

MF Global Ltd.
Form 10-Q
November 12, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the QUARTERLY PERIOD ended September 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number 001-33590

MF GLOBAL LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0551260
(I.R.S. Employer
Identification No.)

Clarendon House
2 Church Street

Hamilton HM11, Bermuda
(Address of principal executive offices)

Registrant's telephone number, including area code: (441) 296-1274

(Zip Code)

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

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

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

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

The number of common shares outstanding of the registrant as of October 31, 2008, was 120,311,570.

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MF GLOBAL LTD.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements and Supplementary Data
MF GLOBAL LTD.****CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Revenues				
Execution only commissions	\$ 106,969	\$ 136,201	\$ 226,032	\$ 246,497
Cleared commissions	370,682	357,821	744,855	716,494
Principal transactions	69,235	112,590	132,396	212,545
Interest income	272,259	1,258,362	618,078	2,250,590
Other	14,322	19,322	25,963	28,762
Total revenues	833,467	1,884,296	1,747,324	3,454,888
Interest and transaction-based expenses:				
Interest expense	171,726	1,144,614	410,523	2,047,606
Execution and clearing fees	220,965	232,820	453,668	454,221
Sales commissions	67,888	71,358	135,591	143,154
Total interest and transaction-based expenses	460,579	1,448,792	999,782	2,644,981
Revenues, net of interest and transaction-based expenses	372,888	435,504	747,542	809,907
Expenses				
Employee compensation and benefits (excluding non-recurring IPO awards)	214,561	252,039	425,226	467,417
Employee compensation related to non-recurring IPO awards	17,237	15,018	34,981	15,018
Communications and technology	31,474	28,412	63,900	55,059
Occupancy and equipment costs	11,229	8,748	21,484	17,311
Depreciation and amortization	13,993	13,053	28,158	25,436
Professional fees	19,034	17,501	50,054	31,973
General and other	31,551	26,825	46,776	44,844
PAAF legal settlement		69,000		69,000
IPO-related costs	5,267	26,489	10,735	47,241
Refco integration costs	273	742	543	2,069
Total other expenses	344,619	457,827	681,857	775,368
Gains on exchange seats and shares	15,765	10,946	15,117	74,247
Loss on extinguishment of debt		18,268		18,268
Interest on borrowings	21,744	22,448	35,961	31,140
Income/(Loss) before provision for income taxes	22,290	(52,093)	44,841	59,378

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Provision for income taxes	11,201	36,905	17,927	73,764
Minority interests in income of combined companies (net of tax)	682	1,270	1,238	2,213
Equity in losses of unconsolidated companies (net of tax)	(754)	(324)	(1,632)	(1,096)
Net income/(loss)	\$ 9,653	\$ (90,592)	\$ 24,044	\$ (17,695)
Dividends declared on preferred stock	3,238		3,238	
Cumulative and participating dividends	2,677		3,985	
Net income/(loss) applicable to common shareholders	\$ 3,738	\$ (90,592)	\$ 16,821	\$ (17,695)
Earnings/(Loss) per share (see Note 11):				
Basic	\$ 0.03	\$ (0.78)	\$ 0.14	\$ (0.16)
Diluted	\$ 0.03	\$ (0.78)	\$ 0.14	\$ (0.16)
Weighted average number of common shares outstanding:				
Basic	120,503,557	116,732,733	120,279,627	110,284,746
Diluted	120,503,557	116,732,733	120,279,627	110,284,746

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

Table of Contents**MF GLOBAL LTD .****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Dollars in thousands, except share data)**

	September 30, 2008	March 31, 2008
Assets		
Cash and cash equivalents	\$ 1,286,874	\$ 1,481,084
Restricted cash and segregated securities	10,534,316	12,047,009
Securities purchased under agreements to resell	9,402,272	13,022,376
Securities borrowed	7,613,405	4,649,172
Securities received as collateral	435,926	623,752
Securities owned, at fair value (\$1,246,691 and \$4,142,612 pledged, respectively)	3,379,879	7,380,290
Receivables:		
Brokers, dealers and clearing organizations	15,127,839	7,085,652
Customers (net of allowances of \$18,264 and \$15,958, respectively)	1,335,562	2,367,461
Affiliates	126	716
Other	43,857	41,835
Memberships in exchanges, at cost (market value of \$24,350 and \$43,167, respectively)	6,875	8,909
Furniture, equipment and leasehold improvements, net	57,796	54,911
Goodwill	79,028	74,145
Intangible assets, net	175,850	193,180
Other assets	294,005	224,379
TOTAL ASSETS	49,773,610	49,254,871
Liabilities and Shareholders Equity		
Short-term borrowings, including current portion of long-term borrowings	341,773	1,729,815
Securities sold under agreements to repurchase	14,426,544	18,638,033
Securities loaned	5,348,543	3,188,154
Obligation to return securities borrowed	435,926	623,752
Securities sold , not yet purchased, at fair value	2,971,529	1,869,039
Payables:		
Brokers, dealers and clearing organizations	9,456,428	6,317,297
Customers	13,973,253	15,302,498
Affiliates	5,719	12,921
Accrued expenses and other liabilities	309,382	313,507
Long-term borrowings	950,000	
TOTAL LIABILITIES	48,219,097	47,995,016
Commitments and contingencies (Note 13)		
Preference shares, \$1.00 par value per share; 200,000,000 shares authorized;		
1,500,000 Series A Convertible, issued and outstanding, cumulative	103,780	
1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,760	
Minority interests in consolidated subsidiaries	9,709	10,830

SHAREHOLDERS EQUITY

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Common shares, \$1.00 par value per share; 1,000,000,000 shares authorized, 120,007,111 and 119,647,222 shares issued and outstanding, respectively	120,007	119,647
Treasury shares	(51)	
Additional paid-in capital	1,318,498	1,265,733
Accumulated other comprehensive income (net of tax)	(7,795)	6,084
Accumulated deficit	(118,395)	(142,439)
TOTAL SHAREHOLDERS EQUITY	1,312,264	1,249,025
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 49,773,610	\$ 49,254,871

