

MF Global Ltd.  
Form 10-Q  
November 06, 2009  
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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, 2009

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)

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**Bermuda**  
(State or other jurisdiction of  
incorporation or organization)

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

**Clarendon House**  
**2 Church Street**

**Hamilton HM11, Bermuda**  
(Address of principal executive offices)

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

(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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  (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

The number of common shares outstanding of the registrant as of September 30, 2009, was 121,530,594.

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**MF GLOBAL LTD.**

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MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
<b>Revenues</b>				
Execution only commissions	\$ 79,647	\$ 106,969	\$ 158,935	\$ 226,032
Cleared commissions	262,795	370,682	522,320	744,855
Principal transactions	40,182	69,235	85,893	132,396
Interest income	100,835	272,259	213,024	618,078
Other	9,374	14,322	23,012	25,963
<b>Total revenues</b>	492,833	833,467	1,003,184	1,747,324
Interest and transaction-based expenses:				
Interest expense	35,082	171,726	71,208	410,523
Execution and clearing fees	146,257	220,965	288,392	453,668
Sales commissions	59,452	67,888	120,024	135,591
Total interest and transaction-based expenses	240,791	460,579	479,624	999,782
<b>Revenues, net of interest and transaction-based expenses</b>	252,042	372,888	523,560	747,542
<b>Expenses</b>				
Employee compensation and benefits (excluding non-recurring IPO awards)	164,409	214,561	337,078	425,226
Employee compensation related to non-recurring IPO awards	9,168	17,237	18,013	34,981
Communications and technology	28,663	31,474	55,821	63,900
Occupancy and equipment costs	9,766	11,229	19,467	21,484
Depreciation and amortization	14,241	13,993	27,859	28,158
Professional fees	17,380	19,034	37,382	50,054
General and other	21,382	31,824	59,713	47,319
IPO-related costs	23	5,267	894	10,735
Impairment of goodwill	618		1,160	
<b>Total other expenses</b>	265,650	344,619	557,387	681,857
Gains on exchange seats and shares	10,606	15,765	11,244	15,117
Loss on extinguishment of debt			9,682	
Interest on borrowings	9,987	21,986	20,512	36,203
<b>(Loss)/income before provision for income taxes</b>	(12,989)	22,048	(52,777)	44,599

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(Benefit)/provision for income taxes	(4,977)	11,201	(19,403)	17,927
Equity in income/(loss) of unconsolidated companies (net of tax)	310	(754)	930	(1,632)
<b>Net (loss)/income</b>	<b>(7,702)</b>	<b>10,093</b>	<b>(32,444)</b>	<b>25,040</b>
Net income attributable to noncontrolling interest	631	682	1,041	1,238
<b>Net (loss)/income attributable to MF Global Ltd.</b>	<b>\$ (8,333)</b>	<b>\$ 9,411</b>	<b>\$ (33,485)</b>	<b>\$ 23,802</b>
Dividends declared on preferred stock	7,678	3,238	15,356	3,238
Cumulative and participating dividends		2,677		3,985
<b>Net (loss)/income applicable to common shareholders</b>	<b>\$ (16,011)</b>	<b>\$ 3,496</b>	<b>\$ (48,841)</b>	<b>\$ 16,579</b>
<b>(Loss)/earnings per share (see Note 11):</b>				
Basic	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14
Diluted	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14
<b>Weighted average number of common shares outstanding:</b>				
Basic	123,254,930	120,503,557	123,087,787	120,279,627
Diluted	123,254,930	120,503,557	123,087,787	120,279,627

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

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

	<b>September 30, 2009</b>	<b>March 31, 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 796,794	\$ 639,183
Restricted cash and segregated securities	9,641,583	9,670,494
Securities purchased under agreements to resell (including \$16,823,662 and \$0 at fair value, respectively)	21,596,697	12,902,670
Securities borrowed (including \$2,918,328 and \$0 at fair value, respectively)	12,084,932	8,624,906
Securities received as collateral	53,013	54,488
Securities owned (\$9,008,449 and \$3,202,430 pledged, respectively)	11,587,792	3,605,908
Receivables:		
Brokers, dealers and clearing organizations	2,692,686	2,473,341
Customers (net of allowances of \$24,552 and \$24,585, respectively)	579,886	415,532
Affiliates		95
Other	40,681	36,884
Memberships in exchanges, at cost (market value of \$20,886 and \$19,375, respectively)	6,565	6,370
Furniture, equipment and leasehold improvements, net	67,917	62,717
Intangible assets, net	136,608	151,688
Other assets	208,812	191,359
<b>TOTAL ASSETS</b>	<b>59,493,966</b>	<b>38,835,635</b>
<b>Liabilities and Equity</b>		
Short-term borrowings, including current portion of long-term borrowings	152,291	148,835
Securities sold under agreements to repurchase (including \$8,201,513 and \$0 at fair value, respectively)	32,403,380	14,271,698
Securities loaned	4,747,119	5,951,679
Obligation to return securities borrowed	53,013	54,488
Securities sold, not yet purchased, at fair value	5,142,509	2,884,591
Payables:		
Brokers, dealers and clearing organizations	2,414,169	1,077,379
Customers	12,242,492	11,766,390
Affiliates		1,602
Accrued expenses and other liabilities	191,182	293,207
Long-term borrowings	698,681	938,007
<b>TOTAL LIABILITIES</b>	<b>58,044,836</b>	<b>37,387,876</b>
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	96,167	96,167
1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,035	128,035
<b>EQUITY</b>		
Common shares, \$1.00 par value per share; 1,000,000,000 shares authorized,		
121,494,897 and 120,723,046 shares issued and outstanding, respectively	121,495	120,723

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Treasury shares	(202)	(97)
Receivable from shareholder	(29,779)	(29,779)
Additional paid-in capital	1,353,921	1,335,449
Accumulated other comprehensive loss (net of tax)	(9,931)	(24,015)
Accumulated deficit	(224,982)	(191,497)
Noncontrolling interest	14,406	12,773
<b>TOTAL EQUITY</b>	1,224,928	1,223,557
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 59,493,966</b>	<b>\$ 38,835,635</b>

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

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

	<b>Six months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss)/income	\$ (32,444)	\$ 25,040
Less: Net income attributable to noncontrolling interest	1,041	1,238
Net (loss)/income attributable to MF Global Ltd.	\$ (33,485)	\$ 23,802
Adjustments to reconcile net (loss)/income attributable to MF Global Ltd. to net cash provided by operating activities:		
Gains on sale of exchange seats and shares	(257)	(14,705)
Depreciation and amortization	27,859	28,158
Stock-based compensation expense	36,683	53,428
Bad debt expense	(615)	8,695
Deferred income taxes	(18,222)	(13,638)
Equity in (income)/losses of unconsolidated affiliates, net of tax	(930)	1,632
Dividend received from unconsolidated affiliates	2,106	
Income attributable to noncontrolling interests, net of tax	1,041	1,238
Loss on extinguishment of debt	9,682	
Gain on disposal of furniture, equipment and leasehold improvements		(2)
Impairment of goodwill	1,160	
Write-down of capitalized professional fees		1,820
Amortization of debt issuance costs	3,905	4,151
Decrease/(increase) in operating assets:		
Restricted cash and segregated securities	89,868	1,491,349
Securities purchased under agreements to resell	(8,694,026)	3,620,104
Securities borrowed	(3,460,012)	(2,964,233)
Securities owned	(7,981,196)	3,995,976
Receivables:		
Brokers, dealers and clearing organizations	(181,858)	(8,072,983)
Customers	(157,813)	1,021,065
Affiliates		(36,789)
Other	(3,367)	(2,507)
Other assets	(10,380)	(23,305)
Increase/(decrease) in operating liabilities:		
Securities sold under agreements to repurchase	18,131,682	(4,211,489)
Securities loaned	(1,204,560)	2,160,389
Securities sold, not yet purchased, at fair value	2,257,918	1,102,490
Payables:		
Brokers, dealers and clearing organizations	1,331,427	3,139,527
Customers	393,622	(1,265,155)
Affiliates		23,865
Accrued expenses and other liabilities	(118,035)	4,104
Net cash provided by operating activities	\$ 422,197	\$ 76,987

