased 23% from $27.5 million in 2007 to $33.9 million in 2008. 2008 produced monthly revenues ranging from $1.7 million to $4.6 million, and an average of $2.8 million. The volume of trades was higher in 2008 than in 2007 by approximately 60%, due to increased customer activity. Both volumes and market volatility are the drivers of this business. 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 consolidated income statements as clearing and related expenses.

The contribution attributable to this segment increased 28% from $13.8 million to $17.6 million. Variable expenses expressed as a percentage of operating revenues decreased from 50% to 48%.

Foreign exchange trading Operating revenues increased by 68% from $14.2 million in 2007 to $23.8 million in 2008 as the customer base expanded and the Company rolled out a system that allows customers to place trades electronically. The profitability of this business also depends on the extent of dislocation in the developing world currency markets in which it operates, with instability producing opportunities for greater profitability.

The contribution attributable to this segment increased 59% from $11.1 million to $17.7 million. Variable expenses expressed as a percentage of operating revenues increased from 22% to 26%, mainly as a result of commissions paid to introducers for additional business.

Commodities trading Operating revenues under GAAP increased from a loss of $9.2 million in 2007 to operating revenues of $49.7 million in 2008. Adjusted operating revenues increased by 61% from $14.2 million in 2007 to $22.8 million in 2008.

Precious metals adjusted operating revenues increased 51% from $7.0 million in 2007 to $10.6 million in 2008. Base metals adjusted operating revenues increased 69% from $7.2 million in 2007 to $12.2 million in 2008. Precious metals operating revenues have increased as a result of increased customer business and additional business done by our Dubai joint venture and from our Singapore office. Base metals operating revenues benefited during the first half of 2008 from a disparity between the price of automobile batteries, which the Company recycles for their lead content, and the price at which it was able to sell lead to customers. With the rapid decline in lead prices during calendar 2008, this disparity also declined to the extent that recycling became less attractive in the second half of fiscal 2008.

The adjusted contribution attributable to this segment increased 61% from $11.4 million to $18.3 million. Variable expenses expressed as a percentage of operating revenues decreased marginally from 20% to 19%.

International debt capital markets Operating revenues decreased by 33% from $6.4 million in 2007 to $4.3 million in 2008. The composition of the operating revenues in this segment changed between 2007 and 2008, shifting from trading revenues to fee revenues as the Company changed its focus to the arranging and placing of debt issues and asset backed securitization. Trading revenues were $2.4 million in 2007 but negligible in 2008 at $0.3 million. However, a sharp decline in the market s appetite for risk during 2008 resulted in an overall decrease in operating revenue.

The contribution attributable to this segment decreased 17% from $4.6 million to $3.8 million. Variable expenses expressed as a percentage of operating revenues decreased from 28% to 12%, as a result of a decrease in variable compensation.

Asset management Operating revenues decreased by 77% from $7.7 million in 2007 (made up of fee income of $1.6 million and proprietary gains of $6.1 million) to $1.8 million in 2008 (made up of fee income of $4.3 million and proprietary losses of $2.5 million). The fair value of the Company s proprietary investments was $37.9 million at September 30, 2008 and $33.4 million at September 30, 2007.

The contribution attributable to this segment decreased from $5.7 million to a net loss of $0.2 million.

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Variable vs. Fixed Expenses

(In millions)	2009	% of Total	2008	% of Total	2007	% of Total
VARIABLE vs. FIXED EXPENSES						
Variable clearing and related expenses	$ 16.1	23%	$ 13.1	21%	$ 10.1	21%
Variable compensation	23.2	33%	19.0	30%	16.3	34%
Bad debts and impairment	3.0	4%	2.4	4%	0.1	0%
Total variable expenses	42.3	60%	34.5	55%	26.5	56%
Fixed expenses	28.1	40%	28.4	45%	21.1	44%
Total non-interest expenses	$ 70.4	100%	$ 62.9	100%	$ 47.6	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 2009, 2008, and 2007. Variable expenses consist of clearing and clearing related expenses, variable compensation paid to traders, bonuses paid to operational, administrative and managerial employees and bad debt and impairment expenses. As a percentage of total non-interest expenses, variable expenses have gone from 56% in 2007, to 55% in 2008, and 60% in 2009. Monthly fixed costs have remained stable from February 2008 until the end of the 2009 fiscal year.

Liquidity, Financial Condition and Capital Resources

Overview

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

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

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

At September 30, 2009, the Company had total equity capital of $238.8 million, bank loans of $108.7 million, subordinated debt of $56.5 million and convertible subordinated notes of $16.7 million.

A substantial portion of the Company s assets are liquid. At September 30, 2009, approximately 93% of the Company s assets consisted of cash; deposits and receivables from exchange-clearing organizations, broker-dealers, clearing organizations, FCM s, and counterparties; customer receivables, marketable financial instruments and investments, and physical commodities inventory, at cost. All assets are that are not customer and counterparty deposits, are financed by the Company s equity capital, convertible subordinated notes, subordinated debt, bank loans, short-term borrowings from financial instruments sold, not yet purchased, and other payables.

Customer and Counterparty Credit and Liquidity Risk

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

levels in order for them to continue to carry inventory and properly execute hedging strategies. Continuing volatility in the financial markets has tightened credit further.

As a clearing broker, we act on behalf of our customers for all trades consummated on exchanges. We must pay initial and variation margin to the exchanges before we receive the required payments from our customers. Accordingly, we are responsible for our customers obligations with respect to these transactions, which exposes us to significant credit risk. Our customers are required to

make any required margin deposits the next business day, and we require our largest customers to make intra-day margin payments during periods of significant price movement. Our clients are required to maintain initial margin requirements at the level set by the respective exchanges, but we have the ability to increase the margin requirements for customers based on their open positions, trading activity, or market conditions.

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

In addition, with over-the-counter transactions, we are at the risk that a counterparty will fail to meet its obligations when due. We would then be exposed to the risk that the settlement of a transaction which is due a customer will not be collected from the respective counterparty with which the transaction was offset. We continuously monitor the credit quality of our respective counterparties and mark our positions held with each counterparties to market on a daily basis. FCStone has primarily carried trade credit insurance in amounts in excess of its exposure to each of its counterparties and will adjust levels of insurance or positions with a given counterparty based on the exposure to that counterparty.

Primary Sources and Uses of Cash

The Company s assets and liabilities may vary significantly from period to period due to changing customer requirements, economic and market conditions and the growth of the Company. The Company s total assets at September 30, 2009 and September 30, 2008, were $1,555.7 million and $438.0 million, respectively. The Company s operating activities generate or utilize cash as a result of net income or loss earned or incurred during each period and fluctuations in its assets and liabilities. The most significant fluctuations arise from changes in the level of customer activity, commodities prices and changes in the balances of financial instruments and commodities inventory. FCStone, LLC, our FCM subsidiary, occasionally uses its margin line credit facilities, on a short-term basis, to meet intraday settlements with the commodity exchanges prior to collecting margin funds from our customers. FCStone, LLC utilizes subordinated debt to increase its excess regulatory capital.

We have liquidity and funding policies and processes in place that are intended to maintain significant flexibility to address both company-specific and industry liquidity needs. The majority of our excess funds are held with high quality institutions, under highly-liquid reverse repurchase agreements, with a maturity of typically three days or less, U.S. Government Treasury and Agency securities and AA-rated money market investments.

Approximately $10.5 million of the Company s financial instruments owned and sold, not yet purchased, are exchangeable foreign equities and American Depository Receipts.

As of September 30, 2009, the Company had bank facilities of $287.0 million, of which $163.7 million was outstanding. As of September 30, 2008 the Company had bank facilities of $200.0 million, of which $119.8 million was outstanding. During the 2009 fiscal year, the Company s subsidiary, INTL Commodities, renewed its revolving syndicated loan facility for an amount of $62.0 million. This facility is committed until June 29, 2010. The Company s subsidiary, INTL Global Currencies Limited, has a $25.0 million facility, committed until December 31, 2009. The Company s subsidiary, FCStone, LLC has a $75.0 million syndicated margin line credit facility available for funding daily and intraday margin calls at exchanges, committed through June 23, 2010. The Company has its own $35.0 million facility, committed until December 31, 2009. The Company s Dubai subsidiary, INTL Commodities DMCC, has a $15.0 million uncommitted facility. The Company is in the process of renewing its $35.0 million facility and the $25.0 million facility for INTL Global Currencies Limited.

FCStone has a $55 million subordinated debt facility with a syndicate of lenders. As of September 30, 2009, the entire $55.0 million has been drawn and is being utilized as capital for regulatory purposes. The ability of FCStone to draw on this subordinated debt facility expired on July 22, 2009. The advances under the facility mature on July 22, 2010. The Company is currently in discussions with our current and potential lenders to replace this facility and is pursuing alternative sources of financing. Given the current turmoil in the credit markets there is no guarantee that the Company will be able to replace this committed subordinated agreement. We expect to repay the subordinated debt in full prior to the maturity date through income from operations and available internal cash reserves.

The Company is in the process of renewing the two facilities which are committed until December 31, 2009.

The Company s facility agreements contain covenants relating to financial measures such as minimum net worth, minimum working capital, minimum regulatory capital and minimum interest coverage ratios. Failure to comply with any such covenants, with the exception of the FCStone subordinated debt facility, could result in the debt becoming payable on demand. The failure to comply with the financial covenants of the FCStone subordinated debt facility could result in the lenders exercising their rights to accelerate the scheduled maturity dates to a date not earlier than six months after giving such notice. As of September 30, 2009 the Company and its subsidiaries are in compliance with all of its covenants under these facilities.

The Company has recorded a $40.2 million income tax receivable on its consolidated balance sheet as of September 30, 2009. This receivable was acquired by the Company as a part of the FCStone transaction. It relates to the net operating loss of FCStone Group, Inc. for its year ended August 31, 2009. The Company has elected to carryback the net operating loss to recapture taxes paid in the prior two fiscal years. The Company expects to receive this income tax refund by the end of its second fiscal quarter of 2010.

In September 2006, the Company completed a private placement of $27 million of 7.625% subordinated convertible notes (the Notes). The Notes mature in September 2011. They are convertible at any time at the option of the noteholder at a current conversion price of $21.79 per share. The Notes contain customary anti-dilutive provisions. During the 2006 fiscal year, $2 million in principal amount of the Notes, together with accrued interest, were converted into a total of 79,562 shares of common stock of the Company. During the 2008 fiscal year, approximately $8.2 million in principal amount of the Notes, together with accrued interest, were converted into a total of 325,755 shares of common stock of the Company. During the 2009 fiscal year, approximately $0.1 million in principal amount of the Notes, together with accrued interest, were converted into a total of 4,359 shares of common stock of the Company, leaving $16.7 million in principal amount of Notes outstanding. At the current conversion price, conversion would result in the issue of 767,886 new shares of common stock. The Company may require conversion at any time if the dollar volume-weighted average share price exceeds $38.25 for 20 out of any 30 consecutive trading days. Noteholders may redeem their Notes at par if the interest coverage ratio set forth in the Notes is less than 2.75 for the twelve-month period ending December 31, 2009. The Company may redeem the Notes at 110% of par on March 11, 2010. Refer to Item 3 - *Legal Proceedings*, on page 20, for information on litigation commenced in November 2009 against the Company by a noteholder.

Effective May 2007, the Company acquired a group of companies (together INTL Gainvest) that conduct a specialist local markets securitization and asset management business in South America. In addition to the initial purchase price, the Company agreed to make a further payment to the sellers of INTL Gainvest on June 1, 2008 equal to 25% of the aggregate revenues of INTL Gainvest earned in the year to April 30, 2008; and a further payment on June 1, 2009 equal to 25% of the aggregate revenues of INTL Gainvest earned in the year to April 30, 2009. Accordingly, the Company paid $1.4 million to the sellers of INTL Gainvest on June 1, 2008 and a further $1.4 million on June 1, 2009. No further payments are required to be made by the Company to the sellers of INTL Gainvest.

On April 7, 2009, the Company acquired CIBSA, a leading securities broker-dealer based in Argentina. The Company paid approximately $1.7 million on the date of purchase and is obligated to make additional payments over the next two years, depending on the level of revenues achieved. Under the purchase agreement, the Company is obligated to pay an amount equal to 25% of the net revenues in excess of $2.5 million up to $3 million, 35% of the net revenues in excess of $3 million up to $4 million, and 40% of the net revenues in excess of $4 million for each of the two twelve-month periods ending March 31, 2010 and 2011 to the sellers as additional consideration. Any amounts paid under this agreement will be recorded as goodwill.

Other Capital Considerations

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 September 30, 2009, INTL Trading had regulatory net capital of $1.5 million, which was $0.5 million in excess of its minimum net capital requirement of $1.0 million. The Company s ability to receive distributions from INTL Trading is restricted by regulations of the SEC. The Company s right to receive distributions from its subsidiaries is also subject to the rights of the subsidiaries creditors, including customers of INTL Trading. During 2009 INTL Trading paid dividends of $9.6 million to the Company.

INTL Capital, the Company s Dubai asset management subsidiary, is regulated by the Dubai Financial Services Authority and is subject to a minimum capital requirement which at September 30, 2009, was approximately $0.5 million.

FCStone Australia Pty Ltd is regulated by the Australian Securities and Investment Commission and is subject to a minimum capital requirement which at September 30, 2009 was $50,000.

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Our FCM subsidiary, FCStone LLC is subject to various regulations and capital adequacy requirements. Pursuant to the rules, regulations, and requirements of the CFTC and other self-regulatory organizations, FCStone LLC is required to maintain certain minimum net capital as defined in such rules, regulations, and requirements. Net capital will fluctuate on a daily basis. FCStone LLC s adjusted net capital and minimum net capital requirements at September 30, 2009 were $63.2 million and $34.8 million, respectively.

FCC Investments, Inc., a broker-dealer subsidiary of FCStone, is subject to the net capital requirements of the SEC relating to liquidity and net capital levels. At September 30, 2009, FCC Investments, Inc. had regulatory net capital of $0.4 million, and its minimum net capital requirement was $0.3 million.

The Company expects to contribute $4.0 million to its defined benefit pension plans during fiscal 2010, which represents the minimum funding requirement.

Cash Flows

The Company s cash and cash equivalents decreased from approximately $62.8 million at September 30, 2008 to approximately $60.5 million at September 30, 2009, a net decrease of approximately $2.3 million. Net cash of $17.4 million was used in operating activities, $27.8 million was provided by investing activities and net cash of $13.2 million was used in financing activities, of which approximately $13.8 million was from a reduction in amounts payable to lenders under loans and overdrafts. Fluctuations in exchange rates had a positive effect of $0.5 million on the Company s cash and cash equivalents.

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

Apart from what has been disclosed above, there are no known trends, events or uncertainties that have had or are likely to have a material impact on the liquidity, financial condition and capital resources of the Company.

Commitments

Information about the Company s commitments and contingent liabilities is contained in Note 16 of the Consolidated Financial Statements.

The Company s senior subordinated convertible notes, as described in note 2 of the Notes to the Consolidated Financial Statements, are due in September 2011 if they are not converted or redeemed prior to their due date. Refer to Item 3- *Legal Proceedings*, on page 20, for information on litigation commenced in November 2009 against the Company by a noteholder.

Off Balance Sheet Arrangements

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer and futures commission merchant and from its market making and proprietary trading in the foreign exchange and commodities trading business. As part of these activities, the Company carries short positions. For example, it sells financial instruments that it does not own, borrows the financial instruments to make good delivery, and therefore is obliged to purchase such financial instruments at a future date in order to return the borrowed financial instruments. The Company has recorded these obligations in the consolidated financial statements at September 30, 2009 at fair value of the related financial instruments, totaling $127.5 million. These positions are held to offset the risks related to financial assets owned and reported on the Company s consolidated balance sheets under Financial instruments owned, at fair value , and Physical commodities inventory, at cost . The Company will incur losses if the fair value of the financial instruments sold, not yet purchased, increases subsequent to September 30, 2009, which might be partially or wholly offset by gains in the value of assets held at September 30, 2009. The total of $127.5 million includes a liability of $30.8 million for derivatives, based on their market value as of September 30, 2009.

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

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

Derivative contracts are traded along with cash transactions because of the integrated nature of the markets for such products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies.

The Company is a member of various commodity exchanges and clearing organizations. Under the standard membership agreement, all members are required to guarantee the performance of other members and, accordingly, in the event another member is unable to satisfy its obligations to the exchange, may be required to fund a portion of the shortfall. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral at the exchanges. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability for these arrangements has been recorded in the consolidated balance sheets as of September 30, 2009.

Effects of Inflation

The Company s assets are not significantly affected by inflation because they are, to a large extent, liquid in nature. 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 financial instruments, currency and commodities positions, it may adversely affect the Company s financial position and results of operations.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with U.S. GAAP. The Company believes that, of its significant accounting policies, those described below may, in certain 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 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 consolidated 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 and Foreign Currencies. Substantially all financial instruments are reflected in the consolidated financial statements at fair value or amounts that approximate fair value. These financial instruments include: cash, cash equivalents, and financial instruments purchased under agreements to resell; deposits with clearing organizations; financial instruments owned; and financial instruments sold but not yet purchased. Unrealized gains and losses related to these financial instruments, which are not customer owned positions, are reflected in 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 though the value of a security is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value. The value of foreign currencies, including foreign currencies sold, not yet purchased, are converted into its U.S. dollar equivalents at the foreign exchange rates in effect at the close of business at the end of the accounting period. For foreign currency transactions completed during each reporting period, the foreign exchange rate in effect at the time of the transaction is used.

