MF Global Holdings Ltd.
Form 10-Q
February 03, 2011
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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 December 31, 2010

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 HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

Delaware	**98-0551260**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
717 Fifth Avenue New York, NY	**10022**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 589-6200

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

Indicate by check mark whether the registrant 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 x No ¨

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

Large accelerated filer x	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 x

The number of common stock outstanding of the registrant as of December 31, 2010, was 163,386,012.

MF GLOBAL HOLDINGS LTD.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements and Supplementary Data

MF GLOBAL HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share and share amounts)

	Three months ended December 31, 2010	Three months ended December 31, 2009	Nine months ended December 31, 2010	Nine months ended December 31, 2009
Revenues				
Commissions	$ 344,803	$ 357,199	$ 1,049,276	$ 1,038,454
Principal transactions	40,889	33,213	152,384	124,181
Interest income	141,753	106,240	383,923	302,141
Other	8,767	8,733	31,446	31,745
Total revenues	536,212	505,385	1,617,029	1,496,521
Interest and transaction-based expenses:				
Interest expense	65,234	35,368	165,806	94,528
Execution and clearing fees	161,125	156,969	491,294	445,361
Sales commissions	63,094	62,044	183,396	182,068
Total interest and transaction-based expenses	289,453	254,381	840,496	721,957
Revenues, net of interest and transaction-based expenses	246,759	251,004	776,533	774,564
Expenses				
Employee compensation and benefits (excluding non-recurring IPO awards)	142,346	150,460	437,217	485,428
Employee compensation related to non-recurring IPO awards		7,086	12,436	25,099
Communications and technology	32,937	31,352	98,745	87,173
Occupancy and equipment costs	13,728	9,884	36,006	29,351
Depreciation and amortization	11,327	13,482	32,941	41,341
Professional fees	20,820	19,587	52,194	58,614
General and other	22,169	21,980	60,917	82,158
IPO-related costs				894
Restructuring charges			12,792	
Impairment of intangible assets and goodwill	1,323	1,165	2,869	2,325
Total other expenses	244,650	254,996	746,117	812,383
Gain on exchange seats and shares	422	1,680	2,063	12,924
Loss on extinguishment of debt			2,737	9,682
Interest on borrowings	11,527	9,903	31,104	30,415
Loss before provision for income taxes	(8,996)	(12,215)	(1,362)	(64,992)
(Benefit)/provision for income taxes	(4,544)	2,249	32,920	(17,154)
Equity in income of unconsolidated companies (net of tax)	558	330	1,762	1,260
Net loss	(3,894)	(14,134)	(32,520)	(46,578)
Net income attributable to noncontrolling interest (net of tax)	815	484	2,122	1,525
Net loss attributable to MF Global Holdings Ltd.	$ (4,709)	$ (14,618)	$ (34,642)	$ (48,103)

Dividends declared on preferred stock		5,005		7,678		19,441		23,034
Deemed dividend resulting from exchange offer						48,792		
Net loss applicable to common shareholders	$	(9,714)	$	(22,296)	$	(102,875)	$	(71,137)
Loss per share (see Note 14):								
Basic	$	(0.06)	$	(0.18)	$	(0.68)	$	(0.58)
Diluted	$	(0.06)	$	(0.18)	$	(0.68)	$	(0.58)
Weighted average number of shares of common stock outstanding:								
Basic		163,268,035		123,272,712		151,379,516		123,149,652
Diluted		163,268,035		123,272,712		151,379,516		123,149,652

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

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MF GLOBAL HOLDINGS LTD.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share and share amounts)