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollars in thousands, except share data)**

	Six months ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 24,044	\$ (17,695)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Gains on sale of exchanges seats and shares	(14,705)	(143,890)
Depreciation and amortization	28,158	25,436
Stock-based compensation expense	53,428	40,052
Bad debt expense	8,695	2,634
Deferred income taxes	(13,638)	(30,984)
Equity in losses of unconsolidated affiliates	1,632	1,096
Income applicable to minority interests, net of tax	1,238	2,213
Loss on extinguishment of debt		18,268
(Gain)/loss on disposal of furniture, equipment and leasehold improvements	(2)	234
Write-down of capitalized professional fees	1,820	
Amortization of debt issuance costs	3,909	
(Increase)/decrease in operating assets:		
Restricted cash and segregated securities	1,491,349	(1,540,033)
Securities purchased under agreements to resell	3,620,104	(9,126,198)
Securities borrowed	(2,964,233)	1,676,388
Securities owned	3,995,976	(1,072,160)
Receivables:		
Brokers, dealers and clearing organizations	(8,072,983)	(2,006,766)
Customers	1,021,065	(410,652)
Affiliates	(36,789)	17,097
Other	(2,507)	(2,625)
Other assets	(23,305)	(30,291)
Increase/(decrease) in operating liabilities:		
Securities sold under agreements to repurchase	(4,211,489)	7,814,446
Securities loaned	2,160,389	(2,677,451)
Securities sold, not yet purchased, at fair value	1,102,490	3,277,041
Payables:		
Brokers, dealers and clearing organizations	3,139,527	1,635,671
Customers	(1,265,155)	2,506,420
Affiliates	23,865	52,938
Accrued expenses and other liabilities	4,104	34,145
Net cash provided by operating activities	\$ 76,987	\$ 45,334

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS, continued****(Unaudited)****(Dollars in thousands, except share data)**

	Six months ended September 30,	
	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of \$0 and \$8,236 cash acquired in 2008 and 2007, respectively (Note 3)	\$ (4,883)	\$ (49,759)
Proceeds from sale of memberships in exchanges	20,999	164,182
Purchase of memberships in exchanges	(1,369)	(900)
Purchase of furniture, equipment and leasehold improvements	(15,222)	(17,760)
Proceeds from sale of furniture, equipment and leasehold improvements	27	149
Net cash provided (used in)/by investing activities	(448)	95,912
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayment of)/Proceeds from bridge financing	(1,300,000)	1,400,000
Proceeds from other short-term borrowings, net	61,961	51,314
Proceeds from liquidity facility borrowings	350,000	
Proceeds from two-year term facility	240,000	
Issuance of convertible notes	210,000	
Payment of debt issuance costs	(42,483)	
Issuance of preference shares	300,000	
Preference shares issuance costs	(67,460)	
Repayments of private placement notes		(472,620)
Repayments of borrowings from Man Group		(927,380)
Proceeds from Recapitalization		516,223
Proceeds from Man Group for indemnification of tax expense	3,200	54,997
Distribution to minority interest	(634)	(523)
Payment of dividends on preference shares	(3,238)	
Dividends to Man Group		(1,011)
Net cash provided (used in)/by financing activities	(248,654)	621,000
Effect of exchange rates on cash and cash equivalents	(22,095)	25,229
Increase/(decrease) in cash and cash equivalents	(194,210)	787,475
Cash and cash equivalents at beginning of period	1,481,084	1,692,554
Cash and cash equivalents at end of period	\$ 1,286,874	\$ 2,480,029
SUPPLEMENTAL NON-CASH FLOW INFORMATION		
Securities received as collateral	187,826	184,825
Obligation to return securities borrowed	(187,826)	(184,825)
Net distributions to Man Group ⁽¹⁾		139,900

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- ⁽¹⁾ Represents net non-cash distributions to Man Group for the periods presented resulting from U.S. GAAP and carve-out adjustments and the related tax effects thereof applied to the carve-out accounts of the Company to present the financial statements on a stand-alone basis. The accompanying notes are an integral part of these financial statements.

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MF GLOBAL LTD.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except share data)

	Common Shares	Treasury Shares	Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Shareholders' equity at March 31, 2008	\$ 119,647	\$	\$ 1,265,733	\$ (142,439)	\$ 6,084	\$ 1,249,025
Stock-based compensation			53,428			53,428
Net income				24,044		24,044
Foreign currency translation					(13,879)	(13,879)
Shares issued	360	(51)	(625)			(316)
Tax indemnification from Man Group			3,200			3,200
Preferred share dividends			(3,238)			(3,238)
Shareholders' equity at September 30, 2008	\$ 120,007	\$ (51)	\$ 1,318,498	\$ (118,395)	\$ (7,795)	\$ 1,312,264

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

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MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENTS
OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share data)

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Net income/(loss)	\$ 9,653	\$ (90,592)	\$ 24,044	\$ (17,695)
Other comprehensive income adjustments:				
Unrealized losses on cash flow hedges (net of \$2,917 tax)		(4,197)		(4,197)
Foreign currency translation adjustment	(11,610)	4,895	(13,879)	4,433
Comprehensive (loss)/income	\$ (1,957)	\$ (89,894)	\$ 10,165	\$ (17,459)

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

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

Note 1: Organization and Basis of Presentation

MF Global Ltd. (together with its subsidiaries, the Company) is a leading participant on the world's major futures and securities exchanges and provides execution and clearing services for exchange-traded and over-the-counter derivative products, as well as for foreign exchange contracts and securities in the cash brokerage markets. The Company operates globally, with a presence in the United States, the United Kingdom (UK), France, Singapore, Australia, Hong Kong, Canada, India, and Japan among others. The Company believes it is the leading broker in exchange-traded future and options and serves a worldwide client base, including financial institutions, asset managers, hedge funds, professional traders and private clients. The Company is operated and managed on an integrated basis as a single operating segment.