The application of the valuation process for financial instruments and foreign currencies is critical because these items represent a significant portion of the Company s total assets. 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 with limited liquidity and over-the-counter derivatives. Given the wide availability of pricing information, the high degree of liquidity of the majority of the Company s assets, and the relatively short periods for which they are typically held in inventory, there is insignificant sensitivity to changes in estimates and insignificant risk of changes in estimates having a material effect on the Company. The basis for estimating the valuation of any financial instruments has not undergone any change.

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Revenue Recognition. Realized and unrealized trading income in securities, foreign currencies and commodities purchased or sold for the Company s account is recorded on a trade date basis or on validly invoiced delivery of physical commodities. 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. Interest income is recorded on the accrual basis and dividend income is recognized on the ex-dividend date. Fee income is recorded when the services related to the underlying transactions are completed under the terms of the relevant contract.

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, or validly invoiced deliveries for physical commodities. 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 the operations systems including personnel and the Company s clearing firm.

Physical Commodities Inventory. Physical commodities inventory is stated at the lower of cost or market value, determined using the weighted average price method. The Company generally mitigates the price risk associated with physical commodities held in inventory through the use of derivatives. This price risk mitigation does not generally qualify for hedge accounting under 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.

Recently Issued Accounting Standards

The details for recently issued accounting standards can be found under Note 2 of the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

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

We seek to mitigate exposure to market risk by utilizing a variety of qualitative and quantitative techniques:

- diversification of business activities and instruments
- limitations on positions
- allocation of capital and limits based on estimated weighted risks
- daily monitoring of positions and mark-to-market profitability

The Company utilizes derivative products in a trading capacity as a dealer, to satisfy customer 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 daily revenue during fiscal year 2009.

In the Company s securities market-making and trading activities, which does not include trading activities of FCStone, the Company maintains inventories of equity and debt securities. In the Company s commodities 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 weight. The table below illustrates, for fiscal 2009, the Company s average, greatest long, greatest short and minimum day-end positions by business segment.

(In millions)	Greatest Gross	Average Gross	Greatest Net Long	Greatest Net Short	Average Net
Equity net of long and short	$ 14.6	$ 10.3	$ 11.1	$ (2.7)	$ 4.2
Debt	6.4	2.2	4.2	(0.4)	1.9
Foreign Exchange	22.8	12.9	13.3	(1.6)	6.8
Commodities	4.1	1.8	1.7	(3.7)	(0.9)
Asset Management (Funds & Other Investment)	n/a	n/a	49.3	n/a	37.0

Margin Risk

Our customers with exchange-traded positions, including OTC trades submitted for clearing, are required to maintain margin sufficient to support their open trading positions. While we initially establish each client s margin requirement at the level set by the respective exchanges, we have the ability to increase the requirements to levels we believe are sufficient to cover their open positions. A client s subsequent trading activity or adverse market changes may cause that client s previous margin payments to be inadequate to support their trading obligations, which, in instances where we serve as the exchange clearing member for the trade, would require us to cover any shortfall and thereby expose us to potential losses. When we act as a principal in the OTC markets, we are responsible for the performance of both our customers as well the counterparty with which we have offset the customer s transactions.

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Interest Rate Risk

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

We manage interest expense using floating rate debt and through interest rate swap transactions. Refer to Note 8 to the Consolidated Financial Statements for information on the interest rate swap transactions. The debt instruments are carried at their unpaid principal balance which approximates fair value. All of the debt outstanding at September 30, 2009, has a variable interest rate and matures within the next 12 months. Variable rate debt is used to finance certain notes receivable to customers in the Financial Services segment. The interest charged on the related notes receivable is also at a variable rate, therefore effectively mitigating the interest rate risk on that debt.

Item 8 Financial Statements and Supplementary Data

The financial statements of International Assets Holding Corporation are as follows:

	Page
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets, as of September 30, 2009 and 2008	F-3
Consolidated Income Statements, for fiscal years 2009, 2008 and 2007	F-4
Consolidated Cash Flow Statements, for fiscal years 2009, 2008 and 2007	F-5
Consolidated Statements of Stockholders Equity, for fiscal years 2009, 2008 and 2007	F-6
Notes to Consolidated Financial Statements	F-7

Management s Report on the Consolidated Financial Statements

Our management is responsible for the preparation of the consolidated financial statements and related information that are presented in this report. The consolidated financial statements, which include amounts based on management s estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities and careful selection and training of qualified personnel.

The consolidated financial statements have been audited by Rothstein Kass & Company, P.C., an independent registered public accounting firm, who conducted their audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The independent registered public accounting firm s responsibility is to express an opinion as to the fairness with which such financial statements present our financial position, results of operations and cash flows in accordance with U.S. generally accepted accounting principles.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

In connection with the filing of this Form 10-K, 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 September 30, 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 September 30, 2009.

There were no changes in the Company s internal controls over financial reporting during 2009 that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

It should be noted that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As a result, there can be no assurance that a control system will succeed in preventing all possible instances of error and fraud. The Company s disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the conclusions of our Chief Executive Officer and Chief Financial Officer are made at the reasonable assurance level.

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Management s report on internal control over financial reporting and the report of Rothstein, Kass & Company, P.C. are contained in Part II, Item 8 of this report.

The Company s Chief Executive Officer and Chief Financial Officer filed with the SEC as exhibits to the Form 10-K for the year ended September 30, 2009 and are filing as exhibits to this report, the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

A list of our executive officers and biographical information about them and our directors will be included in the definitive Proxy Statement for our 2010 Annual Meeting of Shareholders to be held on March 3, 2010, which will be filed within 120 days of the end of our fiscal year ended September 30, 2009 (the 2010 Proxy Statement) and is incorporated herein by reference. Information about our Audit Committee may be found in the Proxy Statement. That information is incorporated herein by reference.

We have adopted a code of ethics that applies to the directors, officers and employees of the Company and each of its subsidiaries. The code of ethics is publicly available on our Website at www.intlassets.com/ethics.aspx. If we make any substantive amendments to the code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer, we will disclose the nature of the amendment or waiver on that website or in a report on Form 8-K.

Item 11. Executive Compensation

Information relating to our executive officer and director compensation and the compensation committee of our board of directors will be included in the 2010 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to security ownership of certain beneficial owners of our common stock and information relating to the security ownership of our management will be included in the 2010 Proxy Statement and is incorporated herein by reference.

The following table provides information generally as of September 30, 2009, the last day of fiscal 2009, regarding securities to be issued on exercise of stock options, and securities remaining available for issuance under our equity compensation plans that were in effect during fiscal 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	1,616,654	$ 19.91	1,334,953
Equity compensation plans not approved by shareholders			

Total	1,616,654	$	19.91	1,334,953

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions and director independence will be included in the 2010 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services will be included in the 2010 Proxy Statement and is incorporated herein by reference.

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PART IV

Item 15. Exhibits

Exhibit No.	
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference from the Company s Form 8-K filed with the SEC on October 9, 2009).
3.2	Amended and Restated By-laws (incorporated by reference from the Company s Quarterly Report on Form 10-Q filed with the SEC on August 14, 2007).
4.1	International Assets Holding Corporation 1993 Stock Option Plan (incorporated by reference from the Company s Registration Statement on Form SB-2 (No. 33-70334-A) filed with the SEC on February 2, 1994).
4.2	Amendment dated December 28, 1995 to the International Assets Holding Corporation 1993 Stock Option Plan (incorporated by reference from the Registration Statement on Form S-8 (No. 333-10727) filed with the SEC on August 23, 1996).
4.3	Amendment dated October 28, 1998 to the International Assets Holding Corporation 1993 Stock Option Plan (incorporated by reference from Company s Proxy Statement on Form 14A filed with the SEC on January 15, 1999).
4.4	Amendment dated June 9, 2000 to the International Assets Holding Corporation 1993 Stock Option Plan (incorporated by reference from the Company s Proxy Statement on Form 14A filed with the SEC on January 12, 2001).
4.5	International Assets Holding Corporation 2003 Stock Option Plan (incorporated by reference from the Company s Proxy Statement on Schedule 14A filed on January 14, 2003).
4.6	Amendment to International Assets Holding Corporation 2003 Stock Option Plan (incorporated by reference from the Company s Proxy Statement on Form 14A filed with the SEC on February 11, 2004).
4.7	Amendment to International Assets Holding Corporation 2003 Stock Option Plan (incorporated by reference from the Company s Proxy Statement on Form 14A filed with the SEC on January 23, 2006).
4.8	FCStone Group, Inc. 2006 Equity Incentive Plan (incorporated by reference from the Registration Statement on Form S-8 filed by FCStone Group, Inc. with the SEC on June 12, 2006).
10.1	Employment Agreement, dated October 22, 2002, by and between the Company and Sean O Connor (incorporated by reference from the Company s Form 8-K filed with the SEC on October 24, 2002).
10.2	Employment Agreement, dated October 22, 2002, by and between the Company and Scott Branch (incorporated by reference from the Company s Form 8-K filed with the SEC on October 24, 2002).
10.3	Registration Rights Agreement, dated October 22, 2002, by and between the Company, and Sean O Connor (incorporated by reference from the Company s Form 8-K filed with the SEC on October 24, 2002).
10.4	First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company and Sean O Connor (incorporated by reference from the Company s Form 8-K filed with the SEC on December 10, 2002).
10.5	Registration Rights Agreement, dated October 22, 2002, by and between the Company and Scott Branch (incorporated by reference from the Company s Form 8-K filed with the SEC on October 24, 2002).
10.6	First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company and Scott Branch (incorporated by reference from the Company s Form 8-K filed with the SEC on December 10, 2002).
10.7	Registration Rights Agreement, dated October 22, 2002, by and between the Company and John Radziwill (incorporated by reference from the Company s Form 8-K filed with the SEC on October 24, 2002).
10.8	First Amendment to Registration Rights Agreement, dated December 6, 2002, by and between the Company and John Radziwill (incorporated by reference from the Company s Form 8-K filed with the SEC on December 10, 2002).

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10.9 Clearing Agreement, effective November 23, 2005, by and between the Company and Broadcort, a division of Merrill Lynch, Pierce, Fenner & Smith, Inc. (incorporated by reference from the Company s Form 8-K filed with the SEC on December 6, 2005).

10.10 Acquisition Agreement dated as of June 25, 2004, by and among International Assets Holding Corporation, Global Currencies Limited, and the shareholders of Global Currencies (Holdings) Limited (incorporated by reference from the Company s Form 8-K, filed with the SEC on July 1, 2004).

10.11 Employment Agreement, effective December 1, 2004, by and between the Company and Brian T. Sephton (incorporated by reference from the Company s Form 8-K, as filed with the SEC on November 24, 2004).

10.12 Operating Agreement dated May 7, 2004, by and between the Company and Consilium Investment Capital, Inc. (incorporated by reference from the Company s Form 8-K filed with the SEC on May 10, 2004).

10.13 International Assets Holding Corporation form of Senior Subordinated Convertible Note (incorporated by reference from the Company s Form 8-K filed with the SEC on September 15, 2006).

10.14 International Assets Holding Corporation form of Securities Purchase Agreement (incorporated by reference from the Company s Form 8-K filed with the SEC on September 15, 2006).

10.15 International Assets Holding Corporation form of Lock Up Agreement (incorporated by reference from the Company s Form 8-K filed with the SEC on September 15, 2006).

10.16 International Assets Holding Corporation form of Registration Rights Agreement (incorporated by reference from the Company s Form 8-K filed with the SEC on September 15, 2006).

10.17 2007 Restricted Stock Plan (incorporated by reference from the Company s Proxy Statement on Form 14A filed with the SEC on January 18, 2007).

10.18 2007 Executive Compensation Plan (incorporated by reference from the Company s Proxy Statement on Form 14A filed with the SEC on January 18, 2007).

10.19 Uncommitted Credit Agreement dated as of April 30, 2007 among INTL Commodities Inc., Fortis Capital Corp., and certain Lenders named therein (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009)

10.20 Fifth Amendment to Credit Agreement and Agreement Regarding Departing Lenders dated as of June 26, 2009 among INTL Commodities Inc., Fortis Bank SA/NV, Fortis Capital Corp., and certain Lenders named therein (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009).

10.21 Amended and Restated Credit Agreement dated as of July 31, 2007 among International Assets Holding Corporation, INTL Commodities, Inc. and Bank of America (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009).

10.22 Credit and Security Agreement dated as of December 8, 2006 between INTL Global Currencies Limited and Bank of America (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009).

10.23 First Amendment to Credit and Security Agreement dated as of February 29, 2008 between INTL Global Currencies Limited and Bank of America (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009).

10.24 Second Amendment to Credit and Security Agreement dated as of July 29, 2008 between INTL Global Currencies Limited and Bank of America (incorporated by reference from the Company s Form S-4 filed with the SEC on July 27, 2009).

10.25 Chief Executive Officer Employment Agreement, effective September 1, 2007, between FCStone Group, Inc. and Paul G. Anderson (incorporated by reference from the Current Report on Form 8-K filed by FCStone Group, Inc. with the SEC on July 15, 2008)

10.26 Executive Employment Agreement, effective September 1, 2008, between FCStone Group, Inc. and William J. Dunaway (incorporated by reference from the Current Report on Form 8-K filed by FCStone Group, Inc. with the SEC on November 12, 2008)

10.27 CEO Deferred Compensation Plan for Paul G. Anderson dated February 22, 2002 (incorporated by reference from the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on August 18, 2004)

10.28	Farmers Commodities Corporation Supplemental Nonqualified Pension Plan (incorporated by reference from Amendment No. 2 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 9, 2004)
10.29	Executive Short-Term Incentive Plan (incorporated by reference from Amendment No. 2 to the Registration Statement on Form S-1, filed by FCStone Group, Inc. with the SEC on February 27, 2007)
10.30	FCStone Group, Inc. Executive Long Term Incentive Plan Effective Fiscal Year 2008 (incorporated by reference from the Current Report on Form 8-K filed by FCStone Group, Inc. with the SEC on July 15, 2008)
10.31	FCStone Group Inc. Change In Control Severance Plan (incorporated by reference from Amendment No. 2 to the Registration Statement on Form S-1, filed by FCStone Group, Inc. with the SEC on February 27, 2007)
10.32	FCStone Group, Inc. Staff Incentive Plan (incorporated by reference from Amendment No. 2 to the Registration Statement on Form S-1, filed by FCStone Group, Inc. with the SEC on February 27, 2007)
10.33	FCStone Group, Inc. Amended and Restated Mutual Commitment Compensation Plan (incorporated by reference from Amendment No. 2 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 9, 2004)
10.34	Form of Director Indemnification Agreement (incorporated by reference from Amendment No. 3 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 30, 2004)
10.35	Credit Agreement among FCStone, LLC, the lenders parties thereto, and Bank of Montreal, as administrative agent, dated July 23, 2008 (incorporated by reference from the Current Report on Form 8-K filed by FCStone Group, Inc. with the SEC on July 24, 2008)
10.36	Amended and Restated Senior Subordinated Loan Agreement by and among Bank of Montreal, as agent, Deere Credit, Inc. and BMO Capital Markets, as co-lead arranger and joint book runner, and BMO Capital Markets Financing, Inc., Deere Credit and Bank of America, N.A., and FCStone, LLC, dated July 23, 2008. (incorporated by reference from the Current Report on Form 8-K filed by FCStone Group, Inc. with the SEC on July 24, 2008)
10.37	Letter Agreement, dated March 31, 2004, between FCStone Merchant Services, LLC, and Fortis Capital Corp. for $20,000,000 credit facility (incorporated by reference from Amendment No. 3 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 30, 2004)
10.38	Promissory Note ($20,000,000), dated May 10, 2004, between FCStone Merchant Services, LLC, and Fortis Capital Corp. (incorporated by reference from Amendment No. 3 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 30, 2004)
10.39	Continuing Security Agreement between FCStone Merchant Services, LLC, and Fortis Capital Corp. (incorporated by reference from Amendment No. 3 to the Registration Statement on Form S-4 filed by FCStone Group, Inc. with the SEC on December 30, 2004)
10.40	First Amendment to Credit Agreement, dated June 24, 2009, by and among FCStone, LLC, as borrower, FCStone Group, Inc., as a guarantor, Bank of Montreal, as administrative agent, and the lenders party thereto (incorporated by reference from Form 8-K filed by FCStone on June 29, 2009)
10.41	Agreement and Plan of Merger dated as of July 1, 2009, by and among International Assets Holding Corporation, International Assets Acquisition Corp. and FCStone Group, Inc. (incorporated by reference from the Company s Current Report on Form 8-K filed with the SEC on July 2, 2009).
10.42	Support Agreement dated as of July 1, 2009, by and among International Assets Holding Corporation, International Assets Acquisition Corp. and FCStone Group, Inc. (incorporated by reference from the Company s Current Report on Form 8-K filed with the SEC on July 2, 2009).
10.43	Option Agreement dated as of July 1, 2009, by and among International Assets Holding Corporation and FCStone Group, Inc. (incorporated by reference from the Company s Current Report on Form 8-K filed with the SEC on July 2, 2009).
14	International Assets Holding Corporation Code of Ethics (incorporated by reference from the Company s Form 10- KSB filed with the SEC on December 29, 2003).
21	List of the Company s subsidiaries. *

23.1	Consent of Rothstein, Kass & Company, P.C. *
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. *

* Filed as part of this report.

