

MF Global Ltd.  
Form 10-Q  
August 13, 2008  
Table of Contents

**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 June 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 June 30, 2008, was 120,241,696.

**Table of Contents**

**MF GLOBAL LTD.**

**INDEX TO FORM 10-Q**

		<b>Page No.</b>
<b><u>PART I. Financial Information</u></b>		
Item 1.	<u>Financial Statements</u>	
	<u>Unaudited Consolidated and Combined Statements of Operations</u>	3
	<u>Unaudited Consolidated and Combined Balance Sheets</u>	4
	<u>Unaudited Consolidated and Combined Statements of Cash Flows</u>	5
	<u>Unaudited Consolidated and Combined Statements of Changes in Shareholders' Equity</u>	7
	<u>Unaudited Consolidated and Combined Statements of Comprehensive Income</u>	8
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	66
Item 4.	<u>Controls and Procedures</u>	71
<b><u>PART II. Other Information</u></b>		
Item 1.	<u>Legal Proceedings</u>	71
Item 1A.	<u>Risk Factors</u>	76
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	76
Item 3.	<u>Defaults Upon Senior Securities</u>	76
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	76
Item 5.	<u>Other Information</u>	76
Item 6.	<u>Exhibits</u>	76

**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)**

	<b>Three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Execution only commissions	\$ 119,063	\$ 110,296
Cleared commissions	374,173	358,673
Principal transactions	63,161	99,955
Interest income	345,819	992,228
Other	11,641	9,440
<b>Total revenues</b>	<b>913,857</b>	<b>1,570,592</b>
Interest and transaction-based expenses:		
Interest expense	238,797	902,992
Execution and clearing fees	232,703	221,401
Sales commissions	67,703	71,796
Total interest and transaction-based expenses	539,203	1,196,189
<b>Revenues, net of interest and transaction-based expenses</b>	<b>374,654</b>	<b>374,403</b>
<b>Expenses</b>		
Employee compensation and benefits (excluding non-recurring IPO awards)	210,665	215,378
Employee compensation related to non-recurring IPO awards	17,744	
Communications and technology	32,426	26,647
Occupancy and equipment costs	10,255	8,563
Depreciation and amortization	14,165	12,383
Professional fees	31,020	14,472
General and other	15,225	18,019
IPO-related costs	5,468	20,752
Refco integration costs	270	1,327
<b>Total other expenses</b>	<b>337,238</b>	<b>317,541</b>
Gains/ (losses) on exchange seats and shares	(648)	63,301
Interest on borrowings	14,217	8,692
<b>Income before provision for income taxes</b>	<b>22,551</b>	<b>111,471</b>
Provision for income taxes	6,726	36,859
Minority interests in income of combined companies (net of tax)	556	943
Equity in losses of unconsolidated companies (net of tax)	(878)	(772)

<b>Net income</b>	\$	14,391	\$	72,897
<b>Earnings per share (see Note 11):</b>				
Basic	\$	0.12	\$	0.70
Diluted	\$	0.12	\$	0.70
<b>Weighted average number of common shares outstanding:</b>				
Basic		120,122,933		103,726,453
Diluted		121,995,205		103,726,453

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)**

	<b>June 30, 2008</b>	<b>March 31, 2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,053,447	\$ 1,481,084
Restricted cash and segregated securities	11,902,964	12,047,009
Securities purchased under agreements to resell	9,839,878	13,022,376
Securities borrowed	5,614,320	4,649,172
Securities received as collateral	394,336	623,752
Securities owned, at fair value (\$1,355,178 and \$4,142,612 pledged, respectively)	5,325,299	7,380,290
Receivables:		
Brokers, dealers and clearing organizations	7,681,119	7,085,652
Customers (net of allowances of \$14,655 and \$15,958 respectively)	817,294	2,367,461
Affiliates	312	716
Other	31,825	41,835
Memberships in exchanges, at cost (market value of \$42,949 and \$43,167, respectively)	8,895	8,909
Furniture, equipment and leasehold improvements, net	53,765	54,911
Goodwill	76,798	74,145
Intangible assets, net	184,341	193,180
Other assets	280,574	224,379
<b>TOTAL ASSETS</b>	<b>44,265,167</b>	<b>49,254,871</b>
<b>Liabilities and Shareholders Equity</b>		
Short-term borrowings, including current portion of long-term borrowings	1,194,004	1,729,815
Securities sold under agreements to repurchase	14,305,083	18,638,033
Securities loaned	3,560,742	3,188,154
Obligation to return securities borrowed	394,336	623,752
Securities sold, not yet purchased, at fair value	1,481,524	1,869,039
Payables:		
Brokers, dealers and clearing organizations	4,024,963	6,317,297
Customers	16,941,856	15,302,498
Affiliates	26,810	12,921
Accrued expenses and other liabilities	257,181	313,507
Long-term borrowings	650,000	0
<b>TOTAL LIABILITIES</b>	<b>42,836,499</b>	<b>47,995,016</b>
Commitments and contingencies (Note 13)		
Preference shares, \$1.00 par value per share; 200,000,000 shares authorized; 1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,844	0
Minority interests in consolidated subsidiaries	10,631	10,830
<b>SHAREHOLDERS EQUITY</b>	<b>119,876</b>	<b>119,647</b>

## Edgar Filing: MF Global Ltd. - Form 10-Q

Common shares, \$1.00 par value per share; 1,000,000,000 shares authorized, 119,875,977 shares issued and outstanding

Additional paid-in capital	1,293,550	1,265,733
Accumulated other comprehensive income (net of tax)	3,815	6,084
Accumulated deficit	(128,048)	(142,439)
<b>TOTAL SHAREHOLDERS EQUITY</b>	1,289,193	1,249,025
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 44,265,167</b>	<b>\$ 49,254,871</b>

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)**

	<b>Three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 14,391	\$ 72,897
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Gains on sale of exchanges seats and shares	(5,897)	(109,877)
Depreciation and amortization	14,165	12,383
Stock-based compensation expense	28,046	7,676
Bad debt expense	(368)	842
Deferred income taxes	(6,258)	(11,143)
Equity in losses of unconsolidated affiliates	878	772
Income applicable to minority interests, net of tax	556	943
Gain on disposal of furniture, equipment and leasehold improvements	(100)	
(Increase)/decrease in operating assets:		
Restricted cash and segregated securities	146,717	(2,016,405)
Securities purchased under agreements to resell	3,182,498	(9,146,390)
Securities borrowed	(965,148)	(4,111,367)
Securities owned	2,052,321	(2,955,924)
Receivables:		
Brokers, dealers and clearing organizations	(582,729)	(2,074,773)
Customers	1,549,441	(76,760)
Affiliates	12,776	12,180
Other	9,861	4,064
Other assets	(49,323)	872
Increase/(decrease) in operating liabilities:		
Securities sold under agreements to repurchase	(4,332,950)	7,740,252
Securities loaned	372,588	5,924,007
Securities sold, not yet purchased, at fair value	(387,515)	2,708,259
Payables:		
Brokers, dealers and clearing organizations	(2,292,340)	1,405,623
Customers	1,630,537	1,840,790
Affiliates	318	132,570
Accrued expenses and other liabilities	(39,228)	(90,698)
Net cash provided by/(used in) operating activities	\$ 353,237	\$ (729,207)

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)**

	<b>Three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions, net of \$0 and \$7,213 cash acquired in 2008 and 2007, respectively (Note 3)	\$ (2,653)	\$ (25,134)
Proceeds from sale of memberships in exchanges	8,825	121,397
Purchase of furniture, equipment and leasehold improvements	(4,932)	(9,271)
Proceeds from sale of furniture, equipment and leasehold improvements	53	
Net cash provided by investing activities	1,293	86,992
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of bridge financing	(350,000)	
(Payment)/Proceeds from other short-term borrowings	(35,766)	11,733
Proceeds from liquidity facility borrowings	350,000	
Proceeds from long-term borrowings from affiliate		8,043
Issuance of convertible notes	150,000	
Payment of debt issuance costs	(21,099)	
Issuance of preference shares	150,000	
Preference shares issuance costs	(21,156)	
Dividends to Man Group		(1,011)
Net cash provided by financing activities	221,979	18,765
Effect of exchange rates on cash and cash equivalents	(4,146)	1,803
Increase/(decrease) in cash and cash equivalents	572,363	(621,647)
Cash and cash equivalents at beginning of period	1,481,084	1,692,554
Cash and cash equivalents at end of period	\$ 2,053,447	\$ 1,070,907
<b>SUPPLEMENTAL NON-CASH FLOW INFORMATION</b>		
Securities received as collateral	229,416	146,134
Obligation to return securities borrowed	(229,416)	(146,134)
Net distributions to Man Group <sup>(1)</sup>		139,900

<sup>(1)</sup> 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.

Table of Contents

## MF GLOBAL LTD.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except share data)

	Common Shares	Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders Equity
<b>Shareholders' equity at March 31, 2008</b>	\$ 119,647	\$ 1,265,733	\$ (142,439)	\$ 6,084	\$ 1,249,025
Stock-based compensation		28,046			28,046
Net income			14,391		14,391
Foreign currency translation				(2,269)	(2,269)
Shares issued	229	(229)			
<b>Shareholders' equity at June 30, 2008</b>	\$ 119,876	\$ 1,293,550	\$ (128,048)	\$ 3,815	\$ 1,289,193

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

**Table of Contents**

**MF GLOBAL LTD.**  
**CONSOLIDATED AND COMBINED STATEMENTS**  
**OF COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(Dollars in thousands, except share data)**

	<b>Three months ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Net income	\$ 14,391	\$ 72,897
Other comprehensive income adjustments:		
Foreign currency translation adjustment	(2,269)	(462)
<b>Comprehensive income</b>	<b>\$ 12,122</b>	<b>\$ 72,435</b>

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

**Table of Contents**

**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, 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, ranging from 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 retained approximately 18.6% 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. 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 Stockholders Equity and Comprehensive Income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation.



---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

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 June 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 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 June 30, 2008 the only transitional services agreements still in place relate to the provision of risk management services, pension administration and the provision of office services. The service agreements for risk services and pension administration terminate in 2008. The service agreement for office services will continue for as long as the Company leases office space from the 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

Edgar Filing: MF Global Ltd. - Form 10-Q

cash deposits classified within Restricted Cash and Securities Segregated of \$87,387 and \$144,951 as of June 30 and March 31, 2008, respectively, which are held as margin for

---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

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 June 30 and March 31, 2008, the Company was in compliance with its segregation requirements. At June 30 and March 31, 2008, in addition to segregated cash, the Company has segregated securities of \$7,766,554 and \$6,070,210, respectively classified within Restricted Cash and Securities Segregated. This amount includes securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC totaled \$5,621,494 and \$5,401,987 at June 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 and Combined Balance Sheets when the Company is the debtor as defined by SFAS No. 140.

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 June 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 \$14,557,560 and \$27,537,042, respectively, of which the Company sold or repledged \$11,012,842 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.

**Minority interests**

The Company combines the results and financial position of entities it controls, but does not wholly own. As of June 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 June 30, 2008, and 2007, minority interest recorded in the Consolidated Balance Sheets was \$10,631, 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 and Combined 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.

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 as an asset or paid to transfer a liability in an orderly transaction between market



## Edgar Filing: MF Global Ltd. - Form 10-Q

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

---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

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.

**Earnings per Share**

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic EPS is computed by dividing earnings available to common shareholders adjusted for dividends declared on Series B Preference Shares (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to interest expense on Convertible Notes, net of tax, and dividends declared on Series B Preference Shares in the numerator. The denominator for diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method, as well as the if-converted method for the Convertible Notes and Series B Preference Shares.

**Recently Issued Accounting Pronouncements**

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 of adopting FSP EITF 03-6-1 on its results of operations and financial condition.

In June 2008, the FASB reached a consensus on FASB Staff Position No. EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ( FSP EITF 07-5 ). FSP 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 other authoritative U.S. GAAP accounting literature 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 of FSP EITF 07-5 on its results of operations and financial condition.

In June 2008, FASB issued FASB Staff Position No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* ( FSP EITF No. 08-4 ). The objective of FSP EITF No.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. The Company is currently evaluating the impact of FSP EITF 08-4 on its results of operations and financial condition.

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. generally accepted accounting principles ( 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*. The Company is currently evaluating the impact of adopting SFAS No. 162 on its results of operations and financial condition.



---

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

In May 2008, the FASB issued 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 No. 14-1 ), which is effective for fiscal years beginning after December 15, 2008. FSP APB No. 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 No. 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 of the pending adoption of FSP APB No. 14-1 on its results of operations and financial condition.

In April 2008, the FASB issued Staff Position FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS No. 142-3 ), which is effective for fiscal years beginning after December 15, 2008. FSP FAS No. 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 No. 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 No. 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. The Company is currently evaluating the impact of the pending adoption of FSP FAS No. 142-3 on its results of operations and financial condition.

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 to the Company's 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 No. 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 No. 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 No. 140-3 will have on its results of operations and financial condition upon adoption.

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.

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 is currently evaluating the impact of the pending adoption of SFAS No. 141(R) on its results of operations and financial condition.



**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

In April 2007, the FASB issued interpretation No. 39-1, *Amendment of FASB Interpretation No. 39* (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. FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The Company adopted FIN 39-1 in the first quarter of fiscal 2009 with no impact to the consolidated financial statements.

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 No. 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 No. 157-2, *Effective Date of FASB Statement No. 157* (collectively SFAS 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 the consolidated financial statements. The Company is currently evaluating the impact of the pending adoption of FSP FAS No. 157-1 and FSP FAS No. 157-2 on its results of operations and financial condition.

**Note 3: Goodwill and Intangible Assets**

During the three months ended June 30, 2008, earn-out payments were made related to a prior acquisition, which are accounted for as additional purchase consideration.

The change in Goodwill is as follows:

<b>Balance as of March 31, 2008</b>	\$ 74,145
Increase	2,653
<b>Balance as of June 30, 2008</b>	<b>\$ 76,798</b>

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

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

	June 30, 2008	March 31, 2008
<b>Customer relationships</b>		
Gross carrying amount	\$ 264,413	\$ 264,413
Accumulated amortization	(94,148)	(86,475)
Net carrying amount	170,265	177,938
<b>Technology assets</b>		
Gross carrying amount	31,388	31,388
Accumulated amortization	(19,687)	(18,604)
Net carrying amount	11,701	12,784
<b>Trade names</b>		
Gross carrying amount	3,284	3,284
Accumulated amortization	(909)	(826)
Net carrying amount	2,375	2,458
<b>Total</b>	<b>\$ 184,341</b>	<b>\$ 193,180</b>

**Note 4: Receivables from and Payables to Customers**

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

	June 30, 2008		March 31, 2008	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	\$ 412,264	\$ 15,249,146	\$ 424,739	\$ 13,667,808
Foreign currency and other OTC derivative transactions	184,384	869,581	92,389	1,076,077
Securities transactions	175,641	813,350	1,844,087	532,950
Other	45,005	9,779	6,246	25,663
<b>Total</b>	<b>\$ 817,294</b>	<b>\$ 16,941,856</b>	<b>\$ 2,367,461</b>	<b>\$ 15,302,498</b>

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

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 June 30, 2008, the market value of collateral received under resale agreements was \$60,064,329, of which \$1,465,160 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 June 30 and March 31, 2008, the market value of collateral pledged under repurchase agreements was \$66,462,907 and \$55,991,535, respectively. As of June 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.



**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

Resale and repurchase transactions are presented on a net-by-counterparty basis when the requirements of Financial Accounting Standards Board ( FASB ) Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* are satisfied. In accordance with SFAS No. 140, the Company de-recognized assets and liabilities from the Consolidated and Combined Balance Sheets. At June 30, 2008, this consisted of securities purchased under agreements to resell and securities sold under agreements to repurchase of \$520,065 and \$8,179,039, respectively, at contract value.

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

Security type	June 30, 2008					Total
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	
U.S. Government	\$ 1,908,030	\$ 1,096,483	\$ 1,257,254	\$ 4,231,930	\$ 3,141,461	\$ 11,635,158
U.S. Corporations	50,139		115,562			165,701
Foreign Governments	24,180	108,176	264,508	1,151,999	667,995	2,216,858
Foreign Corporations	263,984		23,382			287,366
Total	\$ 2,246,333	\$ 1,204,659	\$ 1,660,706	\$ 5,383,929	\$ 3,809,456	\$ 14,305,083

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:

	June 30, 2008		March 31, 2008	
	Receivables	Payables	Receivables	Payables
Securities failed to deliver/receive	\$ 1,618,509	\$ 1,017,999	\$ 2,068,289	\$ 3,402,525
Due from/to clearing brokers	1,442,006	644,686	1,004,648	787,079

Edgar Filing: MF Global Ltd. - Form 10-Q

Due from/to clearing organizations	2,246,858	151,522	1,463,997	198,606
Fees and commissions	2,076	75,599	1,174	74,754
Unsettled trades and other	2,371,670	2,135,157	2,547,544	1,854,333
Total	\$ 7,681,119	\$ 4,024,963	\$ 7,085,652	\$ 6,317,297

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)****Note 7: Securities Owned and Securities Sold, Not Yet Purchased**

Securities owned, at fair value, and financial instruments sold, but not yet purchased, consist of the following:

	<b>June 30, 2008</b>		<b>March 31, 2008</b>	
	<b>Securities Owned</b>	<b>Securities Sold, Not Yet Purchased</b>	<b>Securities Owned</b>	<b>Securities Sold, Not Yet Purchased</b>
U.S. government securities and federal agency obligations	\$ 3,791,897	\$ 884,864	\$ 3,045,040	\$ 780,645
Corporate debt securities	391,549		2,755,494	
Foreign government bonds			363,028	881,267
Equities	1,100,568	576,566	1,171,511	207,127
Shares held due to demutualization of exchanges	18,903		27,642	
Other	22,382	20,094	17,575	
<b>Total</b>	<b>\$ 5,325,299</b>	<b>\$ 1,481,524</b>	<b>\$ 7,380,290</b>	<b>\$ 1,869,039</b>

At June 30 and March 31, 2008, \$200,274 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:

	<b>June 30, 2008</b>	<b>March 31, 2008</b>
364-Day Bridge Facility	\$ 1,050,000	\$ 1,400,000
Other short-term borrowings	127,192	276,304
Bank overdrafts	16,812	53,511
<b>Total</b>	<b>\$ 1,194,004</b>	<b>\$ 1,729,815</b>

Long-term borrowings consist of the following:

	<b>June 30, 2008</b>	<b>March 31, 2008</b>
9.00% Convertible Senior Notes due 2038	\$ 150,000	\$
Other long-term borrowings	\$ 500,000	\$
<b>Total</b>	<b>\$ 650,000</b>	<b>\$</b>

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 0.97% 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. 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

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

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 will be further increased by another 0.25% as of and after September 13, 2008. The Company paid a one-time upfront fee of 5 basis points to amend its bridge facility. 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.

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 paid a one-time up-front fee of 5 basis points and 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. On June 13, 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 voluntarily increase the interest rate margin by 1.10% per annum on the \$500,000 outstanding. 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 June 30, 2008 and March 31, 2008, \$500,000 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 the amount outstanding at June 30, 2008 under the liquidity facility prior to the maturity date of the liquidity facility. Accordingly, these amounts have been classified as long-term borrowings in the Consolidated Balance Sheet.

At June 30, 2008 the Company also has 364-day revolving credit facilities with various banks on an unsecured committed basis for a total of \$275,000. As of June 30, 2008 and March 31, 2008, \$127,192 and \$96,000, respectively, was outstanding under these facilities. Additionally, one of the Company's subsidiaries has a local 364-day revolving credit facility for 55,000 Canadian Dollars, of which \$10 and \$30,304 was outstanding as of June 30, 2008 and March 31, 2008, respectively.

*Issuance of 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 will 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 will 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.

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. This option was extended through September 18, 2008; see Note 18 for further details.



**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

**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 in connection with the IPO. 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 vest 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 Statement 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 months ended June 30, 2008 includes \$28,046 of compensation costs and \$8,421 of income tax benefits related to the Company's stock-based compensation arrangements. Of this amount, \$10,301 of compensation costs have been recorded in Employee compensation and benefits (excluding IPO awards) and \$17,744 of compensation costs have been recorded in Employee compensation related to non-recurring IPO awards within the Consolidated Statement of Operations. The Company has no pool of windfall tax benefits.

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.

*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.