	December 31, 2010	March 31, 2010
Assets		
Cash and cash equivalents	$ 836,338	$ 826,227
Restricted cash and segregated securities	10,787,626	9,693,927
Securities purchased under agreements to resell (including $13,069,746 and $14,825,760 at fair value, respectively)	10,341,051	22,125,430
Securities borrowed (including $0 and $1,004,017 at fair value, respectively)	2,836,378	3,918,553
Securities received as collateral	90,653	52,185
Securities owned (including $11,588,144 and $8,357,551 pledged, respectively)	12,826,938	10,320,139
Receivables:		
Brokers, dealers and clearing organizations	3,756,889	3,317,789
Customers (net of allowances of $19,117 and $31,371 respectively)	467,283	292,110
Other	66,277	44,418
Memberships in exchanges, at cost (fair value of $17,605 and $19,285, respectively)	5,857	6,262
Furniture, equipment and leasehold improvements, net	118,416	72,961
Intangible assets, net	61,656	73,359
Other assets	261,773	222,720
TOTAL ASSETS	$ 42,457,135	$ 50,966,080
Liabilities and Equity		
Short-term borrowings, including current portion of long-term borrowings	$ 532,311	$ 142,867
Securities sold under agreements to repurchase (including $8,233,520 and $9,281,426 at fair value, respectively)	18,632,833	29,079,743
Securities loaned	1,269,820	989,191
Obligation to return securities borrowed	90,653	52,185
Securities sold, not yet purchased, at fair value	6,340,706	4,401,449
Payables:		
Brokers, dealers and clearing organizations	581,002	2,240,731
Customers	13,095,384	11,997,852
Accrued expenses and other liabilities	211,562	197,074
Long-term borrowings	191,387	499,389
TOTAL LIABILITIES	40,945,658	49,600,481
Commitments and contingencies (Note 10)		
Preferred stock, $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
403,550 and 1,500,000 Series B Convertible, issued and outstanding, non-cumulative, respectively	34,446	128,035
EQUITY		
Common stock, $1.00 par value per share; 1,000,000,000 shares authorized, 163,307,234 and 121,698,729 shares issued and outstanding, respectively	163,307	121,699
Treasury stock		(219)
Receivable from shareholder		(29,779)

Additional paid-in capital	1,557,981	1,367,948
Accumulated deficit	(363,108)	(328,466)
Accumulated other comprehensive income/(loss) (net of tax)	4,262	(5,752)
Noncontrolling interest	18,422	15,966
TOTAL EQUITY	1,380,864	1,141,397
TOTAL LIABILITIES AND EQUITY	$ 42,457,135	$ 50,966,080

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

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MF GLOBAL HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine months ended December 31, 2010	Nine months ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (32,520)	$ (46,578)
Less: Net income attributable to noncontrolling interest, net of tax	2,122	1,525
Net loss attributable to MF Global Holdings Ltd.	(34,642)	(48,103)
Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:		
Gains on sale of exchanges seats and shares	(1,098)	(576)
Depreciation and amortization	32,941	41,341
Stock-based compensation expense	42,557	52,139
Bad debt expense	(294)	(1,139)
Deferred income taxes	(33,176)	3,420
Equity in income of unconsolidated affiliates	(1,762)	(1,260)
Dividend received from unconsolidated affiliates	1,459	2,106
Income attributable to noncontrolling interest, net of tax	2,122	1,525
(Gain)/loss on extinguishment of debt	(2,821)	9,682
Amortization of debt issuance costs	6,027	5,909
Impairment of goodwill and intangible assets	2,869	2,325
(Increase)/decrease in operating assets:		
Restricted cash and segregated securities	(1,068,159)	114,095
Securities purchased under agreements to resell	11,784,379	(6,122,002)
Securities borrowed	1,082,184	395,413
Securities owned	(2,505,583)	(8,471,804)
Receivables:		
Brokers, dealers and clearing organizations	(412,923)	(2,835,216)
Customers	(175,087)	(10,035)
Other	(21,763)	4,506
Other assets	(2,450)	(34,235)
(Decrease)/increase in operating liabilities:		
Securities sold under agreements to repurchase	(10,447,004)	17,043,071
Securities loaned	279,679	(5,270,453)
Securities sold, not yet purchased, at fair value	1,939,255	2,171,372
Payables:		
Brokers, dealers and clearing organizations	(1,660,135)	3,325,964
Customers	1,045,765	341,136
Accrued expenses and other liabilities	7,848	(123,206)
Net cash (used in)/provided by operating activities	(139,812)	595,975

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

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MF GLOBAL HOLDINGS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(Unaudited)

(Dollars in thousands)