Schedules and Exhibits Excluded

All schedules and exhibits not included are not applicable, not required or would contain information which is included in Consolidated Financial Statements, Summary of Significant Accounting Policies, or the Notes to the Consolidated Financial Statements.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL ASSETS HOLDING CORPORATION

By: /s/ SEAN M. O CONNOR
Sean M. O Connor,
Chief Executive Officer

Dated: December 14, 2009

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DIEGO J. VEITIA **Diego J. Veitia**	Director and Chairman of the Board	December 14, 2009
/s/ SEAN M. O CONNOR **Sean M. O Connor**	Director and Chief Executive Officer **(Principal Executive Officer)**	December 14, 2009
/s/ SCOTT J. BRANCH **Scott J. Branch**	Director and Chief Operating Officer	December 14, 2009
/s/ PAUL G. ANDERSON **Paul G. Anderson**	Director and President	December 14, 2009
/s/ ROBERT A. MILLER **Robert A. Miller**	Director	December 14, 2009
/s/ JOHN RADZIWILL **John Radziwill**	Director	December 14, 2009
/s/ JUSTIN R. WHEELER **Justin R. Wheeler**	Director	December 14, 2009
/s/ JOHN M. FOWLER **John M. Fowler**	Director	December 14, 2009
/s/ BRENT BUNTE **Brent Bunte**	Director	December 14, 2009
/s/ BRUCE KREHBIEL **Bruce Krehbiel**	Director	December 14, 2009
/s/ DARYL HENZE **Daryl Henze**	Director	December 14, 2009
/s/ ERIC PARTHEMORE	Director	December 14, 2009

Eric Parthemore		
/s/ JACK FRIEDMAN **Jack Friedman**	Director	December 14, 2009
/s/ WILLIAM J. DUNAWAY **William J. Dunaway**	Chief Financial Officer **(Principal Financial Officer)**	December 14, 2009
/s/ JAMES W. TIVY **James W. Tivy**	Group Controller **(Principal Accounting Officer)**	December 14, 2009

INTERNATIONAL ASSETS HOLDING CORPORATION

Management s annual report on internal control over financial reporting

The management of International Assets Holding Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as of September 30, 2009. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There are limitations inherent in any internal control, such as the possibility of human error and the circumvention or overriding of controls. As a result, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect misstatements. As conditions change over time, so too may the effectiveness of internal controls.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant s annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant s financial reporting.

Management has evaluated our internal control over financial reporting as of September 30, 2009, based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of September 30, 2009 excluded Compania Inversora Bursatil S.A. Sociédad de Bolsa, acquired with effect from April 1, 2009, and excluded FCStone Group, Inc., acquired with effect from September 30, 2009.

Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2009.

The Company s independent registered public accounting firm has issued their audit report on the Company s internal control over financial reporting, which is included in Item 8 Consolidated Financial Statements and Supplementary Data of this annual report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of International Assets Holding Corporation:

We have audited the accompanying consolidated balance sheets of International Assets Holding Corporation and Subsidiaries (collectively, the Company) as of September 30, 2009 and 2008, and the related consolidated income statements, consolidated statements of stockholders equity, and consolidated cash flow statements for each of the years in the three-year period ended September 30, 2009. We have also audited the Company s internal control over financial reporting as of September 30, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit over internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

Our audit of the Company s internal control over financial reporting as of September 30, 2009 excluded FCStone Group, Inc. and Compania Inversora Bursatil S.A. Sociedad de Bolsa which were both acquired by the Company during the year ended September 30, 2009 in transactions accounted for as purchase business combinations. Their total operating revenues represent approximately 2% of the consolidated operating revenues of the Company as of and for the fiscal year ended September 30, 2009.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Our audit was conducted for the purpose of expressing an opinion on the basic consolidated financial statements taken as a whole. The accompanying financial statement schedule is presented for the purpose of additional analysis. The financial statement schedule has be subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Rothstein Kass & Company, P.C.

Roseland, New Jersey

December 14, 2009

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INTERNATIONAL ASSETS HOLDING CORPORATION

Consolidated Balance Sheets

(In millions, except par value and share amounts)

September 30,	2009	2008
ASSETS		
Cash and cash equivalents	$ 60.5	$ 62.8
Cash and securities segregated under federal and other regulations (including $2.0 million at fair value at September 30, 2009)	14.9	
Deposits and receivables from:		
Exchange-clearing organizations (including $727.9 million at fair value at September 30, 2009)	899.0	
Broker-dealers, clearing organizations and futures commission merchants	54.9	20.2
Counterparties	14.7	
Receivable from customers, net	56.3	49.2
Notes receivable from customers, net	22.2	
Income taxes receivable	44.9	
Financial instruments owned, at fair value	209.8	229.9
Physical commodities inventory, at cost	106.9	57.4
Deferred income taxes	29.6	
Property and equipment, net	4.7	2.5
Goodwill and intangible assets, net	13.7	9.4
Other assets	23.6	6.6
Total assets	$ 1,555.7	$ 438.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities	$ 63.7	$ 12.7
Payables to:		
Customers - regulated	811.6	
Customers - unregulated	124.2	26.3
Broker-dealers, clearing organizations and counterparties	4.0	25.0
Lenders under loans and overdrafts	108.7	119.8
Income taxes payable	2.3	1.0
Financial instruments sold, not yet purchased, at fair value	127.5	151.5
Deferred income taxes		2.0
	1,242.0	338.3
Subordinated debt	56.5	
Convertible subordinated notes payable, net	16.7	16.8
Total liabilities	1,315.2	355.1
Commitments and contingencies (see Note 16)		
Minority owners interest in consolidated entities	1.7	8.1
Stockholders equity:		
Preferred stock, $.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding		

Common stock, $.01 par value. Authorized 30,000,000 shares and 17,000,000 shares; 17,361,884 issued and 17,350,627 outstanding at September 30, 2009 and 8,928,711 issued and outstanding at September 30, 2008	0.2	0.1
Common stock in treasury, at cost - 11,257 shares at September 30, 2009	(0.1)	
Additional paid-in capital	187.0	48.9
Retained earnings	54.3	26.7
Accumulated other comprehensive loss	(2.6)	(0.9)
Total stockholders equity	238.8	74.8
Total liabilities and stockholders equity	$ 1,555.7	$ 438.0

See accompanying notes

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INTERNATIONAL ASSETS HOLDING CORPORATION

Consolidated Income Statements

(In millions, except share and per share amounts)

Year Ended September 30,	2009	2008	2007
Revenues:			
Sales of physical commodities	$ 43,554.1	$ 18,255.2	$ 4,429.3
Net dealer inventory and investment gains	38.9	80.6	18.0
Asset management fees	2.3	3.0	1.6
Other	9.1	9.7	5.1
Total revenues	43,604.4	18,348.5	4,454.0
Cost of sales of physical commodities	43,513.1	18,231.5	4,406.7
Operating revenues	91.3	117.0	47.3
Interest expense	8.0	11.2	9.3
Net revenues	83.3	105.8	38.0
Non-interest expenses:			
Compensation and benefits	40.8	36.5	29.2
Clearing and related expenses	17.5	14.7	11.2
Occupancy and equipment rental	1.3	1.3	1.1
Professional fees	2.2	2.1	1.8
Depreciation and amortization	0.9	0.9	0.6
Business development	2.0	2.4	1.6
Insurance	0.4	0.3	0.3
Other	5.3	4.7	1.8
Total non-interest expenses	70.4	62.9	47.6
Income (loss) before income tax and minority interest	12.9	42.9	(9.6)
Income tax expense (benefit)	2.6	16.2	(3.4)
Income (loss) before minority interest	10.3	26.7	(6.2)
Minority interest in (income) loss of consolidated entities	0.5	(1.0)	(0.6)
Income (loss) from continuing operations	9.8	27.7	(5.6)
Income (loss) from discontinued operations, net of taxes	0.7	(0.1)	(1.1)
Income (loss) before extraordinary gain	9.1	27.8	(4.5)
Extraordinary gain	18.5		
Net income (loss)	$ 27.6	$ 27.8	$ (4.5)
Basic earnings (loss) per share:			
Continuing operations	$ 1.10	$ 3.29	$ (0.69)
Discontinued operations	$ (0.08)	$ 0.01	$ 0.13
Extraordinary gain	$ 2.09	$	$

Net basic earnings (loss) per share	$	3.11	$	3.30	$	(0.56)
Diluted earnings (loss) per share						
Continuing operations	$	1.06	$	2.94	$	(0.69)
Discontinued operations	$	(0.07)	$	0.01	$	0.13
Extraordinary gain	$	1.81	$		$	
Net diluted earnings (loss) per share	$	2.80	$	2.95	$	(0.56)
Weighted average number of common shares outstanding:						
Basic		8,895,697		8,434,976		8,086,837
Diluted		10,182,586		9,901,706		8,086,837

See accompanying notes

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INTERNATIONAL ASSETS HOLDING CORPORATION

Consolidated Cash Flow Statements

(In millions)

Year Ended September 30,	**2009**	**2008**	**2007**
Cash flows from operating activities:			
Net income (loss)	$ 27.6	$ 27.8	$ (4.5)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	0.7	1.2	0.8
Deferred income taxes	(3.7)	7.8	(6.3)
Amortization of debt issuance costs and debt discount	0.2	0.3	0.4
Convertible debt interest settled in Company stock upon partial conversion		0.1	
Minority interest	1.2	0.4	0.6
Amortization of stock-based compensation expense	1.9	1.5	0.8
Unrealized investment loss (gain) from INTL Consilium, LLC managed funds	(2.0)	3.5	(1.5)
Loss on sale of INTL Consilium, LLC	0.4		
Extraordinary gain on acquisition of FCStone	(18.5)		
Impairment of INTL Sieramet, LLC	1.1		
Changes in operating assets and liabilities:			
Receivable from broker-dealers, clearing organizations and futures commission merchants	11.2	11.2	(23.1)
Receivable from customers	1.9	(19.5)	(13.6)
Financial instruments owned, at fair value	44.9	(26.2)	(58.1)
Physical commodities inventory, at cost	(49.6)	(17.8)	(24.1)
Income taxes receivable	(4.6)	1.1	2.1
Other assets	(2.2)	(2.3)	(1.8)
Accounts payable and other accrued liabilities	(6.0)	(1.3)	6.1
Payable to customers	26.1	8.0	10.7
Payable to broker-dealers, clearing organization and counterparties	(22.5)	10.5	4.6
Income taxes payable	0.6	(2.0)	1.5
Financial instruments sold, not yet purchased, at fair value	(26.1)	(32.9)	55.6
Net cash used in operating activities	(17.4)	(28.6)	(49.8)
Cash flows from investing activities:			
Capital contribution of consolidated joint venture partner	0.2		2.0
Capital distribution of consolidated joint venture partner	(2.8)	(2.8)	(0.7)
(De-consolidation) / consolidation of ICCAF	(8.2)	16.4	
Disposition of INTL Consilium, LLC	0.4		
Cash acquired with acquisition of Gainvest			2.2
Payments related to acquisition of Gainvest	(1.4)	(1.4)	(2.8)
Cash acquired with acquisition of CIBSA	3.3		
Payments related to acquisition of INTL Global Currencies			(0.8)
Cash acquired with acquisition of FCStone	24.2		
Payments related to acquisition of DMCC	(3.0)		
Investment in managed funds		(10.0)	(13.5)
Investment withdrawals from managed funds	17.9		
Purchase of property and equipment	(2.8)	(1.1)	(1.2)
Net cash provided by (used in) investing activities	27.8	1.1	(14.8)
Cash flows from financing activities:			
Payable to lenders under loans and overdrafts	(13.8)	34.7	78.5

Share repurchase	(0.1)		
Exercise of stock options	0.4	1.4	1.1
Income tax benefit on stock awards exercised	0.3	1.3	0.7
Net cash (used in) provided by financing activities	(13.2)	37.4	80.3
Effect of exchange rates on cash and cash equivalents	0.5	(0.8)	
Net (decrease) increase in cash and cash equivalents	(2.3)	9.1	15.7
Cash and cash equivalents at beginning of period	62.8	53.7	38.0
Cash and cash equivalents at end of period	$ 60.5	$ 62.8	$ 53.7
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 8.8	$ 10.2	$ 8.3
Income taxes paid	$ 8.3	$ 9.4	$ 1.7
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of subordinated notes to common stock, net	$ 0.1	$ 8.1	$ 1.9
Release of trust certificates	$	$ 11.2	$ 2.9
Estimated beginning fair value of assets and (liabilities) received on consolidation:			
Assets acquired	$ 1,178.9	$ 50.9	$ 8.8
Liabilities assumed	1,020.5	(43.7)	(6.0)
Minority owners interest	1.6	(7.2)	
Total net assets acquired	$	$	$ 2.8
Identified intangible assets on acquisitions	$ 0.7	$	$ 0.9
Additional goodwill on acquisitions	$	$	$ 1.0
Issuance of common stock related to acquisitions	$ 135.6	$	$ 1.7

See accompanying notes

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INTERNATIONAL ASSETS HOLDING CORPORATION

Consolidated Statements of Stockholders Equity

(In millions)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balances as of October 1, 2006	$ 0.1	$	$ 30.4	$ 3.4	$	$ 33.9
Components of comprehensive loss:						
Net loss				(4.5)		(4.5)
Total comprehensive loss						$ (4.5)
Exercise of stock options			1.1			1.1
Stock-based compensation			1.5			1.5
Debt conversion			1.9			1.9
Issuance of shares for acquisition			1.7			1.7
Balances as of September 30, 2007	$ 0.1	$	$ 36.6	$ (1.1)	$	$ 35.6
Components of comprehensive income:						
Net income				27.8		27.8
Change in unrealized loss on derivative instruments					(0.8)	(0.8)
Change in foreign currency translation					(0.1)	(0.1)
Total comprehensive income						$ 26.9
Exercise of stock options			1.4			1.4
Stock-based compensation			2.8			2.8
Debt conversion			8.1			8.1
Balances as of September 30, 2008	$ 0.1	$	$ 48.9	$ 26.7	$ (0.9)	$ 74.8
Components of comprehensive income:						
Net income				27.6		27.6
Change in unrealized loss on derivative instruments					(1.5)	(1.5)
Change in foreign currency translation					(0.2)	(0.2)
Total comprehensive income						$ 25.9
Exercise of stock options			0.4			0.4
Stock-based compensation			2.2			2.2
Debt conversion			0.1			0.1
Purchase of treasury shares		(0.1)				(0.1)
Issuance of shares for acquisition	0.1		135.4			135.5
Balances as of September 30, 2009	$ 0.2	$ (0.1)	$ 187.0	$ 54.3	$ (2.6)	$ 238.8

See accompanying notes

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements

Note 1 Description of Business

International Assets Holding Corporation, a Delaware corporation, together with its consolidated 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 services include comprehensive risk management advisory services for commercial customers; execution of listed futures and option contracts on all major exchanges; structured OTC products in a wide range of commodities; physical trading and hedging of precious and base metals and select other commodities; trading of more than 100 foreign currencies; market-making in international equities; and debt originations and asset management. The Company provides these services to a diverse group of customers located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the firm s products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

The Company entered into an Agreement and Plan of Merger dated July 1, 2009, with FCStone Group, Inc. (FCStone) that was approved by the stockholders of the Company on September 25, 2009 and was effective on September 30, 2009. The conclusion of the transaction on September 30, 2009, the last day of the fiscal year, means that the consolidated income statements of the Company for the year ended September 30, 2009 reflect the results of INTL as it existed before the transaction, while the consolidated balance sheet at September 30, 2009 reflects the financial condition of INTL after the FCStone transaction. See additional discussion of the transaction in Note 18.

Prior to the acquisition of FCStone, the Company s activities were divided into five functional areas, as follows:

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 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 two wholly owned subsidiaries: INTL Capital Ltd. and Gainvest S.A. Sociedad Gerente de Fondos Communes de Inversion. 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. During the quarter ended June 30, 2009 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, have been treated by the Company for accounting purposes as discontinued operations within the consolidated income statements.

With the acquisition of FCStone, the Company will have additional activities relating to FCStone s businesses. These businesses are divided into three functional areas, as follows:

Commodity and Risk Management Services. FCStone s original structure was as a cooperative serving its grain elevator members. Within the C&RM segment, FCStone serves customers through its force of risk management consultants with a level of service that maximizes its abilities and the opportunity to retain the customer. The Integrated Risk Management Program (IRMP), involves providing customers with commodity

risk management consulting services that are designed to help them mitigate their exposure to commodity price risk and maximize the amount and certainty of their operating profits. Customers are assisted in the execution of their hedging strategies through FCStone s exchange-traded futures and options clearing and execution operations as well as access to

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

more customized alternatives provided by the OTC and foreign exchange trading desks. Generally, customers direct their own trading activity and risk management consultants do not have discretionary authority to transact trades on behalf of customers. When transacting OTC and foreign exchange contracts with customers, FCStone will generally offset the customer s transaction simultaneously with one of its trading counterparties. On a limited basis, the OTC and foreign exchange (Forex) trade desks will accept a customer transaction and will offset that transaction with a similar but not identical position on the exchange. These unmatched transactions are intended to be short-term in nature and are conducted to facilitate the most effective transaction for customers.