	<b>Three months ended June 30, 2008</b>
Expected volatility	39.0%

Edgar Filing: MF Global Ltd. - Form 10-Q

Risk free interest rate	3.2%
Expected dividend yield	0.0%
Expected term	4.5



Table of Contents

## MF GLOBAL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

The following tables summarize activity for the Company's plans for the three months ended June 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	1,929,500	14.17	6.9	
Forfeited	351,489	29.96	6.1	
Stock options outstanding as of June 30, 2008	12,461,319	27.55	6.2	
Stock options expected to vest as of June 30, 2008	11,613,455	27.67	6.2	
Stock options exercisable at June 30, 2008		\$		\$

	Restricted Share Units		Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value (per award)	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	7,445,102	\$ 30.01	421,535	\$ 29.30
Granted	947,411	11.92		
Forfeited	91,232	30.00	17,900	29.83
Nonvested as of June 30, 2008	8,301,281	\$ 27.52	403,635	29.20
Total unrecognized compensation expense remaining	\$ 153,967		\$ 5,002	
Weighted-average years expected to be recognized over	2.1		1.2	

The Company has employee stock purchase plans in the US and UK to provide employees with an opportunity to purchase shares from the Company at a discount and to pay for these purchases through payroll deductions. In the US, participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or total shares exceeding \$8 in fair market value. In the UK, participants can withhold up to £0.25 per month over 3 to 5 years to purchase shares at a 20% discount from the date of grant. These plans are accounted for as compensatory under SFAS 123R. As of June 30, 2008, no shares were awarded from this plan.

*Stock-based compensation issued by Man Group*

Historically, certain of the Company's employees were granted awards under several stock-based incentive plans established by Man Group and approved by Man Group's Remuneration Committee. At the IPO, employees that held these awards were deemed to have terminated employment with Man Group as "good leavers" and outstanding awards were treated in accordance with plan guidelines. The Company did not assume or convert Man Group awards into LTIP awards or into common shares of the Company. The information presented below for the three months ended June 30, 2007 relates only to employees of the Company. Subsequent to the IPO, expense on awards exercised related to these plans are being incurred by Man Group.

## Edgar Filing: MF Global Ltd. - Form 10-Q

Net income for the three months ended June 30, 2007 includes \$7,676 of compensation costs and \$2,807 of income tax benefits related to Man Group's stock-based compensation arrangements. All of these compensation costs have been recorded in Employee compensation and benefits (excluding non-recurring IPO awards) within the unaudited Consolidated and Combined Statements of Operations. Certain stock-based compensation awards have been classified as liabilities.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)***Executive Share Option Plan*

Executive share option awards are stock option awards granted to selected senior employees and directors, where the ability to exercise the stock option depends on Man Group's achievement of a financial target. The financial target is based on the retail price index, plus a margin, and on Man Group's earnings per share, as defined by the plan. Man Group's financial target is measured over three consecutive years, as defined by the plan. Executive share option awards are granted at the market value of Man Group stock on the date of grant, vest over three years, and lapse if the financial target is not achieved after three years. When exercised, the holder receives Man Group shares in exchange for paying cash consideration equal to the option price.

At the IPO, all outstanding executive share option awards became vested and exercisable to the extent the applicable performance criteria were achieved by Man Group as of March 31, 2007, and any options with respect to which the performance criteria were not achieved were forfeited. To the extent vested, outstanding Man Group options are exercisable for 12 months after the IPO.

The following table summarizes activity for Man Group's Executive Share Option plan for the three months ended June 30, 2007:

	Options	Weighted-Average Exercise Price (per share) (1)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2007	1,767,948	\$ 5.22	7.2	\$ 10,100
Exercised	21,060	5.26	7.1	128
Vested at IPO <sup>(2)</sup>				
Stock options outstanding as of June 30, 2007 <sup>(2)</sup>	1,746,888	5.26	6.9	12,048
Stock options vested and expected to vest as of June 30, 2007 <sup>(2)</sup>	1,746,888	5.26	6.9	12,048
Stock options exercisable at June 30, 2007 <sup>(2)</sup>	991,452	\$ 4.03	5.6	\$ 8,074

(1) As Man Group plc shares trade in Pound Sterling, all exercise price information has been translated into U.S. dollars, using the relevant exchange rate during the year.

(2) The Company has no further obligation for these awards. Awards vested at IPO are exercisable through Man Group plc. During the three months ended June 30, 2007, Man Group issued no stock option awards. The total intrinsic value of stock options exercised during the three months ended June 30, 2007 was \$128. During the three months ended June 30, 2007, there were 21,060 stock options exercised with a \$128 impact on cash flows from operations and financing activities.

The Company estimates the fair value of options granted under the Employee Stock Purchase Plans using the Black-Scholes option-pricing model and uses a binomial lattice option-pricing model to estimate the fair value of Executive Share Option Plan awards. These pricing models require the input of assumptions related to exercise behavior and a price volatility assumption for the underlying stock. Changes in the assumptions can materially affect the estimate of fair value and results of operations could be materially impacted.

The assumptions used for the three months ended June 30, 2007 were as follows:

## Edgar Filing: MF Global Ltd. - Form 10-Q

*Expected Volatility:* The expected volatility factor used to estimate the fair value of stock options awarded is based on the historical volatility of Man Group's common stock over a period consistent with the expected term of the option and on the implied volatility of market-traded options on Man Group's common stock, together with other factors.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

*Expected Dividend Yield:* The dividend yield assumptions are based on an analysis of Man Group's average historical dividend yield prior to each award date, together with other factors.

*Risk Free Interest Rate:* The risk-free rate is determined using the implied yield currently available on zero-coupon U.S. and UK government bonds (where applicable) with a term consistent with the expected option life.

The grant date fair value of each option grant has been estimated with the following weighted-average assumptions:

	<b>Three months ended June 30, 2007</b>
Expected volatility	30.0%
Risk free interest rate - Executive Share Option Plan	4.8%
Risk free interest rate - Employee Stock Purchase Plan	5.0%
Expected dividend yield	2.5%
Expected term - Executive Share Option Plan	8.5 years
Expected term - Employee Stock Purchase Plan	3.4 years

The binomial lattice option-pricing model used to value the Executive Share Option Plan contains a model for early exercise behavior. The output of the model can be used to derive the expected term of the options granted.

*Performance Share Plan*

Performance share awards, granted to selected senior employees and executive directors, is a stock-based award in which the number of shares ultimately received by the participant depends on Man Group's achievement of a financial target. The financial target is based on Man Group's average return on equity measured over three consecutive years, as defined by the plan. Participants are awarded shares in the plan by Man Group's Remuneration Committee. Participants can also purchase Man Group shares using their cash bonus or by taking out a non-interest bearing loan with Man Group to further invest in the plan. Based on the shares awarded and shares purchased for further investment in the plan, participants are entitled to receive matching shares of Man Group stock if the financial target is met. All shares that are awarded through the plan vest over three to four years, but lapse if the financial target is not met for the three year measurement period. The amount of Man Group stock matched to shares in the plan ranges from 0% to 100%, depending on the degree Man Group achieved the financial target.

At the IPO, all outstanding performance share awards were allocated to participants on a pro-rata basis (based on service during the three-year performance period) and the remaining share awards were forfeited. As a result of the IPO, the holding periods applicable to shares purchased by employees lapsed and became freely tradable, subject to certain restrictions. Underlying Man Group shares will be delivered subject to the achievement of certain performance criteria.

During the three months ended June 30, 2007, no shares were purchased by participants for additional investment in the plan. During the three months ended June 30, 2007, Man Group issued no performance share awards.

*Co-Investment Plan*

The Co-Investment plan allows selected senior employees to use a portion of their cash bonus to purchase Man Group stock for investment within the plan. Participants can also purchase shares by taking out a non-interest bearing loan with Man Group to further invest in the plan.

Shares held as investment within the plan for at least

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

three years are matched by four shares of Man Group stock. Participants vest into the matching Man Group shares after one additional year. The plan limits the total value that can be received by a participant at 100% of their cash bonus, including both their original investment in the plan and the matching shares of Man Group stock.

As a result of the IPO, the holding periods applicable to shares purchased by employees lapsed and became freely tradable, subject to certain restrictions. Outstanding matching shares awarded to employees vested on a pro-rata basis as of the IPO, and were exercisable for nine months after the IPO. The remaining matching shares have been forfeited.

During the three months ended June 30, 2007, no shares were purchased by participants for additional investment in the Co-Investment plan. During the three months ended June 30, 2007, Man Group issued no matching share awards.

A summary of the activity of performance share awards and matching co-investment plan shares as of June 30, 2007 and changes during the year then ended is presented below:

	Performance Share Plan		Co-investment Plan	
	Awards	Weighted-Average Grant Date Fair Value (per award) (1)	Awards	Weighted-Average Grant Date Fair Value (per award) (1)
Nonvested as of April 1, 2007	4,746,644	\$ 5.04	11,793,358	\$ 5.08
Vested	1,370,574	3.87	2,241,346	3.89
Forfeited				
Nonvested as of June 30, 2007	3,376,070	\$ 5.56	9,552,012	\$ 5.42
Total unrecognized compensation expense remaining	\$ 9,892		\$ 24,514	
Weighted-average years expected to be recognized over	2.50		2.50	

(1) As Man Group plc shares trade in Pound Sterling, all exercise price information has been translated into U.S. dollars, using the relevant exchange rate during the year.

*Employee Stock Purchase Plans*

In accordance with local tax regulations in the UK and U.S., Man Group sponsors two employee stock purchase plans, which allow all employees to invest funds within the plan, that contain an option to purchase shares of Man Group stock at a discount, subject to certain terms and conditions. Participants in the UK can invest in the plan over 3 or 5 years, after which they are eligible to purchase shares at a 20% discount from the market value of Man Group stock when the investment in the plan was originally made. In the U.S., participants can invest in the plan for two years, after which they are eligible to purchase shares at a 15% discount from the market value of Man Group stock when the investment in the plan was originally made. In the U.S. plan, once vested, participants have the option of receiving cash or shares of Man Group stock within one year. If Man Group stock is selected, participants are required to hold the shares for one additional year.

In connection with the IPO, U.S. employees continued to be eligible to participate in the plan until June 30, 2007, at which time certain of their purchase rights accelerated and were exercised. UK employees continued to be eligible to participate in this plan for nine months after the IPO

## Edgar Filing: MF Global Ltd. - Form 10-Q

and shares purchased under the plan became freely transferable. During the three months ended June 30, 2007 the Company did not issue shares under the employee stock purchase plan.



---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

**Note 10: Income Taxes**

*Effective income tax rate*

The effective income tax rate for the three months ended June 30, 2008 was approximately 29.8% as compared to approximately 33.1% for the three months ended June 30, 2007. The effective tax rate for the quarter ended June 30, 2008 includes the effects of certain non-recurring costs and refinements of previously-recorded tax liabilities. The Company's effective tax rate on ordinary operations for the quarter ended June 30, 2008 was approximately 30.8%.

*Uncertain Tax Positions*

As of March 31, 2008, the Company had total unrecognized tax benefits of \$26,078. For the three months ended June 30, 2008, the Company decreased gross unrecognized tax benefits by \$551 as a result of expiring statutes of limitations and increased gross unrecognized tax benefits by \$1,577 which includes \$331 of interest on previously-recorded unrecognized tax benefits. The total balance of unrecognized tax benefits of \$27,104 would, if recognized, affect the Company's effective income tax rate in future periods. It is expected within the next 12 months that the amount of gross unrecognized tax benefits will be impacted by expiring statutes of limitations and unrecognized benefits arising in the ordinary course of business.

**Note 11: Earnings per Share**

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic EPS is computed by dividing earnings available to common shareholders adjusted for dividends declared on Series B Preference Shares (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to interest expense on Convertible Notes, net of tax, and dividends declared on Series B Preference Shares in the numerator. The denominator for diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method as well as using the if-converted method for all Convertible Notes and Series B Preference Shares. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares are assumed to have been delivered on the grant date. The assumed proceeds from the assumed vesting and delivery were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized as of June 30, 2008 and (b) the amount of tax benefit, if any, that was credited to additional paid-in capital assuming vesting and delivery of the restricted shares. The tax benefit is the amount resulting from a tax deduction, if any, for compensation in excess of compensation expense recognized for financial statement reporting purposes.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

The computation of earnings per share is as follows:

	<b>Three months ending June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b><u>Basic earnings per share:</u></b>		
Numerator:		
Net income	\$ 14,391	\$ 72,897
Dividends declared on Series B Preference Shares		
Net income, if-converted	\$ 14,391	\$ 72,897
Denominator:		
Basic weighted average common shares outstanding	120,122,933	103,726,453
Basic earnings per share	\$ 0.12	\$ 0.70
<b><u>Diluted earnings per share:</u></b>		
Numerator:		
Net income	\$ 14,391	\$ 72,897
Interest expense on Convertible Notes, net of tax	131	
Dividends declared on Series B Preference Shares		
Net income, if-converted	\$ 14,522	\$ 72,897
Denominator:		
Basic weighted average common shares outstanding	120,122,933	103,726,453
Dilutive stock-based compensation awards		
Convertible Notes	936,135	
Series B Preference Shares	936,137	
Diluted weighted average common shares outstanding	121,995,205	103,726,453
Diluted earnings per share	\$ 0.12	\$ 0.70

The weighted average number of common shares outstanding for periods prior to the Reorganization and Separation is calculated using the common stock outstanding immediately following the Reorganization and Separation. Unvested restricted shares and restricted share units of 8,665,567 and unexercised stock options of 12,461,319 were excluded from the computation of diluted earnings per share for the three months ended June 30, 2008, as they were anti-dilutive for the period presented.

**Note 12: Regulatory Requirements**

One of the Company's subsidiaries is registered as a futures commission merchant and broker-dealer and others are registered as local equivalents and accordingly are subject to the capital rules of the SEC, principal exchanges of which they are a member, and other local

regulatory bodies, as applicable.

In accordance with the Uniform Net Capital Rule ( Rule 15c3-1 ) of the Securities Exchange Act of 1934, one of the Company's subsidiaries, MF Global Inc., is required to maintain minimum net capital equal to the greater of \$250 or 2% of aggregate debit items as defined by Rule 15c3-1. At June 30, 2008, the Company had net capital, as defined, of \$608,964, which was \$152,634 in excess of the minimum capital required to be maintained.

The Company is subject to certain notifications and other provisions of the net capital rules of the SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At June 30, 2008, the Company was in compliance with all of these provisions.

In accordance with the rules of the FSA in the UK, the Company's subsidiaries must comply with financial resources requirements which since January 1, 2008 are subject to the requirements of the European Union's Capital Requirements Directive. The capital held is intended to absorb unexpected losses and a minimum requirement is calculated in accordance with a standard regulatory formula that addresses the exposure to counterparty credit risk, position/market risk, foreign exchange risk, operational risk and concentration risk. Counterparty risk is calculated as a percentage of unpaid customer margin for exchange traded business and an exposure calculation for off-exchange business. Position risk is calculated by applying percentages to positions based on the underlying instrument and maturity.

---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

At June 30, 2008, the Company had financial resources, as defined, of \$884,403, resource requirements of \$294,464, and excess financial resources of \$589,579. The Company is currently in discussion with the FSA regarding future capital requirements.

The Company is also subject to the requirements of other regulatory bodies and exchanges of which it is a member in other international locations in which it conducts business. The Company was in compliance with all of these requirements at June 30 and March 31, 2008.

**Note 13: Commitments and Contingencies**

**Legal**

Set forth below are the potentially material litigations and regulatory proceedings to which the Company is a party or in which the Company is involved.

*Unauthorized Trading Incident of February 26/27, 2008*

One of the Company's brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of the Company's front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of \$141,045 on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, the Company, as a clearing member of the exchange, was required to pay the \$141,045 shortfall. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by the Company the next day. As a result of this unauthorized trading incident:

*Class Action Suits.* The Company, Man Group plc, certain of its current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12, and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to the Company's risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. The litigation is in its early stages, and the Company believes it has meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

*The U.S. Attorney's Office, Chicago Examination.* The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. The Company has been cooperating with the U.S. Attorney's Office, which has informed the Company that it is not a target of their investigation, and that Mr. Dooley is a target.

*Commodity Futures Trading Commission Investigation.* The CFTC has issued a formal order of investigation naming the Company and Mr. Dooley. The CFTC, in coordination with the Chicago Mercantile Exchange (CME), has been collecting documentation from the Company and taking depositions of its employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. The Company has established an accrual of \$10,000 in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, "Commodity Futures Trading Commission Potential Action" and "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate

## Edgar Filing: MF Global Ltd. - Form 10-Q

and there is no assurance that the \$10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. No accrual has been made for the CME matter.

*Retention of Consultants.* The Company's Nominating and Governance Committee, composed of certain independent Board members, have hired two consultants to help advise them and, through them, the

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

Company on matters relating to the unauthorized trading incident. FTI Consultants is advising on technology-related matters and Promontory Financial Group is advising on policies and procedures in the risk aspects of the Company's business.  
*Commodity Futures Trading Commission Potential Action*

In May 2007, the Company's U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, and two of its individual employees received what is commonly referred to as a Wells notice from the staff of the Division of Enforcement of the Commodity Futures Trading Commission. The notice relates to two trades that the Company executed in 2004 for a customer and reported to NYMEX. In the notice, Division of Enforcement staff indicated that it is considering recommending to the Commission that a civil proceeding be commenced against the Company and the two individuals, in which the Commission would assert that the Company and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that the Company and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. The Company and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why it believes no proceeding should be brought. It is not yet certain what action the CFTC will take. The Company has established an accrual of \$10,000 in fiscal 2008 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the caption, Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation and below under the caption CFTC Natural Gas Price Information Investigation. This is the Company's best estimate and there is no assurance that the \$10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

*CFTC Natural Gas Price Information Investigation*

The Company has been cooperating in an investigation conducted by a New York County Grand Jury in conjunction with the U.S. Attorneys Office in the Southern District of New York. The CFTC and the SEC have also been involved in the investigation. The investigation centers around trading by a market making energy trader at Bank of Montreal (BMO) who allegedly mismarked his book. One of the Company's brokers did business with the BMO trader, and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which the Company's broker disseminated to its customers, including BMO, as price indications that reflected a consensus. The Company has been told that neither the Company nor its broker are targets of the Grand Jury investigation. In connection with this investigation, the Company has been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and the Company with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against the Company or its broker. The Company has established an accrual of \$10,000 in fiscal 2008 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation and Commodity Futures Trading Commission Potential Action. This is the Company's best estimate and there is no assurance that the \$10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

*Philadelphia Alternative Asset Fund*

On May 8, 2006, the plaintiff, a court-appointed receiver for a hedge fund, Philadelphia Alternative Asset Fund Ltd. ( PAAF ), and its fund manager and commodity pool operator, Philadelphia Alternative Asset Management Co., LLC ( PAAMCo ), commenced suit against MF Global Inc., formerly known as Man Financial Inc, the Company's U.S. operating subsidiary, and seven of its employees in connection with a Commodity Futures Trading Commission-imposed shutdown of PAAMCo. PAAMCo and its principal, Paul Eustace ( Eustace ), allegedly defrauded PAAF by misrepresenting its trading performance, artificially inflating PAAF's net asset value, and



---

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

failing to disclose trading losses suffered in a subaccount maintained by the Company for PAAF. The receiver, in his complaint, alleged among other things, negligence, common law fraud, violations of the Racketeer Influenced Corrupt Organizations Act (RICO), violations of the Commodity Exchange Act and aiding and abetting fraud. The Company, and its employees, denied all material allegations of the complaint. Although the complaint did not quantify the exact amount of damages sought, the amount claimed was estimated to be approximately \$175,000 (with the plaintiff claiming that these damages should be tripled under RICO). The court-appointed receiver in this matter was, by judicial order, replaced by a receiver ad litem (solely for purposes of this litigation) because of a conflict of interest on the part of the original receiver. In July 2007, the receiver ad litem dismissed all claims against six of the Company's employees, and filed a Second Amended Complaint against Man Financial Inc, one employee, and UBS Fund Services (Cayman) Ltd. The allegations against the Company were substantially similar as those in the initial complaint. On December 3, 2007, the Company entered into a Settlement Agreement with the prior receiver and the receiver ad litem pursuant to which, without admitting liability, the Company paid \$69,000, plus \$6,000 of litigation expenses, to the receivership estate as a restoration fund for the benefit of receivership investors in exchange for full releases and a dismissal of the action with prejudice.

Man Group has agreed to indemnify the Company for all costs, expenses and liabilities the Company may incur as a result of the PAAF litigation and any other claims or litigation arising from the facts or circumstances which give rise to that claim for amounts in excess of \$50,000, net of any insurance proceeds the Company receives. The Company received \$25,000 on July 10, 2008 from Man Group plc in relation to the PAAMCo matter under the Deed of Indemnity executed at the time of the separation from Man Group plc.

As a result of discussions leading to this settlement, the Company recorded an expense of \$76,814 in fiscal 2008. The Company believes that these settlement and litigation costs are substantially insured; however no insurance proceeds have been recognized and will not be recognized until actually received. The Company's insurance carriers have been notified of the settlement agreement (together with amounts paid thereunder) and of its associated defense costs in the PAAMCo-related litigation. The insurers have offered an amount, without prejudice, which the Company regards as inadequate and the Company has taken the matter to binding dispute resolution under the insurance contract. The Company has claimed in excess of \$90,000 and the insurers have counterclaimed for \$12,000 for previously paid defense costs. It is anticipated that there will not be a resolution of the matter for approximately one year.