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





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

	<b>Six months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions (Note 3)	\$ (1,160)	\$ (4,883)
Proceeds from sale of memberships in exchanges	257	20,999
Purchase of memberships in exchanges		(1,369)
Purchase of furniture, equipment and leasehold improvements	(15,807)	(15,222)
Proceeds from sale of furniture, equipment and leasehold improvements		27
Net cash used in investing activities	(16,710)	(448)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of bridge financing		(1,300,000)
Proceeds from other short-term borrowings, net	3,452	61,961
Proceeds from liquidity facility borrowings		350,000
(Repayment)/proceeds of two-year term facility	(240,000)	240,000
Issuance of convertible notes		210,000
Payment of debt issuance costs	(791)	(42,483)
Issuance of preference shares		300,000
Payment of preference shares issuance costs		(67,460)
Proceeds from Man Group for indemnification of tax expense		3,200
Distribution to minority interest		(634)
Payment of dividends on preference shares	(15,356)	(3,238)
Net cash used in financing activities	(252,695)	(248,654)
Effect of exchange rates on cash and cash equivalents	4,819	(22,095)
Increase/(decrease) in cash and cash equivalents	157,611	(194,210)
Cash and cash equivalents at beginning of period	639,183	1,481,084
Cash and cash equivalents at end of period	\$ 796,794	\$ 1,286,874
<b>SUPPLEMENTAL NON-CASH FLOW INFORMATION</b>		
Securities received as collateral	1,474	187,826
Obligation to return securities borrowed	(1,474)	(187,826)

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

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## MF GLOBAL LTD.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(Dollars in thousands, except share data)

	Common Shares	Treasury Shares	Receivable from Shareholder	Additional paid-in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling interest in subsidiaries	Total Equity
<b>Equity at March 31, 2009</b>	\$ 120,723	\$ (97)	\$ (29,779)	\$ 1,335,449	\$ (24,015)	\$ (191,497)	\$ 12,773	\$ 1,223,557
Stock-based compensation				36,683				36,683
Net loss attributable to MF Global Ltd.						(33,485)		(33,485)
Net income attributable to noncontrolling interest							1,041	1,041
Foreign currency translation					14,084		592	14,676
Shares issued	772	(105)		(1,355)				(688)
Windfall benefit to Man Group				(1,500)				(1,500)
Dividend distributions				(15,356)				(15,356)
<b>Equity at September 30, 2009</b>	\$ 121,495	\$ (202)	\$ (29,779)	\$ 1,353,921	\$ (9,931)	\$ (224,982)	\$ 14,406	\$ 1,224,928

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

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net (loss)/income	\$ (7,702)	\$ 10,093	\$ (32,444)	\$ 25,040
Foreign currency translation adjustment	6,219	(12,580)	14,676	(15,604)
Comprehensive (loss)/income	\$ (1,483)	\$ (2,487)	\$ (17,768)	\$ 9,436
Comprehensive income/(loss) attributable to noncontrolling interest	481	(288)	1,633	(487)
Comprehensive (loss)/income attributable to MF Global Ltd.	\$ (1,964)	\$ (2,199)	\$ (19,401)	\$ 9,923

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 intermediary offering customized solutions in global cash and derivatives markets. The Company provides execution and clearing services for exchange-traded and over-the-counter derivative products as well as for certain products in the cash market. The Company operates globally, with a presence in the United States, the United Kingdom (U.K.), France, Singapore, Australia, Hong Kong, Canada, India, Switzerland and Japan, among others. The Company believes it is one of the leading intermediaries within the global cash and derivatives markets and serves a worldwide client base, including 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 U.K. Financial Services Authority (FSA), among others.

The unaudited consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and include the consolidated accounts of MF Global Ltd. and its subsidiaries. Management believes that these unaudited consolidated financial statements include all normally recurring adjustments and accruals necessary for a fair presentation of the unaudited consolidated statements of operations, balance sheets, cash flows, changes in equity and comprehensive income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation.

On April 1, 2009, the Company adopted two new accounting standards each of which is effective for the Company's fiscal year ending March 31, 2010 and interim periods within such fiscal year. These standards require retrospective application and resulted in an adjustment to prior period financial statements. The first standard discusses accounting for noncontrolling interests in consolidated financial statements and resulted in a \$12,773 increase to total equity for the year ended March 31, 2009 due to adoption. The second standard discusses accounting for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement and resulted in a \$242 decrease to Net income attributable to MF Global Ltd. for the three and six months ended September 30, 2008, \$1,002 decrease to total assets, \$6,993 decrease to total liabilities and a \$5,991 increase to total equity for the year ended March 31, 2009 due to adoption.

All significant intercompany balances and transactions between the Company's entities have been eliminated in consolidation. Transactions between the Company and Man Group plc (Man Group) and its affiliates up to September 30, 2009 are herein referred to as related party transactions. During the three months ended September 30, 2009, Man Group sold, pursuant to a variable forward sale agreement, its remaining investment in the Company of approximately 18.4% and, as such, transactions between Man Group and the Company will no longer be separately disclosed as related party transactions as of September 30, 2009 and for periods thereafter. Man Group, a U.K. corporation, is the former parent company of MF Global Ltd. prior to the Company's completion of certain reorganization, separation and recapitalization transactions leading up to the Company's initial public offering in July 2007 (the IPO). 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 and March 31, 2009, the Company had a 19.5% equity investment in Polaris MF Global Futures Co., Ltd.

**Note 2: Summary of Significant Accounting Policies**

***Use of estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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.

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**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

***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 and CFTC in the U.S. and the FSA in the U.K., to segregate or set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets. Also included within Restricted cash and segregated securities are fixed cash deposits of \$50,933 and \$48,630 as of September 30 and March 31, 2009, respectively, which are held as margin for the issuance of bank guarantees to satisfy local exchange requirements for day-to-day clearing. In addition, most 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, 2009, the Company was in compliance with its segregation requirements.

***Collateral***

The Company enters into collateralized 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. 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, in accordance with the accounting standard for transfers and servicing of financial assets and extinguishments of liabilities.

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 agreements or to cover short positions. As of September 30 and March 31, 2009, the fair value of securities received as collateral by the Company, excluding collateral received under resale agreements, that it was permitted to sell or repledge was \$14,331,445 and \$9,693,486, respectively. The Company sold or repledged securities aggregating \$6,423,517 and \$7,396,382, 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.

***Held-to-maturity securities***

Held-to-maturity securities consist primarily of U.S. government treasury securities, agency debentures and corporate obligations. The Company classifies securities as held-to-maturity that are owned by its non broker-dealer entities when it has the positive intent and the ability to hold the securities until maturity. These securities are carried on an amortized cost basis on the consolidated balance sheet in Securities owned or Restricted cash and segregated securities. See Note 7 for the analysis of held-to-maturity securities in these two categories. The Company designates these securities as held-to-maturity at the time of purchase and re-evaluates the designation at each balance sheet date.