Clearing and Execution Services. FCStone seeks to provide inexpensive and efficient clearing and execution of exchange-traded futures and options for the institutional and professional trader market segments. Through its platform, customer orders are accepted and directed to the appropriate exchange for execution. FCStone then facilitates the clearing of customers transactions. Clearing involves the matching of customers trades with the exchange, the collection and management of margin deposits to support the transactions, and the accounting and reporting of the transactions to customers. FCStone seeks to leverage its capabilities and capacity by offering facilities management or outsourcing solutions to other Futures Commission Merchants (FCM s).

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

Note 2 Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of International Assets Holding Corporation and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation. 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 periods presented have been reflected.

The Company determines whether it has a controlling financial interest in an entity using generally accepted accounting principles. Equity investments in which we exercise control through a majority voting interest or variable interest entities in which we are the primary beneficiary are consolidated.

Unless otherwise stated herein, all references to 2009, 2008, and 2007 refer to the Company s fiscal years ended September 30.

Reclassifications

Effective for the fiscal quarter ended June 30, 2009, the Company reclassified certain prior period balances to account for the sale of its partnership interest in INTL Consilium, LLC, with the results of its activities now being included within discontinued operations on the consolidated income statements for all periods presented.

Effective for the fiscal year ended September 30, 2009, the Company reclassified certain of its balance sheet captions in order to better present its consolidated position resulting from its acquisition of FCStone.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. The most significant of these estimates and assumptions relate to fair value measurements for financial instruments and investments and the provision for

potential losses from bad debts. Provisions for estimated bad debts are recorded on a specific identification basis. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Foreign Currency Translation

Assets and liabilities recorded in foreign currencies are translated at the exchange rates prevailing on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the period. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included in other comprehensive income (loss) (OCI) and flow through the consolidated statements of stockholders equity. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are included in the consolidated income statements.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Cash and Cash Equivalents

The Company considers cash held at banks and all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash and cash equivalents. Cash equivalents include all money market accounts not deposited with or pledged to an exchange-clearing organization. All cash and cash equivalents deposited with brokers, dealers and clearing organizations support the Company s trading activities, and are subject to contractual restrictions. Cash and cash equivalents consist of cash, foreign currency and money market funds stated at cost plus accrued interest, which approximates fair value.

Cash and Securities Segregated under Federal and other Regulations

Pursuant to requirements of the Commodity Exchange Act, funds deposited by customers relating to futures and option contracts in regulated commodities must be carried in separate accounts which are designated as segregated customers accounts. It is the policy of the Company to take possession of securities purchases under agreements to resell. The deposits in segregated customer accounts are not commingled with the funds of the Company.

Deposits and Receivables from Exchange-Clearing Organizations, Broker-dealers, Clearing Organizations and Futures Commission Merchants and Counterparties, and Payables to Broker-dealers, Clearing Organizations and Counterparties

As required by the regulations of the U.S. Commodity Futures Trading Commission (CFTC), customer funds received to margin, guarantee, and/or secure commodity futures transactions are segregated and accounted for separately from the general assets of the Company. Deposits with exchange-clearing organizations and broker-dealers and FCM s pertain primarily to deposits made to satisfy margin requirements on customer and proprietary open futures and options on futures positions and to satisfy the requirements set by clearing exchanges for clearing membership. At September 30, 2009, the Company had cash and cash equivalents on deposit with or pledged to exchange-clearing organizations, broker-dealers and FCM s of $951.7 million.

These balances also include securities pledged by the Company on behalf of customers and customer-owned securities that are pledged. It is the Company s practice to include customer owned securities on its consolidated balance sheet at September 30, 2009, as the rights to those securities have been transferred to the Company under the terms of the futures trading agreement. Securities pledged include U.S. Treasury bills and instruments backed by U.S. government agencies. The securities that are not customer-owned are adjusted to fair value with associated changes in unrealized gains or losses recognized in the Company s consolidated income statements. For customer owned securities, the change in fair value is offset against the customer accounts payable with no impact on the consolidated income statements.

The securities, primarily U.S. Government obligations, held by FCStone as collateral or as margin have been deposited with exchange-clearing organizations, broker-dealers or other FCM s. The fair value of these securities was approximately $320.2 million at September 30, 2009.

Management has considered guidance required by the Transfers and Servicing Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification as it relates to securities pledged by customers to margin their accounts. Based on a review of the agreements with the customer, management believes a legal basis exists to support that the transferor surrenders control over those assets if all of the following three conditions are met: (a) the transferred assets have been isolated from the transferor put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (b) each transferee has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor and (c) the transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call. Under this guidance, the Company reflects the customer collateral assets and corresponding liabilities in the Company s consolidated balance sheet as of September 30, 2009.

In addition to margin, deposits with exchange-clearing organizations include guaranty deposits. The guaranty deposits are held by the clearing organization for use in potential default situations by one or more members of the clearing organization. The guaranty deposits may be applied to the Company s obligations to the clearing organization, or to the clearing organization s obligations to other clearing members or third parties. Deposits with and receivables from exchange-clearing organizations and broker-dealers and FCM s are reported gross, except where a right of

offset exists.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

The Company maintains customer omnibus and proprietary accounts with other FCM s, and the equity balances in those accounts along with any margin cash or securities deposited with the carrying broker are included in deposits and receivables from broker-dealers and FCM s.

The Company pledges margin deposit with various counterparties for over-the-counter derivative contracts, and the deposits are included in deposits and receivables from counterparties.

Receivables from and payable to exchange-clearing organizations are primarily comprised of amounts due from or due to exchange-clearing organizations for daily variation settlements on open futures and options on futures positions. The variation settlements due from or due to exchange-clearing organizations are paid in cash on the following business day.

Receivables from and Payables to Customers

Receivables from customers, net of the allowance for doubtful accounts, represent both the secured and unsecured deficit balances due from customers related to margin requirements as of the balance sheet date. The secured amounts due are backed by U.S. Treasury bills and notes with a fair value of $1.3 million at September 30, 2009. Receivables from customers arise from realized and unrealized trading losses on futures and options on futures positions and amounts due on cash and margin transactions. Customer deficit accounts are reported gross of customer accounts that contain net credit or positive balances, except where a right of offset exists.

Payables to customers represent the total of customer accounts with credit or positive balances. Customer accounts are used primarily in connection with commodity transactions and include gains and losses on open commodity trades as well as securities and other deposits made as required by the Company or the exchange-clearing organizations. Customer accounts with credit or positive balances are reported gross of customer deficit accounts, except where a right of offset exists. Payables to customers for regulated accounts are for transactions facilitated by FCStone, an FCM, with exchange-clearing organizations. Payables to customers for unregulated accounts are for transactions occurring in the over-the-counter market.

For regulatory purposes, certain customers, which would include persons who are affiliated with the Company or is a principal, such as an officer or director, and any person who is materially involved in the management of the Company, are identified as noncustomers. A noncustomer account may not be carried as a customer account due to an affiliation with the Company. In a liquidation event, amounts owed to noncustomers are paid in the same priority as amounts owed to general creditors of the Company. These accounts are also referred to as proprietary accounts. The amounts related to noncustomer accounts are included in payables to customers on the consolidated balance sheets.

The future collectability of the receivables from customers can be impacted by the Company s collection efforts, the financial stability of its customers, and the general economic climate in which it operates. The Company evaluates accounts that it believes may become uncollectible on a specific identification basis, through reviewing daily margin deficit reports, the historical daily aging of the receivables, and by monitoring the financial strength of its customers. The Company may unilaterally close customer trading positions in certain circumstances. In addition, to evaluate customer margining and collateral requirements, customer positions are stress tested regularly and monitored for excessive concentration levels relative to the overall market size.

Notes Receivable from Customers

The Company accepts notes receivable under sale/repurchase agreements with customers whereby the customers sell certain commodity inventory to the Company and agree to repurchase the commodity inventory at a future date at either a fixed or floating rate. In accordance with the guidance contained in the Revenue Recognition Topic of the Accounting Standards Codification, these transactions are treated as secured borrowings rather than commodity inventory in the Company s consolidated financial statements.

Accrual of commodity financing income on any note is discontinued when, in the opinion of management, there is reasonable doubt as to the timely collectability of interest or principal. Nonaccrual notes are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely payment of principal and interest. The Company records a charge against operations for notes receivable losses when management believes that collectability of the principal is unlikely.

Physical Commodities Inventory

Physical commodities inventories are stated at the lower of cost or market, using the specific identification weighted average price method. Cost includes finished commodity or raw material and processing costs related to the purchase and processing of inventories.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Property and Equipment

Property and equipment is stated at cost net of accumulated depreciation and amortization and depreciated using the straight-line method over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized over the estimated useful life of the software.

Goodwill and Identifiable Intangible Assets

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with the Intangibles Goodwill and Other Topic of the Accounting Standards Codification, goodwill is tested for impairment on an annual basis at the fiscal year-end, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach. No impairment of goodwill has been identified during any of the periods presented.

Identifiable intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from one to five years. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable in accordance with the Intangibles Goodwill and Other Topic of the Accounting Standards Codification. Residual value is presumed to be zero, subject to certain exceptions. All of our identifiable intangible assets are subject to amortization. No material impairments of identifiable intangible assets have been identified during any of the periods presented.

Financial Instruments

Financial instruments owned, at fair value and financial instruments sold, not yet purchased, at fair value consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized changes in gains or losses recognized in the Company s results of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Investment in managed funds, at fair value represents investments in funds managed by the Company s fund managers. The investments are valued at period-end at the net asset value provided by the fund s administrator.

We utilize derivative instruments to manage exposures to foreign currency, commodity price and interest rate risks for the Company and its customers. The Company s objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Derivative instruments are recognized as either assets or liabilities and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. For a derivative instrument designated as a cash-flow hedge, the effective portion of the derivative s gain or loss is initially reported as a component of OCI and is subsequently recognized in earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is recognized in earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized in earnings.

The Company s derivative contracts consist of exchange-traded and over-the-counter (OTC) derivatives. Fair values of exchange-traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. The valuation models used to derive the fair values of OTC derivatives require inputs including contractual terms, market prices, yield curves and measurements of volatility. The Company uses similar models to value similar instruments. Where possible, the Company verifies the values produced by pricing models by comparing them to market transactions. Inputs may involve judgment where market prices are not readily available. Derivatives used as economic hedges in our commodities business generally do not qualify for hedge accounting under the Derivatives and Hedging Topic of the Accounting Standards Codification.

The Company may lease commodities to or from customers or counterparties, or advance commodities to customers on an unpriced basis, receiving payment as and when they become priced. These are valued at fair value and classified under financial instruments as hybrid contracts with embedded derivative features that cannot be reliably measured and separated from the host contract. As permitted by the Derivatives and

Hedging Topic of the Accounting Standards Codification, the entire instrument is recorded at fair value, with the corresponding change in fair value recognized in revenue within net dealer and investment gains.

Exchange Memberships and Stock

The Company holds exchange membership seats and exchange firm common stock which are pledged for clearing purposes, providing the Company the right to process trades directly with the various exchanges. Exchange memberships include seats on the Chicago Board of Trade (CBOT), the Board of Trade of Kansas City, Missouri, Inc., the Minnesota Grain Exchange, the New York Mercantile Exchange (NYMEX), the COMEX Division of the New York Mercantile Exchange, Mercado de Valores de Buenos Aires S.A. (MERVAL), the Chicago Mercantile Exchange (CME) Growth and Emerging Markets seat and InterContinental Exchange, Inc. (ICE) Futures. U.S. Exchange stocks include shares of CME Group, Inc. common stock and ICE common stock.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Exchange memberships and stocks pledged for clearing purposes are recorded at cost, in accordance with GAAP and CFTC regulations. The cost basis for FCStone s exchange memberships and stock was established using fair value on September 30, 2009 as a result of applying purchase accounting to FCStone s assets. The fair market value for exchange memberships and stock pledged for clearing purposes was approximately $7.6 million at September 30, 2009 and is included within the other assets caption on the consolidated balance sheet. The fair value of exchange stock is determined by quoted market prices, and the fair value of exchange memberships is determined by recent sale transactions.

Business Combinations

Acquisitions during fiscal 2009 are accounted for as purchase business combinations in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Under the purchase method of accounting, the costs, including transaction costs, are allocated to the underlying net assets acquired, based on their respective estimated fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill which is not amortized to expense. Any excess of the estimated fair values of the net assets acquired over the purchase price results in negative goodwill. Negative goodwill is allocated as a pro rata reduction of the amounts assigned to the assets acquired excluding financial assets, deferred taxes and other current assets. If negative goodwill exceeds the amount of those assets, the remaining excess is recognized as an extraordinary gain in the income statement.

Determining the fair value of certain assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions. Estimating the fair value of the assets and liabilities acquired requires significant judgment.

Direct out-of-pocket or incremental costs that are directly related to a business combination are included in the cost of the acquired enterprise. Costs included in the cost of the acquired enterprise include finder s fees or other fees paid to outside consultants for accounting, legal or appraisal services.

Revenue Recognition

Sales of physical commodities revenue are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. The Company reports its physical commodities revenues on a gross basis, with the corresponding cost of sales shown separately, in accordance with the guidelines provided in the Revenue Recognition Topic of the Accounting Standards Codification.

Commissions on futures contracts are recognized on a half-turn basis in two equal parts. The first half is recognized when the contract is purchased (opened) and the second half is recognized when the transaction is closed. Commissions on option contracts are recognized upon the purchase or sale of the option, as the Company has no further obligations to provide service. If the Company is required to perform additional services when an option is exercised or closed, a separate commission can be charged and recognized at that date at the discretion of the Company. Commissions and fees are charged at various rates based on the type of account, the products traded, and the method of trade. Clearing and transaction fees are charged to customers on a per exchange contract basis based on the trade date. Such fees are for clearing customers exchange trades and include fees charged to the Company by the various futures exchanges.

Service, consulting and brokerage fees include brokerage fees and margins generated from OTC derivative trades executed with customers and other counterparties and are recognized when trades are executed. Service, consulting and brokerage fees also include risk management consulting fees which are billed and recognized as revenue on a monthly basis when risk management services are provided. Such agreements are generally for one year periods, but are cancelable by either party upon providing thirty days written notice to the other party and the amounts are not variable based on customer trading activities. Service, consulting and brokerage fees also include income from limited forms of proprietary trading. This trading involves taking short-term proprietary positions in derivatives and foreign currencies. These strategies involve relatively short-term exposure to the markets and are usually undertaken in conjunction with the use of derivative contracts, designed to mitigate the risk of customers through hedging strategies.

Net dealer inventory and investment gains are recognized on a trade-date basis and include realized gains or losses and changes in unrealized gains or losses on investments at fair value.

Asset management fees are recognized as they are earned based on estimates of fees due at each period-end date. These include estimated performance fees based on the amount that would be due under the formula for exceeding performance targets as of the period-end date. Estimated performance fees may be at risk due to future performance contingencies until such time as they are fixed.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

Cost of Revenue

Cost of sales of physical commodities include finished commodity or raw material and processing costs along with operating costs relating to the receipt, storage and delivery of the physical commodities.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with the guidance of the Share Based Compensation Topic of the Accounting Standards Codification. The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based employee awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense. In the first quarter of 2006 the Company adopted the guidance under the Share Based Compensation Topic of the Accounting Standards Codification using the modified prospective method. For option awards granted subsequent to the adoption, compensation cost is recognized on a straight-line basis over the vesting period for the entire award. The expense of unvested option awards granted prior to the adoption are recognized on a straight-line basis, over the balance of the vesting period.

Income Taxes

Income tax expense includes U.S. and foreign income taxes. Certain items of income and expense are not reported in tax returns and financial statements in the same year. The tax effect of such temporary differences is reported as deferred income taxes. Tax provisions are computed in accordance with the Accounting for Income Taxes Topic of the Accounting Standards Codification.

Defined Benefit Pension Plan

As a result of our acquisition of FCStone Group, Inc. (FCStone) effective September 30, 2009, we have noncontributory defined benefit pension plans that cover certain employees. Our funding policy for the plans is to contribute amounts sufficient to meet the minimum funding requirement of the Employee Retirement Income Security Act of 1974, plus any additional amount we may deem to be appropriate. Prior to the acquisition of FCStone, the plan was frozen and no additional benefits will be accrued for active participants under the plan.

On September 30, 2009 in conjunction with the closing of the Company s acquisition of FCStone, we adopted the recognition and disclosure provisions of the Compensation Retirement Benefits Topic of the Accounting Standards Codification, which requires an entity to recognize the funded status of its defined benefit pension plans measured as the difference between plan assets at fair value and the projected benefit obligation on the consolidated balance sheet and to recognize changes in the funded status, that arise during the period but are not recognized as components of net periodic pension cost, within other comprehensive income, net of income taxes.

