MF Global Ltd.
Form 10-Q
November 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the QUARTERLY PERIOD ended September 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 001-33590

MF GLOBAL LTD.

(Exact name of registrant as specified in its charter)

Bermuda	**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 October 31, 2008, was 120,311,570.

MF GLOBAL LTD.

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

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

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

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MF GLOBAL LTD .

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share data)

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

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

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

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands, except share data)

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

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

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS, continued

(Unaudited)

(Dollars in thousands, except share data)

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

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

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

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MF GLOBAL LTD.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except share data)

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

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

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MF GLOBAL LTD.

CONSOLIDATED AND COMBINED STATEMENTS

OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share data)

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

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

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

Note 1: Organization and Basis of Presentation

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

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

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

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

These unaudited financial statements include the following:

- Subsequent to the Reorganization and Separation, the consolidated accounts of MF Global Ltd. and its subsidiaries.
- Prior to such Reorganization and Separation, the combined financial statements of Man Financial, the brokerage division of Man Group.

Basis of presentation

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

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

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

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

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

Relationship with Man Group

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

Note 2: Summary of Significant Accounting Policies

Use of estimates

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

Cash and cash equivalents

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

Restricted Cash and Securities Segregated under Federal and Other Regulations

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

Collateral

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

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

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

Goodwill

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

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

Minority interests

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

Fair value of financial instruments

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

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

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

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

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

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

Earnings per Share

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

Treasury Shares

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

Recently Issued Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-3, (FSP FAS 1573), *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* . FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted FSP FAS 157-3 as of September 30, 2008 with no material impact to the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3: Goodwill and Intangible Assets

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

The change in Goodwill is as follows:

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

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

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

Note 4: Receivables from and Payables to Customers

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

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

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

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

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

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

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

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

	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:

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

Total	$ 15,127,839	$ 9,456,428	$ 7,085,652	$ 6,317,297

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Note 7: Securities Owned and Securities Sold, Not Yet Purchased

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

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

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

Note 8: Borrowings

Short term borrowings consist of the following:

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

Long-term borrowings consist of the following:

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

Total	$	950,000	$

Bridge Facility

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

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

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

Liquidity Facility

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

Balance Sheet.

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

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

Convertible Senior Notes

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

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

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

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

Two-Year Term Facility

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

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

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

Note 9: Stock-Based Compensation Plans

Stock-based compensation issued by MF Global

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

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

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

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

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

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

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

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

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

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

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

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

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

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	Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	421,535	$ 29.30
Granted	113,869	6.70
Vested	184,335	29.71
Forfeited	25,955	29.75
Nonvested as of September 30, 2008	325,114	21.00
Total unrecognized compensation expense remaining	$ 4,089	
Weighted-average years expected to be recognized over	1.8	

The Company has employee stock purchase plans in the U.S. 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 U.S., 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 No. 123R. As of September 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 six months ended September 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.

Net income for the six months ended September 30, 2007 includes $22,764 of compensation costs and $8,088 of income tax benefits related to Man Group s stock-based compensation arrangements through July 18, 2007. Net income for the three months ended September 30, 2007 includes $15,088 of compensation costs and $5,281 of income tax benefits related to Man Group s stock based compensation arrangements through July 18, 2007. 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 were classified as liabilities.

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.

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The following table summarizes activity for Man Group s Executive Share Option plan for the six months ended September 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	215,760	3.32	4.4	1,973
Vested at IPO [(2)]	1,552,188	5.59		
Stock options outstanding as of September 30, 2007 [(2)]				
Stock options vested and expected to vest as of September 30, 2007 [(2)]				
Stock options exercisable at September 30, 2007 [(2)]		$		$

(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 six months ended September 30, 2007, Man Group issued no stock option awards. The total intrinsic value of stock options exercised during the three months ended September 30, 2007 was $1,973. During the six months ended September 30, 2007, there were 215,760 stock options exercised with a $1,973 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 six months ended September 30, 2007 were as follows:

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.

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.