The Company's principal subsidiaries operate as registered futures commission merchants and as broker-dealers or the local equivalent and maintain futures, options and securities accounts for customers. The Company's subsidiaries are members of various commodities, futures, and securities exchanges in the United States, Europe, and the Asia/Pacific region and accordingly are subject to local regulatory requirements including those of the U.S. Commodity Futures Trading Commission (CFTC), the U.S. Securities and Exchange Commission (SEC), and the UK Financial Services Authority (FSA), among others.

In July 2007, Man Group plc and its subsidiary companies (Man Group), a UK corporation, separated its brokerage business from its asset management business by transferring to us all of the entities and net assets of Man Group and its subsidiaries that comprised its brokerage business, formerly known as Man Financial. In the separation, Man Group retained its asset management business. Man Group transferred the brokerage unit to MF Global Holdings Overseas Limited (formerly known as Man Financial Overseas Ltd.) and MF Global Holdings Europe Limited (formerly known as ED&F Man Group Ltd.), two holding companies incorporated in the United Kingdom (the Reorganization). Man Group completed the separation of the brokerage business by transferring all of the outstanding capital stock of MF Global Holdings Overseas Limited, MF Global Holdings Europe Limited, MF Global Singapore Pte Limited (formerly known as Man Financial (S) Pte Limited), and MF Global Holdings HK Limited (formerly known as Man Financial Holdings (HK) Ltd.) to the Company in exchange for 103,726,353 of the Company's common shares (the Separation). Following the Reorganization and Separation, Man Group also made a net capital contribution of \$516,223 in cash to the Company in return for 17,379,493 common shares (the Recapitalization).

The Company completed an initial public offering (IPO) of its common shares on July 23, 2007. Man Group received all of the net proceeds from the issuance of shares and currently retains approximately 18.5% ownership in the Company.

These unaudited financial statements include the following:

Subsequent to the Reorganization and Separation, the consolidated accounts of MF Global Ltd. and its subsidiaries.

Prior to such Reorganization and Separation, the combined financial statements of Man Financial, the brokerage division of Man Group.

Basis of presentation

The unaudited consolidated and combined financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP). Management believes that these unaudited consolidated and combined financial statements include all normally recurring adjustments and accruals necessary for a fair presentation of the unaudited Consolidated and Combined Statements of Operations, Balance Sheets, Cash Flows, Changes in Shareholders' Equity and Comprehensive Income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation.

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All significant intercompany balances and transactions between the Company's entities have been eliminated in consolidation. Transactions between the Company and Man Group and its affiliates are herein referred to as related party transactions. The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. Investments in entities in which the Company generally owns greater than 20% but less than 50% and exercises significant influence, but not control, are accounted for using the equity method of accounting. As of September 30, 2008 and 2007, the Company had a 19.5% equity investment in Polaris MF Global Futures Co., Ltd (Polaris) and a 47.9% equity investment in U.S. Futures Exchange LLC (USFE).

Prior to July 1, 2007 the Company's financial statements were prepared on a combined basis as if the Company had existed on a

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

stand-alone basis and in conformity with U.S. GAAP. The combined financial statements were carved out from Man Group and include the accounts of the Company and its majority and wholly owned subsidiaries, in each case using the historical basis of accounting for the results of operations and assets and liabilities of the respective businesses. The carve-out combined financial statements may not necessarily reflect the results of operations, financial position and cash flows if the Company had actually existed on a stand-alone basis during the periods presented. The carve-out combined financial statements include the Company's direct expenses as well as allocations of expenses arising from shared services and infrastructure provided by Man Group. Certain prior year amounts have been reclassified to conform to current year presentation.

Relationship with Man Group

Historically, Man Group has provided financial and administrative support to the Company. In connection with the IPO, the Company entered into several transitional services agreements with Man Group pursuant to which Man Group agreed to continue to provide the Company with administrative support for certain corporate functions, such as corporate-level coordination and support services related to the Company's regulatory capital activities, tax administration, corporate secretarial services and insurance management, for a limited transition period. As of September 30, 2008, all such services had terminated with the exception of office services. The service agreement for office services will continue for as long as the Company leases office space from Man Group.

Note 2: Summary of Significant Accounting Policies

Use of estimates

The preparation of consolidated and combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for a full year.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term highly liquid investments with original maturities of three months or less, other than those used for trading or margin purposes. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these instruments.

Restricted Cash and Securities Segregated under Federal and Other Regulations

Certain subsidiaries are obligated by rules mandated by their primary regulators, including the SEC in the U.S. and the FSA in the UK, to segregate or set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets. The Company also has fixed cash deposits classified within Restricted Cash and Segregated Securities of \$113,268 and \$144,951 as of September 30 and March 31, 2008, respectively, which are held as margin for the issuance of bank guarantees to satisfy local exchange requirements for day-to-day clearing. In addition, substantially all of the subsidiaries are members of clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. At September 30 and March 31, 2008, the Company was in compliance with its segregation requirements. At September 30 and March 31, 2008, in addition to segregated cash, the Company has segregated securities of \$6,182,739 and \$6,070,210, respectively classified within Restricted Cash and Securities Segregated. These amounts include securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC and totaled \$3,023,460 and \$5,401,987 at September 30 and March 31, 2008, respectively.

Collateral

The Company enters into financing transactions and matched book positions principally through the use of repurchase agreements and securities lending agreements. In these transactions, the Company receives cash or securities in exchange for other securities, including U.S. government and federal agency obligations, corporate debt and other debt obligations, and equities, or cash. The Company records assets it has pledged as collateral in collateralized borrowings and other arrangements on the Consolidated Balance Sheets when the Company is the debtor as defined by Statements of Financial Accounting Standards (SFAS) SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* .