***Noncontrolling interests***

On April 1, 2009, the Company adopted a new accounting standard which requires the Company to present noncontrolling interests (previously referred to as minority interests) as a separate component of total equity on the Company's consolidated balance sheet. The adoption of this standard required retrospective application to the Company's historical financial statements. See Note 1 for further details. The Company

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consolidates the results and financial position of entities it controls, but does not wholly own. As of September 30, 2009, the Company owned 70.2% of MF Global Sify Securities India Private Limited, 75.0% of MF Global Financial Services India Private Limited and 73.2% of MF Global Futures Trust Co. Ltd. As of September 30 and March 31, 2009, noncontrolling interest recorded in the consolidated balance sheets was \$14,406 and \$12,773, respectively.



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

In September 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ( ASU No. 2009-12 ). The guidance in ASU No. 2009-12 amends certain sections in ASC 820 which discusses accounting for fair value measurements and disclosures. The amendments permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value is calculated in a manner consistent with U.S. GAAP for investment companies as of the reporting entity's measurement date. The amendments also require disclosures by major category of investment to be determined on the basis of the nature and risks of the investment. The Company will adopt ASU No. 2009-12 in the third quarter of fiscal 2010 and record its investment in an alternative fund in accordance with the requirements of this update.

In August 2009, the FASB issued ASU No. 2009-5, *Measuring Liabilities at Fair Value* ( ASU No. 2009-5 ). This Update provides amendments to ASC 820, for the fair value measurement of liabilities. It requires a reporting entity to measure the fair value of a liability using certain valuation techniques when a quoted price in an active market for the identical liability is not available. A reporting entity is not required to include a separate input or adjustment relating to the existence of a restriction that prevents the transfer of a liability when fair valuing that liability. The amendments in this Update also clarify the hierarchy of the fair value measurements to be used for a quoted price in an active market for the identical liability at the measurement date as well as for the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required. The Company will adopt ASU No. 2009-5 in the third quarter of fiscal 2010 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*, which was superseded by ASC 105. In September 2009, the FASB also issued ASU No. 2009-01, *Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 - The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ( ASU No. 2009-01 ). ASC 105 and ASU No. 2009-01 establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, the Codification superseded all then-existing, non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in ASC 105 and ASU No. 2009-01 will become non-authoritative. ASC 105 and ASU No. 2009-01 are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105 and ASU No. 2009-01 in the second quarter of fiscal 2010 and made reference to accounting and reporting standards in its consolidated financial statements in accordance with ASC 105 and ASU No. 2009-01 upon adoption.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ). SFAS No. 167 requires an enterprise to determine the primary beneficiary (or consolidator) of a variable-interest entity (VIE) based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. SFAS No. 167 changes the consideration of kick-out rights in determining if an entity is a VIE which may cause certain additional entities to now be considered VIEs. SFAS No. 167 is effective at the start of a company's first fiscal year beginning after November 15, 2009. The Company will adopt SFAS No. 167 in the first quarter of fiscal year 2011 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* ( SFAS No. 166 ). SFAS No. 166 aims to improve the visibility of off-balance sheet vehicles currently exempt from consolidation and addresses practical issues involving the accounting for transfers of financial assets as sales or secured borrowings. SFAS No. 166 also introduces the concept of a participating interest, which will limit the circumstances where the transfer of a portion of a financial asset will qualify as a sale, assuming all other derecognition criteria are met. Furthermore, it clarifies and amends the derecognition criteria for determining whether a transfer qualifies

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for sale accounting. SFAS No. 166 is effective as of the beginning of an entity's first annual reporting period beginning after November 15, 2009. The Company will adopt SFAS No. 166 in the first quarter of fiscal year 2011 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

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

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*, which was superseded by ASC 260-10-45 (ASC 260-10-45). The guidance in ASC 260-10-45 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. ASC 260-10-45 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted ASC 260-10-45 in the first quarter of fiscal 2010 with no material impact to its consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which was superseded by ASC 470-20. ASC 470-20 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion 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 adopted ASC 470-20 in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*, which was superseded by certain sections in ASC 810. ASC 810 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted the guidance in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

**Note 3: Goodwill and Intangible Assets**

During the three and six months ended September 30, 2009, earn-out payments of \$615 and \$1,160, respectively, were made relating to prior acquisitions, which are accounted for as additional purchase consideration. As of September 30, 2009, the Company had one remaining arrangement that could result in further contingent, or earn-out, payments. These payments are based on earnings in future years, subject to maximum and minimum amounts. If the minimum earn-out is not reached at the end of 5 years (to 2012), the Company's obligation to pay the earn-out can extend for up to 10 years, to 2017, subject to a remaining maximum of approximately \$71,000.

Goodwill represents the excess of the purchase price of a business combination 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 or when there is an interim triggering event. An assessment of goodwill for potential impairment is performed in two steps. Step 1 of the analysis is used to identify the impairment and involves determining and comparing the fair value of the Company with its carrying value, or equity. If the fair value of the Company exceeds its carrying value, goodwill is not impaired. Step 2 of the analysis compares the fair value of the Company to the aggregated fair values of its individual assets, liabilities and identified intangibles, to calculate the amount of impairment, if any.

In performing Step 1 of the analysis, the Company compared its net book value to its estimated fair value. In determining the estimated fair value, the Company performed a discounted cash flow analysis using management's current business plans, which factored in current market conditions including contract and product volumes and pricing as the basis for expected future cash flows for the first five years and a 1% growth rate for the cash flows thereafter. Management used a weighted average cost of capital (WACC) of 11.78% as its discount rate in this analysis. The WACC was derived from market participant data and estimates of the fair value and yield of the Company's debt, preferred shares, and equity as of the testing date. The WACC represents the yield of the Company's financial instruments as currently stated. A discounted cash flow model involves the subjective selection and interpretation of data inputs and, given market conditions at September 30, 2009, there was a very limited amount of observable market data inputs available when determining the model.

Based on the results of Step 1 of the analysis, the Company determined its goodwill was impaired, as the fair value derived from the discounted cash flow model was less than the Company's book value at September 30, 2009. Then, based on the results of Step 2 of the analysis, the Company determined that its market capitalization and the computed fair value from Step 1 of the analysis was less than the estimated fair value

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of the Company's balance sheet and therefore recorded a charge of \$1,160 in the six months ended September 30, 2009 to write-off the entire amount of the Company's goodwill. As discussed, the Company has an earn-out

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## MF GLOBAL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

arrangement that could result in additional goodwill being recorded in future periods. The Company will continue to assess its goodwill annually or whenever events or changes in circumstances indicate that an interim assessment is necessary.

The change in Goodwill is as follows:

<b>Balance as of March 31, 2009</b>	\$
Addition	1,163
Impairment	(1,160)
Foreign currency translation	(3)
<b>Balance as of September 30, 2009</b>	\$

Intangible assets, subject to amortization as of September 30 and March 31, 2009 are as follows:

	September 30, 2009	March 31, 2009
<b>Customer relationships</b>		
Gross carrying amount	\$ 257,775	\$ 257,775
Accumulated amortization	(129,032)	(116,234)
Net carrying amount	128,743	141,541
<b>Technology assets</b>		
Gross carrying amount	31,388	31,388
Accumulated amortization	(25,097)	(22,933)
Net carrying amount	6,291	8,455
<b>Trade names</b>		
Gross carrying amount	2,827	2,827
Accumulated amortization	(1,253)	(1,135)
Net carrying amount	1,574	1,692
<b>Total</b>	<b>\$ 136,608</b>	<b>\$ 151,688</b>

The amortization included in Depreciation and amortization for the three and six months ended September 30, 2009 was \$7,848 and \$15,721, respectively. The amortization expense for these assets for the next five fiscal years is approximately \$31,190, \$26,766, \$21,424, \$21,383 and

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\$20,967, respectively. No triggering events were identified during the six months ended September 30, 2009 that required an impairment assessment for the Company's intangible assets.