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

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

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A summary of the activity of performance share awards and matching co-investment plan shares as of September 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	3,698,683	4.73	8,800,315	4.75
Forfeited	1,047,961	6.53	2,993,043	6.29
Nonvested as of September 30, 2007				
Total unrecognized compensation expense remaining	$		$	
Weighted-average years expected to be recognized over				

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

Note 10: Income Taxes

Effective income tax rate

The effective income tax rate for the three and six months ended September 30, 2008 was approximately 50.3% and 40.0%, respectively, as compared to approximately (70.8%) and 124.2% for the three and six months ended September 30, 2007. The effective tax rate for the quarter ended September 30, 2008 includes the effects of certain non-recurring costs and one-time gains as well as the impact of a lowered share price on equity compensation awards granted at IPO. The Company s effective tax rate on ordinary operations (excluding discrete items) for the quarter ended September 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 six months ended September 30, 2008,

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the Company decreased gross unrecognized tax benefits by $551 as a result of expiring statutes of limitations and increased gross unrecognized tax benefits by $3,133 which includes $640 of interest on previously-recorded unrecognized tax benefits. The total balance of unrecognized tax benefits of $28,660 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 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* and EITF 03-6 *Participating Securities and the Two-Class Method*. The Company s Preference Shares Series A are participating securities whereby the holder participates in undistributed earnings with common shareholders.

The numerator for Basic EPS is net income, reduced by an allocation of earnings between common shareholders and the Preference Shares Series A holders, based on their respective rights to receive dividends as well as any undeclared dividends as the shareholder have a cumulative right to dividend. This is then reduced by dividends declared for the Series B Preference Shares. The denominator for Basic EPS is the weighted average number of common shares outstanding. If dilutive, the numerator for Diluted EPS is net income after adjusting for the interest expense recorded on the Convertible Notes, net of tax. The denominator for Diluted EPS is the weighted average number of common shares outstanding with the potential effect of stock awards outstanding, calculated as Convertible Notes, Series A and Series B Preference Shares, if dilutive, in accordance with the if-converted method.

The Company uses the treasury stock method to reflect the potentially 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 September 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.

The computation of earnings per share is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Basic earnings per share:				
Numerator:				
Net income (loss)	$ 9,653	$ (90,592)	$ 24,044	$ (17,695)
Less: Dividends declared for Series A Preference Shares	(1,207)		(1,207)	
Cumulative and participating dividends	(2,677)		(3,985)	
Dividends declared on Series B Preference Shares	(2,031)		(2,031)	
Net income/(loss) applicable to common shareholders	$ 3,738	$ (90,592)	$ 16,821	$ (17,695)
Denominator:				
Weighted average common shares outstanding	120,503,557	116,732,733	120,279,627	110,284,746

Basic earnings per share	$	0.03	$	(0.78)	$	0.14	$	(0.16)

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.

Diluted earnings per share is the same as basic earnings per share for all periods presented as the impact of stock awards outstanding, Convertible Notes, Series A and Series B Preference Shares is anti-dilutive. The following table presents the potential shares excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive.

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	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Restricted shares units	8,309,341	7,819,814	8,309,341	7,819,814
Stock options	11,353,592	11,468,817	11,353,592	11,468,817
9.0% Convertible Notes	17,412,107		9,067,378	
Series B Preference Shares	14,354,067		7,530,002	
Series A Preference Shares	9,652,174		4,852,459	
Total	61,081,281	19,288,631	41,112,772	19,288,631

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, CFTC, and FSA, principal exchanges of which they are a member, and other local regulatory bodies, as applicable.

One of the Company s subsidiaries, MF Global Inc, is required to maintain minimum net capital equal to the greater of the amount required by the SEC or CFTC, as defined. At September 30, 2008, the Company had net capital, as defined, of $610,022, which was $226,328 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 September 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 FSA-regulated 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.

At September 30, 2008, the Company s FSA-regulated subsidiaries had financial resources in total, as defined, of $860,228, resource requirements of $282,891, and excess financial resources of $577,337. 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 September 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,

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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, 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 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 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, hired two consultants to help advise them and, through them, the 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 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 above under the caption, Unauthorized Trading Incident of February 26/27, 2008 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

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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 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 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 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 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 in relation to the PAAMCo matter under the Deed of Indemnity executed at the time of the separation from Man Group.