To account for the defined benefit pension plans in accordance with the Compensation Retirement Benefits Topic of the Accounting Standards Codification the Company must make three main determinations at the end of each year. These determinations are reviewed annually and updated as necessary, but nevertheless, are subjective and may vary from actual results.

First, the Company must determine the actuarial assumptions for the discount rate used to reflect the time value of money in the calculation of the projected benefit obligations for the end of the current fiscal year and to determine the net periodic pension cost for the subsequent fiscal year. The objective of our discount rate assumption is to reflect the interest rate at which pension benefits could be effectively settled. In making this determination, the Company took into account the timing and amount of benefits that would be available under the plans. The discount rate at September 30, 2009 is based on a model portfolio of high-quality fixed-income debt instruments with durations that are consistent with the expected cash flows of the benefit obligations. The discount rate assumptions at September 30, 2009 are based on investment yields available on AA rated long-term corporate bonds with cash flows that are similar to expected benefit payments.

Second, the Company must determine the actuarial assumption for rates of increase in compensation levels used in the calculation of the accumulated and projected benefit obligation for the end of the current fiscal year and to determine the net periodic pension cost for the subsequent fiscal year. The salary growth assumptions at September 30, 2009 reflect FCStone s long-term actual experience, the near-term outlook and assumed inflation. Retirement and mortality rates are based primarily on actual plan experience and standard industry actuarial tables, respectively. As a result of the plan freeze, no additional benefits will be accrued for active participants under the plan, and accordingly no assumption will be made for the rate of increase in compensation levels in the future.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Third, the Company must determine the expected long-term rate of return on assets assumption that is used to determine the expected return on plan assets component of the net periodic pension cost for the subsequent year. The expected long-term rate of return on asset assumption was determined, with the assistance of the Company s investment consultants, based on a variety of factors. These factors include, but are not limited to, the plan s asset allocations, a review of historical capital market performance, historical plan performance, current market factors such as inflation and interest rates, and a forecast of expected future asset returns. The Company reviews this long-term assumption on an annual basis.

Recently Issued Accounting Standards

In June 2009, new accounting guidance was issued which established the FASB Accounting Standards Codification as the single source of authoritative US GAAP. Adoption of this guidance during our quarter ended September 30, 2009 changed the way we reference accounting standards and did not have a material impact on our consolidated financial statements.

In September 2008, the FASB issued new guidance which requires 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. The adoption of this guidance effective for our consolidated financial statements for the fiscal quarter ended December 31, 2008 has had no effect on disclosures in our consolidated financial statements.

In December 2008, new guidance was issued which requires public entities to provide additional disclosures about transfers of financial assets and to provide additional disclosures about their involvement with variable interest entities. The adoption of this guidance during the quarter ended December 31, 2008 has had no effect on disclosures in our consolidated financial statements.

In September 2006, new accounting guidance was issued which refined the definition of fair value, established a framework for measuring fair value, and expanded disclosures about fair value measurements. We adopted this guidance for financial assets and liabilities effective October 1, 2008 and will apply this guidance for non-financial assets and liabilities beginning October 1, 2009.

In February 2007, additional accounting guidance was issued permitting the election of fair value measurement for many financial instruments and certain other items, with unrealized gains and losses on designated items recognized in earnings at each subsequent period. This guidance also established presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. We adopted this new guidance effective October 1, 2008 with no effect on our consolidated financial statements.

In June 2009, we adopted new accounting guidance issued in April 2009 to require quarterly fair value disclosures of financial instruments (previously required only annually) and further expanded disclosures about the methods and significant assumptions used to estimate fair value.

In January 2009, we adopted new accounting guidance issued in March 2008 to require additional qualitative and quantitative disclosures about how and why we use derivative instruments and hedging activities, including the accounting methods used and the impact on our consolidated financial statements. See Note 8.

In May 2009, new accounting guidance was issued which established principles and requirements for reporting events or transactions occurring after the balance sheet date. The guidance requires us to disclose the date through which subsequent events have been evaluated and whether it is the date the financial statements were issued. It also requires an entity to consider pro forma financial information disclosures if an unrecognized subsequent event is significant and to reissue financial statements filed with the SEC or other regulatory agencies if failure to do so could make the consolidated financial statements misleading. Adoption of this new guidance for our quarter ended June 30, 2009 did not have a material impact on our consolidated financial statements.

In December 2007, new accounting guidance was issued revising the method of accounting for a number of aspects of business combinations and noncontrolling interests (i.e. minority interests), such that more assets and liabilities will be measured at fair value as of the acquisition date. Certain contingent consideration liabilities will require remeasurement at fair value in each subsequent reporting period. Noncontrolling interests will initially be measured at fair value and classified as a separate component of equity.

Acquisition related costs, such as fees for attorneys, accountants, and investment bankers, will be expensed as incurred and no longer be capitalized as part of the business purchase price. For all acquisitions, regardless of the consummation date, deferred tax assets and uncertain tax position adjustments occurring after the measurement period will be recorded as a component of income tax expense, rather than adjusted through goodwill. This change is effective for our first quarter in fiscal 2010 and requires retrospective application for all prior comparative financial statements presented (e.g. reclassification of noncontrolling interests to appear in equity)

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

In June 2008, new guidance was issued for determining whether instruments granted in share-based payment transactions are participating securities, mandating that unvested share-based payment awards containing non-forfeitable rights to dividends or dividend equivalents are participating securities and should be included in our computation of EPS using the two-class method. This change is effective for our first quarter of fiscal 2010 and requires retrospective application for all periods presented. The Company is assessing the potential effect this guidance will have on its consolidated financial statements.

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

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

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 3 Earnings (Loss) per Share

Basic earnings per share has been computed by dividing net income by the weighted average number of common shares outstanding. The following is a reconciliation of the numerator and denominator of the diluted net income per share computations for the periods presented below.

Year Ended September 30, **(In millions, except share amounts)**	**2009**	**2008**	**2007**
Numerator:			
Income from continuing operations	$ 9.8	$ 27.7	$ (5.6)
Add: Interest on convertible debt, net of tax	0.9	1.4	
Diluted income (loss) from continuing operations	10.7	29.1	(5.6)
Less: Income (loss) from discontinued operations	0.7	(0.1)	(1.1)
Add: Extraordinary gain	18.5		
Diluted net income (loss)	$ 28.5	$ 29.2	$ (4.5)
Denominator:			
Weighted average number of:			
Common shares outstanding	8,895,697	8,434,976	8,086,837
Dilutive potential common shares outstanding:			
Share-based awards	514,680	492,663	
Convertible debt	772,209	974,067	
Diluted weighted-average shares	10,182,586	9,901,706	8,086,837

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 Accounting Standards Codification. The dilutive effect of convertible debt has been reflected in diluted net income per share by application of the if-converted method.

For fiscal years 2009, 2008, and 2007, options to purchase 825,302 shares, 121,341 shares, and 812,006 shares of common stock, respectively, were excluded from the calculation of diluted earnings per share because they would have been anti-dilutive. For fiscal year 2007, 981,547 shares were excluded from the calculation of diluted earnings per share for convertible subordinated notes payable as they would have been anti-dilutive under the if-converted method.

Note 4 Segregated Requirements

Pursuant to the requirements of the Commodity Exchange Act, funds deposited by customers of FCStone relating to futures and options on futures positions in regulated commodities must be carried in separate accounts which are designated as segregated customers accounts. Certain amounts in the accompanying table reflect reclassifications and eliminations required for regulatory filing and as a result, may differ from those presented in the accompanying consolidated statements of financial position. Funds deposited by customers and other assets, which have been aggregated as belonging to the commodity customers at September 30, 2009, are as follows:

September 30, **(In millions)**	**2009**
Cash, at banks segregated	$ 5.8
Securities customer segregated	15.2
Securities held for customers in lieu of cash, at banks	2.0
Deposits with and receivables from:	
Exchange-clearing organizations, including securities, net of omnibus eliminations	810.3
Other futures commission merchants	1.1
Securities held for customers in lieu of cash	4.9
Total customer-segregated funds	839.3
Amount required to be segregated	799.1
Excess funds in segregation	$ 40.2

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Funds deposited by customers and other assets, which are held in separate accounts for customers trading foreign futures and foreign options customers, at September 30, 2009 are as follows:

September 30, **(In millions)**	**2009**
Cash secured	$ 3.7
Equities with registered futures commissions merchants	8.9
Amounts held by members of foreign boards of trade	2.7
	15.3
Amount required to be segregated	6.6
Excess funds in segregation	$ 8.7

Note 5 Receivable from Customers, net

Receivable from customers, net includes a provision for bad debts, which reflects our best estimate of probable losses inherent in the receivable from customers, net. We determine the balance based on a specific identification basis. The provision for bad debts was $2.4 million at September 30, 2008. Bad debt expense of $2.0 million and $2.4 million and $0.1 million for fiscal 2009, 2008 and 2007, respectively, is included in Other under the non-interest expenses section of the consolidated income statements.

Note 6 Notes Receivable, net

As a result of the merger with FCStone, the Company acquired notes receivable with certain customers and an introducing broker which arose from previous customer account deficits. The note agreements were executed in order to strengthen collection efforts of the outstanding account deficit balances. At September 30, 2009, notes receivable related to customer account deficits were $18.2 million. The provision for bad debts reflects our best estimate of probable losses inherent in the notes receivable. A significant deficit account was introduced through an introducing broker relationship, with that broker contractually responsible for fifty percent of account deficits as determined in accordance with the terms of the introducing broker agreement. The Company has an executed promissory note for fifty percent of the energy trading customer account deficit from the introducing broker. The Company estimates the collectability on this note to be $6.1 million, and the note is secured by the introducing brokers future revenue stream, which comprises commissions collected by the Company, and for which the Company controls disbursement. The Company also has an executed promissory note for the total amount of the energy trading account deficit from the customer. The Company estimates the collectability on this note to be $9.2 million, with proceeds expected from the customer s anticipated refund of income taxes paid in prior years. The Company continually reviews its provision for bad debts. The Company is uncertain as to the full collectability of the contractual amount from the introducing broker and customer. No assurances can be given as to the amount and timing of recovery that may be obtained under the promissory notes and profit sharing arrangement.

Additionally, in the normal course of operations the Company accepts notes receivable under sale/repurchase agreements with customers whereby the customers sell certain commodity inventory and agree to repurchase the commodity inventory at a future date at either a fixed or floating rate. These transactions are treated as secured borrowings rather than commodity inventory in the Company s consolidated financial statements. At September 30, 2009, the Company had outstanding notes receivable of $4.0 million related to this program.

Sale/repurchase transactions involving fixed rates accrue commodity financing fees on the outstanding notes balance on a daily basis using an applicable interest rate stipulated under the agreement. The customers bear the risk of changes in market price while under contract. The Company maintains a futures account to hedge its price risk on these agreements by using futures contracts. The fixed price notes are carried at their principal balance, which approximates fair value.

Accrual of commodity financing income on any note is discontinued when, in the opinion of management, there is reasonable doubt as to the timely collectability of interest or principal. Nonaccrual notes are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely payment of principal and interest. The Company records a charge against operations for notes receivable losses when management believes that collectability of the principal is unlikely.

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Notes to Consolidated Financial Statements (Continued)

Note 7 Financial Assets and Liabilities Reported at Fair Value

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

Cash and cash equivalents

Securities segregated under federal and other regulations

Deposits and receivables from exchange-clearing organizations

Financial instruments owned

Financial instruments sold, not yet purchased

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 the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification for all financial assets and liabilities that are carried at fair value.

	September 30, 2009		September 30, 2008	
(In millions)	Owned	Sold, not yet purchased	Owned	Sold, not yet purchased
Certificates of deposits	$ 10.0	$	$	$
Common stock and ADR s	7.9	2.5	18.3	5.8
Exchangeable foreign ordinary equities and ADR s	10.5	10.5	35.0	35.1
Corporate and municipal bonds	20.0		80.2	
U.S. and foreign government obligations	6.4		1.3	44.6
Derivatives	42.1	30.8	31.5	13.3
Commodities	105.4	83.7	49.9	52.7
Mutual funds and other	4.8		1.8	
Investment in managed funds	2.7		11.9	
	$ 209.8	$ 127.5	$ 229.9	$ 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 September 30, 2009 by level within the fair value hierarchy. As required by the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy under the Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification are:

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

Level 2: quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

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

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Notes to Consolidated Financial Statements (Continued)

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

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

(2) Excludes $12.9 million within cash and securities segregated under federal and other regulations which are accounted for at other than fair value.

(3) Excludes $171.1 million within deposits and receivables from exchange clearing organizations which are accounted for at other than fair value.

Realized and unrealized gains and losses are included within net dealer inventory and investment gains in the income statement.

Information on Level 3 Financial Assets and Liabilities

The Company s financial assets at fair value classified within level 3 of the fair value hierarchy are as follows:

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

The following table sets forth a summary of changes in the fair value of the Company s level 3 financial assets and liabilities during the year ended September 30, 2009 including a summary of unrealized gains (losses) during the year on the Company s level 3 financial assets and liabilities still held at September 30, 2009.

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Notes to Consolidated Financial Statements (Continued)

	Level 3 Financial Assets and Financial Liabilities For the Year Ended September 30, 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
Assets:						
Common stock and ADR s	$ 2.9	$ (0.2)	$ (0.4)	$ (1.1)	$	$ 1.2
Corporate and municipal bonds	3.6		0.1	0.6		4.3
U.S. and foreign government obligations			(0.7)		1.4	0.7
Mutual funds and other					0.4	0.4
Investment in managed funds	11.9	1.0	(0.7)	(9.5)		2.7
	$ 18.4	$ 0.8	$ (1.7)	$ (10.0)	$ 1.8	$ 9.3

Note 8 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 consolidated financial statements at September 30, 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 September 30, 2009. The total of $127.5 million at September 30, 2009 includes $30.8 million for derivative contracts, which represent a liability to the Company based on their fair values as of September 30, 2009.

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 consolidated 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 at September 30, 2009. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	September 30, 2009		September 30, 2008	
(In millions)	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	$ 4,008.0	$ 3,974.6	$ 29.7	$ 12.6
OTC commodity derivatives	303.5	302.9		
Exchange-traded foreign exchange derivatives	25.8	44.2		
OTC Foreign exchange derivatives (2)	526.3	474.2		
Interest rate derivatives	11.3	6.8		
Equity index derivatives	11.6	3.4	1.8	0.2
Derivative contracts accounted for as hedges:				
Interest rate derivatives		4.7		0.5
Gross fair value of derivative contracts	4,886.5	4,810.8	31.5	13.3

Impact of netting and collateral	(5,146.8)	(4,780.0)		
Total fair value included in Deposits and receivables from exchange-clearing organizations	(302.4)			
Total fair value included in Financial instruments owned, at fair value	$ 42.1		$ 31.5	
Fair value included in Financial instruments sold, not yet purchased, at fair value		$ 30.8		$ 13.3

(1) As of September 30, 2009, The Company s derivative contract volume for open positions was approximately 3.1 million contracts.

(2) In accordance with agreements with counterparties, the Company is allowed to periodically take advances against its open trade fair value. Amount excludes advances against open trade fair value of $31.9 million outstanding at September 30, 2009.

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Notes to Consolidated Financial Statements (Continued)

The Company s derivative contracts are principally held in its commodities 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 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 trades with market counterparties. The risk mitigation of these offsetting trades is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification.

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.

The following table sets forth by major risk type the firm s gains/(losses) related to trading activities, including both derivative and non-derivative financial instruments, for the year ended September 30, 2009 in accordance with the Derivatives and Hedging Topic of the Accounting Standards Codification. The gains/(losses) set forth below are included in Net dealer inventory and investment gains in the consolidated income statements.

(In millions)	**Year Ended September 30, 2009**
Asset management	$ (1.4)
Commodities	(24.7)
Total	$ (26.1)

The Company has two interest rate swap contracts totaling $100 million in nominal amount at September 30, 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 the Derivatives and Hedging Topic of the Accounting Standards Codification as cash flow hedges. The effective portion of the swaps gain or loss for the year ended September 30, 2009, as calculated using the long-haul method, was a loss of $2.4 million, which has been reported in the consolidated 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 $1.8 million and a loss of less than $0.1 million for the year ended September 30, 2009 and 2008, respectively, which is included in Net dealer inventory and investment gains on the consolidated income statements.

