INTL FCSTONE INC.
Form 10-Q
August 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2016

OR

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

For the Transition Period From to

Commission File Number 000-23554

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

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

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

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

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

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

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

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

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

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Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2016
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
INTL FCStone Inc.
Condensed Consolidated Balance Sheets

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

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

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Income Statements
(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively "INTL" or "the Company"), form a diversified, global financial services organization providing financial products and advisory and execution services to help clients access market liquidity, maximize profits and manage risk. The Company's services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter ("OTC") products in a wide range of commodities; physical trading and hedging of precious metals and select other commodities; trading of more than 150 foreign currencies; market-making in international equities; fixed income; debt origination and asset management. The Company provides these services to a diverse group of more than 20,000 accounts, representing approximately 11,000 consolidated clients located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the firm's products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2015, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X.

Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. It is suggested that these interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes contained in the Company's Form 10-K for the fiscal year ended September 30, 2015 filed with the SEC.

These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.

The Company's fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurement for financial instruments and investments, revenue recognition, the provision for potential losses from bad debts, valuation of inventories, valuation of goodwill and intangible assets, self-insurance liabilities, incomes taxes and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

In the condensed consolidated income statements, the total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. The subtotal 'operating revenues' in the condensed consolidated income statements is calculated by deducting physical commodities cost of sales from total revenues. The subtotal 'net operating revenues' in the condensed consolidated income statements is calculated as operating revenues less transaction-based clearing expenses, introducing broker commissions and interest expense. Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing organizations and banks in relation to our transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to the Company. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

Change in Precious Metals Accounting

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

Note 2 – Earnings per Share

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

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

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

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

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

Note 3 – Assets and Liabilities, at Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

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

	September 30, 2015				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificates of deposits	$1.3	$—	$ —	$—	$1.3
Commodities warehouse receipts	22.1	—	—	—	22.1
U.S. government obligations	—	493.4	—	—	493.4
Securities and other assets segregated under federal and other regulations	22.1	493.4	—	—	515.5
Money market funds	431.8	—	—	—	431.8
U.S. government obligations	—	501.4	—	—	501.4
Derivatives	3,615.9	—	—	(3,539.7)	76.2
Deposits with and receivables from exchange-clearing organizations	4,047.7	501.4	—	(3,539.7)	1,009.4
TBA and forward settling securities	—	1.2	—	(1.0)	0.2
Derivatives	0.1	537.9	—	(591.1)	(53.1)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	0.1	539.1	—	(592.1)	(52.9)
Common and preferred stock and ADRs	23.7	1.9	0.5	—	26.1
Exchangeable foreign ordinary equities and ADRs	82.9	6.6	—	—	89.5
Corporate and municipal bonds	26.1	2.0	3.2	—	31.3
U.S. government obligations	—	513.4	—	—	513.4
Foreign government obligations	—	12.1	—	—	12.1
Mortgage-backed securities	—	699.5	—	—	699.5
Derivatives	278.5	1,702.0	—	(1,949.9)	30.6
Commodities leases	—	64.6	—	(57.0)	7.6
Commodities warehouse receipts	2.8	—	—	—	2.8
Exchange firm common stock	5.6	—	—	—	5.6
Mutual funds and other	3.4	—	—	—	3.4
Financial instruments owned	423.0	3,002.1	3.7	(2,006.9)	1,421.9
Physical commodities inventory, net - precious metals	15.2	—	—	—	15.2
Total assets at fair value	$4,509.4	$4,536.0	$ 3.7	$(6,138.7)	$2,910.4
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 3.3	$—	$3.3
TBA and forward settling securities	—	2.6	—	(1.0)	1.6
Derivatives	3,491.3	528.7	—	(4,020.0)	—
Payable to broker-dealers, clearing organizations and counterparties	3,491.3	531.3	—	(4,021.0)	1.6
Common and preferred stock and ADRs	18.0	0.6	—	—	18.6
Exchangeable foreign ordinary equities and ADRs	89.0	1.0	—	—	90.0
U.S. government obligations	—	341.0	—	—	341.0
Foreign government obligations	—	6.4	—	—	6.4
Mortgage-backed securities	—	2.8	—	—	2.8
Derivatives	264.0	1,723.5	—	(1,933.4)	54.1
Commodities leases	—	99.1	—	(43.7)	55.4

Financial instruments sold, not yet purchased	371.0	2,174.4	—	(1,977.1)	568.3
Total liabilities at fair value	$3,862.3	$2,705.7	$ 3.3	$(5,998.1)	$573.2

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

Realized and unrealized gains and losses are included in ‘trading gains, net’ and ‘interest income’ in the condensed consolidated income statements.

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Information on Level 3 Financial Assets and Liabilities

The Company’s financial assets at fair value classified in level 3 of the fair value hierarchy as of June 30, 2016 and September 30, 2015 are summarized below:

(in millions)	June 30, 2016	September 30, 2015
Total level 3 assets	$3.3	$3.7
Level 3 assets for which the Company bears economic exposure	$3.3	$3.7
Total assets	$6,065.9	$5,070.0
Total assets at fair value	$3,720.4	$2,910.4
Total level 3 assets as a percentage of total assets	0.1 %	0.1 %
Level 3 assets for which the Company bears economic exposure as a percentage of total assets	0.1 %	0.1 %
Total level 3 assets as a percentage of total financial assets at fair value	0.1 %	0.1 %

The following tables set forth a summary of changes in the fair value of the Company’s level 3 financial assets and liabilities during the three and nine months ended June 30, 2016 and 2015, including a summary of unrealized gains (losses) during the respective periods on the Company’s level 3 financial assets and liabilities still held as of June 30, 2016.

	Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2016						
(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.3	$ —	$ —	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.3	—	(0.3)	—	—	—	3.0
	$3.6	$ —	$ (0.3)	$ —	$ —	$ —	$ 3.3
Liabilities:							
Contingent liabilities	$1.5	$ —	$ —	$ —	$ (0.7)	$ —	$ 0.8

	Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2016						
(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.5	$ —	$ (0.2)	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.2	—	(0.2)	—	—	—	3.0
	$3.7	$ —	$ (0.4)	$ —	$ —	$ —	$ 3.3
Liabilities:							
Contingent liabilities	$3.3	$ —	$ 0.3	$ —	$ (2.8)	$ —	$ 0.8

	Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2015						
(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.5	$ —	$ —	$ —	$ —	$ —	$ 0.5
	3.6	—	(0.1)	—	—	—	3.5

Corporate and municipal bonds	$4.1	$ —$	(0.1)	$ —	$ —	$ —	$ 4.0
Liabilities:							
Contingent liabilities	$3.1	$ —$	0.2	$ —	$ —	$ —	$ 3.3

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Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2015

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.7	$ —	$ (0.2)	$ —	$ —	$ —	$ 0.5
Corporate and municipal bonds	3.6	—	(0.1)	—	—	—	3.5
	$4.3	$ —	$ (0.3)	$ —	$ —	$ —	$ 4.0
Liabilities:							
Contingent liabilities	$5.5	$ —	$ 0.4	$ 1.5	$ (4.1)	$ —	$ 3.3

In accordance with the Fair Value Measurements Topic of the ASC, the Company has estimated on a recurring basis each period the fair value of debentures issued by a single asset owning company of Suriwongse Hotel located in Chiang Mai, Thailand. As of June 30, 2016, the Company's investment in the hotel is $3.0 million, and included within the corporate and municipal bonds classification in the level 3 financial assets and financial liabilities tables. The Company has classified its investment in the hotel within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. These cash flows are discounted employing present value techniques. The Company estimates the fair value of its investment in these debentures by using a management-developed forecast, which is based on the income approach. There has been no significant change in the fair value of the debentures during the three and nine months ended June 30, 2016 and 2015.

The Company is required to make additional future cash payments based on certain financial performance measures of its acquired businesses. The Company is required to remeasure the fair value of the cash earn-out arrangements on a recurring basis in accordance with the guidance in the Business Combinations Topic of the ASC. The Company has classified its liabilities for the contingent earn-out arrangements within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. The estimated fair value of the earn-outs is based upon management-developed forecasts, a level 3 input in the fair value hierarchy. These cash flows are discounted employing present value techniques in arriving at fair value. The discount rate was developed using market participant company data and there have been no significant changes in the interest rate environment. From the dates of acquisition to June 30, 2016, certain acquisitions have had changes in the estimates of undiscounted cash flows, based on actual performances fluctuating from estimates. The fair value of the contingent consideration increased $47 thousand and $0.2 million during the three months ended June 30, 2016 and 2015, respectively, and increased $0.3 million and $0.4 million during the nine months ended June 30, 2016 and 2015, respectively, with the corresponding amount classified as 'other' in the condensed consolidated income statements.

The Company reports transfers in and out of levels 1, 2 and 3, as applicable, using the fair value of the securities as of the beginning of the reporting period in which the transfer occurred. The Company did not have any transfers in and out of levels 1, 2, and 3 during the three and nine months ended June 30, 2016 and 2015.

Note 4 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2016 at the fair values of the related financial instruments. The Company will incur losses if the fair value of the underlying financial instruments increases subsequent to June 30, 2016. The total of $871.6 million as of June 30, 2016 includes $225.5 million for derivative contracts, which represents a liability to the Company based on their fair values as of June 30, 2016.

Derivatives

The Company utilizes derivative products in its trading capacity as a dealer in order to satisfy client needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company's

other trading activities. The majority of the Company's derivative positions are included in the condensed consolidated balance sheets in 'deposits with and receivables from exchange-clearing organizations', 'financial instruments owned and sold, not yet purchased, at fair value' and payables to broker-dealers, clearing organizations and counterparties'.
The Company employs an interest rate risk management strategy that uses derivative financial instruments in the form of interest rate swaps to manage a portion of the aggregate interest rate position. The Company's objective is to invest the majority of customer deposits in high quality, short-term investments and swap the resulting variable interest earnings into the medium-

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term interest stream. The risk mitigation of these interest rate swaps is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC, and as a result they are recorded at fair value, with changes in the fair value of the interest rate swaps recorded within 'trading gains, net' in the condensed consolidated income statements. At June 30, 2016, the Company had $375.0 million in notional principal of interest rate swaps outstanding with a weighted-average remaining life of 18 months.

Listed below are the fair values of the Company’s derivative assets and liabilities as of June 30, 2016 and September 30, 2015. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	June 30, 2016		September 30, 2015	
(in millions)	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	$2,512.7	$ 2,534.0	$3,443.6	$ 3,313.8
OTC commodity derivatives	2,954.6	2,782.7	1,621.2	1,650.7
Exchange-traded foreign exchange derivatives	20.3	10.4	27.8	20.6
OTC foreign exchange derivatives	933.5	803.5	892.2	865.4
Exchange-traded interest rate derivatives	132.4	142.7	126.8	136.0
Equity index derivatives	27.8	34.5	22.8	21.0
TBA and forward settling securities	3.4	5.4	1.2	2.6
Gross fair value of derivative contracts	6,584.7	6,313.2	6,135.6	6,010.1
Impact of netting and collateral	(6,315.3)	(6,084.2)	(6,081.7)	(5,954.4)
Total fair value included in ‘Deposits with and receivables from exchange-clearing organizations’	$48.0		$76.2	
Total fair value included in ‘Deposits with and receivables from broker-dealers, clearing organizations and counterparties’	$(14.8)		$(52.9)	
Total fair value included in ‘Financial instruments owned, at fair value’	$236.2		$30.6	
Total fair value included in ‘Payables to broker-dealers, clearing organizations and counterparties		$ 3.5		$ 1.6
Fair value included in ‘Financial instruments sold, not yet purchased, at fair value’		$ 225.5		$ 54.1

(1) As of June 30, 2016 and September 30, 2015, the Company’s derivative contract volume for open positions were approximately 3.9 million and 4.1 million contracts, respectively.