	Nine months ended December 31, 2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(4,851)	(2,326)
Proceeds from sale of memberships in exchanges	1,437	612
Purchase of furniture, equipment and leasehold improvements	(61,931)	(24,096)
Net cash used in investing activities	(65,345)	(25,810)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from other short-term borrowings, net	89,433	2,700
Issuance of common stock	184,000	
Repayment of liquidity facility		(200,000)
Repayment of two-year term facility		(240,000)
Repayment of convertible notes	(4,482)	
Payment of debt issuance costs	(6,818)	(791)
Payment of common stock issuance costs	(9,690)	
Proceeds from Man Group	29,779	
Payment to Man Group for tax indemnification	(751)	
Payment related to exchange of preferred securities	(2,153)	
Payment of dividends on preferred stock	(19,441)	(23,034)
Payment of deemed dividend resulting from exchange offer	(48,792)	
Net cash provided by/(used in) financing activities	211,085	(461,125)
Effect of exchange rates on cash and cash equivalents	4,183	6,110
Increase in cash and cash equivalents	10,111	115,150
Cash and cash equivalents at beginning of year	826,227	639,183
Cash and cash equivalents at end of period	$ 836,338	$ 754,333
SUPPLEMENTAL NON-CASH FLOW INFORMATION		
Securities received as collateral	90,653	21,126
Obligation to return securities borrowed	(90,653)	(21,126)

In July 2010, the Company completed its offer to exchange shares of Common Stock and a cash premium for any and all of its outstanding Convertible Notes and Series B Preferred Stock. In the exchange offer, $9,337 in principal amount of the Convertible Notes and 1,096,450 shares of Series B Preferred Stock were validly tendered. The Company issued, in the aggregate, 893,486 shares of its Common Stock to the tendering holders of the Convertible Notes and 10,492,366 shares of Common Stock to the tendering holders of the shares of Series B Preferred Stock.

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

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MF GLOBAL HOLDINGS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(Dollars in thousands)

	Common Stock	Treasury Stock	Receivable from Shareholder	Additional paid-in capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)/ Income	Noncontrolling interest	Total Equity
Equity at March 31, 2010	$ 121,699	$ (219)	$ (29,779)	$ 1,367,948	$ (328,466)	$ (5,752)	$ 15,966	$ 1,141,397
Stock-based compensation				44,885				44,885
Net loss attributable to MF Global Holdings Ltd.					(34,642)			(34,642)
Net income attributable to noncontrolling interest							2,122	2,122
Foreign currency translation						10,014	334	10,348
Stock issued in connection with employee stock plans	4,308	219		(17,641)				(13,114)
Public stock issuance	25,915			148,395				174,310
Tax indemnification to Man Group				(1,941)				(1,941)
Dividend distributions				(19,441)				(19,441)
Deemed dividend resulting from exchange offer				(48,792)				(48,792)
Exchange of convertible notes and preferred B shares	11,385			84,568				95,953
Settlement of shareholder receivable			29,779					29,779
Equity at December 31, 2010	$ 163,307	$	$	$ 1,557,981	$ (363,108)	$ 4,262	$ 18,422	$ 1,380,864

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

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MF GLOBAL HOLDINGS LTD.

CONSOLIDATED STATEMENTS

OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Net loss	$ (3,894)	$ (14,134)	$ (32,520)	$ (46,578)
Foreign currency translation adjustment	4,392	5,175	10,348	19,851
Comprehensive income/(loss)	$ 498	$ (8,959)	$ (22,172)	$ (26,727)
Comprehensive income attributable to noncontrolling interest	1,083	920	2,456	2,553
Comprehensive loss attributable to MF Global Holdings Ltd.	$ (585)	$ (9,879)	$ (24,628)	$ (29,280)

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

MF GLOBAL HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share and per share amounts)

Note 1: Organization and Basis of Presentation

MF Global Holdings Ltd. (together with its subsidiaries, the Company) is a leading broker of commodities and listed derivatives. Building on a history that extends more than 225 years, the Company delivers trading and hedging solutions as a broker-dealer across all major markets for futures and options, commodities, fixed income, equities and foreign exchange. The Company helps its clients discover and capitalize on market opportunities by providing actionable insight, market expertise and deep liquidity. The Company also provides access to more than 70 exchanges around the world and is a leader by volume on many of the largest derivatives exchanges. The Company is operated and managed on an integrated basis as a single operating segment, with a presence in the United States (U.S.), the United Kingdom (U.K.), France, Singapore, Australia, Hong Kong, Canada, India and Japan, among others.