Credit Risk

In the normal course of business, the Company purchases and sells financial instruments and foreign currencies as a principal. 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 customer or 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 customers or 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 customers and counterparties financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

The Company is a party to financial instruments in the normal course of its business through customer and proprietary trading accounts in exchange-traded and over-the-counter derivative instruments. These instruments are primarily the execution of orders for commodity futures, options on futures and forward foreign currency contracts on behalf of its customers, substantially all of which are transacted on a margin basis. Such transactions may expose the Company to significant credit risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. The Company controls the risks associated with these transactions by requiring customers to maintain margin deposits in compliance with individual exchange regulations and internal guidelines. The Company monitors required margin levels daily and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. The Company also establishes credit limits for customers, which are monitored daily. The Company evaluates each customer s creditworthiness on a case by case basis. Clearing, financing, and settlement activities may require the Company to maintain funds with or pledge securities as collateral

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

with other financial institutions. Generally, these exposures to both customers and exchanges are subject to master netting, or customer agreements, which reduce the exposure to the Company by permitting receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits held at September 30, 2009 were adequate to minimize the risk of material loss that could be created by positions held at that time. To attempt to mitigate risk, the Company has purchased credit-default swaps and credit insurance that provides some coverage against counterparty risk. The Company records the insurance premiums or premium paid for the swaps as a prepaid asset and amortizes that over the term of the policy or contract. At September 30, 2009, the Company held one credit-default swap with a fair value of $0.1 million. The fair value of this swap at September 30, 2009 is consistent with the amounts reported. Additionally, the Company monitors collateral market value on a daily basis and adjusts collateral levels in the event of excess market exposure. Generally, these exposures to both customers and counterparties are subject to master netting, or customer agreements which reduces the exposure to the Company.

The Company is also a party to a guarantee of payment and performance by a third party of an ethanol marketing agreement with a risk management customer which would require the Company to purchase the output of the customer if the third party could not perform under the marketing agreement. The guarantee does not have a set term, and the underlying agreement cannot be terminated by the third party unless the customer breaches the agreement. The maximum potential amount of future payments required under the guarantee cannot be estimated because the underlying marketing agreement does not specify the amount or the price of the ethanol to be purchased during the term of the agreement. The price of the ethanol to be purchased is at the discretion of the Company.

Derivative financial instruments involve varying degrees of off-balance sheet market risk whereby changes in the fair values of underlying financial instruments may result in changes in the fair value of the financial instruments in excess of the amounts reflected in the consolidated balance sheets. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the Company s positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in foreign exchange rates. The Company attempts to manage its exposure to market risk through various techniques. Aggregate market limits have been established and market risk measures are routinely monitored against these limits.

Note 9 Physical Commodities Inventory

September 30, **(In millions)**	**2009**	**2008**
Commodities in process	$ 8.7	$ 5.5
Finished commodities	98.2	51.9
	$ 106.9	$ 57.4

Physical commodities inventory is stated 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. At September 30, 2009, $105.3 million of physical commodities inventory served as collateral under one of the Company s credit facilities, as detailed further in Note 14.

Note 10 Property and Equipment, net

September 30, **(In millions)**	**2009**	**2008**
Property and equipment		
Furniture, fixtures and equipment	$ 6.2	$ 3.2

Building	0.6	0.6
Leasehold improvements	1.0	1.1
Total property and equipment	7.8	4.9
Less: Accumulated depreciation and amortization	(3.1)	(2.4)
Property and equipment, net	$ 4.7	$ 2.5

Property and equipment, net are stated at cost and are net of accumulated depreciation and amortization. During fiscal years 2009, 2008, and 2007, depreciation and amortization expense was $0.7 million, $0.6 million, and $0.5 million, respectively.

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Notes to Consolidated Financial Statements (Continued)

Note 11 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 the terms of this acquisition, the Company made a final payment in June of 2009 of $1.4 million which was recorded as goodwill during the quarter ended June 30, 2009.

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.

On April 7, 2009, the Company acquired Compania Inversora Bursatil S.A. Sociedad de Bolsa (CIBSA), a leading securities broker-dealer based in Argentina. The Company paid approximately $1.7 million on the date of purchase and is obligated to make additional payments over the next two years, depending on the level of revenues achieved. The Company recorded goodwill of $0.7 million during the quarter ended June 30, 2009 as a result of completing its initial purchase accounting for this transaction. Under the purchase agreement, the Company is obligated to pay an amount equal to 25% of the net revenues in excess of $2.5 million up to $3 million, 35% of the net revenues in excess of $3 million up to $4 million, and 40% of the net revenues in excess of $4 million for each of the two twelve-month periods ending February 10, 2010 and 2011 to the sellers as additional consideration. Any amounts paid as additional consideration under this agreement will be recorded as goodwill.

Goodwill allocated to the Company s operating segments is as follows:

September 30, **(In millions)**	**2009**	**2008**
Equities trading	$ 4.6	$ 2.5
Foreign exchange trading	6.3	6.3
Commodities trading	2.4	
Goodwill	$ 13.3	$ 8.8

Note 12 Intangible Assets

September 30, **(In millions)**	**2009**	**2008**
Intangible assets		
Noncompete agreement	$ 0.4	$ 0.4
Trade name	0.6	0.6
Customer base	0.2	0.2
Total intangible assets	1.2	1.2
Less: Accumulated amortization	(0.8)	(0.6)
Intangible assets, net	$ 0.4	$ 0.6

Amortization expense amounted to $0.2 million, $0.3 million, and $0.1 million for the years ended September 30, 2009, 2008 and 2007, respectively. Estimated future amortization expense based on existing intangible assets is $0.2 million, $0.1 million, and $0.1 million for the years ended September 30, 2010, 2011, and 2012, respectively. For fiscal 2009 and 2008, all of the unamortized intangible assets were allocated

to the Company s securities trading segment.

Note 13 Related Party Transactions

As of September 30, 2009, the Company had an investment valued at $2.7 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 and is included in Investment in managed funds, at fair value on the consolidated balance sheets. During the quarter ended June 30, 2009, the Company redeemed its interest in the INTL Consilium Convertible Arbitrage Fund (the ICCAF fund). Under the provisions of the Consolidation Topic of the Accounting Standards Codification, the Company was previously required to consolidate the ICCAF fund as a variable interest entity with effect from the quarter ended June 30, 2008. Accordingly, these consolidated financial statements include the effect of deconsolidation of the ICCAF fund during the quarter ended June 30, 2009.

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Notes to Consolidated Financial Statements (Continued)

Note 14 Payable to Lenders under Loans and Overdrafts

As of September 30, 2009 the Company had seven credit facilities under which the Company may borrow up to $287.0 million, subject to certain conditions. Additionally, the Company has subordinated notes outstanding of $1.5 million with various individuals as discussed below. Interest expense related to the Company s credit facilities was approximately $2.5 million, $5.5 million and $5.1 million for the years ended September 30, 2009, 2008 and 2007, respectively.

The Company s credit facilities at September 30, 2009 consisted of the following:

A one-year, renewable, revolving syndicated committed loan facility established on June 26, 2009 under which the Company s subsidiary, INTL Commodities, Inc. (INTL Commodities) is entitled to borrow up to $62 million, subject to certain conditions. There are three commercial banks that are the underlying lenders within the syndicate group. The loan proceeds are used to finance the activities of INTL Commodities and are secured by its assets. Unused portions of the margin line require a commitment fee of 0.75% on the unused commitment. The interest rate for the facility ranges between 2.00% over the federal funds rate (0.07% at September 30, 2009) or 3.25% over the LIBOR rate for the applicable term, at INTL Commodities election. The facility is guaranteed by the Company.

A demand facility established on March 5, 2008, under which the Company s subsidiary, 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 0.40% at September 30, 2009).

An unsecured line of credit with a syndicate of lenders, administered by Bank of Montreal under which FCStone may borrow up to $75.0 million. This line is intended to provide short term funding of margin to exchanges as necessary and is subject to annual review. The continued availability of this line of credit is subject to FCStone s financial condition and operating results continuing to be satisfactory as set forth in the agreement. Borrowings under the margin line are on a demand basis and bear interest at 1.50% plus the greater of (a) the prime commercial rate; (b) the federal fund rate plus one half of 1%; and (c) LIBOR plus 1.00%. The agreement contains financial covenants related to FCStone s tangible net worth, leverage ratio, and net capital, as defined. The Company was in compliance with these covenants as of September 30, 2009. Unused portions of the margin line require a commitment fee of 0.50% on the unused commitment. There were no borrowings outstanding under these lines of credit at September 30, 2009. FCStone paid fees and other debt issuance costs of $1.0 million in connection with the credit facility, which are being amortized over a twelve month period.

An uncommitted line of credit agreement with Fortis Capital Corp. (Fortis) in the amount of $20.0 million, available for loans and documentary and standby letters of credit (LOC s). Each loan or LOC shall be used to finance self liquidating transactions involving the purchase, storage, hedging, and sale of grains, crude oil, natural gas, petroleum products, or other physical commodities acceptable to Fortis that are traded on commodities exchanges, as well as, repurchase agreements with counterparties acceptable to Fortis. All loans are payable on demand, and in no event shall be outstanding for more than 180 days, unless agreed by Fortis. All LOC s shall have expiration dates not later than 180 days after the issuance date, unless agreed by Fortis. FCStone Merchant Services obligation to Fortis is secured by a perfected security interest in all personal property and fixtures of FCStone Merchant Services,

including the inventory, accounts receivable, hedge contracts, and the proceeds from the specific commodity transaction financed. Loans under the facility bear interest at a variable rate determined in accordance with the terms of the agreement. At September 30, 2009, the line of credit was bearing interest at an annual rate of 5.03%. The agreement contains financial covenants related to FCStone Merchant Services working capital and ratio of total outstanding loans and extensions of credit from all banks and institutions to tangible net worth, as defined. FCStone Merchant Services was in compliance with the requirements throughout and as of the period ended September 30, 2009.

A senior subordinated debt agreement between FCStone and a syndicate of lenders, administered by Bank of Montreal. FCStone s ability to draw on the subordinated debt facility expired, however funds drawn on the facility as of September 30, 2009 will mature on July 22, 2010 if the Company remains in compliance with all financial covenants. Borrowings under the subordinated debt are on a demand basis and bear interest at LIBOR plus 3.00%. The Company had $55.0 million in borrowings on the subordinated debt line at September 30, 2009.

FCStone has subordinated notes with various individuals, amounting to $1.5 million at September 30, 2009. The notes are variable rate notes, and bear interest at a rate equal to the prime rate as published in The Wall Street Journal, which was 3.25% at September 30, 2009. One note matures on January 3, 2010, and the remaining two notes mature on June 30, 2010, and are subordinated as defined by CFTC regulations.

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Notes to Consolidated Financial Statements (Continued)

At September 30, 2009, the Company had the following credit facilities and outstanding borrowings:

Security	Renewal / Expiration Date	Total Commitment	Amounts Outstanding
Certain foreign exchange assets	December 31, 2009	$ 25.0	$ 11.1
Certain pledged shares	December 31, 2009	35.0	34.9
Certain commodities assets	On demand	15.0	
Certain commodities assets	June 29, 2010	62.0	60.0
None	June 23, 2010	75.0	
Certain commodities assets	On demand	20.0	2.7
Subordinated debt	July 22, 2010	55.0	55.0
Subordinated debt	June 30, 2010, January 3, 2010	1.5	1.5
		$ 288.5	$ 165.2

The Company is in the process of renewing the two facilities which are committed until December 31, 2009.

Note 15 Convertible Subordinated Notes and Debt Issuance Costs

The Company had $16.7 and $16.8 million in aggregate principal amount of the Company s senior subordinated convertible notes due 2011 (Notes) outstanding as of September 30, 2009 and 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. Debt issuance costs are net of accumulated amortization of $0.9 million and $0.6 million at September 30, 2009 and 2008, respectively. Amortization charged to interest expense in the consolidated income statements was $0.3 million for fiscal years 2009 and 2008, respectively.

During September 2008, Notes with a principal balance of $8.2 million and accrued interest of $0.1 million were converted into 325,755 common shares at the election of the Note holders. 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. During September 2009, the Company issued an additional 8,239,319 shares in conjunction with its acquisition of FCStone. As a result of this transaction, the conversion price was reduced to $21.79 per share. As of September 30, 2009, the remaining Notes are convertible by the holders into 767,886 shares of common stock of the Company.

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

In the event that the Consolidated 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 September 30, 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 (the SEC) a Registration Statement on Form S-3 within a specified period of time. The Registration Statement was declared effective by the SEC on October 24, 2006. The Company is required, under the Registration Rights Agreement, to maintain the effectiveness of the Registration Statement, failing which it could become liable to pay holders of the Notes liquidated damages of 1% of the value of the Notes, plus a further 1% for every 30 days that it remains ineffective thereafter, up to an aggregate maximum of 10% of the value of the Notes. At September 30, 2009 the Company was in compliance with its requirements under the Registration Rights Agreement.

Note 16 Commitments and Contingencies

As discussed in Note 11 Goodwill, the Company has a contingent liability relating to the acquisition of CIBSA which may result in the payment of additional consideration in March of 2010 & 2011.

As discussed in Note 15 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.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Operating Leases

The Company is obligated under various noncancelable operating leases for the rental of office facilities, service obligations and certain office equipment, and accounts for these lease obligations on a straight line basis. The expense associated with operating leases amounted to $1.9 million, $2.4 million, and $2.1 million for fiscal years 2009, 2008 and 2007, respectively. The expenses associated with the operating leases and service obligations are reported in the consolidated income statements within occupancy and equipment rental, clearing and related and other expenses. With the acquisition of FCStone, the Company s commitments have increased significantly to include additional offices, equipment, automobiles and a plane.

Future aggregate minimum lease payments under noncancelable operating leases as of September 30, 2009 are as follows:

Year ending September 30, (In millions)	
2010	$ 5.2
2011	3.4
2012	2.5
2013	2.2
2014	2.0
Thereafter	3.8
	$ 19.1

Exchange Member Guarantees

The Company is a member of various exchanges that trade and clear futures and option contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company s guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Impairment

The Company recorded an impairment charge of $1.1 million in the fourth quarter of 2009 in connection with INTL Sieramet LLC, a corporation in which it holds a 55% equity interest. This amount is recorded in Other under the Non-interest expenses section of the Consolidated Income Statements. The impairment charge is to recognize the uncertain future of INTL Sieramet s operations and the possibility that there may be incomplete recovery of the full value of its assets.

Securities Litigation

FCStone and certain officers of FCStone were named as defendants in an action filed in the United States District Court for the Western District of Missouri on July 15, 2008. A consolidated amended complaint was subsequently filed on September 25, 2009. The action, which purports to be brought as a class action on behalf of purchasers of FCStone common stock between November 15, 2007 and February 24, 2009, seeks to hold defendants liable under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934 for allegedly false statements and failure to disclose adverse facts relating to an interest rate hedge, the bad debt reserve of FCStone and losses sustained by FCStone in connection with a customer s energy trades. FCStone filed a motion to dismiss this amended complaint, along with supporting documents, on November 24, 2009.

A purported shareholder derivative action was filed against FCStone (solely as a nominal defendant) and certain officers and directors of FCStone on August 5, 2008 in the Circuit Court of Platte County, Missouri, alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment. An amended complaint was subsequently filed on May 6, 2009 to add claims based upon the losses sustained by FCStone arising out of a customer s energy trading. On July 2, 2009 FCStone filed a motion to dismiss and supporting documents. On July 7, 2009, the same plaintiff filed a motion for leave to amend the existing case to add a purported class action claim on behalf of the holders of FCStone common stock. If amended, the complaint would allege that the defendants breached their fiduciary duties by engaging in an unfair process in connection with the contemplated acquisition of FCStone by the Company. FCStone, to the extent it is named as a direct defendant, and the individual defendants intend to defend against the complaint vigorously.

On July 8, 2009, a purported class action complaint was filed against FCStone and its directors, as well as International Assets Holding Corporation and International Assets Acquisition Corp. in the Circuit Court of Clay County, Missouri by two individuals who purported to be stockholders of FCStone. The plaintiffs purported to bring this action on behalf of all stockholders of FCStone. The complaint alleged that FCStone and its directors breached their fiduciary duties by failing to maximize stockholder value in connection with the contemplated

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

acquisition of FCStone by International Assets Holding Corporation. The complaint also alleged that FCStone, International Assets Holding Corporation and International Assets Acquisition Corp. aided and abetted the directors alleged breach of fiduciary duties. The plaintiffs sought to permanently enjoin the transaction between FCStone and International Assets Holding Corporation, monetary damages in an unspecified amount attributable to the alleged breach of duties, and legal fees and expenses. The plaintiffs did not succeed in enjoining the transaction. This complaint has subsequently been consolidated with the complaint filed in the Circuit Court of Platte County, Missouri, and will fall under the jurisdiction of that court. A combined, amended complaint is expected to be served on the defendants towards the end of calendar 2009. All of the defendants intend to defend against the complaint vigorously.

Sentinel Litigation

On August 29, 2008, the bankruptcy trustee of Sentinel filed adversary proceedings against one of the Company s subsidiaries, FCStone, LLC, and 10 other futures commission merchants in the Bankruptcy Court for the Northern District of Illinois seeking avoidance of alleged transfers or withdrawals of funds received by the futures commission merchants within 90 days prior to the filing of the Sentinel bankruptcy petition, as well as avoidance of post-petition distributions and disallowance of the proof of claim filed by FCStone, LLC. The trustee seeks recovery of pre- and post-petition transfers totaling approximately $15.5 million. On April 8, 2009, the bankruptcy trustee filed an amended complaint adding a claim for unjust enrichment. FCStone, LLC has answered the complaints and all parties have entered into the discovery phase of the litigation. The Sentinel cases have recently been reassigned within the United States District Court for the Northern District of Illinois, and a trial in this matter is expected to be set for mid to late 2010. However, FCStone, LLC intends to defend the matter vigorously, and to coordinate its defense with the other futures commission merchants.