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

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

	September 30, 2009		March 31, 2009	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	\$ 353,309	\$ 11,016,531	\$ 276,385	\$ 10,869,884
Foreign currency and other OTC derivative transactions	19,591	693,295	61,043	651,759
Securities transactions	182,258	529,744	65,471	242,609
Other	24,728	2,922	12,633	2,138
<b>Total</b>	<b>\$ 579,886</b>	<b>\$ 12,242,492</b>	<b>\$ 415,532</b>	<b>\$ 11,766,390</b>

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)****Note 5: Collateralized Financing Transactions**

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 and federal agencies. The Company retains the right to re-pledge collateral received in collateralized financing transactions. As of September 30, 2009, the market value of collateral received under resale agreements was \$75,742,819, of which \$248,034 was deposited as margin with clearing organizations. As of March 31, 2009, the market value of collateral received under resale agreements was \$53,321,790, of which \$837,359 was deposited as margin with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged, as appropriate. As of September 30 and March 31, 2009, the market value of collateral pledged under repurchase agreements was \$93,339,828 and \$58,662,562, respectively. As of September 30 and March 31, 2009, there were no amounts at risk with a counterparty under repurchase agreements or resale agreements greater than 10% of equity.

Resale and repurchase transactions are presented on a net-by-counterparty basis when certain requirements related to the offsetting of amounts related to certain repurchase and resale agreements are satisfied. In addition, the Company entered into certain of these agreements that are accounted for as sales and purchases and de-recognized related assets and liabilities from the consolidated balance sheets. At September 30, 2009, resale and repurchase agreements of \$2,298,554 and \$14,220,701, respectively, at contract value, were de-recognized.

At September 30, 2009, certain of the Company's resale and repurchase agreements are carried at fair value as a result of the Company's fair value election. The Company elected the fair value option for those resale and repurchase agreements that were entered into on or after April 1, 2009, and that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2009, the fair value of these resale and repurchase agreements was \$16,823,662 and \$8,201,513, respectively. Changes in the fair value of these transactions are recorded in Principal transactions in the consolidated statement of operations. During the three months ended September 30, 2009, the amount of gains and losses related to resale and repurchase agreements was \$7,077 of gains and \$3,643 of losses, respectively. During the six months ended September 30, 2009, the amount of gains and losses related to resale and repurchase agreements was \$12,083 of gains and \$6,569 of losses, respectively.

The Company has not specifically elected the fair value option for certain resale and repurchase agreements that are settled on an overnight or demand basis as these are carried at contract value, which approximates fair value.

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

Security type	Demand	Overnight	September 30, 2009			Total
			Less than 30 days	30 to 90 days	After 90 days	
U.S. government	\$ 2,476,534	\$ 19,454,968	\$ 1,874,067	\$ 4,297,929	\$ 444,134	\$ 28,547,632
U.S. corporations	121,175					121,175
Foreign governments	32,031	1,872,577	799,681	582,682		3,286,971
Foreign corporations	132,958	308,137	6,507			447,602
Total	\$ 2,762,698	\$ 21,635,682	\$ 2,680,255	\$ 4,880,611	\$ 444,134	\$ 32,403,380

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Security type	March 31, 2009					Total
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	
U.S. government	\$ 282,108	\$ 10,170,909	\$ 57,487	\$ 876,992	\$ 280,288	\$ 11,667,784
U.S. corporations	2,344					2,344
Foreign governments	17,164	1,774,401	662,841	1,829		2,456,235
Foreign corporations	10,282		135,053			145,335
Total	\$ 311,898	\$ 11,945,310	\$ 855,381	\$ 878,821	\$ 280,288	\$ 14,271,698



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Securities borrowed and securities loaned transactions are accounted for as collateralized financing transactions. These transactions facilitate the settlement process and may require the Company to deposit cash or other collateral with the lender.

The Company elected to record at fair value securities borrowed and securities loaned transactions that are entered into on or after July 1, 2009 that have a specific termination date beyond the business day following the trade date. At September 30, 2009, the fair value of these securities borrowed agreements was \$2,918,328. Changes in the fair value of these transactions are recorded in Principal transactions in the consolidated statement of operations. During the three and six months ended September 30, 2009, the amount of gains related to securities borrowed agreements was \$27. No securities loaned transactions were carried at fair value during the three and six months ended September 30, 2009. For transactions not elected for fair value measurement, the amount of cash collateral advanced or received is recorded.

**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, 2009		March 31, 2009	
	Receivables	Payables	Receivables	Payables
Securities failed to deliver/receive	\$ 138,433	\$ 295,131	\$ 531,270	\$ 518,814
Due from/to clearing brokers	920,186	2,367	529,542	93,056
Due from/to clearing organizations	1,139,568	267,900	1,297,902	314,681
Fees and commissions	1,410	55,953	1,034	58,892
Unsettled trades and other	493,089	1,792,818	113,593	91,936
Total	\$ 2,692,686	\$ 2,414,169	\$ 2,473,341	\$ 1,077,379

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

Securities owned and securities sold, not yet purchased include securities carried at fair value as well as certain marketable securities classified as held-to-maturity securities. Securities owned and securities sold, not yet purchased, which are held at fair value, consist of the following:

	September 30, 2009		March 31, 2009	
	Securities Owned	Securities Sold, Not Yet Purchased	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	\$ 4,672,036	\$ 3,852,592	\$ 3,195,431	\$ 2,757,372
Corporate debt securities and CDs	210,851	76,252	224,958	
Foreign government bonds	681,356	826,894	7,953	
Equities	390,330	383,470	153,538	124,209
Shares in exchanges held in excess of clearing rights	25,279		14,367	
Other	16,492	3,301	9,661	3,010

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Total	\$ 5,996,344	\$ 5,142,509	\$ 3,605,908	\$ 2,884,591
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At September 30 and March 31, 2009, \$0 and \$149,442, respectively, of U.S. government securities and federal agency obligations owned by the Company were deposited as margin with clearing organizations.

### *Segregated Securities*

At September 30 and March 31, 2009, the Company had segregated securities of \$7,655,199 and \$7,969,127, respectively, within Restricted cash and segregated securities. These amounts include securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC and totaled \$4,364,767 and \$4,998,887 at September 30 and March 31, 2009, respectively.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)*****Held-to-Maturity Securities***

The Company has purchased certain securities for investment purposes and has the positive intent and ability to hold these securities to maturity. The Company has classified these securities as held-to-maturity securities and reported them on an amortized cost basis within Securities owned and Restricted cash and segregated securities on the consolidated balance sheet. At September 30, 2009, none of the held-to-maturity securities were impaired. The Company did not have any held-to-maturity securities in the year ended March 31, 2009.