The Company’s derivative contracts are principally held in its Commercial Hedging and Clearing and Execution Services segments. The Company assists its Commercial Hedging segment 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 Commercial Hedging segment customers with option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by offsetting the customer’s transaction simultaneously with one of the Company’s trading counterparties or with a similar but not identical position on the exchange. The risk mitigation of these offsetting trades is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC. These derivative contracts are traded along with cash transactions because of the integrated nature of the markets for these products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies. In particular, the risks related to derivative positions may be partially offset by inventory, unrealized gains in inventory or cash collateral paid or received.

The Company has derivative instruments, which consist of mortgage-backed TBA securities and forward settling transactions that are used to manage risk exposures in the trading inventory of the Company’s domestic fixed income institutional business. The fair value on these transactions are recorded in receivables or payables to broker-dealers, clearing organizations and counterparties. Realized and unrealized gains and losses on securities and derivative transactions are reflected in ‘trading gains, net’.

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The Company enters into TBA securities transactions for the sole purpose of managing risk associated with the purchase of mortgage pass-through securities. TBA securities are included within deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties. Forward settling securities represent non-regular way securities and are included in financial instruments owned and sold. As of June 30, 2016 and September 30, 2015, these transactions are summarized as follows:

	June 30, 2016		September 30, 2015	
(in millions)	Gain / (Loss)	Notional Amounts	Gain / (Loss)	Notional Amounts
Unrealized gain on TBA securities purchased within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$1.7	$539.7	$0.6	$194.6
Unrealized loss on TBA securities purchased within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$(0.2)	$199.7	$(0.2)	$163.7
Unrealized gain on TBA securities sold within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$0.2	$(279.4)	$0.4	$(314.1)
Unrealized loss on TBA securities sold within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$(4.0)	$(1,184.8)	$(2.0)	$(563.8)
Unrealized gain on forward settling securities purchased within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts	$1.5	$481.6	$0.1	$163.4
Unrealized gain on forward settling securities sold within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts	$(1.2)	$(595.2)	$(0.4)	$(286.3)

(1) The notional amounts of these instruments reflect the extent of the Company's involvement in TBA securities and do not represent risk of loss due to counterparty non-performance.

The following table sets forth the Company’s gains (losses) related to derivative financial instruments for the three and nine months ended June 30, 2016 and 2015, in accordance with the Derivatives and Hedging Topic of the ASC. The gains set forth below are included in ‘trading gains, net’ in the condensed consolidated income statements.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Commodities	$5.6	$20.6	$30.6	$67.0
Foreign exchange	0.2	1.1	3.8	5.0
Interest rate	1.0	0.5	2.0	0.6
TBA and forward settling securities	(6.6)	0.7	(11.6)	3.2
Net gains from derivative contracts	$0.2	$22.9	$24.8	$75.8

Credit Risk

In the normal course of business, the Company purchases and sells financial instruments, commodities and foreign currencies as either principal or agent on behalf of its customers. If either the customer or counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the fair 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 are with commodity exchanges, customers, broker-dealers and other financial institutions. These activities primarily involve collateralized and uncollateralized arrangements and may result in credit exposure in the event that a counterparty fails to meet its contractual obligations. The Company’s exposure to credit risk can be directly impacted by volatile financial markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit and/or position limits based upon a review of the counterparties’ financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

The Company is a party to financial instruments in the normal course of its business through customer and proprietary trading accounts in exchange-traded and OTC derivative instruments. These instruments are primarily the result of 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

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customers to deposit additional collateral or reduce positions when necessary. The Company also establishes credit limits for customers, which are monitored daily. The Company evaluates each customer's creditworthiness on a case by case basis. Clearing, financing, and settlement activities may require the Company to maintain funds with or pledge securities as collateral with other financial institutions. Generally, these exposures to both customers and exchanges are subject to master netting, or customer agreements, which reduce the exposure to the Company by permitting receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits held as of June 30, 2016 and September 30, 2015 were adequate to minimize the risk of material loss that could be created by positions held at that time. Additionally, the Company monitors collateral fair 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 reduce the exposure to 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 condensed consolidated balance sheets. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the Company's positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in foreign exchange rates. The Company attempts to manage its exposure to market risk through various techniques. Aggregate market limits have been established and market risk measures are routinely monitored against these limits.

Note 5 – Receivables From Customers, Net and Notes Receivable, Net

The allowance for doubtful accounts related to receivables from customers was $12.2 million as of June 30, 2016 and $10.2 million as of September 30, 2015. The allowance for doubtful accounts related to notes receivable was $0.4 million and $1.0 million as of June 30, 2016 and September 30, 2015, respectively.

During the three months ended June 30, 2016, the Company recorded no net bad debt expense. During the three months ended June 30, 2015, the Company recorded bad debt expense of $0.4 million, including provision increases for OTC customer deficits, partially offset by provision decreases for LME customer deficits collected.