Convertible Noteholder Litigation

On November 16, 2009, an investor in a principal amount of $3.7 million of the Company s senior subordinated convertible notes due 2011 (the Notes), Portside Growth and Opportunity Fund (Portside), managed by Ramius LLC, served a notice of motion for summary judgment on the Company, claiming that the FCStone transaction resulted in a change of control as defined in the Notes; and that, as a result, the Company should have afforded Portside the opportunity to have the Notes redeemed at a 15% premium. Portside is also claiming default interest at the rate of 15% per annum established in the Notes. The Company is of the view that the FCStone transaction did not result in a change of control as defined in the Notes and intends to defend the matter vigorously. In the event that the Company does not prevail in this litigation, then the Company would be obligated to pay to Portside the principal amount of the Notes, the premium of 15%, accrued interest and attorneys fees. It is also possible that the other holders of the notes would also seek to redeem their Notes. These other Notes have a principal balance of approximately $13.0 million.

We are currently unable to predict the outcome of these claims and believe their current status does not warrant accrual under the guidance of the Contingencies Topic of the Accounting Standards Codification, since the amount of any liability is neither probable nor reasonably estimable. As such, no amounts have been accrued in the consolidated financial statements. We intend to vigorously defend the claims against us and will continue to monitor the litigation and assess the need for future accruals. 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.

From time to time and in the ordinary course of our business, we are a plaintiff or are a defendant in other legal proceedings related to various issues, including worker s compensation claims, tort claims, contractual disputes and collections. We carry insurance that provides protection against certain types of claims, up to the policy limits of our insurance. It is the opinion of management that none of the other known legal actions will have a material adverse impact on the our financial position, results of operations or liquidity.

Change in Control Contingency

In connection with the FCStone Transaction, certain of FCStone s management and executive officers are participants in FCStone s Change in Control Severance Plan (the Severance Plan). The Severance Plan provides that if during the two-year period following the completion of the merger agreement, a participant terminates their employment for good reason or the Company terminates the participant s employment other than for cause or on account of death or disability, the Company will be committed to pay certain compensation amounts to the participant in a lump

sum amount. The maximum potential commitment for all participants is $5.4 million. At September 30, 2009, no actions have occurred or are anticipated which would trigger payments under the Severance Plan.

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 17 Capital and Other Regulatory Requirements

Our 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. Equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At September 30, 2009, INTL Trading s net capital was $1.5 million, which was $0.5 million in excess of its minimum requirement.

Pursuant to the rules, regulations, and requirements of the CFTC and other regulatory agencies, FCStone is required to maintain certain minimum net capital as defined in such rules, regulations, and requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. FCStone s adjusted net capital and minimum net capital requirement at September 30, 2009 were $63.2 million and $34.8 million, respectively.

FCC Investments, Inc. is required to maintain certain net capital as defined by the Securities and Exchange Commission. At September 30, 2009, FCC Investments, Inc. net capital was $0.4 million and the minimum net capital requirement was $0.3 million.

FCStone Australia Pty Ltd is regulated by the Australian Securities and Investment Commission and is subject to a minimum capital requirement which at September 30, 2009 was $50,000.

INTL Capital Limited (INTL Capital), is regulated by the Dubai Financial Services Authority, in the United Arab Emirates, and was subject to a minimum capital requirement of approximately $0.5 million as of September 30, 2009.

Note 18 Acquisition of FCStone Group, Inc.

On September 30, 2009, the Company acquired FCStone Group, Inc. (FCStone) through the issuance of 8,239,319 shares of the Company s common stock. As a result of the acquisition, FCStone became a wholly-owned subsidiary of the Company.

FCStone is an integrated risk management company that provides risk management consulting and transaction execution services to commercial commodity intermediaries, end-users and producers. The Company believes that the acquisition will create a leading global provider of consulting and trade execution services. Management believes the combined entity will be better positioned to take advantage of market opportunities and enjoy better access to capital sources. In addition to those factors, other primary factors for the acquisition includes revenue diversification, additional product offerings, creation of critical mass, enhanced geographic footprint, expanded shareholder base and liquidity in the stock and an experienced management team.

Since the acquisition was completed on September 30, 2009, which is the last day of the Company s fiscal year end, no results of operations from FCStone have been included in the Company s consolidated income statement for the year ended September 30, 2009.

The purchase price of approximately $137.6 million includes the fair value of common stock issued and estimated acquisition costs. The components of the purchase price are as follows:

(in millions, except share and per share amounts)		**September 30, 2009**
Number of shares of International Assets common stock issued		8,239,319
Weighted average price per share of International Assets common stock, for the period covering two days immediately before and after September 30, 2009	$	16.45
Consideration attributable to issuance of International Assets common stock	$	135.5
International Assets acquisition costs		2.1

Total purchase price	$	137.6

In connection with the merger, the holders of FCStone common stock and stock options became holders of the Company s common stock and stock options, respectively. As a result of the acquisition, all unvested FCStone stock options became fully vested as of the effective date of the acquisition. Each outstanding share of common stock of FCStone was converted into .295 shares (the exchange ratio) of the Company s common stock. In addition, each outstanding vested FCStone stock option granted under FCStone s stock option plan was converted into a vested option to purchase shares of the Company s common stock, with adjustments to the number of shares and the strike price to reflect the exchange ratio.

The fair value of the common stock issued was determined using a value of $16.45 per share, which represents the average closing price of the Company s common stock for the five-day period comprised of the two days prior to, and the two days subsequent to the date of the acquisition on September 30, 2009.

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Notes to Consolidated Financial Statements (Continued)

The total purchase price of the assets acquired and liabilities assumed for the acquisition of FCStone is allocated to the net tangible and intangible assets based on their estimated fair value as of the date of the acquisition. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. Applying purchase accounting resulted in the mark-up of FCStone s exchange memberships and stock to fair market value, resulting in an increase of $2.6 million to exchange memberships and stock, net of estimated deferred income taxes of $1.8 million, the recording of an actuarial loss of $0.5 million on the FCStone defined-benefit pension plan and a decrease to the recorded Agora-X minority interest balance of $4.4 million.

The allocation of the purchase price to assets acquired and liabilities assumed as of the date of acquisition resulted in negative goodwill. In accordance with SFAS 141, the negative goodwill was allocated as a pro rata deduction of the amounts assigned to the assets acquired excluding financial assets, deferred taxes and other current assets. This resulted in the allocation of negative goodwill to the writing down of $4.2 million in non-current assets, net of estimated deferred taxes of $2.9 million. The remaining negative goodwill of $18.5 million has been recognized as an extraordinary item in the consolidated income statement for the year ended September 30, 2009.

Book value of net assets acquired at September 30, 2009	$ 153.8
Adjusted for:	
FCStone mark-up of exchange memberships and stock, net of deferred income taxes	2.6
FCStone write-down of non-current assets, net of deferred income taxes	(4.2)
FCStone pension actuarial loss	(0.5)
FCStone adjustment to Agora-X minority interest	4.4
Adjusted book value of net assets acquired	156.1
Adjusted for:	
Excess net assets over purchase price (negative goodwill)	(18.5)
Total purchase price	$ 137.6

The Company does not currently expect any further material changes to the purchase price allocation.

The following presents a condensed balance sheet of FCStone as of the September 30, 2009 acquisition date, after applying purchase accounting to the balances as per the reconciliation above:

September 30,	**2009**
ASSETS	
Cash and cash equivalents	$ 24.2
Cash and securities segregated under federal and other regulations	14.9
Deposits and receivables from:	
Exchange-clearing organizations	899.0
Broker-dealers and futures commission merchants	45.9
Counterparties	14.7
Receivable from customers, net	8.4
Notes receivable from customers, net	22.2
Income taxes receivable	40.2
Financial instruments owned, at fair value	59.5
Deferred income taxes	27.7

Other assets	17.0
Total assets	$ 1,173.7
LIABILITIES AND STOCKHOLDERS EQUITY	
Liabilities:	
Accounts payable and other accrued liabilities	$ 49.8
Payables to:	
Customers - regulated	811.6
Customers - unregulated	71.7
Lenders under loans and overdrafts	2.7
Financial instruments sold, not yet purchased, at fair value	23.7
	959.5
Subordinated debt	56.5
Total liabilities	1,016.0
Minority owners interest in consolidated entities	1.6
Stockholders equity	156.1
Total liabilities and stockholders equity	$ 1,173.7

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

The following table presents the unaudited pro forma condensed consolidated results of continuing operations of the Company as if the acquisition were completed as of the beginning of each of the fiscal years presented below.

UNAUDITED, PRO FORMA **(In millions, except share and per share numbers)**	**For the Fiscal Year Ended September 30, 2009**	**For the Fiscal Year Ended September 30, 2008**
Income Statement		
Operating revenues	$ 320.6	$ 453.4
Interest expense	12.5	16.9
Non-interest expenses	391.6	313.4
(Loss) income before income tax and minority interest	(83.5)	123.1
Income tax	(37.1)	47.9
Minority interest	(0.4)	(1.2)
(Loss) income from continuing operations	$ (46.0)	$ 76.4
(Loss) earnings from continuing operations per share:		
- Basic	$ (2.69)	$ 4.60
- Diluted	$ (2.69)	$ 4.14
Weighted-average number of common shares outstanding:		
- Basic	17,116,639	16,620,931
- Diluted	17,116,639	18,437,296

The unaudited pro forma amounts are presented for illustrative purposes only and are not necessarily indicative of expected future consolidated results of continuing operations. FCStone s results have been included using the results from their August 31 fiscal years. Pro forma adjustments were made to exclude $9.9 million and $1.3 million from FCStone s expenses for the fiscal year ended August 31, 2009 and 2008, respectively, net of taxes of $6.0 million and $0.8 million at August 31, 2009 and 2008, respectively. Average basic and diluted shares outstanding were adjusted to reflect the exchange ratio of 0.295 shares of the Company for each FCStone common share.

Note 19 Employee Stock-Based Compensation and Savings Plans

Stock-based compensation expense is included within Compensation and benefits in the consolidated income statements and totaled $1.9 million, $1.5 million and $0.8 million for 2009, 2008 and 2007, respectively.

Stock Option Plans

The Company sponsors a stock option plan for its directors, officers, employees and consultants. At September 30, 2009, 782,504 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. We settle stock option exercises with newly issued shares of common stock.

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

Year Ended September 30,	**2009**	**2008**	**2007**
Expected stock price volatility	114%	61%	66%
Expected dividend yield	0%	0%	0%
Risk free interest rate	2.23%	3.17%	4.54%
Average expected life (in years)	4.70	2.96	3.50

Expected stock price volatility rates are based on the historical volatility of the Company s common stock. We have not paid dividends in the past and do 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.

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Notes to Consolidated Financial Statements (Continued)

The following is a summary of stock option activity through September 30, 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	1,435,152				
Granted	(1,126,622)	1,126,622	$ 24.22		
Exercised		(84,760)	$ 4.51		
Forfeited	9,415	(9,415)	$ 16.79		
Balances at September 30, 2009	782,504	1,616,654	$ 19.91	4.58	$ 8.6
Exercisable at September 30, 2009		1,116,420	$ 24.54	4.54	$ 4.6

Total compensation cost not yet recognized for non-vested stock option awards is $1.3 million at September 30, 2009 and has a weighted average period of 2.03 years over which the compensation expense is expected to be recognized. The total intrinsic value of options exercised during fiscal years 2009, 2008, and 2007 was $0.6 million, $5.3 million, and $3.8 million, respectively.

The options outstanding as of September 30, 2009 are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Term (in years)
$ - $ 5.00	294,299	$ 2.46	3.26
5.00 - 10.00	435,220	$ 7.05	5.02
10.00 - 15.00	70,746	$ 10.69	0.61
15.00 - 20.00	368,257	$ 18.63	5.22
20.00 - 25.00	33,223	$ 23.25	1.51
25.00 - 30.00	94,981	$ 28.28	1.67
30.00 - 35.00	1,476	$ 34.25	2.84
35.00 - 40.00		n/a	n/a
40.00 - 45.00		n/a	n/a
45.00 - 50.00		n/a	n/a
50.00 - 55.00	318,452	$ 54.23	6.53
Outstanding, September 30, 2009	1,616,654		

Restricted Stock Plan

The Company sponsors a restricted stock plan for its directors, officers and employees. At September 30, 2009, 552,449 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. We settle restricted stock with newly issued shares of common stock.

The following is a summary of all restricted stock activity through September 30, 2009:

	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Grant Date Fair Value	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value ($ millions)
Balances at September 30, 2008	657,184	84,397	$ 26.01	2.25	$ 2.0
Granted	(122,953)	122,953	$ 8.59		
Vested		(25,604)	$ 25.86		
Forfeited	18,218	(18,218)	$ 25.51		
Balances at September 30, 2009	552,449	163,528	$ 12.99	2.68	$ 2.7

Total compensation cost not yet recognized for non-vested stock awards is $1.5 million at September 30, 2009 and has a weighted average period of 2.68 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.

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Notes to Consolidated Financial Statements (Continued)

Savings Plans

The Company has a Savings Incentive Match Plan for Employees IRA (SIMPLE IRA). Participating U.S. employees of International Assets Holding Corporation may contribute up to 100% of their salary, but not more than statutory limits. We contribute a dollar for each dollar a participant contributes in this plan, with a maximum contribution of 3% of a participant s earnings. U.K. based employees of International Assets Holding Corporation are eligible to participate in a defined contribution pension plan (pension plan). The Company contributes double the employees contribution up to 10% of total base salary for this plan. For both plans, employees are 100% vested in both the employee and employer contributions at all times. For fiscal years 2009, 2008, and 2007, the Company s contribution to savings plans was $0.5 million, $0.5 million, and $0.4 million, respectively.

As a result of the Company s acquisition of FCStone, the Company has two additional plans, the Thrift/Savings Plan for Cooperatives 401(k) plan and the FCStone Group Employee Stock Ownership Plan. The FCStone Group Employee Stock Ownership Plan has been frozen as a result of the acquisition. The Thrift/Savings Plan for Cooperatives 401(k) plan matches 50% of contributions up to 10% of a participant s earnings, but not more than statutory limits.

Note 20 Defined Benefit Retirement Plan

As a result of its acquisition of FCStone, the Company has a noncontributory retirement plan, which is a defined benefit plan that covers certain employees, and which was frozen to new employees prior to the acquisition. No additional benefits will be accrued for active participants under the plan. The plan freeze represents a curtailment under the Compensation Retirement Benefits Topic of the FASB Accounting Standards Codification. The Company s funding policy as it relates to this plan is to fund amounts that are intended to provide for benefits attributed to service to date.

Also as a result of its acquisition of FCStone, the Company has a nonqualified noncontributory defined benefit retirement plan covering certain executive employees, and which was frozen prior to the acquisition. No additional benefits will be accrued for active participants under the plan. The Company s funding policy as it relates to this plan is to fund amounts that are intended to provide for benefits attributed to service to date.

To account for the defined benefit pension plans in accordance with the Compensation Retirement Benefits Topic of the FASB Accounting Standards Codification the Company must make two main determinations at the end of each year. These determinations are reviewed annually and updated as necessary, but nevertheless, are subjective and may vary from actual results.

First, the Company must determine the actuarial assumptions for the discount rate used to reflect the time value of money in the calculation of the projected benefit obligations for the end of the current fiscal year and to determine the net periodic pension cost for the subsequent period. The objective of our discount rate assumption is to reflect the interest rate at which pension benefits could be effectively settled. In making this determination, the Company took into account the timing and amount of benefits that would be available under the plans. The discount rate at September 30, 2009 is based on a model portfolio of high-quality fixed-income debt instruments with durations that are consistent with the expected cash flows of the benefit obligations.

Second, the Company must determine the expected long-term rate of return on assets assumption that is used to determine the expected return on plan assets component of the net periodic pension cost for the subsequent period. The expected long-term rate of return on asset assumption was determined, with the assistance of the Company s investment consultants, based on a variety of factors. These factors include, but are not limited to, the plan s asset allocations, a review of historical capital market performance, historical plan performance, current market factors such as inflation and interest rates, and a forecast of expected future asset returns. The Company reviews this long-term assumption on an annual basis.

As a result of the plan freeze, no additional benefits will be accrued for active participants under the plan, and accordingly no assumption will be made for the rate of increase in compensation levels in the future.

The following table sets forth the actual asset allocation as of September 30, 2009, and the target asset allocation for the Company s plan assets:

	Actual Allocation	Target Asset Allocation
Equity securities	66%	65% to 75%
Debt Securities	34%	25% to 35%
Total	100%	

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Notes to Consolidated Financial Statements (Continued)

The long-term goal for equity exposure and for fixed income exposure is presented above.

The exact allocation at any point in time is at the discretion of the investment manager, but should recognize the need to satisfy both the volatility and the rate of return objectives for equity exposure and satisfy the objective of preserving capital for the fixed income exposure.

The investment philosophy of the Company s pension plans reflect that over the long-term, the risk of owning equities has been and should continue to be rewarded with a greater return than that available from fixed income investments. The primary objective is for the plan to achieve a minimum average total rate of return of four percentage points above the rate of inflation.