The following table summarizes the carrying value, fair value and unrealized gains and losses of the held-to-maturity securities by type of security at September 30, 2009:

	Carrying Value	Fair Value	Securities Owned	
			Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	\$ 34,933	\$ 35,121	\$ 188	\$
Debt securities issued by the U.S. government and federal agencies	5,556,515	5,558,700	2,704	(519)
<b>Total</b>	<b>\$ 5,591,448</b>	<b>\$ 5,593,821</b>	<b>\$ 2,892</b>	<b>\$ (519)</b>

	Carrying Value	Fair Value	Segregated Securities	
			Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	\$ 146,895	\$ 147,912	\$ 1,017	\$
Debt securities issued by the U.S. government and federal agencies	2,807,216	2,810,165	3,307	(358)
<b>Total</b>	<b>\$ 2,954,111</b>	<b>\$ 2,958,077</b>	<b>\$ 4,324</b>	<b>\$ (358)</b>

**Note 8: Borrowings**

Short term borrowings consist of the following:

	September 30, 2009	March 31, 2009
Other short-term borrowings	\$ 142,500	\$ 142,500
Bank overdrafts	9,791	6,335
<b>Total</b>	<b>\$ 152,291</b>	<b>\$ 148,835</b>

Long-term borrowings consist of the following:

	September 30, 2009	March 31, 2009
9.00% Convertible Senior Notes due 2038	\$ 198,681	\$ 198,007
Two-year term facility		240,000
Other long-term borrowings	500,000	500,000
Total	\$ 698,681	\$ 938,007

#### *Liquidity Facility*

In the year ended March 31, 2008, 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. The Company pays a facility fee of 10 basis points per annum. In the event the Company's credit ratings are downgraded in the future, the terms of the liquidity facility would increase this fee to 12.5 basis points per annum. 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. 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

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agreed not to incur indebtedness through the Company's subsidiaries exceeding 10% of the Company's equity less goodwill and intangible assets, 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 364-day unsecured revolving credit facility (the "bridge facility"). In connection with this drawdown and the Two-Year Term Facility (discussed below), 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%. On January 16, 2009, the Company's agreed interest rate increased to 1.50% per annum on the outstanding balance, and the liquidity facility interest also increased to a margin of 0.40%, due to a downgrade in the Company's credit ratings. In the event the Company's credit ratings are further downgraded beyond a certain level, the rate on the \$500,000 outstanding will increase to a maximum of 1.85% and the rate on other outstanding amounts will increase to a maximum of 0.525%. As of September 30, 2009 and March 31, 2009, \$642,500 was outstanding under the liquidity facility with the remainder available to the Company as a committed facility. The Company intends to keep \$500,000 of the amount outstanding at September 30, 2009 under the liquidity facility as long term debt and as part of its capital structure, unless the Company replaces some or all of these borrowings with other long-term debt. In October 2008, Lehman Commercial Paper Inc., one of the participating banks with a total commitment amounting to \$75,000 under the liquidity facility filed for bankruptcy, and accordingly, the Company believes Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is \$50,000.

On July 24, 2009, the liquidity facility was amended to enable the Company, if it elects to do so, to move its jurisdiction of organization at an appropriate time to the U.S. from Bermuda. The Company paid a one-time fee of approximately \$800. See the Liquidity and Capital Resources section under Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

At September 30, 2009, the Company was in compliance with its covenants under the liquidity facility.

***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. On August 7, 2008, the initial purchasers exercised the option to purchase an additional \$60,000 of the Convertible Notes. 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 five years after issue. The proceeds from the additional \$60,000 Convertible Notes were used to pay down a portion of the Two-Year Term Facility.

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On March 26, 2009, the Company completed its cash tender offer to purchase its \$210,000 Convertible Notes at a purchase price equal to \$0.64 per \$1.00 of the principal amount. The Company validly repurchased \$5,000 in aggregate principal amount of the Convertible Notes. The Company paid \$3,326 in cash including accrued interest and related transaction costs. Additionally, the

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**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

Company expensed \$589 in unamortized costs. This resulted in a net gain of \$1,539 on the early extinguishment of debt, which was recorded in other revenue in the consolidated statements of operations for the year-ended March 31, 2009.

On April 1, 2009 the Company adopted a new accounting standard, which required retrospective application to the Company's financial statements for the fiscal year ending March 31, 2009 and interim periods within such fiscal year. This standard requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The Company's Convertible Notes are impacted by this new accounting standard, and as a result this adoption was retrospectively applied to its consolidated financial statements from the issuance date of the Convertible Notes in June 2008. The Company retrospectively recorded a debt discount and a component of equity representing the value of the conversion option. The discount is being amortized over the expected five-year life of the Convertible Notes, resulting in a non-cash increase to interest expense in historical and future periods. See Note 1 for further details. As of September 30, 2009, the Convertible Notes have a remaining aggregate principal balance of \$205,000 and debt discount of \$6,319, both of which are recorded in Long-term borrowings on the consolidated balance sheet.

On July 18, 2008, in connection with the issuance of the Series A Preference Shares (as defined below), the Company entered into a replacement capital covenant, whereby the Company agreed for the benefit of certain of its debtholders identified therein, including initially the holders of the Company's Convertible Notes, that it would not redeem or repurchase the Series A Preference Shares on or before July 18, 2018 except from the proceeds of the issuance of certain qualified equity and/or equity-related securities and pursuant to the other terms and conditions set forth in the replacement capital covenant. As of the date of this report, the Company's only debt that receives the benefit of its obligations under the replacement capital covenant is the Company's Convertible Notes.

***Two-Year Term Facility***

On July 18, 2008, the Company entered into a credit agreement with several banks that provided for a two-year, \$300,000 unsecured term loan facility (the Two-Year Term Facility). On April 16, 2009, the Company paid the remaining outstanding balance of \$240,000 on the Two-Year Term Facility ahead of its maturity date of July 16, 2010 thus terminating all remaining obligations under the Two-Year Term Facility. In connection with the repayment of the Two-Year Term Facility, the Company recorded a loss on extinguishment of debt of \$9,682 related to the accelerated amortization of debt issuance costs.

**Note 9: Stock-Based Compensation Plans**

In connection with its 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 ratably or in full after three years, subject to continued employment or meeting certain retirement eligibility criteria. Restricted share awards were issued to employees at the IPO, which vested in full on the first anniversary of the IPO, subject to continued employment. Restricted share units and restricted shares 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 statements of operations.





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

Net income for the three and six months ended September 30, 2009 and 2008 includes the following amounts related to the Company's stock-based compensation arrangements:

	<b>Three months ended September 30,</b>		<b>Six months ended September 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Compensation costs				
Employee compensation and benefits (excluding IPO awards)	\$ 9,344	\$ 8,145	\$ 18,575	\$ 18,446
Employee compensation related to non-recurring IPO awards	9,168	17,237	18,013	34,981
Total	\$ 18,512	\$ 25,382	\$ 36,588	\$ 53,427
Income tax benefits	\$ 5,841	\$ 7,979	\$ 11,681	\$ 16,400

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. Due to declines in the Company's stock price, these may not equal the tax benefit ultimately realized at the date of delivery of these awards, as the deferred tax assets are based on the stock awards' grant date fair value.

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:* Due to 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: 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 is to be used for companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

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

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

	<b>Six months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Expected volatility	55.0%	39.4%
Risk free interest rate	2.9%	3.2%
Expected dividend yield	0.0%	0.0%

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Expected term

4.5 years

4.5 years

The following tables summarize activity for the Company's plans for the six months ended September 30, 2009:

	Options	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Share options outstanding as of April 1, 2009	10,133,869	\$ 25.27	5.5	\$ 598
Granted	1,236,138	5.82		
Forfeited and cancelled	776,055	19.55		
Share options outstanding as of September 30, 2009	10,593,952	23.42	5.2	3,110
Share options expected to vest as of September 30, 2009	10,252,908	23.70	5.2	2,839
Share options exercisable at September 30, 2009	5,574,695	\$ 28.10	4.9	\$

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## MF GLOBAL LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

During the six months ended September 30, 2008, 2,113,416 options were granted and 1,643,132 were forfeited. The weighted-average grant-date fair value of options granted during the six months ended September 30, 2009 and 2008 was \$2.78 and \$5.04, respectively. No options were exercised during the six months ended September 30, 2009 and 2008.

	Restricted Share Units	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2009	6,930,294	\$ 22.16
Granted	1,508,431	5.79
Exercised	637,419	19.23
Forfeited	132,124	28.97
Nonvested as of September 30, 2009	7,669,182	\$ 19.06
Total unrecognized compensation expense remaining	\$ 41,588	
Weighted-average years expected to be recognized over	1.3	

During the six months ended September 30, 2008, 986,139 restricted share units were granted, with a weighted average grant date fair value of \$12.00. During the six months ended September 30, 2008, 230,585 shares were exercised. The total fair value of restricted share units exercised during the six months ended September 30, 2009 and 2008 was \$12,258 and \$3,436, respectively.

	Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2009	270,958	\$ 23.34
Granted	44,976	6.67
Vested	66,800	6.74
Nonvested as of September 30, 2009	249,134	\$ 24.78
Total unrecognized compensation expense remaining	\$ 2,037	
Weighted-average years expected to be recognized over	1.0	

During the six months ended September 30, 2008, 184,335 shares vested. The total fair value of restricted shares vested during the six months ended September 30, 2009 and 2008 was \$450 and \$5,477.

The Company has employee stock purchase plans in the U.S. and U.K. 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 U.K., participants can withhold up to £0.25 per month over 3 to 5 years to purchase shares at a 20% discount from the price on the date of grant. These plans are accounted for as compensatory in accordance with the accounting standard for stock compensation. No shares were awarded from

these plans in the six months ended September 30, 2009 and 2008.

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**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

**Note 10: Income Taxes**

***Effective Income Tax Rate***

The effective income tax rate for the three and six months ended September 30, 2009 was approximately 38.3% and 36.8%, respectively, as compared to approximately 50.3% and 40.0% for the three and six months ended September 30, 2008. The decrease in the Company's effective tax rate for the quarter ended September 30, 2009 reflects profits being earned in lower-tax jurisdictions, partly offset by the tax effect of non-deductible expenses, the effects of certain non-recurring costs and one-time gains as well as the impact of a lower vesting date fair value on equity compensation awards granted. The Company's effective tax rate on ordinary operations (excluding discrete items) for the quarter ended September 30, 2009 was approximately 46.0%.

***Uncertain Tax Positions***

As of March 31, 2009, the Company had total unrecognized tax benefits of \$27,755. For the six months ended September 30, 2009, the Company has not decreased gross unrecognized tax benefits. The company increased gross unrecognized tax benefits by \$573 which includes \$331 of interest on previously-recorded unrecognized tax benefits. The total balance of unrecognized tax benefits of \$28,328 would, if recognized, affect the Company's effective income tax rate in future periods. It is expected that unrecognized tax benefits will decrease in the next 12 months by approximately \$1,092 as a result of expiring statutes of limitations or settlements.

**Note 11: Earnings per Share**

The Company computes earnings per share in accordance with the accounting standards, which discuss the accounting for earnings per share and participating securities and the two-class method. The Company's Series A Preference Shares are participating securities whereby the holder participates in undistributed earnings with common shareholders.

The numerator for Basic EPS is net income attributable to MF Global Ltd., reduced by an allocation of earnings between common shareholders and the Series A Preference Shares holder, based on their respective rights to receive dividends on the Company's common shares as well as any undeclared dividends for the Series A Preference Shares where the shareholder has a cumulative right to dividends. 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 attributable to MF Global Ltd. 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 including 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 common shares 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, 2009 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:

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	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
<b>Basic and diluted earnings per share:</b>				
Numerator:				
Net (loss)/income attributable to MF Global Ltd.	\$ (8,333)	\$ 9,411	\$ (33,485)	\$ 23,802
Less: Dividends declared for Series A Preference Shares	(4,022)	(1,207)	(8,044)	(1,207)
Cumulative and participating dividends		(2,677)		(3,985)
Dividends declared for Series B Preference Shares	(3,656)	(2,031)	(7,312)	(2,031)
Net (loss)/income applicable to common shareholders	\$ (16,011)	\$ 3,496	\$ (48,841)	\$ 16,579
Denominator:				
Basic and Diluted weighted average common shares outstanding	123,254,930	120,503,557	123,087,787	120,279,627
Basic and Diluted (loss)/earnings per share	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14

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Diluted loss/earnings per share is the same as basic loss/earnings per share for the three and six months ended September 30, 2009 and 2008 as the impact of outstanding stock awards, Convertible Notes and Series A and Series B Preference Shares is anti-dilutive. The Convertible Notes and Series A and Series B Preference Shares are weighted based on the period outstanding during the respective periods presented. The following table presents the potential shares excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive:

	<b>Three months ended September 30,</b>		<b>Six months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Restricted share units and restricted shares	8,001,189	8,309,341	8,001,189	8,309,341
Share options	10,593,952	11,353,592	10,593,952	11,353,592
9.00% Convertible Notes	19,617,225	17,412,107	19,617,225	9,067,378
Series B Preference Shares	14,354,067	14,354,067	14,354,067	7,530,002
Series A Preference Shares	12,000,000	9,652,174	12,000,000	4,852,459
Total	64,566,433	61,081,281	64,566,433	41,112,772

**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 members 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, 2009, the Company had net capital, as defined, of \$626,854, which was \$270,726 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, 2009, the Company was in compliance with all of these provisions.

In accordance with the rules of the FSA in the U.K., 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, 2009, the Company's FSA-regulated subsidiaries had financial resources in total, as defined, of \$565,538, resource requirements of \$198,274 and excess financial resources of \$367,264. The Company is awaiting confirmation from the FSA regarding future capital requirements.

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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, 2009.

### **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.



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**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

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

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

*Class Action Suits.* The Company, Man Group, 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 Company made a motion to dismiss which has been granted, with plaintiff having a right to replead and/or appeal the dismissal. Plaintiffs made a motion to replead by filing an amended complaint, which was denied. Plaintiffs have appealed. Because the motion to dismiss was made before discovery, the litigation is in its early stages, and in the event plaintiffs successfully appeal 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. The Company established an accrual of \$450 in the three months ended September 30, 2009 for the CME matter.

*Retention of Consultants.* The Company's Nominating and Corporate 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 advised on technology-related matters and Promontory Financial Group advised on policies and procedures in the risk aspects of the Company's business.

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*Insurance Claim.* The Company filed a claim under its Fidelity Bond Insurance ( the Bond ), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, the Company s Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against the Company in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. The Company believes the insurers position to be in error and has filed a counterclaim in order to seek to enforce its right to payment in court.

### *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 CFTC. 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

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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 under the captions, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* 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.

*CFTC Natural Gas Price Information Investigation*

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

*Bank of Montreal ( BMO )*

On August 28, 2009, BMO instituted suit against the Company and its former broker, Joseph Saab (as well as a firm named Optionable, Inc. and five of its principals or employees), in the United States District Court for the Southern District of New York. In its complaint, BMO asserts various claims against all defendants for their alleged misrepresentation of price quotes to BMO's Market Risk Department ( MRD ) as independent quotes when defendants knew, or should have known, that David Lee, BMO's trader, created the quotes which, in circular fashion, were passed on to BMO through the Company's broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that the Company and Saab knew that Lee was fraudulently misrepresenting prices in his options natural gas book and aided and abetted his ability to do so by the Company's actions in sending price indications to the BMO MRD, and substantially assisted Lee's breach of his fiduciary duties to BMO as its employee. The facts underlying this action also relate to the on-going CFTC natural gas price information investigation described above in *CFTC Natural Gas Price Information Investigation*. The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims CAD 680,000 (approximately \$635,900) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to the Company (and Optionable, Inc.), would not have continued Lee and his supervisor as employees at substantial salaries and bonuses, and would not have incurred substantial legal costs and expenses to deal with the Lee mispricing. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

*Parabola/Tangent*

In December 2006, Parabola/Tangent 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 in connection with execution-only accounts that were

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active in the Company's London office between July 2001 and February 2002. The claimants sought £3,200 (approximately \$5,300) in damages and speculative claims, including claims for lost profits, of up to an additional £28,000 (approximately \$46,100). Mediation began in April 2008 but was not successful and a trial began in March 2009. In May 2009 a judgment was rendered in favor of the plaintiff and against the Company in the amount of £19,290 plus interest and costs. The Company has appealed this judgment. An expense of \$8,000 was recorded in the three months ended March 31, 2009 in connection with this litigation, based on the judgment rendered, after adjusting for insurance proceeds of \$23,500.