During the nine months ended June 30, 2016, the Company recorded bad debt expense of $4.6 million, primarily related to $1.5 million of customer receivables in the Physical Ag's & Energy component of the Company's Physical Commodities segment, $2.7 million of customer deficits in the Company's Commercial Hedging segment and $0.3 million related to short-term notes receivable origination in the Securities segment. During the nine months ended June 30, 2015, the Company recorded bad debt expense of $3.2 million, including provision increases of $2.8 million and direct write-offs of $0.4 million. The provision increases were primarily related to OTC and LME customer deficits and notes receivable related to loans pertaining to a former acquisition.

The Company originates short-term notes receivable from customers with the outstanding balances typically being insured 90% to 98% by a third party, including accrued interest, subject to applicable deductible amounts. The total balance outstanding under insured notes receivable was $8.9 million and $41.4 million as of June 30, 2016 and September 30, 2015, respectively. The Company has sold $7.8 million and $30.7 million of the insured portion of the notes through non-recourse participation agreements with other third parties as of June 30, 2016 and September 30, 2015, respectively. The Company has completed its exit of the majority of this activity during the nine months ended June 30, 2016. The Company believes the run-off of the remaining activity will have a minimal impact on the Company.

See discussion of notes receivable related to commodity repurchase agreements in Note 10.

Note 6 – Physical Commodities Inventory

The carrying values of the Company's inventory, which consist of all finished commodities inventory, are $106.6 million and $32.8 million as of June 30, 2016 and September 30, 2015, respectively.

As a result of the declining market prices of certain commodities, the Company has recorded lower of cost or market ("LCM") adjustments for physical commodities inventory of $1.0 million and $0.3 million as of June 30, 2016 and September 30, 2015, respectively. The adjustments are included in 'cost of sales of physical commodities' in the condensed consolidated income statements.

Note 7 – Goodwill

The carrying value of goodwill is allocated to the Company's operating segments as follows:

(in millions)	June 30, 2016	September 30, 2015
Commercial Hedging	$ 30.7	$ 30.7
Global Payments	6.3	6.3
Physical Commodities	2.4	2.4
Securities	8.1	8.1
Goodwill	$ 47.5	$ 47.5

Note 8 – Intangible Assets

The gross and net carrying values of intangible assets as of the balance sheet dates, by major intangible asset class are as follows:

	June 30, 2016			September 30, 2015		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
Trade name	$1.1	$ (0.3)	$ 0.8	$—	$ —	$ —
Software programs/platforms	2.7	(2.4)	0.3	2.7	(2.3)	0.4
Customer base	14.0	(5.6)	8.4	14.0	(4.9)	9.1
	17.8	(8.3)	9.5	16.7	(7.2)	9.5
Intangible assets not subject to amortization						
Trade name	—	—	—	1.1	—	1.1
Total intangible assets	$17.8	$ (8.3)	$ 9.5	$17.8	$ (7.2)	$ 10.6

During the nine months ended June 30, 2016, as part of the periodic assessment of useful lives of the intangible assets, the Company determined the indefinite-lived trade names, related to the Risk Management Incorporated and RMI Consulting, Inc. (the "RMI Companies") acquisitions, were no longer considered to be indefinite. The Company is intending to phase out the use of those trade names in the future. The value of the RMI Companies' trade names of $1.1 million was recorded in the Commercial Hedging segment.

The RMI Companies' trade names were determined to have a remaining finite useful life of approximately two years. The trade names were not deemed to be impaired, however, the value of the trade names was transferred from the indefinite-lived category to intangible assets subject to amortization and will be amortized over the estimated two year useful life. The Company recorded amortization for the trade names of $0.3 million, within 'depreciation and amortization' on the condensed consolidated income statement, during the nine months ended June 30, 2016.

Amortization expense related to intangible assets was $1.2 million and $1.1 million for the nine months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, the estimated future amortization expense was as follows:

(in millions)	
Fiscal 2016 (remaining three months)	$0.4
Fiscal 2017	1.6
Fiscal 2018	1.0
Fiscal 2019	1.0
Fiscal 2020 and thereafter	5.5
	$9.5

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Note 9 – Credit Facilities

Variable-Rate Credit Facilities

The Company has four committed credit facilities under which the Company and its subsidiaries may borrow up to $385.0 million, subject to the terms and conditions for these facilities. The amounts outstanding under these credit facilities are short term borrowings and carry variable rates of interest, thus approximating fair value. The Company's credit facilities consist of the following:

- $220 million facility available to INTL FCStone Inc. for general working capital requirements. In May 2016, the Company amended the credit facility to add an additional lender to the facility further increasing the commitment from $205 million to $220 million. The Company paid debt issuance costs of $1.8 million in connection with this credit facility, which are being amortized over the thirty-six month term.
- $75 million facility available to the Company's wholly owned subsidiary, INTL FCStone Financial Inc., for short-term funding of margin to commodity exchanges. The facility is subject to annual review and guaranteed by INTL FCStone Inc.
- $65 million facility available to the Company's wholly owned subsidiary, FCStone Merchant Services, LLC, for financing traditional commodity financing arrangements and commodity repurchase agreements. The facility is subject to annual review and is guaranteed by INTL FCStone Inc.
- $25 million facility available to the Company's wholly owned subsidiary, INTL FCStone Ltd, for short-term funding of margin to commodity exchanges. The facility is subject to annual review and is guaranteed by INTL FCStone Inc.