On December 26, 2007, the Company settled a related investigation by the CFTC arising out of the PAAF matter. Without admitting or denying the allegations, the Company agreed to the entry of an order finding that it violated supervision and recordkeeping requirements and the Company agreed to follow revised procedures and paid a civil monetary penalty of \$2,000, which was accrued in fiscal 2008.

*Conservative Concepts Portfolio Management GmbH (CCPM) Related Arbitrations*

In or about October 2003, the Company uncovered an apparent fraudulent scheme conducted by third parties unrelated to the Company that may have victimized a number of its clients. CCPM, a German Introducing Broker, introduced to the Company all the clients that may have been victimized. An agent of CCPM, Michael Woertche (and his confederates), apparently engaged in a Ponzi scheme in which allegedly unauthorized transfers from and trading in accounts maintained at the Company were utilized to siphon money out of these accounts, on some occasions shortly after they were established. The Company was involved in two arbitration proceedings relating to these CCPM introduced accounts. The first arbitration involved claims made by two claimants before a National Futures Association panel. The second arbitration involves claims made by four claimants before a FINRA panel. The claims in both arbitrations are based on allegations that the Company and an employee assisted CCPM in engaging in, or recklessly or negligently failed to prevent, unauthorized transfers from, and trading in, accounts maintained by the Company. Damages sought in the NFA arbitration proceeding were approximately \$1,700 in compensatory damages, unspecified punitive damages and attorneys' fees in addition to the rescission of certain deposit agreements. The NFA arbitration was settled for \$200 as to one claimant and a net of \$240 as to the second claimant during fiscal 2008. Damages sought in the FINRA proceeding are approximately \$6,000 in compensatory damages and \$12,000 in punitive damages. That case is scheduled to be heard in September 2008. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, the second arbitration. Therefore, no provision for losses has been recorded in connection with that arbitration.





---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

*Midland Euro Cases*

The key allegations in a bankruptcy proceeding and a class action proceeding were that Midland Euro Exchange, Inc. ( MEE ), Midland Euro, Inc. and their principals, Moshe and Zvi Leichner, ran a Ponzi scheme, promising high returns on foreign exchange trades, and that the Company (and others) aided and abetted the scheme. In the bankruptcy proceeding, the trustee alleged that in the one year period preceding the bankruptcy petitions, the Company made voidable transfers to itself from the MEE accounts in the amount of not less than approximately \$1,800. In the class action complaint, the plaintiffs alleged that the Company, together with MEE's accountants and its London bank, were liable for \$90,000 of losses which investors suffered as a result of violations of state common and statutory law and federal RICO claims. Punitive damages and treble damages under RICO were sought. The Company reached a settlement with plaintiffs in the class action suit, pursuant to which the Company paid the plaintiffs \$4,100 in the year ended March 31, 2008. The Company also reached a settlement with the bankruptcy trustee, pursuant to which the Company paid the trustee \$100. This was recorded as an expense in fiscal 2007.

*Refco LLC Exchange Seats*

The Company acquired certain assets of Refco Inc. and its affiliates (collectively, Refco) pursuant to an Acquisition Agreement between Refco and the Company. As part of that transaction, the Company acquired certain seats and shares held by Refco LLC in the Chicago Mercantile Exchange and the Chicago Board of Trade (the Shares). On or about March 3, 2006, counsel to the Chapter 7 bankruptcy trustee of Refco LLC (the trustee) notified the Company of the trustee's position that the Shares were not, in fact, assets that should have been transferred to the Company under the Acquisition Agreement and that, as a result, the Company was liable to Refco LLC for the value of the Shares, asserted to be approximately \$57,000 at the date of closing under the Acquisition Agreement. The Company negotiated a settlement agreement with the trustee pursuant to which all claims between the Company and all Refco related entities, including the claim for the \$57,000 value of the seats, were settled by the Company paying \$2,200 to the Refco estate. This was recorded as an expense in the year ended March 31, 2008.

*Parabola and Aria*

Parabola and Aria (off-shore shell investment company vehicles for an active day trader) have made various different claims about execution-only accounts that were active in the Company's London office between July 2001 and February 2002. In December 2006, Parabola and Aria filed a claim in the Commercial Court in London against the Company and one of its brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty. The claimants seek £3,700 (approximately \$7,400) in damages and speculative claims, including claims for lost profits, of up to an additional £87,000 (approximately \$173,400). Mediation began in April 2008 but has not been successful and a trial has been set for March 2009. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, this matter. No provision for losses has been provided in connection with this litigation.

*Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.*

The Company's U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ( Eagletech ) and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as 100 John Doe defendants or their nominee entities. The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that Man Group PLC d/b/a Man Financial Inc participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act, and a related negligence claim. On May 9, 2007, defendants filed a notice removing the



---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

State Court action to Federal Court pursuant to 28 U.S.C. § 1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against Man Financial Inc under Florida common law, including civil conspiracy, conversion and trespass to chattels. On February 26, 2008, the financial institution defendants, including MF Global Inc., filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ( PSLRA ) and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit. Since the case is in its earliest stages, it is difficult to determine exposure, if any. The Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

*Amacker v. Renaissance Asset Management Fund et. al.*

In December 2007, the Company, along with four other future commission merchants ( FCMs ), were named as defendants in an action filed in the U.S. District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of \$32,000, plus exemplary damages, from all defendants. All the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek \$17,000 in claimed damages plus exemplary damages from all defendants. The Company has filed a motion to dismiss the amended complaint. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

*Leaeguard Matter*

The Company's UK affiliate has received a letter from attorneys who act for the liquidator of Leaeguard Spot Forex Limited ( LSF ), a Mauritius based investment firm that became insolvent in March 2005. The Company's UK subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaeguard group between 2001 and 2005. The lawyers' letter alleges, inter alia, that the Company was complicit in assisting the directors of various Leaeguard group companies to breach fiduciary duties owed by such directors to their companies and that the Company knowingly benefited from assets received in breach of such fiduciary duties. The letter further alleges the Company is liable to account for funds lost through transactions executed by such directors with its UK company which are alleged to amount to \$18,000. The letter attaches a copy of a Claim issued (but not served) in the English High Court (Chancery Division) naming MF Global Ltd, MF Global UK Limited and Man Group Plc as defendants. It is difficult at this stage to determine exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

*Hobart Securities*

The Company is in a dispute with Hobart Securities (formerly Dawnay, Day Capital Markets Limited) ( DDCM ). The Company exercised a contractual right of set-off on July 10 and 11, 2008 over DDCM's account to off-set liabilities of approximately £2,500 (approximately \$5,000) of other Dawnay, Day companies with accounts at



**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

MF Global. DDCM has instituted legal proceedings seeking to have the Company reverse the £2,500 set-off, with DDCM claiming that the Company was not entitled to exercise a set-off as DDCM had taken itself out of the Dawnay, Day group of companies through a management buy-out on July 11, 2008. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

*Class Action Suit*

The Company and certain of the Company's executive officers and directors have been named as defendants in an action filed in the United States District Court for the Southern District of New York. This action, which purports to be brought as a class action on behalf of purchasers of MF Global stock between March 17, 2008 and June 20, 2008, seeks to hold defendants liable under §§ 10 and 20 of the Securities Exchange Act of 1934 for alleged misrepresentations and omissions related to the Company's financial results and projections and capital structure. The litigation is in its early stages, and the Company believes that it has meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

*Other*

In addition to the matters discussed above, from time to time the Company is party to litigation and regulatory proceedings that arise in the ordinary course of its business. Aside from those matters discussed above, the Company does not believe that it is party to any pending litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

**Guarantees**

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. As of June 30, 2008, the Company has guaranteed loans to certain individuals for their purchase of exchange seats. In these arrangements, the Company can sell the exchange seats to cover amounts outstanding. As of June 30, 2008 the Company has not recorded a guarantee liability, as the fair value of the exchange seats exceeds any potential loss on these loans.

Additionally, in its normal course of business, the Company may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote. The Company is a member of various exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the Company believes that the potential for the Company to be required to make payments under these arrangements is remote, and accordingly, no liability has been recorded.

**Other Commitments**

Certain clearing-houses, clearing banks, and clearing firms used by the Company are given a security interest in certain assets of the Company held by those clearing organizations. These assets may be applied to satisfy the obligations of the Company to the respective clearing organizations. See Note 12 for further details.



**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)****Lines of Credit**

The Company has a bridge facility in an aggregate principal amount of up to \$1,050,000 and a \$1,500,000 five-year unsecured committed revolving liquidity facility. The Company has also entered into multiple 364-day revolving credit facilities through various banks on a committed, unsecured basis for a total amount of \$275,000 as of June 30, 2008, under similar terms as the liquidity facility. As of June 30, 2008, \$127,192 was outstanding under these facilities. See Note 8.

The Company also has other credit agreements with financial institutions, in the form of trading relationships, which facilitate execution, settlement, and clearing flow on a day to day basis for the Company's clients, as well as provide evidence, as required, of liquidity to the exchanges it conducts business on. As of June 30, 2008, the Company had \$77,000 of issued letters of credit.

Prior to the IPO, the Company also had access to funding through Man Group's committed and uncommitted lines of credit which it can use to assist with working capital requirements, as needed. These lines of credit are no longer available to the Company.

**Note 14: Segment and Geographic Information**

The Company has one reportable business segment, as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131). SFAS No. 131 requires a public enterprise to report financial information on a basis consistent with that used by management to allocate resources and assess performance. The Company is operated and managed by its chief operating decision maker on an integrated basis as a single operating segment.

Each region's contribution to the consolidated and combined amounts is as follows:

	<b>Three months ending June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues, net of interest and transaction-based expenses:</b>		
North America	\$ 181,356	\$ 138,141
Europe	148,472	199,516
Rest of World	44,826	36,746
<b>Total</b>	<b>\$ 374,654</b>	<b>\$ 374,403</b>

Revenues, net of interest and transaction-based expenses are attributed to geographic areas based on the location of the relevant legal entities. Rest of world comprises primarily the Asia/Pacific region. No single customer accounted for greater than 10% of total revenues in the three months ended June 30, 2008 and 2007. Revenues, net of interest and transaction-based expenses by product have not been provided as this information is impracticable to obtain.

**Note 15: Related Party Transactions**

Subsequent to the IPO, Man Group holds an investment of approximately 18.6% in the Company and as such is considered a related party for the period ended June 30, 2008.



## Edgar Filing: MF Global Ltd. - Form 10-Q

The Company clears transactions on behalf of certain managed investment funds which are related parties to Man Group. The Company earned commission revenues by executing and clearing brokerage transactions for these investment funds as well as incurred net interest expense. The related party revenues, net of interest and transaction-based expenses, do not reflect the interest income earned from third parties in the reinvestment of related party fund balances by the Company.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

The Company earns sublease income from Man Group for its use of certain office space. In addition to these arrangements, Man Group also charges lease expense to the Company for the use of office space.

Revenues earned from and expenses incurred with Man Group, including allocated expenses, for the three months ended June 30, 2008, and 2007 are summarized as follows:

	<b>Three months ending June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Cleared commissions	\$ 5,813	\$ 5,654
Interest income	58	55
<b>Total revenues</b>	5,871	5,709
Less: Interest expense	7,746	10,958
<b>Revenues, net of interest and transaction-based expenses</b>	(1,875)	(5,249)
<b>Expenses</b>		
Employee compensation and benefits		9,953
Communications and technology	314	575
Occupancy and equipment costs	1,117	1,286
Professional fees	1,103	11
Depreciation and amortization		
General and other	162	154
<b>Total non-interest expenses</b>	2,696	11,979
Interest on borrowings		4,414
Gains on exchange seats and shares		94,703
<b>Total, net</b>	<b>\$ (4,571)</b>	<b>\$ 73,061</b>

For the periods prior to the Reorganization and Separation, the unaudited 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. These expenses are allocated to the Company using estimates that the Company considers to be a reasonable reflection of the utilization of services provided to or benefits received by the Company. The costs included in the unaudited combined financial statements were determined based on cost of the services to Man Group, the proportion of Man Group's services fully dedicated to the Company, as well as the Company's usage of such services. Services received by the Company include employee compensation and benefits, use of office facilities, and services provided related to overall corporate functions including tax, legal, regulatory capital, finance, internal audit, and executive management.

## Edgar Filing: MF Global Ltd. - Form 10-Q

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 transitional period. The Company believes that these agreements contain commercially reasonable terms that could have been negotiated with an independent third party.

The Company also entered into a master separation agreement with Man Group that governs the principal terms of the separation of the Company's business from Man Group. The master separation agreement and other agreements contain important provisions regarding the Company's relationship with Man Group following the completion of the IPO, including provisions relating to non-competition and non-solicitation, access, and confidentiality. Further, Man Group has agreed to indemnify the Company against certain litigation and tax matters.

---

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

The Company had receivables with Man Group of \$312 and \$716 at June 30 and March 31, 2008, respectively. In addition, the Company also had payables with Man Group of \$26,810 and \$12,921 at June 30 and March 31, 2008, respectively.

**Note 16: Non-Cumulative Convertible Preference Shares, Series B**

On June 25, 2008, the Company completed the issuance and sale of \$150 million in aggregate liquidation preference of its 9.75% Non-Cumulative Convertible Preference Shares, Series B (the Series B Preference Shares). The Company will pay dividends on the Series B Preference Shares, when, as and if declared by its board of directors out of legally available surplus, quarterly in arrears at a rate of 9.75% per year, payable on February 15, May 15, August 15 and November 15, commencing on August 15, 2008. Dividends on the Series B Preference Shares will not be cumulative and may be paid in cash, common shares or both.

The Series B Preference Shares are convertible, at the holder's option, at any time, initially into 9.5694 Common Shares based on an initial conversion price of approximately \$10.45 per share, subject in each case to specified adjustments. The conversion rate will also be adjusted upon the occurrence of certain make-whole acquisition transactions and other events. On or after July 1, 2018, if the closing price of the Company's common shares exceeds 250% of the then-prevailing conversion price for 20 trading days during any consecutive 30 trading day period, the Company may, at its option, cause the Series B Preference Shares to be automatically converted into common shares at the then-prevailing conversion price. There is no beneficial conversion feature to be recognized at the issuance date of the Series B Preference Shares, however, given certain conditions, a beneficial conversion feature could be recognized in the future.

**Note 17: Fair Value Measurements**

The Company has adopted the provisions of SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has applied SFAS No. 157 to all financial instruments that are required to be reported at fair value.

In accordance with SFAS FSP 157-2, *Effective Date of FASB Statement No. 157*, (FSP No. 157-2) the Company elected to defer application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis until April 1, 2009.

SFAS No. 157 nullifies select guidance provided by EITF Issue No. 02-3, which prohibited the recognition of trading gains or losses at the inception of a derivative contract, unless the fair value of such derivative is obtained from a quoted market price, or other valuation technique that incorporates observable market data. There was no impact in adopting the provisions of SFAS No. 157, on April 1, 2008.

SFAS No. 157 also requires the Company to consider its own credit spreads when measuring the fair value of liabilities, including OTC derivative contracts. The impact of considering the Company's own credit spreads when measuring the fair value of liabilities, including derivatives, did not have a material impact on fair value measurements at the date of adoption.

Securities Owned, Securities Sold, Not Yet Purchased and Derivative transactions are carried at fair value and are classified and disclosed in the following categories:

*Level 1* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 consists of financial instruments whose fair values are estimated using quoted market prices. Included in Level 1 are exchange traded equities and U.S. government securities as well as futures and options traded on exchanges.



**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

*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. Included in Level 2 are those financial instruments for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Financial instruments in this category include fixed income instruments including floating rate notes, federal agencies, corporate debt, and certificates of deposit, as well as over the counter forwards, swaps, and options.

*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). Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources. Financial instruments that fall within Level 3 are excess memberships in exchanges.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there is sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over time or among market makers. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

In determining the appropriate fair value hierarchy levels, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following table summarizes the Company's financial assets and liabilities as of June 30, 2008, by level within the fair value hierarchy.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total as of June 30, 2008
<b>Assets</b>					
Securities owned					
U.S. government securities and federal agency obligations	\$ 2,145,901	\$ 1,887,794	\$	\$	\$ 4,033,695
Corporate debt securities		391,549			\$ 391,549
Equities	1,100,568				\$ 1,100,568
Shares held due to demutualization of exchanges			18,903		\$ 18,903
Other	22,382				\$ 22,382
Total securities owned (4)	\$ 3,268,851	\$ 2,279,343	\$ 18,903	\$	\$ 5,567,097
<b>Derivative Assets</b>					
Futures transactions	\$ 2,849,529	\$	\$	\$ (366,760)	\$ 2,482,769
Foreign currency and other OTC derivative transactions	236,900	2,489,689		(2,533,032)	\$ 193,557
Total derivative assets (2)	3,086,429	2,489,689		(2,899,792)	2,676,326
Total assets at fair value	\$ 6,355,280	\$ 4,769,032	\$ 18,903	\$ (2,899,792)	\$ 8,243,423
<b>Liabilities</b>					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	\$ 884,864	\$	\$	\$	\$ 884,864
Equities	576,566				\$ 576,566
Other	20,094				\$ 20,094
Total securities sold, not yet purchased	\$ 1,481,524	\$	\$	\$	\$ 1,481,524
<b>Derivative liabilities</b>					
Futures transactions	\$ 3,030,102	\$	\$	\$ 2,085,699	\$ 5,115,801
Foreign currency and other OTC derivative transactions	238,182	2,454,512		(2,057,037)	\$ 635,657
Total derivative liabilities (3)	3,268,284	2,454,512		28,662	5,751,458
Total liabilities at fair value	\$ 4,749,808	\$ 2,454,512	\$	\$ 28,662	\$ 7,232,982

- (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.
- (2) Reflects derivative assets within Receivables from Customers and Receivables from Brokers, Dealers, and Clearing Organizations. Excludes \$5,822,087 within Receivables from Customers and Receivables from Brokers, Dealers, and Clearing Organizations which are accounted for at other than fair value.
- (3) Reflects derivative liabilities within Payables to Customers and Payables to Brokers, Dealers, and Clearing Organizations. Excludes \$15,215,361 within Payables to Customers and Payables to Brokers, Dealers, and Clearing Organizations which are accounted for at other

than fair value.

- (4) Includes \$241,798 of Securities owned which are held in segregation. These securities have been classified within Restricted Cash and Segregated Securities in the Consolidated Balance Sheet.

The amount of unrealized gains and losses included in income attributable to the change in unrealized gains and losses relating to assets or liabilities still held at the end of the period are reported in Principal transactions revenues in the Statements of Operations. The risks or volatility associated with the transactions that make up this amount are often offset or reduced by certain hedging strategies associated with products with a higher Level (either Level 1 or 2). The Company generally maintains a matched book, which means positions with one counterparty are generally offset with opposite transactions with other dealers or counterparties. This hedging and underlying financial instruments are often classified in different levels in the fair value hierarchy.

The tables below provide a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses for the quarter for all financial assets and liabilities categorized as Level 3 as of June 30, 2008. The net unrealized gain reflected in Level 3 should be considered in the context of the factors discussed below.

A derivative contract with Level 1 and/or Level 2 inputs is classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

If there is one significant Level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., Level 1 and Level 2) is still classified as Level 3.

Gains or losses that have been reported in Level 3 resulting from changes in Level 1 or Level 2 inputs are frequently offset by gains or losses attributable to instruments classified in Level 1 or Level 2 or by cash instruments reported in Level 3 of the fair value hierarchy.



**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)**

Fair Value Measurements Using Significant

Unobservable Inputs (Level 3)

Balance as of April 1, 2008	\$ (42,543,094)
Total realized and unrealized gains and (losses)	(1,333,183)
Purchases, sales, issuances and settlements, net	66,376,112
Transfers in and (out) of Level 3	(3,596,746)
Balance as of June 30, 2008	\$ 18,903,089

The balance at June 30, 2008 is comprised of excess memberships in exchanges. Total realized and unrealized gains or losses represent the total gains and losses recorded for the Level 3 assets and liabilities and are reported in Principal transactions on the Statements of Operations. Purchases, sales and settlements represent Level 3 assets and liabilities that were either purchased, sold, or settled during the period. Changes in the fair value hierarchy for a specific financial asset or financial liability may result in transfers in the hierarchy level.

**Note 18: Subsequent Events*****Cumulative Convertible Preference Shares, Series A***

On July 18, 2008, the Company issued and sold \$150,000 in aggregate liquidation preference of its Cumulative Convertible Preference Shares, Series A (the Series A Preference Shares) to J.C. Flowers II L.P. (J.C. Flowers). The Company used the net proceeds from the sale of the Series A Preference Shares to repay a portion of the Company's \$1,400,000 bridge facility pursuant to its capital plan. Pursuant to certain previously disclosed adjustment provisions of its Investment Agreement with J.C. Flowers and as a result of its recently completed private offerings of Series B Preference Shares and Convertible Notes, the Company paid J.C. Flowers approximately \$36,300 in cash and reset the annual dividend rate on the Series A Preference Shares, at 10.725%. The Company also paid J.C. Flowers its \$4,500 fee in cash in connection with the backstop facility provided by J.C. Flowers under the Investment Agreement. The Series A Preference Shares rank senior to the Company's common shares with respect to dividend rights and rights upon liquidation of the Company.