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

The Company obtains securities as collateral principally through the use of resale agreements, securities borrowing agreements, customer margin loans and other collateralized financing activities to facilitate its matched book arrangements, inventory positions, customer needs and settlement requirements. In many cases, the Company is permitted to sell or repledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending or to cover short positions. As of September 30 and March 31, 2008, the fair value of securities received as collateral by the Company, excluding collateral received under resale agreements, that it was permitted to sell or repledge was \$15,218,716 and \$27,537,042, respectively, of which the Company sold or repledged \$12,368,526 and \$22,854,026, respectively. Counterparties have the right to sell or repledge these securities. See Note 5 for a description of the collateral received and pledged in connection with agreements to resell or repurchase securities.

Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. Goodwill is not amortized and the Company's single reporting unit is tested at least annually for impairment during the fourth quarter of the fiscal year. As of September 30, 2008, total goodwill was approximately \$79,028. The carrying value of goodwill is also reviewed if facts and circumstances, such as a significant decline in revenues, earnings or cash flows or material adverse changes in the business climate, suggest that it may be impaired. If this review indicates that the goodwill will not be recoverable based on the estimated undiscounted cash flows of the reporting unit, impairment is measured by comparing the carrying value of goodwill to its fair value. Fair value is estimated based on discounted cash flows, market values or appraisals. This was considered as of September 30, 2008, due to the Company's book value exceeding its market capitalization. The Company concluded there was no impairment of goodwill as of September 30, 2008, as its net revenues have not significantly deteriorated.

As of September 30, 2008, with the recent decline in the overall stock market, the Company's total market capitalization is approximately \$520,831 which is below the Company's recorded net worth of \$1,312,264. The Company performs its annual impairment test for goodwill as of March 31. If market and economic conditions do not improve or if its business deteriorates this may increase the likelihood of the Company reporting an impairment charge.

Minority interests

The Company combines the results and financial position of entities it controls, but does not wholly own. As of September 30, 2008, the Company owned 91.0% of MF Global Securities Limited, 70.2% of MF Global Sify Securities India Private Limited and 75.0% of MF Global Financial Services India Private Limited. At September 30 and March 31, 2008, minority interest recorded in the Consolidated Balance Sheets was \$9,709, and \$10,830, respectively.

Fair value of financial instruments

Financial instruments and related revenue and expenses are recorded in the financial statements on a trade date basis. Financial instruments include related accrued interest or dividends. Market value generally is based on published market prices or other relevant factors including dealer price quotations.

The fair value of a financial instrument is determined using external market quotations or the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management estimates the aggregate fair value of financial instruments recognized on the Consolidated Balance Sheets (including receivables, payables, and accrued expenses) and approximates their fair value, as such financial instruments are short-term in nature, bear interest at current market rates, or are subject to frequent repricing.

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The Company has adopted the provisions of SFAS No. 157 *Fair Value Measurements* (SFAS No. 157) as of April 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. Securities owned, securities sold, not yet purchased and derivatives are reflected in the Consolidated Balance Sheets on a trade-date basis. Related unrealized gains or losses are recognized in Principal transactions in the Consolidated and Combined Statements of Operations. Based on market convention the Company marks its financial instruments based on product class which is generally bid or mid price. Fair value measurements are not adjusted for transaction costs.

Credit risk is a component of fair value and represents the loss the Company would incur if a counterparty or an issuer of

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securities or other instruments the Company holds fails to perform under its contractual obligations to the Company, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, the Company holds. To reduce the Company's credit exposures in its operating activities, the Company generally enters into agreements with its counterparties that permit it to offset receivables and payables with such counterparties and obtain margin and/or collateral from the counterparty on an upfront and ongoing basis. The Company monitors and manages its credit exposures daily, as discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk. In the Company's adoption of SFAS No. 157, it considered its collateral and margin process as well as the type of and duration of its financial instruments when assessing its credit risk.

Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share* and Emerging Issues Task Force (EITF) EITF 03-6 *Participating Securities and the Two-Class Method*. The Company's Series A Preference Shares are participating securities whereby the holder of Series A Preference Shares participates in undistributed earnings with common shareholders.

Treasury Shares

The Company accounts for treasury shares under the par value method. Under this method, the excess of the cost of treasury shares over its par value is recorded in additional paid-in capital.

Recently Issued Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-3, (FSP FAS 157-3), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted FSP FAS 157-3 as of September 30, 2008 with no material impact to the consolidated financial statements.

In September 2008, the FASB issued FASB Staff Position No. 133-1 and FIN 45-4 (FSP FAS 133-1 and FIN 45-4), *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. FSP FAS 133-1 and FIN 45-4 is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. FSP FAS 133-1 and FIN 45-4 is effective for financial statements issued for reporting periods ending after November 15, 2008. Disclosures required by SFAS 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact FSP FAS 133-1 and FIN 45-4 will have on the disclosures to the Company's consolidated financial statements upon adoption.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). The guidance in FSP EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact FSP EITF 03-6-1 will have on its calculation of earnings per share upon adoption.

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In June 2008, the FASB reached a consensus on EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 addresses the determination of whether an equity linked financial instrument (or embedded feature) that has all of the characteristics of a derivative under U.S. GAAP is indexed to an entity's own stock and would thus meet the first part of a scope exception from classification and recognition as a derivative instrument. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied by recording a cumulative effect adjustment to the opening balance of retained earnings at the date of adoption. The Company is currently evaluating the impact EITF 07-5 will have on its results of operations and financial condition upon adoption.

In June 2008, FASB issued EITF 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* (EITF 08-4). The

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objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, that result from EITF No. 00-27 *Application of Issue No. 98-5 to Certain Convertible Instruments*, and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. EITF 08-4 is not expected to have an impact on the Company's results of operations and financial condition upon initial adoption.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS No. 162 is effective 60 days following SEC approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. SFAS No. 162 is not expected to have an impact on the Company's results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position Accounting Principles Board (APB) No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), which is effective for fiscal years beginning after December 15, 2008. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. FSP APB 14-1 also specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company is currently evaluating the impact FSP APB 14-1 will have on its results of operations and financial condition upon adoption.