As a result of discussions leading to this settlement, the Company recorded an expense of $76,814 in fiscal 2008. The Company s insurance carriers were notified of the settlement agreement (together with amounts paid thereunder) and of its associated defense costs in the PAAMCo-related litigation. In that regard, the Company instituted a dispute resolution procedure against insurers under its insurance contract. On October 23, 2008, the Company and its insurers entered into a settlement agreement pursuant to which the Company will receive $75,000 from insurers in full settlement of all of its claims against insurers in the PAAF matter. Excluding previously received amounts, the Company expects to recognize $62,000 in insurance proceeds in its financial statements for the quarter ending December 31, 2008. See Note 18 to the unaudited consolidated and combined financial statements for further details.

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

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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. During the quarter ended September 30, 2008, the FINRA arbitration was settled for an aggregate of $800.

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 this matter. An accrual of £348 (approximately $619) has been provided in connection with this litigation, which is the Company s best estimate.

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 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

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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 filed a motion to dismiss the amended complaint which was granted by the court. 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.

Leaderguard Matter

Proceedings have been instituted against the Company s UK subsidiary by the liquidator of Leaderguard 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 Leaderguard group between 2001 and 2005. The claim alleges, inter alia, that the Company was complicit in assisting the directors of various Leaderguard 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 claim 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. 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 $4,500) of other Dawnay, Day companies with accounts at 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 Company has filed a motion to dismiss. The litigation is in its early stages, and the Company believes it has meritorious defenses. 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 or threatened 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 September 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 September 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.

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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.

Lines of Credit

The Company has a $1,500,000 five-year unsecured committed revolving liquidity facility. The Company also has a 364-day revolving credit facility with a bank on an unsecured committed basis. As of September 30, 2008 and March 31, 2008, $0 and $96,000, respectively, were outstanding under these 364-day facilities. See Note 8 for further details.

The Company also has other uncommitted 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 September 30, 2008, the Company had $55,000 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:

	Three months ended September 30,		Six months ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenues, net of interest and transaction-based expenses:				
North America	$ 182,333	$ 211,558	$ 363,689	$ 349,699
Europe	140,345	172,125	288,818	371,641

Rest of World	50,210	51,821	95,035	88,567
Total	$ 372,888	$ 435,504	$ 747,542	$ 809,907

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 and six months ended September 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.

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Note 15: Related Party Transactions

Subsequent to the IPO, Man Group holds an investment of approximately 18.5% in the Company and as such is considered a related party for the period ended September 30, 2008.

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.

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 and six months ended September 30, 2008, and 2007 are summarized as follows:

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Revenues				
Cleared commissions	$ 3,885	$ 4,964	$ 9,699	$ 10,618
Interest income	139	105	198	160
Total revenues	4,024	5,069	9,897	10,778
Less: Interest expense	6,413	15,514	14,159	26,472
Revenues, net of interest and transaction-based expenses	(2,389)	(10,445)	(4,262)	(15,694)
Expenses				
Employee compensation and benefits		17,332		27,285
Communications and technology	421	120	735	695
Occupancy and equipment costs	1,158	1,294	2,275	2,580
Professional fees	2,251	912	3,354	923
General and other	1,060	187	1,860	341
Total non-interest expenses	4,890	19,845	8,224	31,824
Interest on borrowings		939		5,353
Gains on exchange seats and shares		3,204		97,907
Total, net	$ (7,279)	$ (28,025)	$ (12,486)	$ 45,036

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 consolidated and 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.

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

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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. As of September 30, 2008, all such services had terminated with the exception of office services. The service agreement for office services will continue for as long as the Company leases office space from Man Group.

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 noncompetition and non-solicitation, access, and confidentiality. Further, Man Group has agreed to indemnify the Company against certain litigation and tax matters. During the three months ended September 30, 2008, Man Group paid the Company $3,200 related to the tax indemnity agreement recognized in APIC. The Company also received $25,000 from Man Group related to the PAAF matter under the legal indemnity agreement.

The Company had receivables with Man Group of $126 and $716 at September 30 and March 31, 2008, respectively. In addition, the Company had payables with Man Group of $5,719 and $12,921 at September 30 and March 31, 2008, respectively.

Note 16: Convertible Preference Shares

Non-cumulative Convertible Preference Shares, Series B

On June 25, 2008, the Company completed the issuance and sale of $150,000 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, 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.

The Series B Preference Shares rank junior to the Company s indebtedness and senior to the Common Shares. Upon liquidation of the Company, holders of Series B Preference Shares are entitled to receive a liquidation amount of $100 per share plus declared dividends prior to any distribution to holders of Common Shares. The Company used the net proceeds from the sale of the Series B Preference Shares to repay a portion of the Company s bridge facility.