The Company s principal subsidiaries operate as registered futures commission merchants and as broker-dealers or the local equivalents and maintain futures, options, and securities accounts for customers. The Company s subsidiaries are members of various commodities, futures, and securities exchanges in North America, 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 Holdings Ltd. and its subsidiaries. Management believes that these unaudited consolidated financial statements include all normally recurring adjustments and accruals necessary for a fair statement 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 period presentation.

In the first quarter of fiscal 2011, the Company reclassified certain amounts in the statements of operations to better present its business transactions and explain its financial results. Specifically, expenses incurred related to temporary staff and contractors have been reclassified out of Employee compensation and benefits (excluding non-recurring IPO awards) and into Professional fees. Tuition and training costs have also been reclassified out of Employee compensation and benefits (excluding non-recurring IPO awards) and into General and other. In addition, all dividends earned or paid in equity trading strategies previously classified within Interest income and Interest expense have been reclassified into Principal transactions. For the three and nine months ended December 31, 2009 the reclassification made for dividends was $56,338 and $51,263, respectively. These consolidated changes have been voluntarily reclassified by the Company and do not reflect an error or misstatement. The Company does not believe that these adjustments are quantitatively or qualitatively material.

All material intercompany balances and transactions between the Company s entities have been eliminated in consolidation. Transactions prior to September 30, 2009 between the Company and Man Group plc and its affiliates are herein referred to as related party transactions. The Company refers to Man Group plc and its subsidiaries as Man Group .

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

MF GLOBAL HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share and per share amounts)

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.

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 term cash deposits of $54,204 and $61,148 as of December 31 and March 31, 2010, respectively, which are held as margin for the issuance of bank guarantees to satisfy local exchange requirements for day-to-day clearing. In addition, many 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 December 31 and March 31, 2010, the Company was in compliance with its segregation requirements.

Securities purchased under agreements to resell and securities sold under agreements to repurchase

Transactions involving purchases of securities under agreements to resell (resale agreements) or sales of securities under agreements to repurchase (repurchase agreements) are generally treated as collateralized financing transactions. Certain of the Company s resale and repurchase agreements are recorded at their contractual amounts plus accrued interest. The resulting interest income and expense for these arrangements are generally included in Interest income and Interest expense in the unaudited consolidated statements of operations.

The Company also enters into securities financing transactions that mature on the same date as the underlying collateral. The Company accounts for these transactions in accordance with the accounting standard for transfers and servicing. Such transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward resale commitment. The forward repurchase and resale commitments are accounted for as derivatives under the accounting standard for derivatives and hedging.

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 do not have an open settlement date or that are not accounted for as purchase or sale agreements. 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. Changes in the fair value of these transactions are recorded in Principal transactions in the unaudited consolidated statement of operations.

Resale and repurchase transactions are presented on a net-by-counterparty basis when the requirements of the Accounting Standards Codification (ASC) are satisfied.

It is the general policy of the Company to take possession of securities with a market value equal to or in excess of the principal amount loaned plus the accrued interest thereon in order to collateralize resale agreements. Similarly, the Company is generally required to provide securities to counterparties to collateralize

MF GLOBAL HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share and per share amounts)

repurchase agreements. The Company s agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned. The collateral is marked to market daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, when deemed appropriate.

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. and European government, government sponsored entity 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 unaudited consolidated balance sheets when the Company is the debtor as defined in accordance with the accounting standard for transfers and servicing of financial assets.

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 December 31 and March 31, 2010, 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 $9,972,586 and $9,523,608, respectively. The Company sold or repledged securities aggregating $12,073,990 and $5,860,051, respectively. Counterparties have the right to sell or repledge these securities. See Note 3 for a description of the collateral received and pledged in connection with agreements to resell or repurchase securities.