The Company also has a secured, uncommitted loan facility, under which the Company's wholly owned subsidiary, INTL FCStone Financial Inc. may borrow up to $50 million, collateralized by commodity warehouse receipts, to facilitate U.S. commodity exchange deliveries of its customers, subject to certain terms and conditions of the credit agreement.

Note Payable to Bank

In April 2015, the Company obtained a $4.0 million loan from a commercial bank, secured by equipment purchased with the proceeds. The note is payable in monthly installments, ending in March 2020. The note bears interest at a rate per annum equal to LIBOR plus 2.00%.

Senior Unsecured Notes

In July 2013, the Company completed the offering of $45.5 million aggregate principal amount of the Company's 8.5% Senior Notes due 2020 (the "Notes"). The net proceeds of the sale of the Notes are being used for general corporate purposes. The Notes bear interest at a rate of 8.5% per year (payable quarterly on January 30, April 30, July 30 and October 30 of each year). The Notes mature on July 30, 2020. The Company may redeem the Notes, in whole or in part, at any time on and after July 30, 2016, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date. The Company incurred debt issuance costs of $1.7 million in connection with the issuance of the Notes, which are being amortized over the term of the Notes.

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The following table sets forth a listing of credit facilities, the committed amounts as of June 30, 2016 on the facilities, and outstanding borrowings on the facilities as well as indebtedness on a promissory note and on senior notes as of June 30, 2016 and September 30, 2015:
(in millions)

Credit Facilities				Amounts Outstanding	
Borrower	Security	Renewal / Expiration Date	Total Commitment	June 30, 2016	September 30, 2015
INTL FCStone Inc.	Pledged shares of certain subsidiaries	March 18, 2019	$ 220.0	$ 170.0	$ 28.0
INTL FCStone Financial Inc.	None	April 6, 2017	75.0	—	—
INTL FCStone Financial Inc.	Commodity warehouse receipts	n/a	—	—	—
FCStone Merchants	Certain commodities assets	May 1, 2017	65.0	38.6	10.0
INTL FCStone Ltd	None	October 31, 2016	25.0	—	—
			$ 385.0	208.6	38.0
Note Payable to Bank					
Monthly installments, due March 2020 and secured by certain equipment				3.0	3.6
Senior Unsecured Notes					
8.50% senior notes, due July 30, 2020				45.5	45.5
Total indebtedness				$ 257.1	$ 87.1

As reflected above, $165 million of the Company’s committed credit facilities are scheduled to expire within twelve months of this filing. The Company intends to renew or replace this facility when it expires, and based on the Company’s liquidity position and capital structure, the Company believes it will be able to do so.

The Company’s credit facility agreements contain financial covenants relating to financial measures on a consolidated basis, as well as on a certain stand-alone subsidiary basis, including minimum tangible net worth, minimum regulatory capital, minimum net unencumbered liquid assets, maximum net loss, minimum fixed charge coverage ratio and maximum funded debt to net worth ratio. Failure to comply with these covenants could result in the debt becoming payable on demand. As of June 30, 2016, the Company was in compliance with all of its financial covenants under its credit facilities.

Note 10 – Commodity and Other Repurchase Agreements and Collateralized Transactions

The Company’s outstanding notes receivable in connection with sale/repurchase agreements, under which customers sell certain commodity inventory and agree to repurchase the commodity inventory at a future date at either a fixed or floating rate, as of June 30, 2016 and September 30, 2015 were $31.2 million and $26.7 million, respectively.

The obligations outstanding related to commodities sold under repurchase agreements that are recorded in ‘lenders under loans’ as of June 30, 2016 and September 30, 2015 were $38.6 million and $10.0 million, respectively.

The Company enters into securities purchased under agreements to resell and payables under repurchase agreements primarily to finance financial instruments, acquire securities to cover short positions or to acquire securities for settlement. These agreements are recorded at their contractual amounts plus accrued interest. The related interest is recorded in the condensed consolidated income statements as interest income or interest expense, as applicable. In connection with these agreements and transactions, it is the policy of the Company to receive or pledge cash or securities to adequately collateralize such agreements and transactions in accordance with general industry guidelines and practices. The value of the collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. The carrying amounts of these agreements and transactions approximate fair value due to their short-term nature and the level of collateralization.

The Company pledges financial instruments owned to collateralize repurchase agreements. At June 30, 2016, on a settlement date basis, financial instruments owned of $343.8 million were pledged as collateral under repurchase agreements. The counterparty has the right to repledge the collateral in connection with these transactions. These financial instruments owned have been pledged as collateral and have been parenthetically disclosed on the condensed consolidated balance sheet.

In addition, as of June 30, 2016, the Company pledged settlement date financial instruments owned of $1,043.8 million and securities received under reverse repurchase agreements of $76.7 million to cover collateral for tri-party repurchase agreements. For these securities, the counterparty does not have the right to sell or repledge the collateral.

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At June 30, 2016, the Company has accepted collateral that it is permitted by contract or custom to sell or repledge. This collateral consists primarily of securities received in reverse repurchase agreements. The fair value of such collateral at June 30, 2016, was approximately $626.2 million of which $551.7 million was used to cover securities sold short which are recorded in financial instruments sold, not yet purchased on the condensed consolidated balance sheet. In the normal course of business, this collateral is used by the Company to cover financial instruments sold, not yet purchased and to obtain financing in the form of repurchase agreements. At June 30, 2016, substantially all of the above collateral had been delivered against financial instruments sold, not yet purchased or repledged by the Company to obtain financing.

Note 11 – Commitments and Contingencies

Legal Proceedings

From time to time and in the ordinary course of business, the Company is involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. The Company carries insurance that provides protection against certain types of claims, up to the policy limits of the insurance.