***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

## Edgar Filing: MF Global Ltd. - Form 10-Q

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

**Table of Contents**

**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands, except share data)**

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. At the closing of the Two-Year Term Facility, the Company cancelled a certain bank's \$50,000 bilateral credit facility as concession for their participation in the new facility resulting in total uncommitted unsecured facilities of \$225,000.

On July 18, 2008, the Company borrowed \$300,000 under the Credit Facility, which will come due July 16, 2010. The borrowed amount was used to repay a portion of the Company's \$1,400,000 bridge facility pursuant to its capital plan. After giving effect to this repayment and the repayment from the proceeds of the sale of the Convertible Notes and the Series B Preference Shares, which were approximately \$257,700 after deducting discounts and commissions paid to the initial purchasers in connection with these offerings and estimated offering expenses, the outstanding principal amount of the bridge facility has been reduced to \$100,000.

***Option to Purchase Additional Convertible Notes***

In connection with the June 25, 2008 issuance of \$150,000 9.00% Convertible Notes due 2038, 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 term loan facility was fulfilled. The Convertible Notes are convertible into common shares at an initial conversion price of \$10.45 per \$1 aggregate principal amount of Convertible Notes, subject to adjustment. 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.

***Dividends declared***

On July 29, 2008, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares of \$1,207 and \$2,031, respectively. These dividends have a record date of August 5, 2008 and payment date of August 15, 2008.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are based on our present beliefs and assumptions and on information currently available to us. You can identify forward-looking statements by terminology such as may, will, should, could, would, targets, goal, expect, intend, anticipate, believe, estimate, predict, potential, continue, or the negative of these terms or other comparable terminology. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We caution you not to place undue reliance on these forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements about:

our ability to repay the remaining borrowings outstanding under our bridge facility;

our liquidity requirements and our ability to obtain access to necessary liquidity;

our expectation to benefit from continued industry growth;

our ability to continue to provide value-added brokerage services;

our ability to capitalize on market convergence;

our ability to continue to diversify our service offerings;

our ability to pursue opportunities for enhanced operating margins;

our ability to expand our business in existing and new geographic regions;

our ability to continue to expand our business through acquisitions;

expectations regarding the business environment in which we operate and the trends in our industry;

the effects of pricing and other competitive pressures on our business as well as our perceptions regarding our business competitive position;

our accuracy regarding our expectations of our revenues and various costs;

exposure to client and counterparty default risks as well as the effectiveness of our risk-management;

## Edgar Filing: MF Global Ltd. - Form 10-Q

our ability to retain our management and other employees;

fluctuations in interest rates and currency exchange rates and their possible effects on our business;

the likelihood of success in, and the impact of, litigation involving our business;

the impact of any changes in domestic and foreign regulations or government policy, including any changes or reviews of previously issued regulations and policies;

changes in exchange membership requirements;

our ability to increase the percentage of our revenues from the Asia/Pacific region;

changes in our tax rate; and

our ability to maintain trading volumes and market share.

We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date of this report.

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help you understand MF Global Ltd. and its consolidated subsidiaries. Our MD&A should be read in conjunction with our unaudited consolidated and combined financial statements and the accompanying notes, included elsewhere in this Quarterly Report on Form 10-Q.

**Business Overview**

We believe we are the leading broker of exchange-listed futures and options in the world. We provide our clients with fast, cost-effective trade execution and clearing services for derivative and cash products across a broad range of markets, including interest rates, equities, foreign exchange, energy and metals as well as agricultural and other commodities, throughout most of the world's major financial centers. We provide our clients with market access through our brokers, relationships with introducing brokers and online trading platforms. Our clients include institutions, hedge funds and other asset managers, as well as professional traders and private clients. We have offices in New York, London, Chicago, Paris, Mumbai, Singapore, Sydney, Toronto, Tokyo, Hong Kong, Taipei, Dubai, and other locations. Our business is based on a diversified yet fully integrated business model that allows us to offer a variety of products across a broad range of markets, geographic regions and clients and through multiple distribution channels. We operate and manage our business as a single operating segment. We do not manage our business by services or product lines, market types, geographic regions, client segments or any other exclusive category.

We have continued to experience overall growth in transactions volumes in recent years, which has benefited from increased volatility in many of the markets in which we operate. The total volume of exchange-traded futures and options transactions we executed and cleared increased 16.9% from 470.5 million contracts in the three months ended June 30, 2007 to 549.8 million contracts in the three months ended June 30, 2008. For a discussion of the manner in which we calculate our volumes, see Factors Affecting our Results Trading Volumes and Volatility .

We derive revenues from four main sources: commissions from agency execution; commissions from clearing services; mark-ups from principal transactions, primarily consisting of client trades executed on a matched-principal basis; and interest income on cash balances in our clients accounts, most of which are maintained by our clearing clients to meet margin requirements as well as interest related to our fixed income and principal transactions activities. Our sources of revenue are discussed below under Sources of Revenues .

**Significant Business Developments**

***Reorganization and Separation***

In July 2007, Man Group plc 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 us in exchange for 103,726,353 of our common shares (the Separation ). Following the Reorganization and Separation, Man Group also made a net capital contribution of \$516.2 million in cash to us in return for 17,379,493 common shares (the Recapitalization ).

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

***Initial Public Offering***

In July 2007, we completed our initial public offering, or IPO, of 97,379,765 of our common shares, all of which were sold by a subsidiary of Man Group at a price of \$30 per share. Following the IPO, Man Group retained approximately 18.6% of our common shares, which it holds through one of its subsidiaries. We did not receive any proceeds from the sale of these common shares.

In connection with the IPO, we established the 2007 Long-term Incentive Plan ( LTIP ) which provides for the grant of equity compensation awards to eligible employees, consultants, directors and other individuals who provide services to us. In connection with the IPO, we issued restricted share units, share options, and restricted shares under the LTIP. Restricted share units and restricted shares issued in connection with the IPO are defined as non-recurring IPO awards and accounted for as employee compensation related to non-recurring IPO awards on our unaudited Consolidated Statements of Operations. The stock compensation charge related to these non-recurring IPO awards is considered a non-cash charge as the cost was incurred by Man Group as part of the IPO. See Results of Operations and Note 9 to our unaudited consolidated and combined financial statements for further details.

***Issuance of Non-Cumulative Convertible Preference Shares and Convertible Notes***

On June 25, 2008, we completed the issuance and sale of (i) \$150.0 million aggregate principal amount of our 9.00% Convertible Senior Notes due 2038 (the Convertible Notes ) and (ii) \$150.0 million in aggregate liquidation preference of our 9.75% Non-Cumulative Convertible Preference Shares, Series B (the Series B Preference Shares ). See Note 8 to our unaudited consolidated and combined financial statements for further details. In August 2008, the initial purchasers exercised their option to purchase an additional \$60.0 million aggregate principal amount of our Convertible Notes.

***The J.C. Flowers Investment***

We signed a definitive agreement, dated as of May 20, 2008 and as amended on June 10, 2008, which we refer to as the backstop commitment , with an affiliate of J.C. Flowers & Co. LLC in which J.C. Flowers agreed to provide a commitment of up to \$300.0 million toward the sale of equity or equity-linked securities. Under the terms of the backstop commitment, on July 18, 2008, J.C. Flowers purchased \$150.0 million in aggregate liquidation preference of a new series of equity securities in the form of convertible preferred shares, or the Series A Preference Shares. The proceeds from the backstop commitment were used to repay a portion of the bridge facility that matures on December 12, 2008.

Subject to certain exceptions, none of the Series A Preference Shares sold to J.C. Flowers may be transferred for a period of 12 months after closing and J.C. Flowers may not beneficially own 20% or more of our outstanding common shares for a period of three years after the closing. Immediately prior to signing the definitive agreement with J.C. Flowers, we also amended our shareholder rights plan to exclude J.C. Flowers (including any affiliate of J.C. Flowers), after the first time it becomes the beneficial owner of 15% or more of our common shares, and until such time as either it falls below the threshold or becomes the owner of 20% or more of our common shares, from the provision that triggers the rights plan when any person acquires 15% or more of our issued and outstanding common shares without approval of our board of directors.

Each Series A Preference Share is convertible at any time at the option of the holder into our common shares at the rate of eight common shares per Series A Preference Share, representing an initial conversion price of \$12.50 per share. The conversion rate and the conversion price are subject to adjustments in certain circumstances. Dividends on the Series A Preference Shares are cumulative at the rate of 10.725% per annum, payable in cash or common shares, at our option, and holders will participate in common share dividends, if any. Dividends are payable if, as and when determined by our board of directors, but if not paid they accumulate and dividends accrue on the arrearage at the same annual rate. Accumulated dividends on the Series A Preference Shares become payable in full upon any conversion or any liquidation of us. We will not be permitted to pay any dividends on or to repurchase our common shares during any period when dividends on the Series A Preference Shares are in arrears. Holders will





---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

have the right to vote with holders of the common shares on an as-converted basis. We may require the holders to convert the shares at any time after May 15, 2013 when the closing price of the common shares exceeds 125% of the conversion price for a specified period. If, prior to the first anniversary of the closing of the backstop commitment, we sell common shares or securities convertible into or exercisable for common shares at a price less than the conversion price on the Series A Preference Shares, we will pay J.C. Flowers a make-whole amount reflecting the difference in pricing, payable at our option in cash or common shares. In addition, if, prior to the first anniversary of the closing of the backstop commitment (or in any offering required under any future bank financings), we sell any other series of preference shares with a dividend rate above 5.45%, the dividend rate on the Series A Preference Shares held by J.C. Flowers will be increased so as to equal 110% of the other series dividend rate, with the increase to be payable at our option in cash or common shares. In accordance with certain adjustment provisions of the Investment Agreement with J.C. Flowers, which were triggered as a result of our issuance and sale of the Series B Preference Shares and the Convertible Notes, we paid J.C. Flowers approximately \$36.3 million in cash and reset the annual dividend rate on the Series A Preference Shares from 6.00% to 10.725%.

In connection with the investment, J.C. Flowers was granted the right to appoint up to two directors to our board of directors. Pursuant to this right, on July 29, 2008, we appointed David I. Schamis to our board. In addition, if we fail to pay dividends on the Series A Preference Shares for six quarterly periods, whether or not consecutive, the Series A preference shareholders will have the right as a class to elect two additional directors to our board. The terms of the J.C. Flowers transaction are described in our current reports on Form 8-K filed with the SEC on May 23, 2008 and July 18, 2008, which we incorporate herein by reference (except for any portion of such reports which are furnished rather than filed). Upon consummation of the J.C. Flowers investment, we entered into an agreement to grant J.C. Flowers registration rights with respect to the Series A Preference Shares and the common shares into which the Series A Preference Shares may be converted. The J.C. Flowers transaction closed on July 18, 2008.

***Factors Affecting Our Results***

Our business environment directly affects our results of operations. Our results of operations have been and will continue to be affected by many factors, including economic, political and market conditions, broad trends in the brokerage and finance industry, changes in the level of trading activity in the broader marketplace, price levels and price volatility in the derivatives, interest rate, equity, foreign exchange and commodity markets, legislative and regulatory changes and competition, among other factors. Specifically, our business has been impacted by turmoil in global markets. In particular, our revenues are substantially dependent on the volume of client transactions we execute and clear and the volatility in the principal markets in which we operate, as well as prevailing interest rates, each of which are described below.

***Trading Volumes and Volatility***

Our trading volumes are particularly dependent on our clients' demand for exchange-traded and OTC derivative products, which relate to interest rates, equities, foreign exchange and commodities. Demand for these products is driven by a number of factors, including the degree of volatility of the market prices of the underlying assets—that is, the extent to which and how rapidly those prices change during a given period. Higher price volatility increases the need for some clients to manage price risk and creates opportunities for speculative trading for others. While higher prices do not necessarily lead to increases in trading volumes, changes in the absolute price levels of financial assets or commodities can have a significant impact on trading volumes. The total volume of exchange-traded futures and options transactions we executed and cleared increased 16.9% from 470.5 million contracts in the three months ended June 30, 2007 to 549.8 million contracts in the three months ended June 30, 2008.

All volume statistics presented herein for the three months ended June 30, 2008 and 2007 include exchange-traded futures and options contract volumes as derived from our reporting systems, excluding intercompany volumes. We are continuing to enhance our reporting systems in order to improve the analysis of operating data generated by our business.



---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

The global derivatives sector of our industry has experienced rapid growth in recent years based on the volume of exchange-traded derivatives and the notional amounts of OTC derivatives. We believe that the trends driving this growth such as globalization, the migration to electronic markets, increased asset allocations to derivative products by institutions, hedge funds and other asset managers, the proliferation of risk management practices, the move to commercially oriented business practices at exchanges and market convergence have contributed to higher volumes of derivatives and cash transactions in many of our markets.

*Interest*

Our net interest income, calculated as interest income less interest expense, is directly affected by the spread between short-term interest rates we pay our clients on their account balances and the short-term interest rates we earn from cash balances we hold as well as the duration of the portfolio of client balances invested. Client balances can be impacted by a variety of exogenous factors, including changes in margin requirements at exchanges, market volatility, declining asset values, such as has been the case recently in the energy markets, as well as changes in the composition of margin. Clients, for example, may elect to deposit securities, rather than cash, as margin, which will result in a reduction in our client balances because the securities deposited as margin are not carried on our balance sheet. As a result of these exogenous factors, client balances fluctuate, often significantly, from day to day and are not indicative of future business.

Our net interest income is also directly affected by principal transactions, such as fixed income and interest rate collateralized transactions. While these spreads have remained within a relatively constant range over time, they can widen or narrow when interest rate trends change, as was seen in the sudden narrowing of spreads during this quarter. Accordingly, we carefully monitor and seek to economically hedge our risk exposure as appropriate. In addition, a smaller portion of our interest income relates to client balances on which we do not pay interest and thus is directly affected by the absolute level of short-term interest rates. As a result, our net interest income is impacted by the level and volatility of interest rates, as well as the duration of the portfolio of client balances invested. Included within interest income is the interest we earn on our excess cash. Our interest on borrowings is also affected by changes in interest rates, which could increase or decrease our interest expense on our variable rate debt.

**Results of Operations**

*Basis of Presentation*

The unaudited consolidated financial statements for the three months ended June 30, 2008 represent our fourth reporting period subsequent to becoming a publicly-traded company. Prior to July 1, 2007, our financial statements were prepared on a combined carve-out basis as if we had existed on a stand-alone basis and in conformity with U.S. GAAP, as described above.

Our unaudited consolidated and combined financial statements include the carve-out accounts of Man Financial, the brokerage business of Man Group plc, and its majority and wholly owned subsidiaries, in each case using the historical basis of accounting for the results of operations, assets and liabilities of the respective businesses. Our unaudited consolidated and combined financial statements may not necessarily reflect the results of operations, financial position and cash flows we would have achieved had we actually existed on a stand-alone basis during the periods presented. Transactions between us and Man Group and entities that remain part of Man Group after the IPO, herein referred to as related party or affiliated transactions, have not been eliminated in combination, but all significant intercompany balances and transactions between the entities included in our unaudited consolidated and combined financial statements have been eliminated in combination.

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

Our unaudited consolidated and combined financial statements include our direct expenses as well as our allocation of expenses arising from shared services and infrastructure provided to us by Man Group. These expenses primarily relate to employee compensation and benefits, use of office facilities and services related to overall corporate functions, including tax, legal, risk management, insurance, finance, internal audit and executive management. These expenses have been allocated to us using estimates that management considers a reasonable reflection of our use of these services or benefits we received. See Note 15 to our unaudited consolidated and combined financial statements for further information related to these costs.

Management believes that our unaudited consolidated and combined financial statements include normally recurring adjustments and accruals necessary for a fair presentation of the unaudited consolidated and combined balance sheets, statements of operations, cash flows, changes in stockholders' equity and comprehensive income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation. Specifically, during the second quarter of fiscal 2008, we began classifying the total return equity swaps entered into as part of a matched equity hedge in principal transactions rather than in net interest. Additionally, we also began presenting the interest and dividends earned on contracts for differences on a gross rather than net basis within interest income and interest expense. This reclassification did not result in any changes to revenues, net of interest and transaction based expenses, or net income.

We operate and manage our business on an integrated basis as a single operating segment. We derive our revenues principally from execution and clearing services we provide to our clients, including interest income related to providing these services. While we provide these services to a diverse client base across multiple products, markets and geographic regions, we do not manage our business, allocate resources or review our operating results based on the type of client, product or trading market or the geographic region in which these services are provided. For information related to our geographic regions, see Note 14 to our unaudited consolidated and combined financial statements.

Table of Contents

## MF GLOBAL LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

## RESULTS OF OPERATIONS

(Unaudited)

## Three Months ended June 30, 2008 Compared to the Three Months ended June 30, 2007:

(Amounts in millions except share data)	2008	Three months ended June 30, 2007	% Change
<b>Revenues</b>			
Execution only commissions	\$ 119.1	\$ 110.3	8.0%
Cleared commissions	374.2	358.7	4.3
Principal transactions	63.2	100.0	(36.8)
Interest income	345.8	992.2	(65.1)
Other	11.6	9.4	23.4
<b>Total revenues</b>	<b>913.9</b>	<b>1,570.6</b>	<b>(41.8)</b>
Interest and transaction-based expenses:			
Interest expense	238.8	903.0	(73.6)
Execution and clearing fees	232.7	221.4	5.1
Sales commissions	67.7	71.8	(5.7)
Total interest and transaction-based expenses	539.2	1,196.2	(54.9)
<b>Revenues, net of interest and transaction-based expenses</b>	<b>374.7</b>	<b>374.4</b>	<b>0.1</b>
<b>Expenses</b>			
Employee compensation and benefits (excluding non-recurring IPO awards)	210.7	215.4	(2.2)
Employee compensation related to non-recurring IPO awards	17.7		
Communications and technology	32.4	26.6	21.8
Occupancy and equipment costs	10.3	8.6	19.8
Depreciation and amortization	14.2	12.4	14.5
Professional fees	31.0	14.5	113.8
General and other	15.2	18.0	(15.6)
PAAF legal settlement			
Broker related loss			
IPO-related costs	5.5	20.8	(73.6)
Refco integration costs	0.3	1.3	(76.9)
<b>Total other expenses</b>	<b>337.2</b>	<b>317.5</b>	<b>6.2</b>
Gains/ (losses) on exchange seats and shares	(0.6)	63.3	(100.9)
Net gain on settlement of legal proceeding			
Loss on extinguishment of debt			
Interest on borrowings	14.2	8.7	63.2
<b>Income before provision for income taxes</b>	<b>22.6</b>	<b>111.5</b>	<b>(79.7)</b>
Provision for income taxes	6.7	36.9	(81.8)

Edgar Filing: MF Global Ltd. - Form 10-Q

Minority interests in income of combined companies (net of tax)	0.6	0.9	(33.3)
Equity in losses of uncombined companies (net of tax)	(0.9)	(0.8)	12.5
<b>Net income</b>	\$ 14.4	\$ 72.9	(80.2)
<b>Earnings per share:</b>			
Basic	\$ 0.12	\$ 0.70	
Diluted	\$ 0.12	\$ 0.70	
<b>Weighted average number of common shares outstanding:</b>			
Basic	120,122,933	103,726,453	
Diluted	121,995,205	103,726,453	

---

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)****Overview**

Revenues, net of interest and transaction-based expenses, remained relatively unchanged at \$374.7 million for the three months ended June 30, 2008 as compared to \$374.4 million for the three months ended June 30, 2007. Our total volumes of executed and cleared exchange-traded futures and option transactions increased 16.9% during the period from 470.5 million contracts for the three months ended June 30, 2007 to 549.8 million contracts for the three months ended June 30, 2008 resulting in increased execution and clearing revenues, net of execution fees. The increase of 79.3 million contracts in our total volumes of executed or cleared exchange-traded futures and option transactions was generated across all of our primary products, markets and regions and is attributable to the organic growth of our business, combined with the integration and financial contribution of small acquisitions in the United States and Asia Pacific region. During the three months ended June 30, 2008, there was also an increase in other revenues of \$2.2 million that reflected an increase in the ancillary services we provide to our clients due to increased volume and business. Such increases in revenues, however, were offset by reduced net interest generated from client funds due to the narrowing of short-term credit spreads coupled with the reduced duration of the movement of client funds.