In April 2008, the FASB issued FASB Staff Position FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3), which is effective for fiscal years beginning after December 15, 2008. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS No. 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. The Company is currently evaluating the impact FSP FAS 142-3 will have on its results of operations and financial condition upon adoption.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 amends SFAS No. 133 to provide an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact SFAS No. 161 will have on the disclosures in its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position FAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, (FSP FAS 140-3) which provides a consistent framework for the evaluation of a transfer of a financial asset and subsequent repurchase agreement entered into with the same counterparty. FSP FAS 140-3 provides guidelines that must be met in order for an initial transfer and subsequent repurchase agreement to not be considered linked for evaluation. If the transactions do not meet the specified criteria, they are required to be accounted for as one transaction. This FSP is effective for fiscal years beginning after November 15, 2008, and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after adoption. The Company is currently evaluating the impact FSP FAS 140-3 will have on its results of operations and financial condition upon adoption.

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In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact SFAS No. 160 will have on its results of operations and financial condition upon adoption.

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In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS No. 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will apply SFAS No. 141(R) to future acquisitions that close on or after April 1, 2009.

In April 2007, the FASB issued FASB Staff Position FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1). This amendment allows a reporting entity to offset fair value amounts recognized for derivative instruments with fair value amounts recognized for the right to reclaim or realize cash collateral. Additionally, this amendment requires disclosure of the accounting policy on the reporting entity's election to offset or not offset amounts for derivative instruments. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The Company adopted FSP FIN 39-1 in the first quarter of fiscal 2009 with no impact to its results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* and in February 2008, the FASB amended SFAS No. 157 by issuing FSP FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, and FSP FAS 157-2, *Effective Date of FASB Statement No. 157* . SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, except those relating to lease classification, and accordingly does not require any new fair value measurements. SFAS No. 157 is effective for financial assets and financial liabilities in fiscal years beginning after November 15, 2007, and for nonfinancial assets and liabilities in fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 for financial assets and liabilities in the first quarter of fiscal 2009 with no material impact to its results of operations or financial condition. The Company adopted FSP FAS 157-1 in the second quarter of fiscal 2009 with no impact to its results of operations or financial condition. The Company is currently evaluating the impact FSP FAS 157-2 will have on its results of operations and financial condition upon adoption.

Note 3: Goodwill and Intangible Assets

During the six months ended September 30, 2008, earn-out payments were made related to prior acquisitions, which are accounted for as additional purchase consideration.

The change in Goodwill is as follows:

Balance as of March 31, 2008	\$ 74,145
Increase	4,883
Balance as of September 30, 2008	\$ 79,028

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Intangible Assets, subject to amortization as of September 30, 2008 and March 31, 2008 are as follows:

	September 30, 2008	March 31, 2008
Customer relationships		
Gross carrying amount	\$ 264,413	\$ 264,413
Accumulated amortization	(101,474)	(86,475)
Net carrying amount	162,939	177,938
Technology assets		
Gross carrying amount	31,388	31,388
Accumulated amortization	(20,769)	(18,604)
Net carrying amount	10,619	12,784
Trade names		
Gross carrying amount	3,284	3,284
Accumulated amortization	(992)	(826)
Net carrying amount	2,292	2,458
Total	\$ 175,850	\$ 193,180

Note 4: Receivables from and Payables to Customers

Receivables from and payables to customers, net of allowances, are as follows:

	September 30, 2008		March 31, 2008	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	\$ 437,716	\$ 11,704,438	\$ 424,739	\$ 13,667,808
Foreign currency and other OTC derivative transactions	98,076	1,718,936	92,389	1,076,077
Securities transactions	780,854	540,001	1,844,087	532,950
Other	18,916	9,878	6,246	25,663
Total	\$ 1,335,562	\$ 13,973,253	\$ 2,367,461	\$ 15,302,498

Note 5: Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase

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The Company's policy is to take possession of securities purchased under resale agreements, which consist largely of securities issued by the U.S. government. The Company retains the right to re-pledge collateral received in collateralized financing transactions. As of September 30, 2008, the market value of collateral received under resale agreements was \$44,399,436, of which \$467,216 was deposited as margin with clearing organizations. As of March 31, 2008, the market value of collateral received under resale agreements was \$42,017,881, of which \$1,444,153 was deposited as margin with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of September 30 and March 31, 2008, the market value of collateral pledged under repurchase agreements was \$56,174,975 and \$55,991,535, respectively. As of September 30 and March 31, 2008, there were no amounts at risk under repurchase agreements or resale agreements with a counterparty greater than 10% of Shareholders' Equity.

Resale and repurchase transactions are presented on a net-by-counterparty basis when the requirements of FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* are satisfied. In accordance with

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SFAS No. 140, the Company de-recognized assets and liabilities from the Consolidated Balance Sheets. At September 30, 2008, this consisted of securities purchased under agreements to resell and securities sold under agreements to repurchase of \$497,409 and \$10,339,104, respectively, at contract value.

