MF Global Ltd.
Form 10-Q
August 13, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the QUARTERLY PERIOD ended 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	**98-0551260**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Clarendon House 2 Church Street Hamilton HM11, Bermuda	
(Address of principal executive offices)	**(Zip Code)**

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

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

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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of common shares outstanding of the registrant as of June 30, 2008, was 120,241,696.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements and Supplementary Data

MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except share data)

	Three months ended June 30, 2008	2007
Revenues		
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
Total revenues	913,857	1,570,592
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
Revenues, net of interest and transaction-based expenses	374,654	374,403
Expenses		
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
Total other expenses	337,238	317,541
Gains/ (losses) on exchange seats and shares	(648)	63,301
Interest on borrowings	14,217	8,692
Income before provision for income taxes	22,551	111,471
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)

Net income	$ 14,391	$ 72,897
Earnings per share (see Note 11):		
Basic	$ 0.12	$ 0.70
Diluted	$ 0.12	$ 0.70
Weighted average number of common shares outstanding:		
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.

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MF GLOBAL LTD.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

	June 30, 2008	March 31, 2008
Assets		
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
TOTAL ASSETS	44,265,167	49,254,871
Liabilities and Shareholders Equity		
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
TOTAL LIABILITIES	42,836,499	47,995,016
Commitments and contingencies (Note 13)		
Preference shares, $1.00 par value per share; 200,000,000 shares authorized; 1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,844	0
Minority interests in consolidated subsidiaries	10,631	10,830
SHAREHOLDERS EQUITY		
	119,876	119,647

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)
TOTAL SHAREHOLDERS EQUITY	1,289,193	1,249,025
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 44,265,167	$ 49,254,871

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

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands, except share data)

	Three months ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
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.

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS, continued

(Unaudited)

(Dollars in thousands, except share data)

	Three months ended June 30, 2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:		
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
CASH FLOWS FROM FINANCING ACTIVITIES:		
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
SUPPLEMENTAL NON-CASH FLOW INFORMATION		
Securities received as collateral	229,416	146,134
Obligation to return securities borrowed	(229,416)	(146,134)
Net distributions to Man Group [(1)]		139,900

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

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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
Shareholders equity at March 31, 2008	$ 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)			
Shareholders equity at June 30, 2008	$ 119,876	$ 1,293,550	$ (128,048)	$ 3,815	$ 1,289,193

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

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS

OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share data)

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

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

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

Note 1: Organization and Basis of Presentation

MF Global Ltd. (together with its subsidiaries, the Company) is a leading participant on the world s major futures and securities exchanges and provides execution and clearing services for exchange-traded and over-the-counter derivative products, as well as for foreign exchange contracts and securities in the cash brokerage markets. The Company operates globally, with a presence in the United States, 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.

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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 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

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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 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

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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.

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.

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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:

Balance as of March 31, 2008	$ 74,145
Increase	2,653
Balance as of June 30, 2008	$ 76,798

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

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
Total	$ 817,294	$ 16,941,856	$ 2,367,461	$ 15,302,498

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.

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MF GLOBAL LTD.

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(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:

	June 30, 2008					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
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

	March 31, 2008					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
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

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		