Our other expenses, which refer to our expenses other than interest and transaction-based expenses, increased \$19.7 million, or 6.2%, to \$337.2 million for the three months ended June 30, 2008 from \$317.5 million for the three months ended June 30, 2007. The increase was primarily due to \$17.7 million of stock-based compensation expense on our equity awards issued in connection with the IPO, \$6.0 million in professional fees incurred in connection with the broker-related loss, and \$10.5 million incremental professional fees due to increased audit fees, legal fees, and other consulting fees incurred as a stand-alone public company with enhanced reporting and regulatory requirements. The remaining \$1.8 million increase is directly related to the growth in our volumes and ancillary services. These increases are offset by a reduction of \$16.3 million in costs related to the IPO and Refco integration. See **Non-GAAP Financial Measures** for further details.

Income before provision for income taxes decreased \$88.9 million, or 79.7%, to \$22.6 million for the three months ended June 30, 2008 from \$111.5 million for the three months ended June 30, 2007. This decrease was mainly due to the increased expenses noted above, a decrease of \$63.9 million from gains on exchange seats and shares and increased interest expense of \$5.5 million from borrowings related to our permanent debt structure.

Net income decreased \$58.5 million to \$14.4 million for the three months ended June 30, 2008 from \$72.9 million for the three months ended June 30, 2007. Net income is impacted by the recurring and non-recurring items discussed above.

**Revenues*****Execution-only Commissions***

Execution-only commissions increased \$8.8 million, or 8.0%, to \$119.1 million for the three months ended June 30, 2008 from \$110.3 million for the three months ended June 30, 2007. This increase was primarily due to a 23.6% increase in our volume of execution-only exchange-traded futures and options transactions from 132.0 million contracts for the three months ended June 30, 2007 to 163.2 million contracts for the three months ended June 30, 2008. The increase in our transaction volumes and revenues was primarily driven by our global leadership on most of the major derivatives exchanges, with growth in equities and interest rate products, as well as an increase in overall market volatility. The growth in execution-only commissions was partially offset by increased self-execution of trades by clients on NYMEX as they shifted from floor based to screen based executions, as well as declining stock market values in India upon which commissions are calculated.

***Cleared Commissions***

Cleared commissions increased \$15.5 million, or 4.3%, to \$374.2 million for the three months ended June 30, 2008 from \$358.7 million for the three months ended June 30, 2007. This increase was primarily due to an increase





---

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

of 14.2% in our volume of cleared exchange-traded futures and options transactions from 338.5 million contracts for the three months ended June 30, 2007 to 386.6 million contracts for the three months ended June 30, 2008. We experienced an increase in execution and clearing volumes across almost all products, markets and regions. Fluctuations naturally occur in commission revenues compared to volumes as the mix of customers, products and geography change. During the three month period, commissions have not increased at the same rate as trading volumes as a result of a greater proportion of trading volumes attributed to increased trading by professional traders, which yield higher volumes but lower margins.

***Principal Transactions***

Principal transactions decreased \$36.8 million, or 36.8%, to \$63.2 million for the three months ended June 30, 2008 from \$100.0 million for the three months ended June 30, 2007. Principal transactions do not reflect the net interest income earned from collateralized transactions related to principal transactions revenues, which is included in interest income and expense. This net interest income was \$36.5 million for the three months ended June 30, 2008 as compared to \$0.3 million for the three months ended June 30, 2007. When factoring in this net interest income, principal transactions revenues decreased \$0.6 million, less than one percent, to \$99.7 million for the three months ended June 30, 2008 from \$100.3 million for the three months ended June 30, 2007. This reflected the significant increase in fixed income net interest, caused by wider spreads created due to the dislocation in the market, offset by decreases in foreign exchange and metals due to lower volatility and narrower bid and ask spreads. See [Supplementary Data](#) for further quarterly information on principal transactions revenues.

***Interest Income, Net***

Interest income, net, increased \$17.8 million, or 20.0%, to \$107.0 million for the three months ended June 30, 2008 from \$89.2 million for the three months ended June 30, 2007. This increase was primarily due to an increase in net interest generated from principal transactions, related financing transactions and the impact of equity swaps in the prior quarter offset by declining interest rates. The average federal funds rate in the United States decreased from 5.38% during the three months ended June 30, 2007 to 2.5% during the three months ended June 30, 2008. Net interest from client funds and excess cash decreased 20.7% from \$88.9 million for the three months ended June 30, 2007 to \$70.5 million for the three months ended June 30, 2008 due to reduced rates experienced in the quarter and narrower spreads earned on client funds as we reduced the duration of our investment portfolio of client balances to effectively overnight maturity to ensure we could meet client needs. Quarterly average client funds decreased to \$16,100 million during the three months ended June 30, 2008 as compared to \$16,700 million for the three months ended June 30, 2007. The adverse impact on interest income, net, is also due in part to the change in the contract value of our client activity in our fixed income products, consisting of both secured financings of repurchase and reverse repurchase transactions and stock borrowing and lending activities, which include the financing of certain principal transactions revenues. The quarterly average contract value of resale and stock borrowed transactions decreased \$10,800 million, or 39.4%, to \$16,600 million during the three months ended June 30, 2008 from \$27,400 million for the three months ended June 30, 2007 and a decrease in average book value of repurchase and stock loan transactions of \$14,000 million, or 41.4%, to \$19,800 million during the three months ended June 30, 2008 from \$33,800 million as of June 30, 2007. However, our fixed income business benefited from wider spreads as the disconnect in the markets provided opportunities for our independent broker model. See [Supplementary Data](#) for further information on the components of net interest income.

***Other Revenues***

Other revenues increased \$2.2 million, or 23.4%, to \$11.6 million for the three months ended June 30, 2008 compared to \$9.4 million for the three months ended June 30, 2007. This increase reflects recharges to clients for local taxes in certain European markets and numerous ancillary third-party fees received from clients and other counterparties for the use of various trading systems, data and other back-office services and support services which increased during the three months ended June 30, 2008 resulting from higher trading volumes. These fees include fees for equity market research, processing fees, fees for the use of screens and 24-hour access.



---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

**Transaction-based Expenses**

*Execution and Clearing Fees*

Execution and clearing fees increased \$11.3 million, or 5.1%, to \$232.7 million for the three months ended June 30, 2008 from \$221.4 million for the three months ended June 30, 2007. This increase was primarily due to a 16.9% increase in our volume of executed and cleared exchange-traded futures and options transactions from 470.5 million contracts for the three months ended June 30, 2007 to 549.8 million contracts for the three months ended June 30, 2008. We experienced increased transaction volumes in most of our principal markets, products and geographic regions. Our execution and clearing fees are not fixed, but are calculated on a per-contract basis, and vary based on the market on which transactions are executed and cleared. Not all execution only transactions generate execution or clearing fees, while some matched principal transactions do. Included within execution and clearing fees are losses due to transactional errors, which remained unchanged at 0.9% of revenues, net of interest and transaction based expenses, for the three months ended June 30, 2007 and 2008.

*Sales Commissions*

Sales commissions decreased \$4.1 million, or 5.7%, to \$67.7 million for the three months ended June 30, 2008 from \$71.8 million for the three months ended June 30, 2007. Depending on the specific arrangements with introducing brokers, increased volumes from retail clients transacting through introducing brokers usually result in a proportionate increase in commissions paid to brokers. However, a large part of our business is not generated by introducing brokers and therefore all increased volumes do not impact sales commissions.

**Other Expenses**

*Employee Compensation and Benefits (Excluding Non-Recurring IPO Awards)*

These expenses refer to all employee compensation, including stock based compensation expense for equity instruments, but excludes restricted shares and restricted share units issued at the IPO. Employee compensation and benefits excluding IPO awards decreased \$4.7 million, or 2.2%, to \$210.7 million for the three months ended June 30, 2008 from \$215.4 million for the three months ended June 30, 2007. This decrease was primarily due to decreases in variable compensation paid to employees based on sales volumes and profit contributions, offset by incremental payroll expenses due to increased headcount as well as termination expenses of \$5.5 million. Fixed front and back office compensation as a percentage of total employee compensation and benefits was 39.0% for the three months ended June 30, 2008 as compared to 35.9% for the three months ended June 30, 2007. Employee compensation and benefits excluding IPO awards, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 56.2% for the three months ended June 30, 2008 from 57.5% for the three months ended June 30, 2007.

*Employee Compensation and Benefits Related to Non-Recurring IPO Awards*

These expenses refer to stock-based compensation expense for restricted shares and restricted share units issued in connection with the IPO. Employee compensation and benefits related to non-recurring IPO awards was \$17.7 million for the three months ended June 30, 2008 with no such expense incurred in the prior period and these expenses are considered non-recurring and directly attributable to the IPO.

*Communications and Technology*

Communications and technology expenses increased \$5.8 million, or 21.8%, to \$32.4 million for the three months ended June 30, 2008 from \$26.6 million for the three months ended June 30, 2007. This increase was primarily due to increases in software licensing costs as well as, market data research and communications expenses, in each case, reflecting increased business activity and clients during the current period. Increases in transaction volumes have generally resulted in increased demand for direct lines and data transfer capabilities, although at a lower

growth rate

---

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

than volumes. This caption also includes software licenses and costs related to the trading systems. Communications and technology, as a percentage of revenues, net of interest and transaction-based expenses, increased to 8.6% for the three months ended June 30, 2008 from 7.1% for the three months ended June 30, 2007.

***Occupancy and Equipment Costs***

Occupancy and equipment costs increased \$1.7 million, or 19.8%, to \$10.3 million for the three months ended June 30, 2008 from \$8.6 million for the three months ended June 30, 2007, primarily due to increased rent in Europe related to the relocation to new leased premises and increased rent in the U.S. related to the renewal and additional floor of leased office space in New York. Occupancy and equipment costs, as a percentage of revenues, net of interest and transaction-based expenses, increased to 2.7% for the three months ended June 30, 2008 from 2.3% for the three months ended June 30, 2007.

***Depreciation and Amortization***

Depreciation and amortization increased \$1.8 million, or 14.5%, to \$14.2 million for the three months ended June 30, 2008 from \$12.4 million for the three months ended June 30, 2007. This increase was due to the amortization of additional client relationships and other intangible assets acquired with the businesses of FXA Securities Ltd in June 2007 and BrokerOne Pty Ltd in September 2007. In addition, there was an increase in depreciation of leasehold improvements as a result of the additional floor acquired during the renewal of the New York lease. Depreciation and amortization, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.8% for the three months ended June 30, 2008 from 3.3% for the three months ended June 30, 2007.

***Professional Fees***

Professional fees increased \$16.5 million, or 113.8%, to \$31.0 million for the three months ended June 30, 2008 from \$14.5 million for the three months ended June 30, 2007. This increase was primarily due to \$10.5 million in increased professional fees related to enhanced accounting, legal and regulatory requirements as a public company. In addition, we incurred legal and consulting fees of \$6.0 million associated with the broker-related loss. Professional fees, as a percentage of revenues, net of interest and transaction-based expenses, increased to 8.3% for the three months ended June 30, 2008 from 3.9% for the three months ended June 30, 2007.

***General and Other***

General and other expenses decreased \$2.8 million, or 15.6%, to \$15.2 million for the three months ended June 30, 2008 from \$18.0 million for the three months ended June 30, 2007. This decrease was due primarily to a decrease in the foreign currency translation adjustment of \$5.0 million, which was offset by increased insurance premiums of \$0.7 million, increased travel and entertainment expenses of \$0.7 million and increased advertising costs of \$1.0 million. The decrease was also due to lower bad debt expense, which decreased to (0.1%) from 0.2% of revenues, net of interest and transaction based expenses, for the three months ended June 30, 2007. General and other expenses, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 4.1% for the three months ended June 30, 2008 from 4.8% for the three months ended June 30, 2007.

***IPO-related Costs***

We incurred costs of \$5.5 million and \$20.8 million, or approximately 1.5% and 5.5% of our revenues, net of interest and transaction-based expenses, for the three months ended June 30, 2008 and 2007, respectively, in connection with the Reorganization, Separation and Recapitalization transactions and the IPO, which we refer to as IPO-related costs. These costs consisted primarily of legal, accounting and consulting fees. Since we did not receive proceeds from the IPO, we have expensed these costs. These costs are considered non-recurring and we

expect they will continue to decline in future periods.

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

***Refco Integration Costs***

Refco integration costs decreased by \$1.0 million to \$0.3 million for the three months ended June 30, 2008 from \$1.3 million for the three months ended June 30, 2007. We incurred integration costs directly related to the Refco acquisition, primarily related to retention and severance of Refco personnel. These costs do not reflect new contracts but rather the completion of previously existing agreements. Refco integration costs, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 0.1% for the three months ended June 30, 2008 from 0.3% for the three months ended June 30, 2007. These costs are not considered part of normal operations and will continue to reduce in future periods.

**Gains on Exchange Seats and Shares**

Gains on exchange seats and shares decreased \$63.9 million to a loss of \$0.6 million for the three months ended June 30, 2008 from a gain of \$63.3 million for the three months ended June 30, 2007. In fiscal 2008, substantially all of our excess exchange seats and shares were significantly reduced either through their contribution to a subsidiary of Man Group in connection with the Reorganization and Separation transactions, or disposed of to third parties. As a result, absent future demutualizations or changes in trading requirements, we do not expect to recognize material amounts of gains on seats and shares in future periods. The amount of unrealized loss recorded for the three months ended June 30, 2008 is based on the fair market value movements of the remaining seats and shares.

**Interest on Borrowings**

Interest on borrowings increased \$5.5 million, or 63.2%, to \$14.2 million for the three months ended June 30, 2008 from \$8.7 million for the three months ended June 30, 2007. This increase was primarily due to the increased cost of our new capital structure, currently consisting of borrowings under our bridge facility of \$1,400 million, replacing our borrowings with Man Group and other third parties. Interest from borrowings, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.8% for the three months ended June 30, 2008 from 2.3% for the three months ended June 30, 2007.

**Provision for Income Taxes**

Income taxes decreased \$30.2 million to \$6.7 million for the three months ended June 30, 2008 from \$36.9 million for the three months ended June 30, 2007. Our effective tax rate was 29.8% for the three months ended June 30, 2008, down from 33.1% for the three months ended June 30, 2007. The decrease in the effective tax rate primarily relates to the reduction in the effective tax rate on ongoing operations resulting from a greater percentage of profits being generated in lower-tax jurisdictions due in part to the corporate and operational structure put in place in connection with our separation from Man Group. Our effective tax rate on ongoing operations was 30.8% for the three months ended June 30, 2008 as compared to 35.0% for the three months ended June 30, 2007.

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)****Supplementary Data**

The table below calculates adjusted principal transactions revenue, including the net interest generated from transactions related to principal transactions:

	<b>For the three months ended</b>				
	<b>June 30,</b>	<b>Sept</b>	<b>Dec 31,</b>	<b>Mar</b>	<b>June 30,</b>
	<b>2007</b>	<b>30,</b>	<b>2007</b>	<b>31,</b>	<b>2008</b>
		<b>2007</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>
Principal transactions	\$ 100.0	\$ 112.6	\$ 45.6	\$ 23.8	\$ 63.2
Release of deferred loss on cash flow hedges				51.4	
Adjusted Principal transactions	\$ 100.0	\$ 112.6	\$ 45.6	\$ 75.2	\$ 63.2
Net interest generated from principal transactions and related financing transactions	0.3	8.2	51.1	35.1	36.5
<b>Total Adjusted Principal Transactions Revenue</b>	<b>\$ 100.3</b>	<b>\$ 120.8</b>	<b>\$ 96.7</b>	<b>\$ 110.3</b>	<b>\$ 99.7</b>

The table below provides an analysis of the components of net interest income:

	<b>For the three months ended</b>				
	<b>June 30,</b>	<b>Sept 30,</b>	<b>Dec 31,</b>	<b>Mar 31,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2008</b>	<b>2008</b>
Net Interest generated from client funds and excess cash	\$ 88.9	\$ 105.5	\$ 122.7	\$ 91.9	\$ 70.5
Net interest generated from principal transactions and related financing transactions	0.3	8.2	51.1	35.1	36.5
<b>Total Net Interest Income</b>	<b>\$ 89.2</b>	<b>\$ 113.7</b>	<b>\$ 173.8</b>	<b>\$ 127.0</b>	<b>\$ 107.0</b>

**Non-GAAP Financial Measures**

In addition to our unaudited consolidated and combined financial statements presented in accordance with U.S. GAAP, we use certain non-GAAP financial measures of our financial performance for the reasons described further below. The presentation of these measures is not intended to be considered in isolation from, as a substitute for or as superior to, the financial information prepared and presented in accordance with U.S. GAAP, and our presentation of these measures may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. The non-GAAP financial measures we use are (1) non-GAAP adjusted income before provision for income taxes, which we refer to as adjusted pre-tax income, (2) non-GAAP adjusted net income, which we refer to as adjusted net income, (3) non-GAAP adjusted net income per adjusted diluted common shares (4) non-GAAP adjusted employee compensation and benefits, and (5) non-GAAP adjusted non-compensation expenses. These non-GAAP financial measures currently exclude the following items from our unaudited consolidated and combined Statements of Operations, each of which are discussed in greater detail below:



Refco integration costs

Gains and losses on exchange seats and shares

IPO-related costs

Stock compensation expense on IPO awards

Broker-related loss and associated costs

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

We do not believe that any of these items are representative of our future operating performance. Other than exchange membership gains and losses, these items reflect costs that were incurred for specific reasons outside of normal operations or have resulted from infrequent and unusual circumstances. In addition, some of the expenses referred to above were largely reimbursed to us by Man Group as part of the Recapitalization.

In addition, we may consider whether other significant non-operating or unusual items that arise in the future should also be excluded in calculating the non-GAAP financial measures we use. The non-GAAP financial measures also take into account income tax adjustments with respect to the excluded items.

*Refco Integration Costs*

On November 25, 2005, we acquired the Refco assets. We incurred integration costs as a direct result of the acquisition, related primarily to retention and severance of Refco personnel, of \$0.3 million and \$1.3 million for three months ended June 30, 2008 and 2007, respectively. These costs do not reflect new contracts but rather the completion of previously existing agreements. These retention and severance decisions were unusual and related to the Refco integration and, as a result, we do not believe that these costs are representative of our future operating performance, or that we will incur similar costs or a similar loss in connection with our future acquisitions. We therefore have excluded the Refco integration costs from our adjusted net income and our adjusted income before taxes.

*Gains and Losses on Exchange Seats and Shares*

We recognize unrealized gains or losses on exchange seats and shares that we hold in excess of the number of shares we need to conduct our operations as an executing broker or clearing member. The amount of unrealized gain or loss recorded for each period is based on the fair market value movements of these seats or shares, which can be highly volatile and subject to significant change from period to period. The amount of realized gain or loss recorded for each period is based on sales of excess shares for which we have recorded significant gains following the demutualization of certain exchanges. We believe that the trends in our business are obscured by the presentation of these gains. Since these assets are not, as discussed below, an integral part of our business and normal operations following the Reorganization and Separation transactions, we believe that the use of a non-GAAP measure to exclude these gains is more meaningful to investors in understanding our historical and future results of operations.

In the three months ended June 30, 2008, substantially all of our excess exchange seats and shares were either contributed to a subsidiary of Man Group in connection with the Reorganization and Separation transactions, or disposed of to third parties. As a result, we do not expect to recognize substantial gains or losses based on the fair market value movements of these seats or shares, subject to changes in the exchange requirements related to these seats or shares. We do not believe that historical gains resulting from exchange seats and shares are representative of our future operating performance. In addition, as a result of the transfer of the majority of all of our excess seats and shares, we do not expect to hold a material portfolio of excess seats or shares going forward, and therefore, absent future demutualizations or changes in trading rights, we do not expect to recognize realized gains or losses on the sale of, or fair market value movements with respect to, a material number of seats or shares in the future.

*IPO-related Costs*

We have also excluded costs related to the Reorganization, Separation and Recapitalization transactions, which we refer to as IPO-related costs. IPO-related costs consist of legal, accounting, consulting and other professional fees incurred in connection with the Reorganization, Separation and Recapitalization transactions. We incurred these costs solely because of our IPO, and as a result we do not believe that they are representative of our future performance.



**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

*Stock Compensation Expense on IPO Awards*

We incurred stock based compensation expense during fiscal 2008 for the restricted shares and restricted share units awarded to our employees at the IPO. These costs were incurred solely because of our IPO, and as a result we do not believe that they are representative of our future performance.

*Broker-related Loss and Associated Costs*

We incurred additional expense during the first quarter of fiscal 2009 related to the broker-related loss which included legal fees and fees related to the review undertaken by two independent consulting firms. These costs arise from and relate solely to unauthorized trading by a broker operating out of our branch office in Memphis, Tennessee. The related costs are infrequent and unusual and result from highly unusual facts and circumstances and are not representative of our historical performance or indicative of our anticipated future performance, as we do not expect such related costs with similar materiality to recur or impact future periods.