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 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 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, from 6.0% to 10.725%. Shares are subject to additional resets if the Company issues any equity security, as defined in the agreement. 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.

Under the terms of the Investment Agreement, J.C. Flowers agreed to purchase a minimum of 1,500 shares, for an aggregate value of $150,000 and up to a maximum of 3,000 shares, for an aggregate value of $300,000, of a newly authorized series of the Company s convertible preference shares, designated as 6.0% Cumulative Convertible Series A Preference Shares at a stated offer

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price which was 100% of their liquidation amount or preference, i.e. $100 per share. The Series A Preference Shares are convertible any time, at the option of the holder, into eight of the Company s common shares, representing an initial conversion price of $12.50 per share.

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 the Company s outstanding common shares for a period of three years after the closing. Immediately prior to signing the definitive agreement with J.C. Flowers, the Company also amended its 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 the Company s common shares, and until such time as either it falls below the threshold or becomes the owner of 20% or more of the Company s common shares, from the provision that triggers the rights plan when any person acquires 15% or more of the Company s issued and outstanding common shares without approval of its board of directors.

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 the Company s option, and holders will participate in common share dividends, if any. Dividends are payable if, as and when determined by the Company s 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. The Company will not be permitted to pay any dividends on or to repurchase its common shares during any period when dividends on the Series A Preference Shares are in arrears. Holders will have the right to vote with holders of the common shares on an as-converted basis. The Company 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, the Company sells 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, the Company will pay J.C. Flowers a make-whole amount reflecting the difference in pricing, payable at its 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), the Company sells 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 the Company s option in cash or common shares. In connection with the investment, J.C. Flowers was granted the right to appoint up to two directors to the Company s Board of Directors. Pursuant to this right, on July 29, 2008, the Company appointed David I. Schamis to its board. In addition, if the Company fails 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 the Company s board.

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 had a record date of August 5, 2008 and were paid on August 15, 2008. Also see Note 18, Subsequent Events.

Note 17: Fair Value Measurements

The Company has adopted the provisions of SFAS No. 157 on April 1, 2008. 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 FSP FAS 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.

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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.

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 are 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 September 30, 2008, by level within the fair value hierarchy.

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	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total as of September 30, 2008
Assets					
Securities owned					
U.S. government securities and federal agency obligations	$ 703,536	$ 2,128,653	$	$	$ 2,832,189
Corporate debt securities		811,031			811,031
Equities	659,353				659,353
Shares held due to demutualization of exchanges			18,300		18,300
Other	8,618				8,618
Total securities owned (4)	$ 1,371,507	$ 2,939,684	$ 18,300	$	$ 4,329,491
Derivative Assets					
Futures transactions	$ 3,647,762	$	$	$ (1,591,461)	$ 2,056,301
Foreign currency and other OTC derivative transactions	183,865	1,586,800		(1,611,671)	158,994
Total derivative assets (2)	3,831,627	1,586,800		(3,203,132)	2,215,295
Total assets at fair value	**$ 5,203,134**	**$ 4,526,484**	**$ 18,300**	**$ (3,203,132)**	**$ 6,544,786**
Liabilities					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	$ 2,800,544	$ 818	$	$	$ 2,801,362
Equities	145,654				145,654
Other	24,513				24,513
Total securities sold, not yet purchased	$ 2,970,711	$ 818	$	$	$ 2,971,529
Derivative liabilities					
Futures transactions	$ 3,658,722	$	$	$ (537,743)	$ 3,120,979
Foreign currency and other OTC derivative transactions	183,250	1,745,324		(249,674)	1,678,900
Total derivative liabilities (3)	3,841,972	1,745,324		(787,417)	4,799,879
Total liabilities at fair value	**$ 6,812,683**	**$ 1,746,142**	**$**	**$ (787,417)**	**$ 7,771,408**

(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 $14,248,106 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 $18,629,802 within Payables to Customers and Payables to Brokers, Dealers, and Clearing Organizations which are accounted for at other

than fair value.

(4) Includes $949,612 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 Consolidated and Combined 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. These hedging transactions and the associated underlying financial instruments are often classified in different levels in the fair value hierarchy.

The table below provides 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 during the period for all financial assets and liabilities categorized as Level 3 as of the three and six months ended September 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.