As of June 30, 2016 and September 30, 2015, the condensed consolidated balance sheets include loss contingency accruals recorded prior to these periods then ended, which are not material, individually or in the aggregate, to the Company's financial position or liquidity. In the opinion of management, possible exposure from loss contingencies in excess of the amounts accrued, is not likely to be material to the Company's earnings, financial position or liquidity.

Sentinel Litigation

Prior to its July 1, 2015 merger into INTL FCStone Financial Inc., the Company's subsidiary FCStone, LLC, had a portion of its excess segregated funds invested with Sentinel Management Group Inc. ("Sentinel"), a registered futures commission merchant ("FCM") and an Illinois-based money manager that provided cash management services to other FCMs. In August 2007, Sentinel halted redemptions to customers and sold certain of the assets it managed to an unaffiliated third party at a significant discount. On August 17, 2007, subsequent to Sentinel's sale of certain assets, Sentinel filed for bankruptcy protection. In aggregate,$15.5 million of FCStone, LLC's $21.9 million in invested funds were returned to it before and after Sentinel's bankruptcy petition.

In August 2008, the bankruptcy trustee of Sentinel filed adversary proceedings against FCStone, LLC, and a number of other FCMs in the Bankruptcy Court for the Northern District of Illinois. The case was subsequently reassigned to the U.S. District Court, for the Northern District of Illinois. In the complaint, the trustee is seeking avoidance of alleged transfers or withdrawals of funds received by FCStone, LLC and other FCMs 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.

The trial of this matter took place, as a test case, during October 2012. The trial court entered a judgment against FCStone, LLC on January 4, 2013. On January 17, 2013, the trial court entered an agreed order, staying execution and enforcement, pending an appeal of the judgment. On March 19, 2014, the appeal court ruled in favor of FCStone, LLC. On April 16, 2014, the trustee filed a petition for rehearing of the appeal. On May 19, 2014, the U.S. Court of Appeals for the Seventh Circuit denied the petition. The trustee did not file a writ for certiorari with the U.S. Supreme Court during the time allotted to do so.

On February 10, 2015, based on a new theory, the trustee filed a motion for judgment against FCStone, LLC in the U.S. District Court, for the Northern District of Illinois, seeking to claw back the post-petition transfer of $14.5 million and to recover the funds held in reserve in the name of FCStone, LLC. FCStone, LLC filed its opposition brief and an associated motion for judgment on March 17, 2015. The trustee filed its reply briefs on April 7, 2015 and the Company filed its reply briefs on April 22, 2015.

On March 28, 2016 the U.S. District Court for the Northern District of Illinois entered an order in favor of FCStone, LLC (now INTL FCStone Financial Inc.) and against the trustee on the trustee's post-petition claim, in light of the Seventh Circuit's opinion. The same court ruled against INTL FCStone Financial and in favor of the trustee with respect to the funds held in reserve accounts.

On April 25, 2016, INTL FCStone Financial filed a notice of appeal to the U.S. Court of Appeals for the Seventh Circuit relating to the portion of the final judgment dated March 28, 2016 of the district court and INTL FCStone Financial's claim to funds in reserve accounts. On April 26, 2016, the trustee filed a notice of appeal from the March 28, 2016 final judgment of the district court. On April 27, 2016, the court consolidated the two appeals and directed the trustee to file an opening brief. On June 27, 2016 the trustee filed his appellate brief.

The Company has determined that losses related to the trustee's appeal are neither probable nor reasonably possible.

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Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may later prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Contractual Commitments

Contingent Liability - Acquisition

Under the terms of the purchase agreement related to the acquisition listed below, the Company has an obligation to pay additional consideration if specific conditions and earnings targets are met. In accordance with the Business Combinations Topic of the ASC, the fair value of the additional consideration is recognized as a contingent liability as of the acquisition date. The contingent liability for these estimated additional purchase price considerations of $0.8 million and $3.3 million are included in ‘accounts payable and other accrued liabilities’ in the condensed consolidated balance sheets as of June 30, 2016 and September 30, 2015. The acquisition date fair value of additional consideration is remeasured to its fair value each reporting period, with changes in fair value recorded in current earnings. The change in fair value during the nine months ended June 30, 2016 and 2015 were increases of $0.3 million and$0.4 million, respectively, and are included in ‘other’ in the condensed consolidated income statements.

The Company has a contingent liability relating to the January 2015 acquisition of G.X. Clarke, which may result in the payment of additional purchase price consideration. The contingent consideration, which in no event shall exceed $1.5 million, is expected to be paid in two payments. The present value of the estimated total purchase price, including contingent consideration, is $28.7 million as of June 30, 2016, of which $0.8 million remains outstanding and is included in ‘accounts payable and other accrued liabilities’ in the condensed consolidated balance sheet.

Self-Insurance

The Company self-insures its costs related to medical and dental claims. The Company is self-insured, up to a stop loss amount, for eligible participating employees and retirees, and for qualified dependent medical and dental claims, subject to deductibles and limitations. As of June 30, 2016, the Company had $1.1 million accrued for self-insured medical and dental claims included in ‘accounts payable and other liabilities’ in the condensed consolidated balance sheet.