*Our use of non-GAAP Financial Measures*

We use these non-GAAP financial measures internally to evaluate our performance and in making financial and operational decisions. We believe that our presentation of these measures provides investors with greater transparency and supplemental data relating to our results of operations. In addition, we believe the presentation of these measures is useful for period-to-period comparison of results because (1) the Refco integration costs, IPO-related costs, the stock compensation expense on IPO awards and broker-related loss and associated costs described above do not reflect our historical operating performance and (2) gains and losses on exchange seats and shares, fluctuate significantly from period to period and are not indicative of our core operating performance and are not expected to be significantly realized in the future.

When viewed with our GAAP results and the accompanying reconciliation, we believe adjusted net income, adjusted pre-tax income and adjusted net income per adjusted diluted common share provide a more complete understanding of the factors affecting our business than GAAP measures alone. We believe these financial measures enable us to make a more focused evaluation of our operating performance and management decisions made during a reporting period, because they exclude the effects of certain items that we believe have less significance in the day-to-day performance of our business. Our internal budgets are based on these financial measures, and we communicate them to our board of directors. In addition, these measures are among the criteria used in determining performance-based compensation. We understand that analysts and investors often rely on non-GAAP financial measures, including per-share measures, to assess core operating performance, and thus may consider adjusted net income, adjusted income before taxes and adjusted net income per adjusted diluted common share important in analyzing our performance going forward. These measures may be helpful in more clearly highlighting trends in our business that may not otherwise be apparent from GAAP financial measures alone.

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)****GAAP Reconciliation**

The table below reconciles net income to adjusted net income (applying an assumed tax rate of 35% to the adjustments prior to July 1, 2007), and income before taxes to adjusted income before taxes, for the periods presented:

(in millions except per share data)	Three months ended June 30,	
	2008	2007
Income before taxes (unadjusted)	\$ 22.6	\$ 111.5
Add: Refco integration costs	0.3	1.3
Less: Exchange membership gains/(losses)	0.6	(63.3)
Add: IPO-related costs	5.5	20.8
Add: Stock compensation charge on IPO awards	17.7	
Add: Broker-related loss and associated costs, net of bonus reduction	6.0	
Adjusted income before taxes	\$ 52.7	\$ 70.3
Net income (unadjusted)	\$ 14.4	\$ 72.9
Add: Refco integration costs	0.2	0.9
Less: Exchange membership gains/(losses)	0.4	(41.2)
Add: IPO-related costs	5.5	13.5
Add: Stock compensation charge on IPO awards	13.0	
Add: Broker-related loss and associated costs, net of bonus reduction	3.5	
Adjusted net income	\$ 37.0	\$ 46.1
Adjusted net income per basic share <sup>(1)</sup>	0.31	0.44
Adjusted net income per diluted share <sup>(1)</sup>	0.30	0.44
Adjusted net income per adjusted diluted share <sup>(2)</sup>	\$ 0.29	\$ 0.36
Adjusted diluted shares outstanding (in millions) <sup>(2)</sup>	128.5	127.1

<sup>(1)</sup> Adjusted net income per share is computed by dividing adjusted net income by the weighted average number of basic and diluted shares outstanding during the period, which for the three months ending June 30, 2008 was 120.1 million and 122.0 million shares, respectively and for the three months ending June 30, 2007 was 103.7 million share basic and diluted.

<sup>(2)</sup> We believe it is meaningful to investors to present adjusted net income per adjusted diluted common share. Common shares outstanding are adjusted at June 30, 2008 to add back shares underlying an additional 6,556,096 restricted share units granted as part of the IPO Awards that are not considered dilutive under U.S. GAAP and therefore not included in diluted common shares outstanding. As of June 30, 2008, our adjusted diluted shares outstanding were 128.5 million, subject to increase to reflect our grant of additional awards in the future. Since we expect to add back the expenses associated with these awards in determining our adjusted net income in future periods, we believe it is more meaningful to investors to calculate pro forma adjusted net income per common share based on adjusted diluted shares outstanding. We believe that this presentation is meaningful because it demonstrates the dilution that investors will

experience at the end of the three-year vesting period of these awards.

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

The table below reconciles total other expenses to adjusted non-compensation expenses for the periods presented. Our management reviews our total other expenses on an adjusted basis to reflect non-compensation expenses, which do not give effect to our employee compensation and benefits expenses, and other expenses identified below as not being representative of our future operating performance. Management believes this measure is meaningful in comparing non-compensation expenses from period to period.

	<b>For the three months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in millions)</b>	
Total other expenses	\$ 337.2	\$ 317.5
Less: Employee compensation and benefits (excluding non-recurring IPO awards)	(210.7)	(215.4)
Less: Employee compensation related to non-recurring IPO awards	(17.7)	
Less: Refco integration costs	(0.3)	(1.3)
Less: IPO-related costs	(5.5)	(20.8)
Less: Broker related loss and associated costs	(6.0)	
<b>Adjusted Non-Compensation Expenses</b>	<b>\$ 97.1</b>	<b>\$ 80.1</b>

**Liquidity and Capital Resources**

We have multiple sources of liquidity. We expect our primary uses of cash over the next 12 months to be for working capital and our debt service and preferred dividend obligations. We believe we will have sufficient cash on hand to meet these obligations given our expected cash flow from operations and our available sources of liquidity. Our available sources of liquidity include: (i) our committed \$1,500.0 million five-year unsecured revolving liquidity facility with various banks (under which we currently have \$500.0 million in outstanding borrowings after giving effect to our borrowing of \$350.0 million on June 13, 2008 to repay a portion of the bridge facility maturing on that date as described below); (ii) multiple 364-day revolving committed credit facilities currently totaling \$225.0 million with various banks (under which we currently have \$127.2 million in outstanding borrowings); and (iii) available excess cash in our regulated subsidiaries. We also rely on uncommitted lines from multiple sources to fund our day-to-day clearing operations. As discussed below, in connection with the implementation of our capital plan, we have recently repaid all but \$100.0 million of our outstanding borrowings under our \$1,400.0 million bridge facility, which amount matures on December 12, 2008. As part of our capital plan we repaid a portion of the outstanding borrowings with the net proceeds from our issuance and sale of \$150.0 million of Convertible Notes and \$150.0 million of Series B Preference Shares in June 2008. We have also reduced the remaining outstanding borrowings under the bridge facility with the proceeds from the J.C. Flowers investment and \$300.0 million in borrowings under the Two-Year Term Facility in July 2008. We expect to reduce all remaining outstanding borrowings under the bridge facility with excess capital from internal sources. In addition, the initial purchasers of the Convertible Notes exercised an option to purchase an additional \$60.0 million aggregate principal amount of Convertible Notes on August 12, 2008. These proceeds have been used to reduce the Two-Year Term Facility to \$240.0 million. In order to fully repay the remaining \$100.0 million in outstanding borrowings under the bridge facility by the December 12, 2008 maturity date, we will need to withdraw a further \$75.0 million of excess capital internally in addition to excess cash. As indicated below, these refinancing steps that form part of our capital plan have increased and may continue to increase our borrowing costs and other expenses and have had a dilutive effect to our holders of common shares.

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)****Working Capital Needs**

Our cash flows are complex and interrelated and highly dependent upon our operating performance, levels of client activity and financing activities. We view our working capital exclusive of non-earning assets and inclusive of our long-term borrowings. As of June 30, 2008 this was calculated as follows:

	June 30, 2008	March 31, 2008
	(dollars in millions)	
<b>TOTAL ASSETS</b>	\$ 44,265	\$ 49,255
<b>Less Non-earning assets:</b>		
Memberships in exchanges, at cost	8.9	8.9
Furniture, equipment and leasehold improvements, net	53.8	54.9
Goodwill	76.8	74.1
Intangible assets, net	184.3	193.2
Other assets	280.6	224.4
Subtotal non-earning assets	604.4	555.5
<b>Less Total liabilities:</b>	42,836.5	47,995.0
<b>Add Borrowings</b>	1,844.0	1,729.8
<b>TOTAL WORKING CAPITAL</b>	<b>\$ 2,668.1</b>	<b>\$ 2,434.3</b>

Our primary requirement for working capital relates to funds we are required to maintain at exchanges or clearing organizations to support our clients' trading activities. We require that our clients deposit funds with us in support of their trading activities, which we in turn deposit with exchanges or clearing organizations to satisfy our obligations. These required deposits account for the majority of our working capital requirements and thus our primary use of working capital is funded directly or indirectly by our clients. As discussed in Note 12 to our unaudited consolidated and combined financial statements, we are subject to the requirements of the regulatory bodies and exchanges of which we or our subsidiaries are a member or with which we conduct business. The regulatory bodies and exchanges each have defined capital requirements we must meet on a daily basis. We were in compliance with all of these requirements at June 30, 2008 and 2007.

Our working capital needs are primarily limited to regulatory capital requirements that we have satisfied in the past from internally generated cash flow and available funds. We believe that our current working capital is more than sufficient for our present requirements, and subject to regulatory approval, we plan to use some of our excess capital to repay a portion of the \$100.0 million of remaining outstanding borrowings under the bridge facility. Working capital is also generated by having our clients meet margin calls at rates that are often greater than what we have to pay. For example, in Europe, we call clients for margin but we are not required to post margin when there are offsetting client positions. We can therefore generate working capital with unilateral client margin calls.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from counterparty defaults on large transactions due to futures, foreign exchange or securities failures or clients going to delivery without proper instructions or the delayed receipt of client funds. Historically, these timing differences have been funded either with internally generated cash flow or, if needed,



with short-term borrowings.

As discussed above, we rely on uncommitted lines from multiple sources to fund day-to-day clearing operations. If these lines are not available to us we may have to reduce our clearing business, which may negatively impact our revenues.

As a matter of policy, we maintain excess capital to provide liquidity during periods of unusual market volatility, which has been sufficient in the past to absorb the impact of volatile market events. Similarly, for our brokerage activities in the OTC markets, despite these transactions being brokered as principal and not as agent, we have adopted a futures-style margin methodology to protect us against price movements, and this also reduces the amount of capital needed to conduct business because, even if we are required to post funds with clearing organizations or other counterparties in order to facilitate client-initiated transactions, we are able to use client deposits for this purpose rather than our own funds. In determining our required capital levels, we also consider the potential for counterparty default on a large transaction, which would require liquidity to cover, or a settlement failure due to mismatched settlement instructions. In many cases, other stock can be pledged as collateral under secured lending against such failure. As a result, we are able to execute a substantial volume of transactions without the need for large amounts of working capital.

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

Funding for purposes other than working capital requirements, including the financing of acquisitions, has been provided either through internally generated cash flow or through specific long-term financing arrangements.

***Bridge Facility***

Prior to the Separation, our long-term debt consisted of subordinated borrowings from Man Group and private placement notes. In connection with the IPO, one of our 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 \$1,400.0 million, which we refer to as the bridge facility.

In July 2007, MF Global Finance USA Inc. borrowed \$1,400.0 million under the bridge facility, which was guaranteed by MF Global, with several financial institutions, including affiliates of certain underwriters in our IPO. All outstanding borrowings and interest rate swaps with Man Group and third parties were repaid using the net proceeds from the bridge facility. In repaying the private placement notes and terminating the interest rate swaps prior to their scheduled maturity, we incurred a loss on the early extinguishment of debt of \$18.3 million. In January 2008, we amended the bridge facility to extend the maturity date for \$1,050.0 million of the \$1,400.0 million of the outstanding borrowing by six months to December 12, 2008 and increased the rate per annum payable to those lenders who are party to the amendment by 0.40%, which rate was increased by an additional 0.25% as of and after June 13, 2008 and will be increased by an additional 0.25% as of and after September 13, 2008. We paid a one-time up-front fee of 5 basis points upon amending our bridge facility. We paid an additional upfront fee equivalent to 5 basis points on June 13, 2008. The remaining borrowings of \$350.0 million under the bridge facility matured on June 13, 2008 and we borrowed \$350 million of excess liquidity under our existing excess liquidity facility to repay this amount.

As described below under *Capital Plan*, we recently undertook, and will continue to undertake, a number of initiatives for the purpose of repaying our remaining outstanding borrowings under the bridge facility. As a result of the execution of the various steps in our capital plan, as of August 13, 2008, we had \$100 million of borrowings outstanding under our bridge facility, which will mature on December 12, 2008

Our current borrowings under the bridge facility bear interest at a rate per annum equal to either, at our 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 0.32% per annum, or 0.97% with respect to those lenders who are party to the amendment described above, based on our current senior unsecured non-credit enhanced credit ratings from Standard & Poor's and Moody's (and before giving effect to the pending rate increases described above). Under the terms of the bridge facility, our current interest rate could increase by 4.00% to 4.50% per annum if the rating agencies reduce our credit rating below specified levels. 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, MF Global's ability to be acquired, fundamental changes to our business and failure to maintain required regulatory capital. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the bridge facility will become due. We have previously filed with the SEC the full text of the facility and you should refer to our filings for additional information about the facility. We paid an arrangement fee of \$0.5 million and an administration fee of \$0.1 million in connection with the bridge facility and liquidity facility (described below). In addition, based on our credit ratings, we also expect to pay a facility fee of 0.08% per annum during the period the bridge facility is in effect.

***Capital Plan***

As of July 18, 2008, we successfully completed our previously announced capital plan to refinance our bridge facility, subject to the repayment of the final \$100.0 million outstanding under the bridge facility later this year by further excess capital withdrawals and using excess cash. After giving effect to the steps outlined below, we had outstanding long-term borrowings of \$950.0 million, with \$1,000.0 million in available committed liquidity under our existing liquidity facility (which expires in 2012). The actions and initiatives that comprised our capital included:

*Use of Excess Liquidity.* On June 13, 2008, we borrowed \$350.0 million of excess liquidity under our existing liquidity facility to repay the portion of the bridge facility that matured on that date.

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

*Convertible Notes and Series B Preference Shares Offerings.* On June 25, 2008, we completed the issuance and sale of (i) \$150.0 million aggregate principal amount of our 9.00% Convertible Notes due 2038 and (ii) \$150.0 million in aggregate liquidation preference of our 9.75% Non-Cumulative Convertible Preference Shares, Series B. We used the proceeds from each offering to repay a portion of the bridge facility. In connection with our offering of the Convertible Notes, we granted the initial purchasers thereof an option to purchase up to an additional \$60.0 million principal amount of Convertible Notes. The initial purchasers exercised this option in full and purchased an additional \$60.0 million aggregate principal amount of Convertible Notes on August 12, 2008. These proceeds have been used to reduce the Two-Year Term Facility (described below) to \$240.0 million from \$300.0 million. For a description of the terms of each transaction and the securities issued and sold therein, see Note 8 and Note 16 of our unaudited consolidated and combined financial statements.

*Backstop Commitment.* On July 18, 2008, we issued \$150.0 million in aggregate liquidation preference of our 6.00% Cumulative Convertible Preference Shares, Series A to J.C. Flowers II L.P, pursuant to a definitive agreement, dated as of May 20, 2008 and as amended on June 10, 2008, which we refer to as the backstop commitment. We used the proceeds from the backstop commitment to repay a portion of the bridge facility. For a description of the J.C. Flowers transaction, see Significant Business Developments The J.C. Flowers Investment.

*Two-Year Term Facility and Fee Letter.* On July 18, 2008, we entered into a two-year, \$300.0 million unsecured term loan facility with several banks, which we refer to as the Two-Year Term Facility, in accordance with the terms and conditions of our outstanding commitment letter with such banks, dated as of May 23, 2008 and effective as of June 11, 2008. On July 18, 2008, we borrowed the full \$300.0 million under the Two-Year Term Facility, which will mature July 16, 2010. 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 our option, 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 our credit rating, or the Eurodollar rate equal to LIBOR plus an applicable margin ranging from 400 to 500 basis points depending on our 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 we fail to pay any amount when due under the Two-Year Term Facility, if any other outstanding debt with an aggregate principal amount exceeding \$50.0 million is accelerated or not paid when due, upon certain events of bankruptcy or liquidation of us or certain of our subsidiaries or upon a change of control or ownership, an event of default will occur under the Two-Year Term Facility. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the Two-Year Term Facility will become due and we will not be permitted to make any further borrowings under the Two-Year Term Facility. In connection with our entry into the Two-Year Term Facility, we paid a total of \$12.6 million in fees to several banks that are parties thereto.

*Use of Excess Capital.* We withdrew \$291 million of excess capital from internal sources and used a portion towards repayment of the bridge facility. All withdrawals from our regulated subsidiaries were completed with the approval and notice of our regulators.



---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

We also entered into a fee letter in connection with the commitment letter described above, which includes features that permit certain increases in applicable margins or changes in other terms and conditions as may be required to permit the completion of a successful syndication of the Two-Year Term Facility and also includes a securities demand feature that may be called upon by the banks if necessary. In connection with the issuance and sale of the additional Convertible Notes to the initial purchasers upon their exercise of the option discussed above, we expect that the securities demand feature will have been satisfied and we will no longer be subject to this provision.

In connection with signing the commitment letter, we paid a non-refundable aggregate up-front fee to certain of the banks equal to \$1.35 million in addition to an arrangers' fee and funding fees which were paid on the closing date of the Two-Year Term Facility.

The completion of our capital plan has substantially increased our financing costs, has subjected us to additional operating covenants that may restrict our ability to conduct or expand our business and has had a dilutive effect on our outstanding common shares.

***Credit Facilities and Sources of Liquidity***

In addition to the bridge facility, we have a \$1,500.0 million five-year unsecured committed liquidity facility with a syndicate of banks that we and our finance subsidiaries entered into concurrently with the bridge facility (under which we currently have \$500.0 million in outstanding borrowings after giving effect to our borrowing of \$350.0 million on June 13, 2008 to repay a portion of the bridge facility maturing on that date as described above). The liquidity facility expires on June 15, 2012. Borrowings under this liquidity facility bear interest at a rate per annum equal to either, at our 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 our current senior unsecured non-credit enhanced credit rating from Standard & Poor's and Moody's. We paid a one-time up-front fee of 5 basis points and expect to pay a facility fee of 9 basis points per annum during the period the liquidity facility is in effect. Effective June 13, 2008, in connection with the Two-Year Term Facility, we voluntarily increased the interest rate margin by 1.10% per annum on the \$500.0 million outstanding. As of June 30, 2008, \$500.0 million was outstanding under this facility and we intend to keep such amount outstanding for the duration of the liquidity facility, with the remainder available to us as a committed facility.

The liquidity facility contains financial and other covenants that are similar to those in the bridge facility. In general terms, and subject to certain exceptions, we have agreed to maintain a consolidated tangible net worth of not less than \$620 million (plus 50% of the proceeds of certain equity offerings and 25% of our consolidated positive net income for each completed fiscal year), and we have agreed not to incur indebtedness through our subsidiaries, incur liens on our assets, merge or consolidate with (or dispose of substantially all of our 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 we fail to pay any amount when due under the facility or to comply with its other requirements, if we fail to pay any amount when due on other material debt (defined as \$50 million 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 we will not be permitted to make any further borrowings under the facility. We have previously filed with the SEC the full text of the facility and you should refer to our filings for additional information about the facility.

We also have 364-day revolving credit facilities with various banks on a committed unsecured basis currently totaling \$225.0 million. At the closing of the \$300.0 million Two-Year Term Facility, we cancelled a certain bank's \$50.0 million bilateral credit facility as concession for its participation in the new Two-Year Term Facility. As a result, total uncommitted unsecured facilities decreased to \$225.0 million, of which \$175.0 million expires in September 2008, and \$50.0 million expires in November 2008. As of June 30, 2008, \$127.2 million was outstanding under these facilities.



**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

We also have other credit agreements with financial institutions, in the form of trading relationships, which facilitate execution, settlement, and clearing flow on a day to day basis for our clients, as well as provide evidence, as required, of liquidity to the exchanges we conduct business on. As of June 30, 2008, we had \$77.0 million of issued letters of credit.

In addition, as described above under "Capital Plan - Two-Year Term Facility and Fee Letter", on July 18, 2008, we entered into the Two-Year Term Facility with several banks, which is due on July 16, 2010. On July 18, 2008, we borrowed the full \$300.0 million under the Two-Year Term Facility, but subsequently repaid \$60.0 million on August 12, 2008 with the proceeds from the issuance and sale of an additional \$60.0 million Convertible Notes pursuant to the exercise of an option granted to the initial purchasers of the Convertible Notes.

Prior to the IPO, we also had access to funding through Man Group's committed and uncommitted lines of credit which we could use to assist with working capital requirements, as needed. These lines of credit are no longer available to us. As a result, we have obtained independent sources of liquidity through the credit facilities discussed above.