**Table of Contents****MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)***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 but subsequently withdrew its appeal. The Company is unsure of whether plaintiffs will pursue the State Court action. 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 futures commission merchants (FCMs), were named as defendants in an action filed in the United States District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor, which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of \$32,000, plus exemplary damages, from all defendants. All of 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 and appealed by the plaintiffs. 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 had been instituted against the Company's U.K. subsidiary by the liquidator of Leaderguard Spot Forex Limited (LSF), a Mauritius based investment firm that became insolvent in March 2005. The Company's U.K. 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 alleged, 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 alleged the Company is liable to account for funds lost through transactions executed by such directors with its U.K. company

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which are alleged to amount to \$18,000. The Leaderguard liquidator dismissed the action on July 17, 2009. No provision for losses was recorded in connection with this matter.

### *Class Action Suit*

The Company and certain of the Company's executive officers and directors had been named as defendants in an action filed in the United States District Court for the Southern District of New York. This action, which purported to be brought as a class action on behalf of purchasers of MF Global stock between March 17, 2008 and June 20, 2008, sought 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 filed a motion to dismiss which the court granted, with prejudice.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

*Voiran Trading Limited*

On December 29, 2008, the Company received a letter before action from solicitors on behalf of Voiran Trading Limited ( Voiran ) which has now brought an LME arbitration proceeding. The letter and arbitration proceeding alleges that the Company's U.K. affiliate was grossly negligent in advice it gave to Voiran between April 2005 and April 2006 in relation to certain copper futures contracts and claims \$37,600 in damages. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

*Sentinel Bankruptcy*

The Liquidation Trustee ( Trustee ) for Sentinel Management Group, Inc. ( Sentinel ) sued MF Global Inc. in June 2009 on the theory that the Company's withdrawal of \$50,200 within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code and, therefore, recoverable by the Trustee, along with interest and costs. The Company believes there are substantial defenses available to it and it intends to resist the Trustee's attempt to recover those funds from the Company. In addition, to the extent the Trustee recovered any funds from the Company, it would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and litigation has just commenced. No provision for losses has been recorded in connection with this claim.

*Agape World*

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and the Company, among others, in the United States District Court for the Eastern District of New York, alleging that the Company, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost \$400,000. The Company has made a motion to dismiss which is currently pending before the court. The litigation is in its earliest stages. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

*Phidippides Capital Management/Mark Trimble*

In the late spring of 2009, the Company was sued in Oklahoma State Court by customers who were substantial investors with Mark Trimble and/or Phidippides Capital Management. Trimble and Phidippides may have been engaged in a Ponzi scheme. Plaintiffs allege that the Company materially aided and abetted Trimble's and Phidippides' violations of the anti-fraud provisions of the Oklahoma securities laws and they are seeking damages in excess of \$10 each. The Company made a motion to dismiss which was granted by the court. Plaintiffs have appealed. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

*Man Group Receivable*

In late April 2009, the Company formally requested that Man Group (its largest shareholder at the time and former parent company) make a payment of \$29,779 that Man Group owes to the Company in connection with the recapitalization of its balance sheet at the time of the IPO in fiscal 2008. Man Group has demanded arbitration and the Company has agreed to an arbitration by the London Court of International Arbitration ( LCIA ). As a result of this unresolved claim, at March 31, 2009, the Company recorded a receivable of \$29,779 in equity. If the Company prevails in its claim, the Company would expect to restore its equity by the amount it receives from Man Group (if any) and, if the Company is not successful, it would expect to write off the receivable to additional paid in capital and not to increase its equity. The reduction in equity does not affect amounts reported in the Company's earnings, its income statement or its cash position for any prior period and the Company does not expect the resolution of the claim, whether favorable to the Company or not, to affect its earnings or its income statement for the current or any future period, although any amounts the Company recovers would increase its cash position. This matter is in its very earliest stages and the

Company intends to pursue this claim vigorously.

*Morgan Fuel/Bottini Brothers*

MF Global Inc. ( MFG ) and MF Global Market Services LLC ( Market Services ) are currently involved in litigation with a former customer of Market Services, Morgan Fuel & Heating Co., Inc. ( Morgan Fuel ) and its principals, Anthony Bottini, Jr., Brian Bottini and Mark Bottini (the Bottinis ). The litigations arise out of trading losses incurred by Morgan Fuel in over-the-counter derivative swap transactions, which were unconditionally guaranteed by the Bottini principals.



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**MF GLOBAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis before the Financial Industry Regulatory Authority ( FINRA ) to recover \$8,300, which is the amount of the debt owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.

Morgan Fuel v. MFG and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFG and Market Services. Morgan Fuel claims that MFG and Market Services caused Morgan Fuel to incur approximately \$14,200 in trading losses. Morgan Fuel seeks recovery of \$5,900 in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining \$8,300 in trading losses. Morgan Fuel contends that MFG and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay was denied and the Company has appealed that decision.

The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFG, Market Services and Steven Bellino (an MFG employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim was also denied by the court and the Company has appealed that decision as well.

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.

*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*

U.S. GAAP requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. As of September 30, 2009, 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, 2009, the Company has not recorded a guarantee liability, as the fair value of the exchange seats exceeds any potential loss on these loans.

Additionally, in its normal course of business, the Company may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote. The Company is a member of various exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the Company believes that the potential for the Company to be

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required to make payments under these arrangements is remote, and accordingly, no liability has been recorded.

### ***Other Commitments***

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

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

The Company has a \$1,500,000 five-year unsecured committed revolving liquidity facility. See Note 8 for further details. The Company also has 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 on which it conducts business. As of September 30 and March 31, 2009, the Company had \$7,000 and \$22,000 of issued letters of credit, respectively.

**Note 14: Segment and Geographic Information**

The Company has one reportable business segment, as defined by the accounting standard for disclosures about segments of an enterprise and related information. This standard 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 amounts is as follows:

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
<b>Revenues, net of interest and transaction-based expenses:</b>				
North America	\$ 129,493	\$ 182,333	\$ 271,128	\$ 363,689
Europe	88,862	140,345	180,605	288,818
Rest of World	33,687	50,210	71,827	95,035
<b>Total</b>	<b>\$ 252,042</b>	<b>\$ 372,888</b>	<b>\$ 523,560</b>	<b>\$ 747,542</b>

Revenues, net of interest and transaction-based expenses are attributed to geographic areas based on the location of the relevant legal entities. Rest of world comprises primarily the Asia/Pacific region. No single customer accounted for greater than 10% of total revenues in the three and six months ended September 30, 2009 and 2008. Revenues, net of interest and transaction-based expenses by product have not been provided as this information is impracticable to obtain.

**Note 15: Related Party Transactions**

Subsequent to the IPO, Man Group held approximately 18.4% of the Company's outstanding common shares. During the three months ended September 30, 2009, Man Group sold all of its remaining investment in the Company's common shares pursuant to a variable forward sale agreement, after which it is no longer considered a related party. Income and expense transactions between Man Group and the Company are disclosed as related party transactions through September 30, 2009. The Company clears transactions on behalf of certain managed investment funds which are related parties of 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 from 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, Man Group also charges lease expense to the Company for the use of office space. The Company also receives certain office services from Man Group that will continue for as long as the

Company leases office space from Man Group.