Furniture, equipment and leasehold improvements

Furniture and equipment are stated at cost, net of accumulated depreciation. Furniture and equipment are depreciated over their estimated useful lives of 3 to 5 years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related leases, which range from 2 to 10 years. The Company capitalizes the costs of software developed for internal use in accordance with ASC 350. The software developed or obtained for internal use is amortized over its estimated useful life of 1 to 5 years on a straight-line basis. A summary of furniture, equipment, and leasehold improvements is as follows:

	December 31, 2010	March 31, 2010
Leasehold improvements	$ 74,355	$ 56,969
Equipment	81,304	77,627
Furniture and fixtures	36,314	37,538
Computer software	63,055	39,135
Total cost	255,028	211,268
Less: accumulated depreciation and amortization	136,612	138,306
Cost, net of accumulated depreciation and amortization	$ 118,416	$ 72,961

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MF GLOBAL HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share and per share amounts)

Equity

The Company has 1,000,000,000 shares authorized at $1.00 par value per share (Common Stock). On June 8, 2010, the Company completed its public offering and sale of 25,915,492 shares of Common Stock, pursuant to an underwriting agreement, dated June 2, 2010. The agreement provided for the sale of 22,535,211 shares of Common Stock to the underwriters at a price of $6.745 per share. In addition, the Company granted the underwriters a 30 day option to purchase up to an additional 3,380,281 shares of Common Stock at a price of $6.745 per share, which was exercised in full on June 3, 2010. The price to the public was $7.10 per share of Common Stock. Net of underwriting discount and other costs, the Company received $174,310 as proceeds. At December 31 and March 31, 2010, the Company has 163,307,234 and 121,698,729 shares of Common Stock issued and outstanding, respectively.

At December 31 and March 31, 2010, noncontrolling interests recorded in the unaudited consolidated balance sheets were $18,422 and $15,966, respectively.

Restructuring

In May 2010, the Company commenced a strategic assessment of its cost base, including reviews of its compensation structure and non-compensation expenses. As a result of this evaluation, the Company reduced its workforce by approximately 12%. During the three and nine months ended December 31, 2010, the Company recorded restructuring charges of $0 and $12,792, as a result of these plans. The charges during the nine months ended December 31, 2010 include $11,686 for severance and other employee compensation costs and $1,106 for occupancy and equipment costs related to office closures. The employee terminations occurred mainly in North America and Europe. As of December 31, 2010, the Company had paid $12,279 and has a remaining accrual of $513, substantially all of which will be paid out within one year.

Principal transactions

Principal transactions include revenues from both matched principal brokerage activities and proprietary transactions. Revenues from matched principal brokerage activities are recorded on the trade date. For these activities, commission is not separately billed to customers; instead a commission equivalent is included in transaction revenues following execution of the transaction on behalf of customers. Principal transactions also includes unrealized gains or losses on equity swaps and contracts for differences (CFDs) together with the unrealized gains and losses on the related matching equity hedges that are entered into on a matched-principal basis. Additionally, the Company records in Principal transactions the total return of equity swaps entered into as part of a matched equity hedge and the gains on repurchase and resale agreements accounted for as sales transactions. Principal transactions also include dividends earned or paid in equity trading strategies. On a gross basis, dividends earned and paid included in principal transactions for the three months ended December 31, 2010 were $2,096 and $4,374, respectively, and $15,802 and $72,140, respectively, for the three months ended December 31, 2009. On a gross basis, dividends earned and paid included in principal transactions for the nine months ended December 31, 2010 were $388,064 and $179,011, respectively, and $32,926 and $84,189 respectively, for the nine months ended December 31, 2009.

Proprietary transactions are recorded on the trade date. Profits and losses arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade date basis, including to a lesser extent from derivatives transactions executed for the Company s own account to hedge foreign currency exposure. The Company does not separately amortize purchase premiums and discounts associated with proprietary securities transactions, as these are a component of the recorded fair value. Changes

MF GLOBAL HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands, except share and per share amounts)

in the fair value of such securities are recorded as unrealized gains and losses within Principal transactions in the unaudited consolidated statements of operations. Contractual interest expense earned and incurred on these transactions is included in Interest income and Interest expense in the unaudited consolidated statements of operations.

Interest

Interest is recognized on an accrual basis and includes amounts receivable on certain customer funds, company funds, debt instruments such as agency securities and collateralized financing arrangements. Interest income related to resale agreements, securities borrowed and other collateralized financing arrangements are recognized over the life of the transaction. Interest income and expense for resale and repurchase agreement transactions are presented net in the unaudited consolidated statements of operations pursuant to accounting guidelines.

Consolidation

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%, or exercises significant influence, but not control, are accounted for using the equity method of accounting. As of December 31 and March 31, 2010, the Company owned 70.2% of MF Global Sify Securities India Private Limited, 75.0% of MF Global Financial Services India Private Limited, 73.2% of MF Global Futures Trust Co. Ltd. and had a 19.5% equity investment in Polaris MF Global Futures Co., Ltd.