The carrying values of the assets sold under repurchase agreements, including accrued interest, by maturity date are:

Security type	September 30, 2008					Total
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	
U.S. Government	\$ 494,141	\$ 7,653,276	\$ 1,101,853	\$ 31,349	\$ 2,004,782	\$ 11,285,401
U.S. Corporations	8,613	3,403				12,016
Foreign Governments	36,848	1,667,992	676,579	479,536	92,749	2,953,704
Foreign Corporations	45,949	4,311	125,163			175,423
Total	\$ 585,551	\$ 9,328,982	\$ 1,903,595	\$ 510,885	\$ 2,097,531	\$ 14,426,544

Security type	March 31, 2008					Total
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	
U.S. Government	\$ 1,142,753	\$ 2,398,100	\$ 1,002,275	\$ 952,323	\$ 2,315,481	\$ 7,810,932
U.S. Corporations	123,665	48,242	440,564	15,204		627,675
Foreign Governments	205,753	2,502,811	2,756,044	1,344,422	1,535,429	8,344,459
Foreign Corporations	1,439,367	239,238	76,095	100,267		1,854,967
Total	\$ 2,911,538	\$ 5,188,391	\$ 4,274,978	\$ 2,412,216	\$ 3,850,910	\$ 18,638,033

Note 6: Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations consist of the following:

	September 30, 2008		March 31, 2008	
	Receivables	Payables	Receivables	Payables
Securities failed to deliver/receive	\$ 9,358,907	\$ 5,955,035	\$ 2,068,289	\$ 3,402,525
Due from/to clearing brokers	1,231,701	551,680	1,004,648	787,079
Due from/to clearing organizations	1,918,267	421,809	1,463,997	198,606
Fees and commissions	1,936	78,103	1,174	74,754
Unsettled trades and other	2,617,028	2,449,801	2,547,544	1,854,333

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Total	\$ 15,127,839	\$ 9,456,428	\$ 7,085,652	\$ 6,317,297
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Securities owned, at fair value, and financial instruments sold, but not yet purchased, at fair value, consist of the following:

	September 30, 2008		March 31, 2008	
	Securities Owned	Securities Sold, Not Yet Purchased	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	\$ 1,882,577	\$ 2,801,362	\$ 3,045,040	\$ 780,645
Corporate debt securities	811,031		2,755,494	
Foreign government bonds			363,028	881,267
Equities	659,353	145,654	1,171,511	207,127
Shares held due to demutualization of exchanges	18,300		27,642	
Other	8,618	24,513	17,575	
Total	\$ 3,379,879	\$ 2,971,529	\$ 7,380,290	\$ 1,869,039

At September 30 and March 31, 2008, \$812,687 and \$146,150, respectively, of U.S. government securities and federal agency obligations owned by the Company were deposited as margin with clearing organizations.

Note 8: Borrowings

Short term borrowings consist of the following:

	September 30, 2008	March 31, 2008
364-Day Bridge Facility	\$ 100,000	\$ 1,400,000
Other short-term borrowings	142,500	276,304
Bank overdrafts	99,273	53,511
Total	\$ 341,773	\$ 1,729,815

Long-term borrowings consist of the following:

	September 30, 2008	March 31, 2008
9.00% Convertible Senior Notes due 2038	\$ 210,000	\$
Two-year term facility	240,000	
Other long-term borrowings	500,000	

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Total	\$	950,000	\$
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Bridge Facility

In the year ended March 31, 2008, one of the Company's U.S. finance subsidiaries, MF Global Finance USA Inc., entered into a 364-day unsecured revolving credit facility in an aggregate principal amount of up to \$1,400,000 (the "bridge facility") with several financial institutions and borrowed the full amount under the bridge facility. The Company's borrowings under the bridge facility as of June 15, 2007 bore interest at a rate per annum equal to either of the Company's options, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three- or six-month LIBOR plus a margin of 0.32% per annum, or 1.22% with respect to those lenders who are party to the amendment described below, based on its current senior unsecured non-credit enhanced rating from Standard & Poor's and Moody's.

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Advances are subject to certain conditions, including the accuracy of certain representations and warranties and the absence of a default. The bridge facility contains a minimum tangible net worth financial covenant as well as other customary covenants, including those that limit debt incurrence, asset sales, incurrence of liens, the Company's ability to be acquired, fundamental changes to the business and failure to maintain required regulatory capital. The Company paid an arrangement fee of \$500 and an administration fee of \$100 in connection with the bridge facility and liquidity facility (described below). In addition, based on the Company's credit rating, the Company will pay a facility fee of 8 basis points per annum during the remaining period the bridge facility is in effect.

On January 31, 2008, the Company entered into an amendment (the Amendment) to the bridge facility to extend the original maturity date of June 13, 2008 for \$1,050,000 of the \$1,400,000 of the outstanding borrowing by six months to December 12, 2008 and to increase the rate per annum payable to those lenders who are party to the Amendment by 0.40%, which rate was increased by 0.25% as of and after June 13, 2008 and was further increased by another 0.25% to a total margin of 1.22% as of and after September 13, 2008. The Company paid a one-time upfront fee of 5 basis points to amend its bridge facility. Under the terms of the second amendment to the bridge facility, the Company's current interest rate increased to a total margin of 4.90% per annum. Advances are subject to certain conditions, including the accuracy of certain representations and warranties and the absence of a default. The Company paid down \$350,000 of the \$1,400,000 outstanding under the bridge facility in June 2008 with the proceeds of borrowings under its liquidity facility (described below). The Company paid additional upfront fees equivalent to 5 basis points on June 13, 2008 on the \$1,050,000 outstanding. In July 2008, the Company paid down \$950,000 of the remaining balance outstanding under the bridge facility using \$288,750 in net proceeds from the Two-Year term facility (discussed below), \$109,200 in net proceeds of the sale of Series A Preference Shares (See Note 16), \$129,734 in net proceeds of the sale of the Series B Preference Shares (See Note 16) and \$129,733 in net proceeds of the sale of the Convertible Senior Notes (discussed below), and \$292,583 of cash. Accordingly, at September 30, 2008, the outstanding balance on the bridge facility was \$100,000, which is due on December 13, 2008.