Note 12 – Capital and Other Regulatory Requirements

The Company’s activities are subject to significant governmental regulation, both in the United States and overseas. The subsidiaries of the Company were in compliance with all of their regulatory requirements as of June 30, 2016, as follows:

(in millions)				As of June 30, 2016	
Subsidiary	Regulatory Authority	Jurisdiction	Requirement Type	Actual	Minimum Requirement
INTL FCStone Financial Inc.	Securities and Exchange Commission ("SEC") and Commodity Futures Trading Commission ("CFTC")	United States	Net capital	$128.7	$ 82.2
INTL FCStone Financial Inc.	CFTC	United States	Segregated funds	$1,991.4	$ 1,939.5
INTL FCStone Financial Inc.	CFTC	United States	Secured funds	$116.4	$ 98.9
INTL FCStone Ltd(1)	Financial Conduct Authority ("FCA")	United Kingdom	Net capital	$136.8	$ 71.4
INTL FCStone Ltd	FCA	United Kingdom	Segregated funds	$52.3	$ 46.7
INTL Netherlands BV(1)	FCA	United Kingdom	Net capital	$136.0	$ 71.5
INTL FCStone DTVM Ltda.	Brazilian Central Bank and Securities and Exchange Commission of Brazil	Brazil	Capital adequacy	$2.4	$ 0.5
	National Securities Commission ("CNV")	Argentina	Capital adequacy	$7.3	$ 0.1

INTL Gainvest S.A.					
INTL Gainvest S.A.	CNV	Argentina	Net capital	$0.1	$ 0.1
INTL CIBSA S.A.	CNV	Argentina	Capital adequacy	$6.7	$ 1.1
INTL CIBSA S.A.	CNV	Argentina	Net capital	$8.8	$ 0.6

(1) INTL Netherlands BV is a holding company that includes the ownership equity of INTL FCStone Ltd. The associated net capital amounts and minimum requirements should not be considered in aggregate.

Certain other non-U.S. subsidiaries of the Company are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 30, 2016, these subsidiaries were in compliance with their local capital adequacy requirements.

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Note 13 – Other Expenses

Other expenses for the three and nine months ended June 30, 2016 and 2015 consisted of the following:

(in millions)	Three Months Ended June 30, 2016	2015	Nine Months Ended June 30, 2016	2015
Contingent consideration, net	$—	$0.2	$0.3	$0.4
Insurance	0.4	0.3	1.1	1.2
Advertising, meetings and conferences	1.2	0.7	4.2	2.0
Non-trading hardware and software maintenance and software licensing	1.8	1.2	4.6	3.5
Office supplies and printing	0.3	0.3	0.9	0.9
Other clearing related expenses	0.5	0.2	1.0	0.8
Other non-income taxes	1.1	1.1	3.2	3.0
Other	1.8	1.7	5.5	4.8
Total other expenses	$7.1	$5.7	$20.8	$16.6

Note 14 – Accumulated Other Comprehensive Income (Loss)

Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income. Other comprehensive income (loss) includes net actuarial losses from defined benefit pension plans, unrealized gains on available-for-sale securities, and gains and losses on foreign currency translations.

The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended June 30, 2016.

(in millions)	Foreign Currency Translation Adjustment	Pension Benefits Adjustment	Accumulated Other Comprehensive Loss
Balances as of September 30, 2015	$ (12.7)	$ (4.8)	$ (17.5)
Other comprehensive (loss) income, net of tax before reclassifications	(7.0)	(0.2)	(7.2)
Amounts reclassified from AOCI, net of tax	—	0.4	0.4
Net current period other comprehensive (loss) income, net of tax	(7.0)	0.2	(6.8)
Balances as of June 30, 2016	$ (19.7)	$ (4.6)	$ (24.3)

Note 15 – Income Taxes

In determining the quarterly provision for income taxes, management uses an estimated annual effective tax rate which is based on the expected annual income and statutory tax rates in the various jurisdictions in which it operates. The Company's effective tax rate differs from the U.S. statutory rate primarily due to state and local taxes, and differing statutory tax rates applied to the income of non-U.S. subsidiaries. The Company records the tax effect of certain discrete items, including the effects of changes in tax laws, tax rates and adjustments with respect to valuation allowances or other unusual or nonrecurring tax adjustments, in the interim period in which they occur, as an addition to, or reduction from, the income tax provision, rather than being included in the estimated effective annual income tax rate. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective income tax rate.

The Company is required to assess its deferred tax assets and the need for a valuation allowance at each reporting period. This assessment requires judgment on the part of management with respect to benefits that may be realized. The Company will record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of the deferred tax assets will not be realized.

The valuation allowance for deferred tax assets as of June 30, 2016 and September 30, 2015 was $3.4 million and $3.2 million, respectively. The net change in the total valuation allowance for the three months ended June 30, 2016 was an increase of $0.2 million. The valuation allowances as of June 30, 2016 and September 30, 2015 were primarily related to U.S. state and local and foreign net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company incurred U.S. federal, state, and local taxable income (losses) for the fiscal years ended September 30, 2015, 2014, and 2013 of $16.5 million, $(18.4) million, and $(24.5) million, respectively. There are no significant differences between actual levels of past taxable income and the results of operations, before income taxes in these jurisdictions. When

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evaluating if U.S. federal, state, and local deferred tax assets are realizable, the Company considered deferred tax liabilities of $2.4 million that are scheduled to reverse from 2016 to 2019 and $1.0 million of deferred tax liabilities associated with unrealized gains in securities which the Company could sell, if necessary. Furthermore, the Company considered its ability to implement business and tax planning strategies that would allow the remaining U.S. federal, state, and local deferred tax assets, net of valuation allowances, to be realized within approximately 11 years. Based on the tax planning strategies that are prudent and feasible, management believes that it is more likely than not that the Company will realize the tax benefit of the deferred tax assets, net of the existing valuation allowance, in the future. However, the realization of deferred income taxes is dependent on future events, and changes in estimate in future periods could result in adjustments to the valuation allowance.