During 2010, the Company launched the MF Global Multi-Strategy Futures Trust Fund (the Fund) which is sponsored by one of the Company s affiliates in Taiwan. While the Company has no direct investment in the Fund, it is responsible for selecting the commodity trading advisors to manage the Fund and providing certain clearing and execution services. The Fund is structured under Taiwanese regulations for a futures trust fund, and due to this structure, the Company has consolidated the Fund under the guidance of ASC 810, Consolidation. At December 31, 2010, the Fund s total assets of $40,408 were included in Other assets and the Fund s total liabilities and equity of $40,408 were included in Accrued expenses and other liabilities within the Company s unaudited consolidated balance sheet.

Recently issued accounting pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, *Receivables Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU No. 2010-20). ASU No. 2010-20 will require a company to provide more information about the credit quality of its financing receivables in the disclosures to the financial statements, including aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on both how a company develops its allowance for credit losses and how it manages its credit exposure. ASU No. 2010-20 is effective for interim and annual reporting periods after December 15, 2010. The Company adopted ASU No. 2010-20 in the third quarter of fiscal 2011 and enhanced disclosure to the notes to the unaudited consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-10, *Consolidation Amendments for Certain Investment Funds* (ASU No. 2010-10). ASU No. 2010-10 indefinitely defers the effective date of the updated variable-interest entity (VIE) accounting guidance for certain investment funds. To qualify for the deferral, the

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investment fund needs to meet certain attributes of an investment company, does not have explicit or implicit obligations to fund losses of the entity and is not a securitization entity, an asset-backed financing entity, or an entity formerly considered a qualifying special-purpose entity. The Company adopted ASU No. 2010-10 in the first quarter of fiscal 2011 with no impact to its unaudited consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (ASU No. 2010-06). The guidance in ASU No. 2010-06 provides amendments to ASC 820 that requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, with regards to Level 3 assets, ASU No. 2010-06 now requires that a reporting entity should present separately information about purchases, sales, issuances and settlements on a gross basis in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The Company adopted the new disclosures and clarifications of existing disclosures in the fourth quarter of fiscal 2010. The Company will adopt the disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements in the first quarter of fiscal 2012.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* which was codified and superseded by ASU 2009-17 (ASU No. 2009-17) in December 2009. ASU No. 2009-17 requires an enterprise to determine the primary beneficiary (or consolidator) of a 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. ASU No. 2009-17 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. On January 27, 2010, the FASB agreed to finalize ASU No. 2010-10 to indefinitely defer consolidation requirements for a reporting enterprise s interest in certain entities and for certain money market mutual funds under ASU No. 2009-17. The ASU also amended guidance that addresses whether fee arrangements represent a variable interest for all decision-makers and service-providers. The Company adopted ASU No. 2009-17 in the first quarter of fiscal 2011 with no material impact to its unaudited consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* which was codified and superseded by ASU No. 2009-16 (ASU No. 2009-16) in December 2009. ASU No. 2009-16 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. ASU No. 2009-16 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, ASU No. 2009-16 clarifies and amends the derecognition criteria for determining whether a transfer qualifies for sale accounting. ASU No. 2009-16 is effective as of the beginning of an entity s first annual reporting period beginning after November 15, 2009. The Company adopted ASU No. 2009-16 in the first quarter of fiscal year 2011 with no material impact to its unaudited consolidated financial statements.

Note 3: 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, government sponsored entities and federal agencies. The Company retains the right to repledge collateral received in collateralized financing transactions. As of December 31, 2010, the market value of collateral received under resale agreements, including resale agreements accounted for as sales transactions, was $59,862,369, of which $3,152,153 was deposited as margin with clearing