**Analysis of Cash Flows**

We prepare our statement of cash flows in accordance with U.S. GAAP. This may not reflect our daily cash flows or impact of our clients transactions on our working capital position. The following tables present, for the periods indicated, the major components of net increases/(decreases) in cash and cash equivalents:

(dollars in millions)	Three months ended June 30,	
	2008	2007
Cash flows from:		
Operating activities	\$ 353.2	\$ (729.2)
Investing activities	1.3	87.0
Financing activities	222.0	18.8
Effect of exchange rate changes	(4.1)	1.8
Net increase/(decrease) in cash and cash equivalents	\$ 572.4	\$ (621.6)

**Operating Activities**

Net cash provided by operating activities was \$353.2 million in the three months ended June 30, 2008, compared to net cash used of \$729.2 million in the three months ended June 30, 2007. Net cash from operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation and amortization, gains on sale of exchange seats and shares, stock-based compensation expense, loss on extinguishment of debt, loss on cash flow hedges, and deferred income taxes, as well as the effects of changes in working capital. Working capital results in the most significant fluctuations to cash flows from operating activities, primarily reflecting (1) the levels of our collateralized financing arrangements, including repurchase and resale agreements, securities borrowing/lending transactions, securities owned and securities sold, not yet purchased (2) the levels of our restricted cash and (3) payables to customers due to margin and contractual commitments. Collateralized financing arrangements often result in significant fluctuations in cash flows, as cash is often received or used as collateral in these arrangements, and therefore the level of activity in these transactions at period-end directly impacts our cash flows from operating activities, without a specific correlation to our revenues or net income. Therefore, if collateralized financing arrangements increased from one period to the next, this will be reflected as a cash outflow from operating activities. In the three months ended June 30, 2008, and 2007, these arrangements resulted in net cash used of \$1,743.0 million and net cash received of \$406.5 million, respectively. This was affected by changes in securities



owned and securities sold, not yet purchased in the three months ended June 30, 2008, and 2007, resulting

**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

in cash used of \$1,664.8 million, and cash used of \$247.7 million, respectively. Overall, in the three months ended June 30, 2008, the movements in these arrangements drove the large decrease in cash flows from operating activities. Furthermore, our levels of restricted cash also impact our operating cash flows, which for the three months ended June 30, 2008 resulted in cash provided of \$146.7 million, as compared to cash used of \$2016.4 million for the three months ended June 30, 2007. This activity directly impacts our operating cash flows, as was evidenced during the three months ended June 30, 2008.

Our client activities generate or use operating cash flows, which we finance through various steps we undertake to enhance yield. There has been a change in our balance sheet from March 31, 2008 to June 30, 2008, and we analyze the changes to our client activities and how we have financed this as follows:

(dollars in billions)	6/30/2008	3/31/08	Change
<b><u>Drivers of Liquidity - Client Activity</u></b>			
Receivables - Customers, net of allowances	\$ 0.8	\$ 2.4	\$ 1.6
Payables - Customers	(16.9)	(15.3)	1.6
Receivables - Brokers, dealers, and clearing organizations	7.6	7.1	(0.5)
Payables - Brokers, dealers, and clearing organizations	(4.0)	(6.3)	(2.3)
<b>Net sources/(uses)</b>			<b>0.4</b>
<b><u>Yield Enhancement Activities</u></b>			
Cash and cash equivalents	2.0	1.5	(0.5)
Restricted cash and segregated securities	11.9	12.1	0.2
Securities purchased under agreements to resell	9.8	13.1	3.3
Securities sold under agreements to repurchase	(14.3)	(18.6)	(4.3)
Net			(1.3)
Securities borrowed	5.6	4.7	(0.9)
Securities loaned	(3.6)	(3.2)	0.4
Net			(0.5)
Securities owned, at fair value	5.3	7.4	2.1
Securities sold, not yet purchased, at fair value	(1.5)	(1.9)	(0.4)
Net			1.7
<b>Net funding sources/(uses)</b>			<b>(0.1)</b>
Proceeds from offerings			<b>(0.3)</b>

<b>Net cash inflow/(outflow)</b>	<b>\$ (0.0)</b>
----------------------------------	-----------------

***Investing Activities***

Net cash received in investing activities was \$1.3 million and \$87.0 million for the three months ended June 30, 2008 and 2007, respectively. These activities primarily relate to proceeds received from sale of seats and shares, offset by purchase of exchange memberships, and furniture, equipment and leasehold improvements. In the three months ended June 30, 2008, we received cash of \$8.8 million from the sale of exchange seats and shares, which was partially offset by \$2.7 million used in connection with additional purchase consideration for the FXA acquisition in the prior year related to contingent consideration, as well as \$4.9 million of cash used to purchase furniture, equipment and leasehold improvements. In the three months ended June 30, 2007, we received cash of \$121.4 million from the sale of exchange seats and shares, which was partially offset by \$25.1 million used in the acquisition of FXA, as well as \$9.3 million of cash used to purchase furniture, equipment and leasehold improvements.

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

***Financing Activities***

Net cash generated by financing activities was \$222.0 million and \$87.0 million for the three months ended June 30, 2008 and 2007, respectively. For the three months ended June 30, 2008, this mainly related to the change in our capital structure. This included proceeds from the liquidity facility of \$350.0 million which was used to pay down a part of the \$1,400 million bridge facility taken out in connection with the IPO. We also received proceeds from the issuance of the Convertible Notes of \$128.9 million, net of debt issuance costs, and \$128.9 million from the issuance of the Series B Preference Shares, net of issuance costs, offset by a repayment of other short-term borrowings of \$35.8 million. For the three months ended June 30, 2007, net cash received in financing activities primarily related to proceeds from borrowings from Man Group. There were also dividends paid to Man Group during the three months ended June 30, 2007 of \$1.01 million.

**Dividend Policy**

We currently do not intend to pay any cash dividends on our common shares in the foreseeable future. We intend to retain all our future earnings, if any, to fund the development and growth of our business. Any future determination whether or not to pay dividends on our common shares will be made, subject to applicable law, by our board of directors and will depend upon our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business and investment strategy and other factors that our board of directors deems relevant.

**Off-Balance Sheet Arrangements and Risk**

We are a member of various exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the accompanying consolidated or combined balance sheets for these arrangements.

Our client financing and securities settlement activities require us to pledge client securities as collateral in support of various secured financing sources, such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return client securities pledged as collateral, we may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy our client obligations. We control this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, we establish counterparty limits for such activities and monitor compliance on a daily basis. See also [Credit Risk](#) .

In the normal course of business, our client activities involve the execution, settlement and financing of various client transactions. These activities may expose us to off-balance sheet risk in the event our client or the other broker is unable to fulfill its contractual obligations and we have to purchase or sell the financial instrument underlying the contract at a loss. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is our policy to review, as necessary, the credit standing of each counterparty with which we conduct business.

**Critical Accounting Policies and Estimates**

The preparation of our unaudited consolidated and combined financial statements requires us 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 our unaudited consolidated and combined financial statements and on the reported amounts



**Table of Contents****MF GLOBAL LTD.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND****RESULTS OF OPERATIONS****(Unaudited)**

of revenues and expenses during the reporting period. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. We consider these accounting estimates to be critical because changes in underlying assumptions or estimates could have the potential to materially impact our financial statements. We believe that certain of these policies are critical because they are important to the presentation of our financial condition and results. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and the impact of the estimate or assumption on our financial condition or operating performance is material. Our critical accounting policies and estimates are summarized in Item 7 of our 2008 Annual Report on Form 10-K.

**Recent Accounting Pronouncements**

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. We are currently evaluating the impact of adopting FSP EITF 03-6-1 on our results of operations and financial condition.

In June 2008, the FASB reached a consensus on FASB Staff Position No. EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ( FSP EITF 07-5 ). FSP 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 other authoritative U.S. GAAP accounting literature 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. We are currently evaluating the impact of FSP EITF 07-5 on our results of operations and financial condition.

In June 2008, FASB issued FASB Staff Position No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* ( FSP EITF No. 08-4 ). The objective of FSP EITF No. 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. We are currently evaluating the impact of FSP EITF 08-4 on our results of operations and financial condition.

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. generally accepted accounting principles ( 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*. We are currently evaluating the impact of adopting SFAS No. 162 on our results of operations and financial condition.

---

**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**(Unaudited)**

In May 2008, the FASB issued 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 No. 14-1 ), which is effective for fiscal years beginning after December 15, 2008. FSP APB No. 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 No. 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. We are currently evaluating the impact FSP APB No. 14-1 will have on our results of operations and financial condition.

In April 2008, the FASB issued Staff Position FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS No. 142-3 ), which is effective for fiscal years beginning after December 15, 2008. FSP FAS No. 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 No. 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 No. 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. We are currently evaluating the impact of the pending adoption of FSP FAS No. 142-3 on our results of operations and financial condition.

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. We are currently evaluating the impact SFAS No. 161 will have on the disclosures to our 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 No. 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 No. 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. We are currently evaluating the impact FSP FAS No. 140-3 will have on our results of operations and financial condition upon adoption.

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. We are currently evaluating the impact SFAS No. 160 will have on our results of operations and financial condition upon adoption.

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. We are currently evaluating the impact of the pending adoption of SFAS No. 141(R) on our results of operations and financial condition.





**Table of Contents**

**MF GLOBAL LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**(Unaudited)**

In April 2007, the FASB issued interpretation No. 39-1, *Amendment of FASB Interpretation No. 39* (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. FIN 39-1 is effective for fiscal years beginning after November 15, 2007. We adopted FIN 39-1 in the first quarter of fiscal 2009 with no impact to the consolidated financial statements.

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 No. 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 No. 157-2, *Effective Date of FASB Statement No. 157* (collectively SFAS 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. We adopted SFAS No. 157 for financial assets and liabilities in the first quarter of fiscal 2009 with no material impact to the consolidated financial statements. We are currently evaluating the impact of the pending adoption of FSP FAS No. 157-1 and FSP FAS No. 157-2 on our results of operations and financial condition.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to numerous risks in the ordinary course of our business. Management believes that effective risk management is critical to the success of our business. We believe we have a comprehensive risk management structure and processes to monitor, evaluate and manage the principal risks we assume in conducting our business. The principal risks we face include:

market risk

credit risk

liquidity risk

operational risk

regulatory capital risk

**Market Risk**

We are exposed to market risk primarily from foreign currency exchange rate fluctuations related to our international operations; changes in interest rates that impact the amount of interest income we earn and interest expense we pay on cash balances and secured financing transactions as well as our variable rate debt instruments; and, to a lesser extent, commodity and equity price risk. We seek to mitigate market risk by using a combination of cash instruments and exchange-traded derivatives to hedge our foreign currency and interest rate market exposure.

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments and the value of our assets located outside of the United States. To hedge this risk, we purchase forward contracts, which serve to manage fluctuations in foreign currency rates and our global exposure related to our non-U.S. dollar operating transactions.

Our revenues and expenses are denominated primarily in U.S. dollars, British pounds and euros. The largest percentage of our revenues is denominated in U.S. dollars while a large portion of our non-U.S. dollar expenses is denominated in British pounds. As a result, our earnings can be affected by changes in the U.S. dollar/British pound and U.S. dollar/euro exchange rates. While we seek to mitigate our exposure to foreign currency exchange rates through hedging transactions, we may not be successful.

Going forward, we intend to hedge certain foreign exposures on a forward basis at the beginning of the year, adjusting and optimizing our hedging strategy as appropriate. A large percentage of our employee compensation is variable and not subject to currency risk at year-end due to the fact that we convert these foreign commitments to U.S. dollars on a monthly basis with no adjustment required at quarter-end that could impact our earnings volatility. We may hedge our fixed expenses where possible, although there may be certain expenses that we do not hedge. The table below shows the approximate increase in our other expenses due to instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures for the three months ended June 30, 2008 against the U.S. dollar:

	Adverse exchange rate movement against the U.S. dollar	Approximate increase in General and Other expenses (in millions)
British pounds	10%	\$ 5.9
Euros	10%	\$ 0.6

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. We are exposed to interest rate risk on various forms of debt, client cash and margin balances and positions carried in fixed income securities, equity securities, options and futures.

## Edgar Filing: MF Global Ltd. - Form 10-Q

In the ordinary course of our operations, we have limited our exposure to interest rate risk. Our balance sheet, which reflects a substantial amount of short-term and highly liquid assets, frequently also reflects matching liabilities (and vice versa). We generate interest income from the positive spread earned on client deposits or secured client financing transactions, and the basis for the calculation of interest received and paid is matched. This is the case in both rising and falling interest rate environments, although we have the opportunity to create higher levels of interest income in a rising interest rate environment.

---

**Table of Contents*****Credit Risk***

Credit risk is the possibility that we may suffer a loss from the failure of clients, counterparties or borrowers to meet their financial obligations at all or in a timely manner. We act as both an agent and principal in providing execution and clearing services, primarily for exchange-traded products. Our client securities activities are transacted on either a cash or margin basis.

In margin transactions, we extend credit to our clients, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the clients' accounts. In connection with these activities, we execute and clear client transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose us to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that clients may incur. In the event the client fails to satisfy its obligations, we may be required to purchase or sell financial instruments at prevailing market prices to fulfill the client's obligations.

For execution-only clients, our principal credit risk arises from the potential failure of our clients to pay commissions on those trades (commission risk). We are also exposed to the risk that a clearing broker may refuse to accept the client's trade, which would require us to assume the positions and the resulting market risk. For cleared clients, our principal credit risk arises from the requirement that we pay variation margin to the exchanges before we receive margin from clients (margin risk). Most clients are required to cover initial and variation margin with cash and are required to pay any margin deficits within 24 hours. In line with market practices, we also provide unsecured credit lines to some clients to enable them to post initial and variation margin, which exposes us to additional credit risk (unsecured credit risk). We are also exposed to the risk of default by counterparties in respect of positions held with them, which are mainly exchanges, clearinghouses and highly rated and internationally recognized banks (default risk).

***Margin Risk***

Our clients are required to maintain margin accounts with collateral sufficient to support their open trading positions. While we initially establish each client's margin requirement at the level set by the respective exchanges, we have the ability to increase the requirements to levels we believe are sufficient to cover their open positions, a client's subsequent trading activity or adverse market changes may cause that client's previous margin payments to be inadequate to support their trading obligations, which, in instances where we serve as the exchange clearing member for the trade, would require us to cover any shortfall and thereby expose us to potential losses. When we act as a clearing broker, we are also responsible to our clearing clients for performance by the other party to the transaction. While the other party is often a clearinghouse (through novation or substitution), in some OTC trades it may be another clearing broker or even a counterparty and, unless the other side is a counterparty, we generally do not receive collateral to secure its obligations. Our margin risk also arises when a clearing member defaults on its obligations to a clearinghouse in an amount larger than its margin and clearing fund deposits, and the shortfall is absorbed pro rata from the deposits of other clearing members. Such a default by a clearing member of a clearinghouse of which we are also a clearing member could result in losses to us, including losses resulting from the defaults of other market participants.

***Unsecured, Uncommitted Credit Risk***

We may grant credit to counterparties to facilitate business in the normal course of our business for which we do not require cash or collateral. Generally, these are uncommitted lines which we can rescind at any time.

***Default Risk***

The default risks include both pre-settlement and settlement risk. Pre-settlement risk is the possibility that, should a counterparty default on its obligations under a derivative contract, we could incur a loss when we cover the resulting open position because the market price has moved against us. Settlement risk is the possibility that we may

---

## **Table of Contents**

pay a counterparty, such as a bank in a foreign exchange transaction, and fail to receive the corresponding settlement in turn. Many of these exposures are subject to netting agreements which reduce the net exposure to us. Limits for counterparty exposures are based on the creditworthiness of the counterparty and are subject to formal lines of approval. Our credit risk is diversified between clients and counterparties across a wide range of markets and jurisdictions.

Our exposure to credit risk associated with our clients' trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Our credit exposures arise both in relation to contractual positions that are essentially fixed in amount, such as bank deposits, and also in relation to derivative contracts whose value changes as market prices change. For such derivative contracts, the credit risk does not depend solely on the current value of the contract, but also on the potential value of the exposure (net of any margin held as collateral) at any point during the term of the contract. We use a stochastic model to assess the potential or stressed value of such exposures and these are used as an input in our evaluation of the credit risk in our economic capital methodology. A substantial majority of our credit portfolio is represented by highly rated counterparties.

### ***Analysis of Stressed Credit Exposures***

Our internal risk ratings use the ratings categories used by Standard & Poor's. Ratings of BB+ or less are considered speculative, or below investment grade. Credit lines to clients are subject to formal lines of approval and are reviewed at least annually. The amount of margin we require from our clients is based in part on these internal risk ratings. Concentrations of credit risk can be affected by changes in political, industry or economic factors.

### ***Risk Mitigation***

To mitigate these risks, we employ a number of stress-testing and other techniques to monitor the market environment and our clients' risk of default based upon the exposure created by their open positions. These techniques may include:

establishing risk parameters based on analysis of historical prices and product price volatility;

intra-day and end of day risk limit monitoring, including intra-day position and trade monitoring to identify any accounts trading beyond pre-set limits and parameters;

market risk analysis and evaluation of adequacy of margin requirements for traded products;

establishing and monitoring of margin levels and client margin calls;

stress testing of risk scenarios (both regular and longer term);

intra-day stress analysis for material market moves or accounts with material position taking; and

approval of pricing, margin requirements, limits and risk control of new instruments.

Where appropriate, we may also use software to test the adequacy of initial margins and, where appropriate, set margin requirements at higher levels than those requested by the exchanges to minimize credit risk. Most clients are required to cover initial and variation margins with cash. We monitor client activity levels daily to ensure credit exposures are maintained in accordance with agreed risk limits. Daily and, if required, intra-day margin calls are made on clients to reflect market movements affecting client positions. Financial analysis is performed to evaluate the effect of potential market movements on client positions and may result in clients being asked to reduce positions. Generally, we reserve the right to liquidate any client position immediately in the event of a failure to meet a margin call.

## Edgar Filing: MF Global Ltd. - Form 10-Q

On cleared business, we may require the initial margin to be paid by clients as a deposit before they commence trading. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. For three months ended June 30, 2008, and 2007, our bad debt, as a percentage of revenues, net of interest and transaction-based expenses, were (0.1%), and 0.2%, respectively. For three months ended June 30, 2008 and 2007, our transactional errors as a percentage of revenues, net of interest and transaction-based expenses, remained consistent at 0.9%.

---

**Table of Contents*****Liquidity Risk***

In normal conditions, our core business of providing execution and clearing brokerage services is self-financing because we generate sufficient revenues to pay our expenses as they become due. As a result, we generally do not face a substantial cash liquidity risk that is, a risk that we will be unable to raise cash quickly enough to meet our payment obligations as they arise.

Historically, we have segregated up to an aggregate amount of \$800.0 million of unrealized profits from trading in the OTC markets by certain funds (which Man Group refers to as investment products) that are part of Man Investments and to which we provide clearing services. In addition, as we often do in the ordinary course of our dealings with substantial clients, we provided relief for these investment products' initial margin requirements from time to time, in this case in the form of a credit line against initial margin requirements, in an aggregate amount up to \$500.0 million at any time outstanding. We were also segregating the initial margin requirements of Man Investments related to Eurex and Euronext. In March 2008, we modified the existing agreement with Man Investments, and following that, these funds have started using other providers for clearing services, thereby substantially reducing our obligation to provide these funding requirements. We may also reduce the amount of financing we provide with respect to certain trading activities due to market conditions or other factors, which could also affect our funds available to satisfy our liquidity requirements. We model and test our potential liquidity scenarios to ensure that we maintain available resources to satisfy different liquidity scenarios.

When we take positions for our own account, we do so generally in response to or in anticipation of client demand, particularly to facilitate the execution of existing client orders or in the expectation that future client orders will become available to fill the other side of the transaction. When we execute client orders in this manner we do so on a matched-principal basis, by entering into the requested trade for our own account and entering into an offsetting trade with another party relatively quickly. However, executing client orders on this basis exposes us to market risks for limited periods or to a partial extent that is, to the risk market prices will change before we are able to enter into an offsetting trade that eliminates our exposure to loss from changes in market prices or to the risk the offsetting trade we may execute may differ in certain respects, such as duration or other terms, and therefore not entirely offset our market risk. We believe that, because we take positions for our own account primarily to facilitate client trades and for hedging purposes, we are less susceptible to the cash liquidity risks faced by many proprietary traders. Under adverse conditions, however, our cash liquidity risk may be heightened to the extent that we are required to satisfy obligations relating to open client positions that exceed the amount of collateral available in their margin accounts. To address this risk, we have developed a liquidity policy.

Our liquidity policy seeks to ensure that we maintain access to liquidity at both our unregulated and regulated subsidiaries. As discussed above, we must observe all relevant exchange margin requirements, and we maintain our own, in many cases more stringent, margin requirements, which are intended to ensure that clients will be able to cover their positions in most reasonably foreseeable economic environments. Our liquidity policy requires that we have sufficient readily available liquid assets and committed liquidity facilities to ensure that we can meet our financial obligations as they become due under both normal and some unusual or distressed market conditions. To this end, our policy requires that we have sufficient liquidity to satisfy all of our cash needs for at least one year without access to the capital markets. In June 2007, we entered into a \$1.5 billion five-year revolving unsecured credit facility with a syndicate of banks. In addition, we have entered into 364-day revolving credit facilities with various banks on a committed unsecured basis for a total of \$275.0 million as of June 30, 2008 under similar terms as the liquidity facility. We also have committed and uncommitted credit lines, together with substantial multiple trading lines from a large and highly diversified group of financial institutions, to support the business in respect of settlement and intra day requirements. We also anticipate accessing these facilities and credit lines from time to time.