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

Revenues earned from and expenses incurred with Man Group for the three and six months ended September 30, 2009, and 2008 are summarized as follows:

	<b>Three months ended September 30,</b>		<b>Six months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>				
Cleared commissions	\$ 6,002	\$ 3,885	\$ 11,617	\$ 9,699
Interest income	127	139	291	198
<b>Total revenues</b>	<b>6,129</b>	<b>4,024</b>	<b>11,908</b>	<b>9,897</b>
Less: Interest expense	125	6,413	301	14,159
<b>Revenues, net of interest and transaction-based expenses</b>	<b>6,004</b>	<b>(2,389)</b>	<b>11,607</b>	<b>(4,262)</b>
<b>Expenses</b>				
Employee compensation and benefits	109		109	
Communications and technology	371	421	877	735
Occupancy and equipment costs	1,232	1,158	2,508	2,275
Professional fees		2,251	2	3,354
General and other	919	1,060	1,555	1,860
<b>Total non-interest expenses</b>	<b>2,631</b>	<b>4,890</b>	<b>5,051</b>	<b>8,224</b>
<b>Total, net</b>	<b>\$ 3,373</b>	<b>\$ (7,279)</b>	<b>\$ 6,556</b>	<b>\$ (12,486)</b>

The Company is party to a master separation agreement with Man Group, which was executed in connection with the IPO and which governs the principal terms of the separation of the Company's business from Man Group. The master separation agreement and other agreements contain important provisions regarding the Company's relationship with Man Group following the completion of the IPO, including provisions relating to non-competition and non-solicitation, access and confidentiality. Further, Man Group agreed to indemnify the Company against certain tax matters and the Company has agreed to pass certain stock compensation benefits to Man Group. As of September 30, 2009, the Company has recorded a \$1,500 payable to Man Group within equity in relation to the tax agreements between the Company and Man Group entered into in connection with the separation of the Company's business from Man Group.

Receivable and payable balances with Man Group are not classified as related party balances at September 30, 2009 due to Man Group's sale of its remaining investment in the Company. The Company had receivables and payables from Man Group of \$95 and \$1,602, respectively, at March 31, 2009. The Company has noted that an additional payment of \$29,779 is due to the Company from Man Group in connection with the recapitalization at the time of the IPO in fiscal 2008. As a result of this unresolved claim, at March 31, 2009, the Company recorded a receivable of \$29,779 in equity. The Company has made the request, Man Group has demanded arbitration, and the Company has agreed to an arbitration by the LCIA. If the claim is successful, the Company would expect to restore equity by the amount received from Man Group (if any), and if the claim is not successful the Company would expect to write off the receivable to additional paid in capital and not to increase equity. The reduction in equity does not affect amounts reported in the Company's earnings, income statement or cash position for any prior period.

**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 pays 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 are not 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 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

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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 completed the issuance and sale of \$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 Preference Shares, Series A at a stated offer 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, 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 shareholder 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 the Company. 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

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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 a director 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



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shareholders will have the right as a class to elect two additional directors to the Company's board. See Note 8 for a discussion of the replacement capital covenant entered into in connection with the issuance of the Series A Preference Shares.

On April 28, 2009 and July 31, 2009, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in an aggregate amount of \$4,022 and \$3,656, respectively. These dividends had a record date of May 1, 2009 and August 5, 2009 and were paid on May 14, 2009 and August 17, 2009, respectively.

**Note 17: Fair Value Measurements and Derivative Activity**

***Fair Value***

The Company adopted a new accounting standard, on April 1, 2008, which 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 this standard to all financial instruments that are required to be reported at fair value.

This standard also requires the Company to consider its own credit spreads when measuring the fair value of liabilities, including OTC derivative contracts. The Company has considered the impact of counterparty credit risk in the valuation of its assets and its own credit spreads when measuring the fair value of liabilities, including derivatives.

Securities owned, Securities sold, not yet purchased, certain Securities purchased under agreements to resell, certain Securities sold under agreements to repurchase, certain Securities borrowed 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 agency securities, corporate debt, certificates of deposit, resale and repurchase agreements and securities borrowed; 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 shares held due to the demutualization of 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 short periods of time or among market makers. Observable inputs reflect the assumptions market participants would use

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in pricing the asset or liability 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. 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.

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The following tables summarize the Company's financial assets and liabilities as of September 30, 2009 and March 31, 2009 by level within the fair value hierarchy:

	September 30, 2009				
	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total
<b>Assets</b>					
Securities owned					
U.S. government securities and federal agency obligations	\$ 3,163,960	\$ 1,844,394	\$	\$	\$ 5,008,354
Corporate debt securities and certificates of deposit		210,851			210,851
Foreign government bonds	681,356				681,356
Equities	390,330				390,330
Shares held due to demutualization of exchanges			25,279		25,279
Other	6,153	10,339			16,492
<b>Total securities owned (4)</b>	<b>\$ 4,241,799</b>	<b>\$ 2,065,584</b>	<b>\$ 25,279</b>	<b>\$</b>	<b>\$ 6,332,662</b>
Derivative Assets					
Futures transactions	\$ 2,961,437	\$	\$	\$ (1,486,596)	\$ 1,474,841
Foreign currency and other OTC derivative transactions	101,059	1,420,117		(1,468,978)	52,198
<b>Total derivative assets (2)</b>	<b>3,062,496</b>	<b>1,420,117</b>		<b>(2,955,574)</b>	<b>1,527,039</b>
Securities borrowed (5) (6)		2,919,379			2,919,379
Securities purchased under agreements to resell (5)		46,258,938		(29,435,276)	16,823,662
<b>Total assets at fair value</b>	<b>\$ 7,304,295</b>	<b>\$ 52,664,018</b>	<b>\$ 25,279</b>	<b>\$ (32,390,850)</b>	<b>\$ 27,602,742</b>
<b>Liabilities</b>					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	\$ 2,063,153	\$ 1,789,439	\$	\$	\$ 3,852,592
Corporate debt securities		76,252			76,252
Foreign government bonds	826,894				826,894
Equities	383,470				383,470
Other	3,074	227			3,301
<b>Total securities sold, not yet purchased</b>	<b>\$ 3,276,591</b>	<b>\$ 1,865,918</b>	<b>\$</b>	<b>\$</b>	<b>\$ 5,142,509</b>
Derivative liabilities					
Futures transactions	\$ 2,963,773	\$	\$	\$ 1,101,016	\$ 4,064,789
Foreign currency and other OTC derivative transactions	94,796	1,491,132		(971,567)	614,361

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Total derivative liabilities (3)	3,058,569	1,491,132	129,449	4,679,150
Securities sold under agreements to repurchase (5)		37,636,789	(29,435,276)	8,201,513
Total liabilities at fair value	<b>\$ 6,335,160</b>	<b>\$ 40,993,839</b>	<b>\$ (29,305,827)</b>	<b>\$ 18,023,172</b>

- (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 \$1,744,482, within Receivables from customers and Receivables from brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$6,242 which is recorded in Securities owned.
- (3) Reflects derivative liabilities within Payables to customers and Payables to brokers, dealers, and clearing organizations. Excludes \$9,977,511 within Payables to customers and Payables to brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$3,301 which is recorded in Securities sold, not yet purchased.
- (4) Includes \$336,318 of Securities owned which are held in segregation. These securities have been classified within Restricted cash and segregated securities in the consolidated balance sheet.
- (5) Excludes Securities borrowed, Securities purchased under agreements to resell and Securities sold under agreements to repurchase and Securities Borrowed, which are held at contract value.
- (6) Includes \$1,051 of interest receivable which is recorded in Receivables from brokers, dealers, and clearing organizations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

	March 31, 2009				
	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total
<b>Assets</b>					
Securities owned					
U.S. government securities and federal agency obligations	\$ 2,131,812	\$ 4,033,860	\$	\$	\$ 6,165,672