Income tax expense of $6.8 million and $5.0 million for the nine months ended June 30, 2016 and 2015 and income tax expense of $15.6 million and $14.3 million for the nine months ended June 30, 2016 and 2015, respectively, reflect estimated federal, foreign and state taxes.

For the three months ended June 30, 2016 and 2015, the Company's effective tax rate was 32% and29%, respectively. For the nine months ended June 30, 2016 and 2015, the Company's effective tax rate was 29%. The effective tax rate during both periods, after consideration for discrete items, was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company has open tax years ranging from September 30, 2008 through September 30, 2015 with U.S. federal and state and local taxing authorities. In the U.K., the Company has open tax years ending September 30, 2014 to September 30, 2015. In Brazil, the Company has open tax years ranging from December 31, 2010 through December 31, 2015. In Argentina, the Company has open tax years ranging from September 30, 2010 to September 30, 2015. The Company's U.S. net operating loss carry back claim has been reviewed by the Joint Committee of Taxation. The Company expects to receive a full refund.

Note 16 –Acquisitions

Sterne Agee

Effective July 1, 2016, the Company completed its acquisition of all of the equity interests of Sterne Agee, LLC's (a wholly-owned subsidiary of Stifel Financial Corp.) legacy independent brokerage and clearing businesses. Effective August 1, 2016, the Company completed its acquisition of all of the equity interests of Sterne Agee, LLC's legacy Registered Investment Advisor ("RIA") business. Pursuant to the two stock purchase agreements, the Company agreed to acquire Sterne Agee & Leach, Inc.; Sterne Agee Clearing, Inc.; Sterne Agee Financial Services, Inc.; Sterne Agee Asset Management, Inc. and Sterne Agee Investment Advisor Services, Inc. for cash consideration. The purchase price payable by the Company to be finalized after completion of financial statement diligence procedures, is equal to Sterne's net tangible book value at closing of approximately $48.5 million.

Note 17 – Segment Analysis

The Company reports its operating segments based on services provided to customers. The Company's business activities are managed as operating segments and organized into reportable segments as follows:

- Commercial Hedging (includes components Financial Agricultural (Ag's) & Energy and LME metals)
- Global Payments
- Securities (includes components Equity Market-Making, Debt Trading, Investment Banking, and Asset Management)
- Physical Commodities (includes components Precious metals and Physical Ag's & Energy)
- Clearing and Execution Services (includes components Clearing and Execution Services and FX Prime Brokerage)

The total revenues reported combine gross revenues for the physical commodities business for subsidiaries that are not broker-dealers and net revenues for all other businesses. In order to reflect the way that the Company's management views the results, the table below also reflects the segment contribution to 'operating revenues', which is shown on the face of the condensed consolidated income statements and which is calculated by deducting physical commodities cost of sales from total revenues.

Segment data includes the profitability measure of net contribution by segment. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions regarding the allocation of the Company's resources. Net contribution is calculated as revenue less direct cost of sales, transaction-based clearing expenses, variable compensation, introducing broker commissions, and interest expense. Variable compensation paid to risk management consultants/traders generally represents a fixed percentage of an amount equal to revenues generated, and in some cases, revenues produced less transaction-based clearing charges, base salaries and an overhead allocation.

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Segment data also includes segment income which is calculated as net contribution less non-variable direct expenses of the segment. These non-variable direct expenses include trader base compensation and benefits, operational employee compensation and benefits, communication and data services, business development, professional fees, bad debt expense and other direct expenses.

Inter-segment revenues, charges, receivables and payables are eliminated upon consolidation, except revenues and costs related to foreign currency transactions undertaken on an arm’s length basis by the foreign exchange trading business for the securities business.

On a recurring basis, the Company sweeps excess cash from certain operating segments to a centralized corporate treasury function in exchange for an intercompany receivable asset. The intercompany receivable asset is eliminated during consolidation, and therefore this practice may impact reported total assets between segments.

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Information for the reportable segments is shown in accordance with the Segment Reporting Topic of the ASC as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Total revenues:				
Commercial Hedging	$71.9	$62.2	$182.0	$195.3
Global Payments	18.4	18.2	54.1	51.8
Securities	41.6	36.5	136.0	89.8
Physical Commodities	4,701.2	3,847.6	11,506.4	31,636.2
Clearing and Execution Services	33.3	29.5	96.4	92.2
Corporate unallocated	2.1	1.1	2.4	(0.5)
Total	$4,868.5	$3,995.1	$11,977.3	$32,064.8
Operating revenues (loss):				
Commercial Hedging	$71.9	$62.2	$182.0	$195.3
Global Payments	18.4	18.2	54.1	51.8
Securities	41.6	36.5	136.0	89.8
Physical Commodities	7.7	4.1	21.5	17.0
Clearing and Execution Services	33.3	29.5	96.4	92.2
Corporate unallocated	2.1	1.1	2.4	(0.5)
Total	$175.0	$151.6	$492.4	$445.6
Net operating revenues (loss):				
Commercial Hedging	$57.7	$50.3	$145.6	$161.0
Global Payments	16.4	16.3	48.2	45.9
Securities	27.7	25.3	95.5	60.8
Physical Commodities	6.2	3.8	17.7	15.3
Clearing and Execution Services	10.0	9.0	30.8	27.7
Corporate unallocated	(0.7)	(1.3)	(4.9)	(6.2)
Total	$117.3	$103.4	$332.9	$304.5
Net contribution:				
(Revenues less cost of sales of physical commodities, transaction-based clearing expenses, variable bonus compensation, introducing broker commissions and interest expense)				
Commercial Hedging	$41.4	$34.5	$103.6	$114.4
Global Payments	13.2	13.0	38.6	