We evaluate our liquidity needs by analyzing the impact of liquidity stress scenarios, including: (1) exceptional increases in margin requirements imposed by exchanges; (2) exceptional adverse market movements sufficient to place material intra-day stress on clients' margin obligations and/or significantly higher usage of client credit lines; (3) one or more substantial settlement failures; (4) unexpected withdrawal of customer non-segregated funds; and (5) termination of certain funding facilities. We adjust our liquid assets as necessary based upon the results of our analysis.

---

**Table of Contents*****Operational Risk***

Our operations are subject to a broad and significant number of risks resulting from technological interruptions, failures or capacity constraints in addition to risks involving human error or misconduct. Regarding technological risks, we are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations, whether owned and operated internally or by third parties. We have established systems and processes to monitor our computer systems, platforms and related technologies and to address issues that arise promptly. We have also established several disaster recovery facilities in strategic locations to ensure that we can continue to operate without significant interruption in the event that our primary systems are damaged. As with our technological systems, we have established an array of policies and procedures designed to monitor and prevent both human errors, such as clerical mistakes and incorrectly placed trades, as well as human misconduct, such as unauthorized trading, fraud and negligence. In addition, we seek to mitigate the impact of any operational issues by maintaining insurance coverage for various contingencies and by taking into account the possibility of operational losses as part of our budget.

***Regulatory Capital Risk***

Various domestic and foreign governmental bodies and self-regulatory organizations responsible for overseeing our business activities require that we maintain specified minimum levels of regulatory capital in our operating subsidiaries. If not properly monitored and adjusted, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to imposing partial or complete restrictions on our ability to conduct business. To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our operating subsidiaries and adjust the amounts of regulatory capital in each operating subsidiary as necessary to ensure compliance with all regulatory capital requirements. These may increase or decrease as required by regulatory authorities from time to time. We also maintain excess regulatory capital to accommodate periods of unusual or unforeseen market volatility, and we intend to continue to follow this policy. In addition, we monitor regulatory developments regarding capital requirements and prepare for increases in the required minimum levels of regulatory capital that may occur from time to time in the future. For example since January 1, 2008, we have been subject to the requirements of the European Union's Capital Requirements Directive. These requirements are in the process of being agreed with the United Kingdom's Financial Services Authority.

***Value-At-Risk***

Value-at-risk is an estimate of the potential loss in value of our principal positions due to adverse market movements over a defined time horizon with a specified confidence level.

As of June 30, 2008, our end-of-day historical simulation value-at-risk for our financial instrument positions, estimated at a 95% confidence level over a one-day time horizon, was \$1.1 million. This calculation excludes exchange shares, U.S. treasury securities deposited at commodity clearing organizations and investments of segregated client funds.

The modeling of the risk characteristics of our principal positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating value-at-risk, and different assumptions and/or approximations could produce materially different estimates of value-at-risk.

We use the historical simulation approach to estimate our value-at-risk, which involves constructing a distribution of hypothetical daily changes in the value of our positions based on market risk factors embedded in the current portfolio and historical observations of daily changes in these factors. Our method uses two years of historical data in simulating potential changes in market risk factors.

It is implicit in a historical simulation value-at-risk methodology that positions will have offsetting risk characteristics, referred to as diversification benefit. We measure the diversification benefit within our portfolio by historically simulating how the positions in our current portfolio would have behaved in relation to each other (as opposed to using a static estimate of a diversification benefit, which remains relatively constant from period to period). Thus, from time to time there will be changes in our historical simulation value-at-risk due to changes in the diversification benefit across our portfolio of financial instruments.



**Table of Contents**

Value-at-risk measures have inherent limitations including: historical market conditions and historical changes in market risk factors may not be accurate predictors of future market conditions or future market risk factors; value-at-risk measurements are based on current positions, while future risk depends on future positions; value-at-risk based on a one day measurement period does not fully capture the market risk of positions that cannot be liquidated or hedged within one day. Value-at-risk is not intended to capture worst case scenario losses and we could incur losses greater than the value-at-risk amounts reported.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out under the supervision, and with the participation, of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of and for the period covered by this report. In addition, no change in our internal controls over financial reporting (as defined in Rule 13a-15 under the Exchange Act) occurred during our last fiscal quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

Set forth below are the potentially material litigations and regulatory proceedings to which we are a party or in which we are involved.

***Unauthorized Trading Incident of February 26/27, 2008***

One of our brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of our front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of \$141.0 million on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, we, as a clearing member of the exchange, were required to pay the \$141.0 million shortfall. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Business Developments Broker-Related Loss. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by us the next day. As a result of this unauthorized trading incident:

*Class Action Suits.* We, Man Group plc, certain of our current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12, and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to our risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. The litigation is in its early stages, and we believe we have meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

*U.S. Attorney's Office, Chicago Examination.* The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. We have been cooperating with the U.S. Attorney's Office, which has informed us that we are not a target of their investigation, and that Mr. Dooley is a target.

*Commodity Futures Trading Commission Investigation.* The CFTC has issued a formal order of investigation naming us and Mr. Dooley. The CFTC, in coordination with the Chicago Mercantile Exchange (CME), has been collecting documentation from us and taking depositions of our employees.

**Table of Contents**

The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, *Commodity Futures Trading Commission Potential Action* and *CFTC Natural Gas Price Information Investigation*. This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. No accrual has been made for the CME matter.

*Retention of Consultants.* Our Nominating and Governance Committee, composed of certain independent Board members, have hired two consultants to help advise them and, through them, us on matters relating to the unauthorized trading incident. FTI Consultants is advising on technology-related matters and Promontory Financial Group is advising on policies and procedures in the risk aspects of our business.

***Commodity Futures Trading Commission Potential Action***

In May 2007, our U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, and two of our individual employees received what is commonly referred to as a Wells notice from the staff of the Division of Enforcement of the Commodity Futures Trading Commission. The notice relates to two trades that we executed in 2004 for a customer and reported to NYMEX. In the notice, Division of Enforcement staff indicated that it is considering recommending to the Commission that a civil proceeding be commenced against us and the two individuals, in which the Commission would assert that we and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that we and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. We and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why we believe no proceeding should be brought. It is not yet certain what action the CFTC will take. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to above under the caption, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* and below under the caption *CFTC Natural Gas Price Information Investigation*. This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

***CFTC Natural Gas Price Information Investigation***

We have been cooperating in an investigation conducted by a New York County Grand Jury in conjunction with the U.S. Attorneys Office in the Southern District of New York. The CFTC and the SEC have also been involved in the investigation. The investigation centers around trading by a market making energy trader at Bank of Montreal (BMO) who allegedly mismarked his book. One of our brokers did business with the BMO trader, and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which our broker disseminated to our customers, including BMO, as price indications that reflected a consensus. We have been told that neither we nor our broker are targets of the Grand Jury investigation. In connection with this investigation, we have been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and us with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against us or our broker. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* and *Commodity Futures Trading Commission Potential Action*. This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

***Philadelphia Alternative Asset Fund***

On May 8, 2006, the plaintiff, a court-appointed receiver for a hedge fund, Philadelphia Alternative Asset Fund Ltd. ( PAAF ), and its fund manager and commodity pool operator, Philadelphia Alternative Asset Management Co., LLC ( PAAMCo ), commenced suit against MF Global Inc., formerly known as Man Financial Inc, our U.S. operating subsidiary, and seven of our employees in connection with a Commodity Futures Trading

**Table of Contents**

Commission-imposed shutdown of PAAMCo. PAAMCo and its principal, Paul Eustace ( Eustace ), allegedly defrauded PAAF by misrepresenting its trading performance, artificially inflating PAAF's net asset value, and failing to disclose trading losses suffered in a subaccount maintained by us for PAAF. The receiver, in his complaint, alleged among other things, negligence, common law fraud, violations of the Racketeer Influenced Corrupt Organizations Act (RICO), violations of the Commodity Exchange Act and aiding and abetting fraud. We, and our employees, denied all material allegations of the complaint. Although the complaint did not quantify the exact amount of damages sought, the amount claimed was estimated to be approximately \$175.0 million (with the plaintiff claiming that these damages should be tripled under RICO). The court-appointed receiver in this matter was, by judicial order, replaced by a receiver *ad litem* (solely for purposes of this litigation) because of a conflict of interest on the part of the original receiver. In July 2007, the receiver *ad litem* dismissed all claims against six of our employees, and filed a Second Amended Complaint against Man Financial Inc, one employee, and UBS Fund Services (Cayman) Ltd. The allegations against us were substantially similar as those in the initial complaint. On December 3, 2007, we entered into a Settlement Agreement with the prior receiver and the receiver *ad litem* pursuant to which, without admitting liability, we paid \$69.0 million, plus \$6.0 million of litigation expenses, to the receivership estate as a restoration fund for the benefit of receivership investors in exchange for full releases and a dismissal of the action with prejudice.

Man Group has agreed to indemnify us for all costs, expenses and liabilities we may incur as a result of the PAAF litigation and any other claims or litigation arising from the facts or circumstances which give rise to that claim for amounts in excess of \$50.0 million, net of any insurance proceeds we receive. We received \$25.0 million on July 10, 2008 from Man Group plc in relation to the PAAMCo matter under the Deed of Indemnity executed at the time of the separation from Man Group plc.

As a result of discussions leading to this settlement, we recorded an expense of \$76.8 million in fiscal 2008. We believe that these settlement and litigation costs are substantially insured; however no insurance proceeds have been recognized and will not be recognized until actually received. Our insurance carriers have been notified of the settlement agreement (together with amounts paid thereunder) and of our associated defense costs in the PAAMCo-related litigation. The insurers have offered an amount, without prejudice, which we regard as inadequate and we have taken the matter to binding dispute resolution under the insurance contract. We have claimed in excess of \$90.0 million and the insurers have counterclaimed for \$12.0 million for previously paid defense costs. It is anticipated that there will not be a resolution of the matter for approximately one year.

On December 26, 2007, we settled a related investigation by the CFTC arising out of the PAAF matter. Without admitting or denying the allegations, we agreed to the entry of an order finding that we violated supervision and recordkeeping requirements and we agreed to follow revised procedures and paid a civil monetary penalty of \$2.0 million, which was accrued in fiscal 2008.

***Conservative Concepts Portfolio Management GmbH ( CCPM ) Related Arbitrations***

In or about October 2003, we uncovered an apparent fraudulent scheme conducted by third parties unrelated to us that may have victimized a number of our clients. CCPM, a German Introducing Broker, introduced to us all the clients that may have been victimized. An agent of CCPM, Michael Woertche (and his confederates), apparently engaged in a Ponzi scheme in which allegedly unauthorized transfers from and trading in accounts maintained at our firm were utilized to siphon money out of these accounts, on some occasions shortly after they were established. We were involved in two arbitration proceedings relating to these CCPM introduced accounts. The first arbitration involved claims made by two claimants before a National Futures Association panel. The second arbitration involves claims made by four claimants before a FINRA panel. The claims in both arbitrations are based on allegations that we and an employee assisted CCPM in engaging in, or recklessly or negligently failed to prevent, unauthorized transfers from, and trading in, accounts maintained by us. Damages sought in the NFA arbitration proceeding were approximately \$1.7 million in compensatory damages, unspecified punitive damages and attorneys' fees in addition to the rescission of certain deposit agreements. The NFA arbitration was settled for \$0.2 million as to one claimant and a net of \$0.24 million as to the second claimant during fiscal 2008. Damages sought in the FINRA proceeding are approximately \$6.0 million in compensatory damages and \$12.0 million in punitive damages. That case is scheduled to be heard in September 2008. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, the second arbitration. Therefore, no provision for losses has been recorded in connection with that arbitration.

---

## **Table of Contents**

### ***Midland Euro Cases***

The key allegations in a bankruptcy proceeding and a class action proceeding were that Midland Euro Exchange, Inc. ( MEE ), Midland Euro, Inc. and their principals, Moshe and Zvi Leichner, ran a Ponzi scheme, promising high returns on foreign exchange trades, and that we (and others) aided and abetted the scheme. In the bankruptcy proceeding, the trustee alleged that in the one year period preceding the bankruptcy petitions, we made voidable transfers to ourselves from the MEE accounts in the amount of not less than approximately \$1.8 million. In the class action complaint, the plaintiffs alleged that we, together with MEE's accountants and its London bank, were liable for \$90.0 million of losses which investors suffered as a result of violations of state common and statutory law and federal RICO claims. Punitive damages and treble damages under RICO were sought. We reached a settlement with plaintiffs in the class action suit, pursuant to which we paid the plaintiffs \$4.1 million in the year ended March 31, 2008. We also reached a settlement with the bankruptcy trustee, pursuant to which we paid the trustee \$0.1 million. This was recorded as an expense in fiscal 2007.

### ***Refco LLC Exchange Seats***

We acquired certain assets of Refco Inc. and its affiliates (collectively, Refco) pursuant to an Acquisition Agreement between Refco and us. As part of that transaction, we acquired certain seats and shares held by Refco LLC in the Chicago Mercantile Exchange and the Chicago Board of Trade (the Shares). On or about March 3, 2006, counsel to the Chapter 7 bankruptcy trustee of Refco LLC (the trustee) notified us of the trustee's position that the Shares were not, in fact, assets that should have been transferred to us under the Acquisition Agreement and that, as a result, we were liable to Refco LLC for the value of the Shares, asserted to be approximately \$57.0 million at the date of closing under the Acquisition Agreement. We negotiated a settlement agreement with the trustee pursuant to which all claims between us and all Refco related entities, including the claim for the \$57.0 million value of the seats, were settled by us paying \$2.2 million to the Refco estate. This was recorded as an expense in the fiscal 2008.

### ***Parabola and Aria***

Parabola and Aria (off-shore shell investment company vehicles for an active day trader) have made various different claims about execution-only accounts that were active in our London office between July 2001 and February 2002. In December 2006, Parabola and Aria filed a claim in the Commercial Court in London against us and one of our brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty. The claimants seek £3.7 million (approximately \$7.4 million) in damages and speculative claims, including claims for lost profits, of up to an additional £87.0 million (approximately \$173.4 million). Mediation began in April 2008 but has not been successful and a trial has been set for March 2009. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, this matter. No provision for losses has been provided in connection with this litigation.

### ***Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.***

Our U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ( Eagletech ) and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as 100 John Doe defendants or their nominee entities. The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that Man Group PLC d/b/a Man Financial Inc participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act, and a related negligence claim. On May 9, 2007, defendants filed a notice removing the State Court action to Federal Court pursuant to 28 U.S.C. §1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against Man Financial Inc under Florida common law, including civil conspiracy, conversion and trespass to chattels. On February 26, 2008, the financial institution defendants, including MF Global Inc., filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ( PSLRA ) and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit. Since the case is in its earliest stages, it is difficult to determine exposure, if any. We intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

**Table of Contents*****Amacker v. Renaissance Asset Management Fund et. al.***

In December 2007, we, along with four other futures commission merchants ( FCMs ), were named as defendants in an action filed in the U.S. District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that we and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of \$32.0 million, plus exemplary damages, from all defendants. All the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek \$17.0 million in claimed damages plus exemplary damages from all defendants. We have filed a motion to dismiss the amended complaint. The case is at its earliest stages so it is not possible to determine our exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

***Leaderguard Matter***

Our UK affiliate has received a letter from attorneys who act for the liquidator of Leaderguard Spot Forex Limited ( LSF ), a Mauritius based investment firm that became insolvent in March 2005. Our UK subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaderguard group between 2001 and 2005. The lawyers' letter alleges, inter alia, that we were complicit in assisting the directors of various Leaderguard group companies to breach fiduciary duties owed by such directors to their companies and that we knowingly benefited from assets received in breach of such fiduciary duties. The letter further alleges we are liable to account for funds lost through transactions executed by such directors with our UK company which are alleged to amount to \$18.0 million. The letter attaches a copy of a Claim issued (but not served) in the English High Court (Chancery Division) naming MF Global Ltd, MF Global UK Limited and Man Group Plc as defendants. It is difficult at this stage to determine exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

***Hobart Securities***

We are in a dispute with Hobart Securities (formerly Dawnay, Day Capital Markets Limited) ( DDCM ). We exercised a contractual right of set-off on July 10 and 11, 2008 over DDCM's account to off-set liabilities of approximately £2.5 million (approximately \$5 million) of other Dawnay, Day companies with accounts at MF Global. DDCM has instituted legal proceedings seeking to have us reverse the £2.5 million set-off, with DDCM claiming that we were not entitled to exercise a set-off as DDCM had taken itself out of the Dawnay, Day group of companies through a management buy-out on July 11, 2008. The case is at its earliest stages so it is not possible to determine our exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

***Class Action Suit***

We and certain of our executive officers and directors have been named as defendants in an action filed in the United States District Court for the Southern District of New York. This action, which purports to be brought as a class action on behalf of purchasers of MF Global stock between March 17, 2008 and June 20, 2008, seeks to hold defendants liable under §§ 10 and 20 of the Securities Exchange Act of 1934 for alleged misrepresentations and omissions related to our financial results and projections and capital structure. The litigation is in its early stages, and we believe we have meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

***Other***

In addition to the matters discussed above, from time to time we are party to litigation and regulatory proceedings that arise in the ordinary course of our business. Aside from those matters discussed above, we do not believe that

**Table of Contents**

we are party to any pending litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on our business, results of operations, financial condition or cash flows.

**Item 1A. Risk Factors**

For a discussion of our potential risks and uncertainties, see the information in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2008, filed with the SEC, which is accessible on the Securities and Exchange Commission's website at sec.gov. There have been no material changes to the risk factors disclosed in the Annual Report on Form 10-K.

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

The information required to be reported pursuant to this Item 2. is contained in the Company's Current Reports on Form 8-K filed with the SEC on July 18, 2008 and August 13, 2008.

**Item 3. Defaults Upon Senior Securities**

None.

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

MF Global Ltd. held its annual general meeting of shareholders on July 28, 2008. A brief description of each matter voted on and the results of the shareholder voting are set forth below:

- The election of seven directors:

Nominee	For	Withheld
Alison J. Carnwath	91,222,463	13,675,930
Kevin R. Davis	91,332,926	13,565,467
Eileen S. Fusco	104,056,468	841,925
Edward L. Goldberg	100,871,207	4,027,186
Martin J. Glynn	101,544,297	3,354,096
Lawrence M. Schloss	101,237,616	3,660,777
Robert S. Sloan	101,261,016	3,637,377

- Approve PricewaterhouseCoopers LLP as the Company's independent auditor for fiscal 2009, and to authorize the Board of Directors, acting by the Audit Committee, to determine the independent auditors' fee.

For	Against	Abstain	Broker Non-Votes
104,799,590	71,792	27,011	Zero

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
4.1	Indenture between MF Global Ltd and Deutsche Bank Trust Company Americas, dated as of June 25, 2008*
4.2	Certificate of Designations of 9.75% Non-Cumulative Convertible Preference Shares, Series B of MF Global Ltd, dated June 25, 2008*
4.3	Certificate of Designation of 6.00% Cumulative Convertible Preference Shares, Series A of MF Global Ltd., dated July 18, 2008
4.4	Amendment No. 1 to Rights Agreement, dated as of May 20, 2008, between MF Global Ltd. and Computershare Trust Company, N.A.**
4.5	Registration Rights Agreement, dated as of May 20, 2008, between MF Global Ltd and J.C. Flowers II L.P.**
4.6	Investment Agreement, dated as of May 20, 2008, between MF Global Ltd. and J.C. Flowers II L.P.**
4.7	Amendment No. 1 to the Investment Agreement, dated as of June 10, 2008, between MF Global Ltd. and J.C. Flowers II L.P.**
10.1	Employment Agreement between MF Global Ltd. and John R. MacDonald, dated April 1, 2008***
31.1	Certification of Kevin R. Davis, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of J. Randy MacDonald, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Kevin R. Davis, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of J Randy MacDonald, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

\* Incorporated by reference to MF Global Ltd. s Current Report on Form 8-K, filed on June 26, 2008

\*\* Incorporated by reference to MF Global Ltd. s Annual Report on Form 10-K, filed on June 13, 2008

\*\*\* Incorporated by reference to MF Global Ltd. s Current Report on Form 8-K, filed on April 2, 2008

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MF GLOBAL LTD

By: /s/ Kevin R. Davis  
Name: Kevin R. Davis  
Title: Chief Executive Officer

By: /s/ J. Randy MacDonald  
Name: J. Randy MacDonald  
Title: Chief Financial Officer

Date: August 13, 2008