Liquidity Facility

Concurrent with the bridge facility discussed above, the Company entered into a \$1,500,000 five-year unsecured committed revolving credit facility (the liquidity facility) with a syndicate of banks. Borrowings under this liquidity facility bear interest at a rate per annum equal to either, at the Company's option, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three- or six-month LIBOR plus a margin of 0.31% per annum, at the Company's current senior unsecured non-credit enhanced rating from Standard & Poor's and Moody's. In addition, the Company pays a facility fee of 9 basis points per annum during the period the liquidity facility is in effect. In addition, the Company paid an annual administration fee of \$75 in connection with the liquidity facility. The liquidity facility contains financial and other customary covenants that are similar to those in the bridge facility. In general terms, and subject to certain exceptions, the Company has agreed to maintain a consolidated tangible net worth of not less than \$620,000 (plus 50% of the proceeds of certain equity offerings and 25% of the Company's consolidated positive net income for each completed fiscal year), and the Company has agreed not to incur indebtedness through the Company's subsidiaries, incur liens on its assets, merge or consolidate with (or dispose of substantially all of the Company's assets to) any person, engage in material new businesses, engage in transactions with affiliates except on arm's-length terms or fail to satisfy any regulatory net capital or financial resources requirement or comply with applicable laws or regulations. If the Company fails to pay any amount when due under the facility or to comply with its other requirements, if the Company fails to pay any amount when due on other material debt (defined as \$50,000 or more in principal) or other material debt is accelerated in whole or in part by the lenders, or upon certain events of liquidation or bankruptcy, an event of default will occur under the facility. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the facility will become due and the Company will not be permitted to make any further borrowings under the facility. In June 2008, the Company borrowed \$350,000 under the liquidity facility and used the proceeds to pay down \$350,000 under the bridge facility. In connection with this drawdown, the Company agreed to increase the interest rate margin by 1.10% per annum on the \$500,000 outstanding. Other outstanding amounts under the liquidity facility bear interest with a margin of 0.31%. The increase prior to the scheduled maturity date in June 15, 2012 only applies to the existing amount outstanding under the liquidity facility and future borrowings under the facility will remain unchanged from the pricing structure outlined above. As of September 30, 2008 and March 31, 2008, \$642,500 and \$150,000, respectively, was outstanding under the liquidity facility with the remainder available to the Company as a committed facility. The Company does not intend to pay \$500,000 of the amount outstanding at September 30, 2008 under the liquidity facility prior to the maturity date of the liquidity facility. Accordingly, this amount has been classified as long-term borrowings in the Consolidated

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Balance Sheet.

At September 30, 2008 the Company also had a 364-day revolving credit facility with a bank on an unsecured committed basis.

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As of September 30, 2008 and March 31, 2008, \$0 and \$96,000, respectively, was outstanding under these facilities.

Convertible Senior Notes

On June 25, 2008, the Company completed the issuance and sale of \$150,000 aggregate principal amount of its 9.00% Convertible Senior Notes due 2038 (the Convertible Notes). The Convertible Notes bear interest at a rate of 9.00% per year, payable semi-annually in arrears on June 15 and December 15 of each year, beginning December 15, 2008. The Convertible Notes mature on June 20, 2038.

Holders may convert the Convertible Notes at their option at any time prior to the maturity date. Upon conversion, the Company will pay or deliver, as the case may be, cash, common shares or a combination thereof at the Company's election. The initial conversion rate for the Convertible Notes is 95.6938 common shares per \$1 principal amount of Convertible Notes, equivalent to an initial conversion price of approximately \$10.45 per common share. The conversion rate will be subject to adjustment in certain events.

The Company may redeem the Convertible Notes, in whole or in part, for cash at any time on or after July 1, 2013 at a price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest. Holders may require the Company to repurchase all or a portion of their Convertible Notes for cash on July 1, 2013, July 1, 2018, July 1, 2023, July 1, 2028 and July 1, 2033 at a price equal to 100% of the principal amount of Convertible Notes to be repurchased plus accrued and unpaid interest.

In connection with the issuance of the Convertible Notes, the Company also granted the initial purchasers of the Convertible Notes an option to purchase up to an additional \$60,000 aggregate principal amount of the Convertible Notes within a period of 30 days beginning on June 20, 2008. On July 18, 2008, the Company agreed to extend the term of the option so that it would expire on September 18, 2008. On August 7, 2008, the initial purchasers exercised the option to purchase an additional \$60,000 of the Convertible Notes. Upon the issuance and sale of the additional Convertible Notes on August 12, 2008, the securities demand feature of the Two-Year Term Facility was fulfilled. The Convertible Notes mature in 2038, subject to redemption at the Company's option after five years and a right of holders to require repurchase every five years beginning in five years. The proceeds from the additional \$60,000 Convertible Notes were used to pay down a portion of the Two-Year Term Facility.

Two-Year Term Facility

On July 18, 2008, the Company entered into a credit agreement with several banks that provides for a two-year, \$300,000 unsecured term loan facility (the Two-Year Term Facility) intended to enable the Company to prepay loans under its bridge facility which are otherwise due and payable on December 12, 2008. Loans outstanding under the Two-Year Term Facility may be prepaid without penalty, subject to certain restrictions. Interest on any loan extended under the Two-Year Term Facility will bear interest, at the option of the Company, at the higher of (i) the federal funds effective rate plus 0.5% and (ii) the prime rate, plus, in either case, an applicable margin ranging from 300 to 400 basis points depending on the Company's credit rating, or the Eurodollar rate equal to LIBOR plus an applicable margin ranging from 400 to 500 basis points depending on the Company's credit rating. The applicable margin will increase by 100 basis points on the first anniversary of the closing date and by 200 basis points on all overdue amounts. The Two-Year Term Facility contains customary representations and warranties, financial covenants including minimum net worth, a maximum leverage ratio of adjusted total indebtedness to interest expense, a maximum ratio of net cash capital to net liquid assets and a minimum ratio of net cash capital to net liquid assets and other customary covenants including limitations on material changes in lines of business, limitations on liens and indebtedness, certain restrictions on mergers and sales of property, compliance with laws, conduct of business and maintenance of existence, material licenses and membership, compliance with regulatory capital standards and restrictions on use of proceeds. If the Company fails to pay any amount when due under the Two-Year Term Facility, if any other outstanding debt with an aggregate principal amount exceeding \$50,000 is accelerated or not paid when due, upon certain events of bankruptcy or liquidation of the Company or certain of its subsidiaries or upon a change of control or ownership, an event of default will occur under the Two-Year Term Facility. In connection with its entry into the Two-Year Term Facility, the Company has paid a total of \$12,600 in fees to several banks that are parties to the Two-Year Term Facility, and will pay an additional \$1,200 on December 15, 2008.