Investments in the Company s pension plans include debt and equity securities. The fair value of plan assets is based upon the fair value of the underlying investments, which include cash equivalents, common stocks, U.S. government securities and federal agency obligations, municipal and corporate bonds, and equity funds. Cash equivalents consist of short-term money market funds that are stated at cost, which approximates fair value. The shares of common stock, U.S. government securities and federal agency obligations, municipal and corporate bonds are stated at estimated fair value based upon quoted market prices, if available, or dealer quotes. The equity funds are investment vehicles valued using the net asset value (NAV) provided by the administrator of the fund. The NAV is based on the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Equity securities did not include any International Assets Holding Corporation common stock at September 30, 2009.

The Company is required to recognize the funded status of its defined benefit pension plans measured as the difference between plan assets at fair value and the projected benefit obligation on the consolidated balance sheet at September 30, 2009 and to recognize changes in the funded status, that arise during the period but are not recognized as components of net periodic pension cost, within accumulated other comprehensive income, net of taxes. Plan assets totaled $18.9 million as of September 30, 2009, and the accumulated benefit obligation and projected benefit obligation was $35.6 million. The retirement benefit obligation was determined using a discount rate of 5.90% and an expected return on plan assets of 8.25% at the September 30, 2009 measurement date.

The Company expects to contribute approximately $4.0 million to the pension plans during fiscal 2010, which represents the minimum funding requirement. However, the Company is currently determining what voluntary pension plan contributions, if any, will be made in fiscal 2010.

The following benefit payments, which reflect expected future service, are expected to be paid:

Year ending September 30, (In millions)	
2010	$ 2.6
2011	2.7
2012	3.0
2013	3.1
2014	2.7
2015 - 2018	11.4
	$ 25.5

Note 21 Preferred Stock

The Company is authorized to issue one million shares of its preferred stock at a par value of $.01 per share. As of September 30, 2009 and 2008, no preferred shares were outstanding and the Board of Directors had not yet determined the specific rights and privileges of these shares.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 22 Other Revenues, net

Other revenue is comprised of the following:

(In millions)

Year Ended September 30,	**2009**	**2008**	**2007**
Fees and commissions	$ 6.6	$ 6.2	$ 3.7
Dividend expense, net	0.3	(0.2)	(0.2)
Interest income	1.8	3.1	0.9
Other	0.4	0.6	0.7
Total other revenues, net	$ 9.1	$ 9.7	$ 5.1

Note 23 Taxes

The components of the provision for income taxes were as follows:

(In millions)

Year Ended September 30,	**2009**	**2008**	**2007**
Current Taxes:			
U.S. Federal	$ 1.7	$ 5.7	$ (0.2)
U.S. State and Local	0.2	0.6	
International	4.4	2.1	3.1
Current taxes	6.3	8.4	2.9
Deferred taxes	(3.7)	7.8	(6.3)
Income tax expense (benefit)	$ 2.6	$ 16.2	$ (3.4)

U.S. and international components of income before income taxes was as follows:

(In millions)

Year Ended September 30,	**2009**	**2008**	**2007**
U.S.	$ (5.2)	$ 37.6	$ (18.5)
International	18.1	5.3	8.9
Income before income tax and minority interest	$ 12.9	$ 42.9	$ (9.6)

Items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes were as follows:

Year Ended September 30,	**2009**	**2008**	**2007**
Federal statutory rate	34.0 %	34.0 %	34.0 %
Effect of:			
U.S. State income taxes	(1.4)%	3.1 %	6.8 %
Foreign earnings taxed at higher (lower) rates	(13.7)%	0.7 %	(1.0)%
Stock-based compensation expense	3.4 %	0.3 %	(2.1)%
Non-deductible meals and entertainment	0.4 %	0.1 %	(0.5)%
Other reconciling items	(2.8)%	(0.4)%	(1.4)%
Effective rate	19.9 %	37.8 %	35.8 %

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

The components of deferred income tax assets and liabilities were as follows:

(In millions) September 30,	2009	2008
Deferred income tax assets:		
Stock-based compensation expense	$ 1.7	$ 0.3
Pension liability	7.2	
Deferred compensation	5.3	
Federal and State net operating loss carryforwards	7.3	
Worthless security deduction		1.0
Unrealized loss on inventory		0.4
Unrealized loss on derivatives	1.4	
Fixed assets	4.2	
Bad debt reserve	2.3	
Other	0.2	0.2
Deferred income tax assets	$ 29.6	$ 1.9
Deferred income tax liabilities:		
Partnership tax basis timing difference		$ (0.1)
Unrealized gain on OTC derivatives		(3.8)
Deferred income tax liabilities		(3.9)
Net deferred income tax assets (liabilities)	$ 29.6	$ (2.0)

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.

The Company has recorded a $40.2 million income tax receivable on its consolidated balance sheet as of September 30, 2009. This receivable was acquired by the Company as a part of the FCStone transaction. It relates to the net operating loss of FCStone Group, Inc. for its year ended August 31, 2009. The Company has elected to carryback the net operating loss to recapture taxes paid in the prior two fiscal years. The Company expects to receive this income tax refund by the end of its second fiscal quarter of 2010.

The total amount of undistributed earnings in the Company s foreign subsidiaries, for income tax purposes, was approximately $28.2 million at September 30, 2009. It is the Company s current intention to reinvest undistributed earnings of its foreign subsidiaries in the foreign jurisdictions, resulting in the indefinite postponement of the remittance of those earnings. Accordingly, no provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of foreign subsidiaries were paid as dividends to the Company. For the same reason, it is not practicable to calculate the unrecognized deferred tax liability on those earnings.

Income taxes paid were $10.2 million in fiscal year 2009, $9.4 million in fiscal year 2008, and $1.7 million in fiscal year 2007.

In June 2006, the FASB issued guidance under the Income Taxes Topic of the Accounting Standards Codification clarifying the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. This guidance 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 guidance also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The

Company adopted the guidance 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, various states, and various foreign jurisdictions.

Note 24 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 incurred losses before taxes of $2.4 million and $0.2 million in this subsidiary during fiscal years 2008 and 2007, respectively. The Company realized a tax benefit of $1.0 million for the 2008 fiscal year. The results of operations for INTL Global Currencies (Asia) Ltd. which were previously included in the foreign exchange trading segment, are included within discontinued operations on the consolidated income statement for all periods presented.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

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

Note 25 Subsequent Events

The Company has evaluated subsequent events through December 14, 2009, the date of issuance of these consolidated financial statements, as required by the Subsequent Events Topic of the Accounting Standards Codification.

Note 26 Quarterly Financial Information (Unaudited)

The Company has set forth certain unaudited financial data for the twelve quarters in fiscal years 2009, 2008, and 2007 in the table below:

(In millions, except per share amounts) Quarter Ended	December 31	March 31	June 30	September 30
Fiscal Year 2009				
Operating revenues	$ 28.5	$ 26.3	$ 23.0	$ 13.5
Interest expense	2.3	2.3	1.6	1.8
Net revenues	26.2	24.0	21.4	11.7
Total non-interest expenses	20.2	18.2	16.3	15.7
Income tax expense	2.5	0.9	1.4	(2.2)
Minority interest	0.1	0.4		
Income from continuing operations	3.4	4.5	3.7	(1.8)
Loss from discontinued operations	0.1	0.5	0.1	
Extraordinary gain				18.5
Net income	$ 3.3	$ 4.0	$ 3.6	$ 16.7
Net basic earnings (loss) per share	$ 0.37	$ 0.46	$ 0.41	$ 1.87
Net diluted earnings (loss) per share	$ 0.35	$ 0.44	$ 0.38	$ 1.62
Fiscal Year 2008				
Operating revenues	$ 38.1	$ 29.3	$ 27.5	$ 22.1
Interest expense	3.0	2.7	2.5	3.0
Net revenues	35.1	26.6	25.0	19.1
Total non-interest expenses	15.6	16.7	14.6	16.0
Income tax expense	7.2	3.7	4.0	1.3
Minority interest			(0.3)	(0.7)
Income from continuing operations	12.3	6.2	6.7	2.5
Loss from discontinued operations	(0.6)	0.2	(0.1)	0.4
Net income	$ 12.9	$ 6.0	$ 6.8	$ 2.1

Net basic earnings (loss) per share	$ 0.24	$ 0.80	$ 0.71	$ 1.56
Net diluted earnings (loss) per share	$ 0.23	$ 0.72	$ 0.64	$ 1.35
Fiscal Year 2007				
Operating revenues	$ 8.0	$ 13.2	$ 7.4	$ 18.7
Interest expense	1.5	1.7	2.5	3.6
Net revenues	6.5	11.5	4.9	15.1
Total non-interest expenses	9.2	11.2	11.8	15.4
Income tax expense	(1.0)	0.1	(2.5)	
Minority interest		(0.2)	(0.3)	(0.1)
Income from continuing operations	(1.7)	0.4	(4.1)	(0.2)
Loss from discontinued operations	(0.3)	(0.2)	(0.3)	(0.3)
Net income	$ (1.4)	$ 0.6	$ (3.8)	$ 0.1
Net basic earnings (loss) per share	$ 0.01	$ (0.46)	$ 0.08	$ (0.19)
Net diluted earnings (loss) per share	$ 0.01	$ (0.46)	$ 0.08	$ (0.19)

INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

Note 27 Segment Information

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

International Equities Market-Making

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

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, governmental 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 stated at the lower of cost or market value, under the provisions of the Inventory Topic of the Accounting Standards Codification. 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. Additionally, GAAP does not require us to reflect changes in the estimated values of forward commitments to purchase or sell commodities. 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.

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 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.

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INTERNATIONAL ASSETS HOLDING CORPORATION

Notes to Consolidated Financial Statements (Continued)

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, commodities trading and debt trading businesses. The foreign exchange trading business competes for this business as it does for any other business. If its rates are not competitive the equity, commodities trading and debt trading businesses buy or sell their foreign currency through other market counter-parties. The profit or loss made by the foreign exchange trading business on these transactions is not quantifiable.

Information concerning operations in these segments of business is as follows:

(In millions) **Year Ended September 30,**	**2009**	**2008**	**2007**
Total revenues:			
International equities market-making	$ 33.8	$ 33.9	$ 27.5
Foreign exchange trading	30.4	23.8	14.2
Commodities trading	43,532.3	18,281.2	4,397.5
International debt capital markets	4.9	4.3	6.4
Asset management	3.2	1.8	7.7
Other	(0.2)	3.5	0.7
Total	$ 43,604.4	$ 18,348.5	$ 4,454.0
Operating revenues:			
International equities market-making	33.8	33.9	27.5
Foreign exchange trading	30.4	23.8	14.2
Commodities trading	19.2	49.7	(9.2)
International debt capital markets	4.9	4.3	6.4
Asset management	3.2	1.8	7.7
Other	(0.2)	3.5	0.7
Total	$ 91.3	$ 117.0	$ 47.3
Net contribution (loss):			
(Revenues less cost of sales, clearing and related expenses, variable bonus compensation and bad debt expense):			
International equities market-making	$ 18.3	$ 17.6	$ 13.8
Foreign exchange trading	21.8	17.7	11.1
Commodities trading	12.3	45.2	(12.0)
International debt capital markets	4.2	3.8	4.6
Asset management	2.3	(0.2)	5.7
Other	(0.3)	3.3	0.6
Total	$ 58.6	$ 87.4	$ 23.8
Reconciliation of net contribution (loss) to income (loss) before income tax and minority interest:			
Net contribution allocated to segments	$ 58.6	$ 87.4	$ 23.8

Costs not allocated to operating segments	45.7	44.5	33.4
Income (loss) before income tax and minority interest	$ 12.9	$ 42.9	$ (9.6)

As of September 30,	**2009**	**2008**
Total assets:		
International equities market-making	$ 22.4	$ 48.9
Foreign exchange trading	38.4	52.9
Commodities trading	263.3	205.3
International debt capital markets	27.9	11.2
Asset management	14.6	114.4
Commodity & risk management services	436.1	
Clearing & execution services	708.7	
Financial services	8.7	
Other	35.6	5.3
Total	$ 1,555.7	$ 438.0

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INTERNATIONAL ASSETS HOLDING CORPORATION

CONDENSED BALANCE SHEETS

Parent Company Only

(in millions)

September 30,	2009	2008
ASSETS		
Cash and cash equivalents	$	$ 4.3
Receivables from customers, net		3.8
Receivables from subsidiaries	74.6	73.6
Subordinated loan due from affiliate		1.0
Income taxes receivable	7.4	
Financial instruments owned, at fair value		0.3
Investments in subsidiaries	206.2	62.1
Deferred income taxes	0.9	1.3
Other assets	1.5	1.3
Total assets	$ 290.6	$ 147.7
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities	$ 7.1	$ 4.0
Payable to lenders under loans and overdrafts	34.9	31.0
Income taxes payable		1.0
Financial instruments sold, not yet purchased, at fair value	24.8	41.9
	66.8	77.9
Convertible subordinated notes payable, net	16.7	16.8
Total liabilities	83.5	94.7
Stockholders equity:		
Common stock, $.01 par value	0.2	0.1
Treasury stock	(0.1)	
Additional paid-in capital	187.0	48.9
Retained earnings	22.1	4.8
Accumulated other comprehensive loss	(2.1)	(0.8)
Total stockholders equity	207.1	53.0
Total liabilities and stockholders equity	$ 290.6	$ 147.7

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INTERNATIONAL ASSETS HOLDING CORPORATION

CONDENSED INCOME STATEMENTS

Parent Company Only

(in millions)

Year Ended September 30,	2009	2008	2007
Revenues:			
Net dealer inventory and investment gains	(2.5)	0.4	0.7
Other	15.7	18.2	8.4
Total revenues	13.2	18.6	9.1
Interest expense	3.9	3.1	3.3
Net revenues	9.3	15.5	5.8
Non-interest expenses:			
Compensation and benefits	10.7	5.7	5.2
Clearing and related expenses	0.2	0.1	0.2
Occupancy and equipment rental	0.2	0.2	0.2
Professional fees	0.9	0.8	0.9
Business development	0.4	0.7	0.2
Insurance	0.2	0.1	0.2
Other	3.0	2.6	1.2
Total non-interest expenses	15.6	10.2	8.1
Income (loss) before income tax and minority interest	(6.3)	5.3	(2.3)
Income tax expense (benefit)	(5.1)	(2.5)	(2.2)
Income (loss) before extraordinary gain	(1.2)	7.8	(0.1)
Extraordinary gain	18.5		
Net income (loss)	$ 17.3	$ 7.8	$ (0.1)

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INTERNATIONAL ASSETS HOLDING CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

Parent Company Only

(in millions)

Year Ended September 30,	**2009**	**2008**	**2007**
Cash flows from operating activities:			
Net income (loss)	$ 17.3	$ 7.8	$ (0.1)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Deferred income taxes	0.3	5.0	(5.6)
Amortization of debt issuance costs and debt discount	0.2	0.3	0.4
Convertible debt interest settled in Company stock upon partial conversion		0.1	
Amortization of stock-based compensation expense	1.9	1.5	0.8
Loss on sale of INTL Consilium, LLC			
Extraordinary gain on acquisition of FCStone	(18.5)		
Impairment of INTL Sieramet, LLC	1.1		
Changes in operating assets and liabilities:			
Receivable from customers	3.8	(3.7)	0.4
Receivables from subsidiaries	12.5	(50.2)	(46.2)
Subordinated loan due from affiliate	1.0	0.1	(0.1)
Income taxes receivable	(7.4)	(9.0)	8.4
Financial instruments owned, at fair value	0.3		12.5
Other assets	(2.5)		(0.3)
Accounts payable and other accrued liabilities	2.0	0.4	1.1
Income taxes payable	(1.0)	3.0	(1.6)
Financial instruments sold, not yet purchased, at fair value	(18.3)	41.0	(0.4)
Net cash used in operating activities	(7.3)	(3.7)	(30.7)
Cash flows from investing activities:			
Payments related to acquisition of Gainvest	(1.4)	(1.4)	(2.8)
Payments related to acquisition of INTL Global Currencies			(0.8)
Net cash provided by (used in) investing activities	(1.4)	(1.4)	(3.6)
Cash flows from financing activities:			
Payable to lenders under loans and overdrafts	3.8	6.5	20.5
Share repurchase	(0.1)		
Exercise of stock options	0.4	1.4	1.0
Income tax benefit on stock awards exercised	0.3	1.3	0.7
Net cash (used in) provided by financing activities	4.4	9.2	22.2
Net (decrease) increase in cash and cash equivalents	(4.3)	4.1	(12.1)
Cash and cash equivalents at beginning of period	4.3	0.2	12.3
Cash and cash equivalents at end of period	$	$ 4.3	$ 0.2
Supplemental disclosure of cash flow information:			

Cash paid for interest	$ 3.9	$ 3.4	$ 2.7
Income taxes paid	$ 6.4	$ 3.5	$
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of subordinated notes to common stock, net	$ 0.1	$ 8.1	$ 1.9
Release of trust certificates	$	$ 11.2	$ 2.9
Issuance of common stock related to acquisitions	$ 135.5	$	$ 1.7

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Exhibit Index

Exhibit No.	Description
21	List of the Company s subsidiaries.
23.1	Consent of Rothstein, Kass & Company, P.C.
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.