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organizations. As of March 31, 2010, the market value of collateral received under resale agreements was $68,958,618, of which $199,599 was deposited as margin with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of December 31 and March 31, 2010, the market value of collateral pledged under repurchase agreements, including resale agreements accounted for as sales transactions, was $68,758,835 and $75,606,222, respectively. As of December 31 and March 31, 2010, there were no amounts at risk under repurchase agreements or resale agreements with a counterparty 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. As of December 31 and March 31, 2010, the Company had securities purchased under agreements to resell of $10,341,051 and $22,125,430, respectively, which includes the impact of netting for resale agreements classified within segregated securities. Segregated securities are presented on a gross basis in the unaudited consolidated balance sheets. The Company also enters into securities financing transactions that mature on the same date as the underlying collateral. The Company accounts for these transactions in accordance with the accounting standard for transfers and servicing and recognizes a gain or loss on the sale/purchase of the collateral assets, and records a forward commitment. The Company derecognizes the collateral assets as sold when the transactions are accounted for as sales, and recognizes the collateral assets as purchased when the transactions are accounted for as purchases. In these transactions, the Company has exposure to the risk of default of the issuer of the underlying collateral assets, such as U.S. government securities or European sovereign debt. At December 31, 2010, securities purchased under agreements to resell and securities sold under agreements to repurchase of $0 and $7,569,399, respectively, at contract value, were derecognized. At March 31, 2010, this consisted of securities purchased under agreements to resell and securities sold under agreements to repurchase of $1,199,842 and $5,702,980, respectively, at contract value.

At December 31, 2010, 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 do not have an open settlement date or that are not accounted for as purchase and sale agreements (i.e. 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 December 31, 2010, the fair value of these resale and repurchase agreements was $13,069,746 and $8,233,520, respectively. At March 31, 2010, the fair value of these resale and repurchase agreements was $14,825,760 and $9,281,426, respectively. Changes in the fair value of these transactions are recorded in Principal transactions in the unaudited consolidated statement of operations. During the three months ended December 31, 2010, the amount of gains and losses related to resale and repurchase agreements carried at fair value was $8,140 of losses and $6,274 of gains, respectively. During the nine months ended December 31, 2010, the amount of losses related to resale and repurchase agreements carried at fair value was $1,383 and $2,739, respectively. During the three months ended December 31, 2009, the amount of losses related to resale and repurchase agreements carried at fair value was $5,798 and $3,791, respectively. During the nine months ended December 31, 2009, the amount of gains and losses related to resale and repurchase agreements carried at fair value was $6,285 of gains and $2,778 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.

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

	December 31, 2010					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
U.S. government	$ 1,525,093	8,297,473	1,066,414	700,787	521,362	12,111,129
U.S. corporations	295,868	94,817	696,184	96,910	249,202	1,432,981
Foreign governments	169,371	722,501	3,443,185	283,216	119,027	4,737,300
Foreign corporations	16,685		334,738			351,423
Total	$ 2,007,017	$ 9,114,791	$ 5,540,521	$ 1,080,913	$ 889,591	$ 18,632,833

	March 31, 2010					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
U.S. government	$ 1,334,376	$ 15,649,717	$ 815,274	$ 637,552	$ 1,239,413	$ 19,676,332
U.S. corporations	93,216	43,086				136,302
Foreign governments	103,141	3,242,366	4,878,894	105,521	897,943	9,227,865
Foreign corporations	39,244					39,244
Total	$ 1,569,977	$ 18,935,169	$ 5,694,168	$ 743,073	$ 2,137,356	$ 29,079,743

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 December 31, there were no securities borrowed transactions carried at fair value because they are all on a demand or overnight basis. At March 31, 2010, the fair value of these securities borrowed agreements was $1,004,017. Changes in the fair value of these transactions are recorded in Principal transactions in the unaudited consolidated statement of operations. During the three and nine months ended December 31, 2010, the net amount of gains and losses related to securities borrowed agreements carried at fair value was $0. During the three and nine months ended December 31, 2009, the amount of gains related to securities borrowed agreements carried at fair value was $18. At December 31 and March 31, 2010, there were no securities loaned transactions carried at fair value. For transactions not elected for fair value measurement, the amount of cash collateral advanced or received is recorded on the unaudited consolidated balance sheets.

In its collateralized financing transactions, the Company monitors the market value of collateral received on a daily basis and also calls for collateral on a daily basis. Generally, resale transactions are collateralized with investment grade securities including U.S. Treasury and agency securities, European sovereign debt, and mortgage backed securities, while securities borrowed are collateralized with U.S. Treasury and agency securities, equities, and investment grade corporate bonds. The Company s credit counterparties in resale transactions are central clearers, banks and broker-dealers. In securities borrowed transactions, credit

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counterparties can also include insurance companies and pension funds. Credit risk can arise when the collateral value falls below the value of the receivables and counterparties fail to provide additional collateral. As of December 31 and March 31, 2010, no provision has been recorded against resale agreements or securities borrowed transactions, as amounts were deemed collectible.