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On July 18, 2008, the Company borrowed \$300,000 under the Two-Year Term Facility, and \$288,750 of the proceeds were used to repay a portion of the Company's \$1,400,000 bridge facility. On August 7, 2008, the proceeds of \$60,000 from the additional sale of Convertible Notes were used to pay down a portion of the Two-Year Term Facility. At September 30, 2008, the Two-Year Term Facility had an outstanding balance of \$240,000 which will come due on July 16, 2010.

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Dollars in thousands, except share data)

At September 30, 2008, the Company is in compliance with all debt covenants related to bridge, liquidity and Two-Year Term facilities.

Note 9: Stock-Based Compensation Plans

Stock-based compensation issued by MF Global

In connection with the IPO, the Company established the 2007 Long-term Incentive Plan (LTIP) which provides for equity compensation awards in the form of share options, share appreciation rights, restricted shares, restricted share units, performance awards, cash-based awards and other awards to eligible employees, consultants, directors, and other individuals who provide services to the Company, each as determined by the Compensation Committee of the Board of Directors. It can authorize up to 24,000,000 shares to be issued.

The Company issued restricted share units, share options, and restricted shares under the LTIP. Share options vest in equal installments over three years, and vested awards can be exercised, subject to continued employment, within seven years from the date of grant. Share options have an exercise price equal to the price per common share at the date of grant. Restricted share units vest in full after three years, subject to continued employment or meeting certain retirement eligibility criteria. Restricted share awards were also issued to employees in the IPO, which vested in full after one year, following the IPO, subject to continued employment. Restricted share units and restricted shares also issued at the IPO are defined as non-recurring IPO awards and presented in Employee Compensation related to non-recurring IPO awards within the Consolidated and Combined Statements of Operations.

Compensation expense for the stock-based compensation plans has been measured in accordance with SFAS No.123(R). Net income for the three and six months ended September 30, 2008 includes \$25,382 and \$53,427 of compensation costs respectively and \$7,979 and \$16,400 of income tax benefits respectively related to the Company's stock-based compensation arrangements. The three and six months ended September 30, 2007 includes \$24,963 of compensation costs and \$8,737 of income tax benefits respectively related to the Company's stock-based compensation arrangements. Of these amounts, \$8,145 of compensation costs have been recorded in Employee compensation and benefits (excluding IPO awards) and \$17,237 of compensation costs have been recorded in Employee compensation related to non-recurring IPO awards within the Consolidated and Combined Statement of Operations for the three months ended September 30, 2008 and \$34,981 of compensation costs have been recorded in Employee compensation and benefits (excluding IPO awards) and \$18,446 of compensation costs have been recorded in Employee compensation related to nonrecurring IPO awards within the Consolidated and Combined Statement of Operations for the six months ended September 30, 2008. The Company has no pool of windfall tax benefits. The Company has deferred tax assets recorded on its Consolidated Balance Sheets related to stock compensation awards issued in connection with the IPO. To the extent the Company's stock price is below the grant date fair value at the date of delivery of these awards, the tax benefit ultimately realized would be reduced.

The fair value of each share option is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions:

Expected Volatility: Based on the lack of historical data for the Company's own shares, the Company based its expected volatility on a representative peer group that took into account the criteria outlined in SEC Staff accounting bulletin No. 107 (SAB 107): industry, market capitalization, stage of life cycle, and capital structure.

Expected Term: Expected term represents the period of time that options granted are expected to be outstanding. The Company elected to use the simplified calculation method, which was provided for by SAB 107 to be used for companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

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Expected Dividend Yield: The Company has not paid and does not expect to pay dividends in the future. Accordingly, the assumed dividend yield is zero.

Risk Free Interest Rate: The risk-free rate is determined using the implied yield currently available on zero-coupon U.S. government bonds with a term consistent with the expected term on the date of grant.

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	Six months ended	
	September 30, 2008	September 30, 2007
Expected volatility	39.4%	32.0%
Risk free interest rate	3.2%	4.9%
Expected dividend yield	0.0%	0.0%
Expected term	4.5	4.5

The following tables summarize activity for the Company's plans for the six months ended September 30, 2008:

	Options	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2008	10,883,308	\$ 30.00	6.3	\$
Granted	2,113,416	13.58		
Forfeited	1,643,132	29.78		
Stock options outstanding as of September 30, 2008	11,353,592	26.97	6.0	
Stock options expected to vest as of September 30, 2008	10,686,237	27.10	6.0	
Stock options exercisable at September 30, 2008	3,152,753	\$ 30.00	5.8	\$

The weighted-average grant-date fair value of options granted during the six months ended September 30, 2008 and 2007 was \$5.04 and \$10.45, respectively. No options were exercised during the six months ended September 30, 2008 and 2007.

	Restricted Share Units	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	7,445,102	\$ 30.01
Granted	986,139	12.00
Exercised	230,585	14.90
Forfeited	197,080	30.00
Nonvested as of September 30, 2008	8,003,576	\$ 26.16
Total unrecognized compensation expense remaining	\$ 100,240	
Weighted-average years expected to be recognized over	1.9	

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(Dollars in thousands, except share data)

	Awards	Restricted Shares Weighted- Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	421,535	\$ 29.30
Granted	113,869	6.70
Vested	184,335	29.71
Forfeited	25,955	29.75