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MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share data)

Fair Value Measurements Using Significant

Unobservable Inputs (Level 3)

	Three months ended September 30, 2008	Six months ended September 30, 2008
Beginning balance	$ 18,903	$ (42,543)
Total realized and unrealized gains and (losses)	(619)	(1,952)
Purchases, sales, issuances and settlements, net	16	66,392
Transfers in and (out) of Level 3		(3,597)
Balance as of September 30, 2008	$ 18,300	$ 18,300

The balance at September 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 Consolidated and Combined 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

On October 23, 2008, the Company entered into a settlement agreement with certain insurance companies in connection with the recovery of $75,000 in settlement and litigation costs paid by the Company to the Receiver *ad litem* for the Philadelphia Alternative Asset Fund Ltd. in connection with a related legal proceeding. The Company previously recorded an expense of $76,800 in the year ended March 31, 2008. Excluding previously received amounts, the Company expects to recognize $62,000 in insurance proceeds which will be presented in other revenues in the financial statements for the quarter ending December 31, 2008.

On October 28, 2008, the Company s Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares of $2.68125 and $2.4375 per share, respectively. These dividends have a record date of November 1, 2008 and payment date of November 15, 2008.

Effective October 28, 2008, Kevin R. Davis resigned as the Company s Chief Executive Officer and a member of the Company s Board of Directors. Under the terms of his termination agreement, Mr. Davis will receive a payment of $7,500 in April 2009. All of the stock options previously granted have been forfeited and the restricted share units previously granted to him will vest in accordance with the original award agreement. Bernard W. Dan, who joined the Company in June 2008 as Chief Operating Officer North America, was named as the Company s Chief Executive Officer in connection with Mr. Davis resignation. Mr. Dan was also appointed as a member of the Company s Board of Directors.

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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 , int anticipate , believe , estimate , predict , potential , continue , or the negative of these terms or other comparable terminology. These statement 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;

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

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

our ability to maintain trading volumes and market share.

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

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;

- 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;
- our ability to retain our management and other employees;
- 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; and
- changes in our tax rate.

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.

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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 experienced overall growth in transactions volumes in recent years as the result of increased volatility in many of the markets in which we operate. Consistent with trading activity on major exchanges, our total volume of exchange-traded futures and options decreased 7.4% from 541.5 million contracts in the three months ended September 30, 2007 to 501.4 million contracts in the three months ended September 30, 2008, most notably in August 2008 when volumes were down compared to record volumes in the comparable period last year. The total volume of exchange-traded futures and options transactions we executed and cleared increased 4.3% from 1,001.3 million contracts in the six months ended September 30, 2007 to 1,043.9 million contracts in the six months ended September 30, 2008. The increase in the six months period is due to higher volumes in the prior three months. 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; markups 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.

Significant Business Developments

Reorganization and Separation

In July 2007, Man Group plc (Man Group) 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).

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 or retained by Man Group through one of its subsidiaries. We did not receive any proceeds from the sale of these common shares. Man Group currently retains approximately 18.5% of our common shares as of September 30, 2008.

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MF GLOBAL LTD.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

(Unaudited)

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 and Combined 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 Notes 8 and 16 to our unaudited consolidated and combined financial statements for further details. In August 2008, the initial purchasers of the Convertible Notes exercised their option to purchase an additional $60.0 million aggregate principal amount of such notes.

Issuance of Cumulative Convertible Preference Shares and Backstop Commitment

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 cumulative convertible preference shares, Series A (the Series A Preference Shares). See Note 16 to our unaudited consolidated and combined financial statements for further details.

Two-Year Term Facility

On July 18, 2008, we entered into a credit agreement with several banks that provided for a two-year, $300.0 million unsecured term loan facility (the Two-Year Term Facility) which has enabled us to prepay loans under our bridge facility that were otherwise due and payable on December 12, 2008. Borrowings under the Two-Year Term Facility expire July 16, 2010. See Note 8 to our unaudited consolidated and combined financial statements for further details.

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. Financial markets experienced elevated levels of volatility due to concerns about the outlook for global growth and inflation and, in addition, the global equity markets experienced significant declines, mortgage and corporate credit spreads widened and the U.S. dollar appreciated against the Euro, British pound and Japanese yen. All of these factors have contributed to our results for the periods presented. Our revenues are substantially dependent on the volume of client transactions we execute and clear, 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