Note 4: Securities Owned and 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:

	December 31, 2010		March 31, 2010	
	Securities Owned	Securities Sold, Not Yet Purchased	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	$ 5,114,669	$ 5,569,109	$ 3,903,235	$ 3,493,000
Corporate debt securities	341,907	357,597	207,165	162,586
Foreign government bonds	1,456,200	173,642	1,117,693	543,359
Equities	493,662	188,465	418,586	201,558
Shares held due to demutualization of exchanges	14,733		14,034	
Other	43,616	51,893	12,810	946
Total	$ 7,464,787	$ 6,340,706	$ 5,673,523	$ 4,401,449

As of December 31 and March 31, 2010, there were no securities owned by the Company and deposited as margin with clearing organizations.

Segregated Securities

At December 31 and March 31, 2010, the Company had segregated securities of $9,085,798 and $7,587,632, 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 $6,065,760 and $4,280,140 at December 31 and March 31, 2010, respectively, of which $854,364 and $1,115,806 are at fair value as a result of the Company s fair value election, at December 31 and March 31, 2010, respectively.

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 unaudited consolidated balance sheets. During the three and nine months ended December 31, 2010 the Company recognized other-than-temporary impairment of $500 and $1,561 related to debt securities issued by the U.S. government due to being purchased at a premium and the securities being called prior to maturity. The Company will not recover the amortized cost of these particular securities prior to their known call date. No impairment charge was recorded for the year ended March 31, 2010.

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The following table summarizes the carrying value, fair value and unrealized gains and losses, for the held-to-maturity securities, none of which have been in an unrealized loss position greater than 12 months, at December 31 and March 31, 2010:

	December 31, 2010 Securities Owned			
	Carrying Value	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	$ 894,183	$ 893,600	$ 3,327	$ (3,910)
Debt securities issued by the U.S. government and federal agencies	4,467,968	4,423,853	105	(44,220)
Total	$ 5,362,151	$ 5,317,453	$ 3,432	$ (48,130)

	December 31, 2010 Segregated Securities			
	Carrying Value	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	$ 637,526	$ 636,761	$ 235	$ (1,000)
Debt securities issued by the U.S. government and federal agencies	1,967,237	1,955,925	1,001	(12,313)
Total	$ 2,604,763	$ 2,592,686	$ 1,236	$ (13,313)

	March 31, 2010 Securities Owned			
	Carrying Value	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	$ 10,100	$ 10,262	$ 162	$
Debt securities issued by the U.S. government and federal agencies	4,636,516	4,634,731	731	(2,516)
Total	$ 4,646,616	$ 4,644,993	$ 893	$ (2,516)

	March 31, 2010 Segregated Securities			
	Carrying Value	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	$ 71,139	$ 72,028	$ 889	$
Debt securities issued by the U.S. government and federal agencies	2,888,574	2,891,805	3,679	(448)
Total	$ 2,959,713	$ 2,963,833	$ 4,568	$ (448)

Note 5: Fair Value Measurements and Derivative Activity

Fair Value

The Company has a framework for measuring fair value and 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 framework to all financial instruments that are required to be reported at fair value.

The Company considers 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 OTC derivative contracts.

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Securities owned, Securities sold, not yet purchased, certain Securities purchased under agreements to resell, certain Securities Sold under agreements to repurchase, certain Securities borrowed, certain Other assets and derivative transactions are carried at fair value. The following is a description of the valuation techniques the Company applies to the major categories of assets and liabilities that are measured at fair value on a recurring basis.

U.S. Treasury securities are marked from composites of end-of-day quoted prices. Accordingly, these securities are generally categorized in Level 1 of the fair value hierarchy.

The fair value of foreign government obligations is determined using quoted market prices or executable broker or dealer quotes, where observable. These securities are marked at mid-market prices based on a composite of observable bids and offers and are generally categorized in Level 1 of the fair value hierarchy.

Equities include mostly exchange-traded corporate equity securities and are valued based on quoted market prices. Accordingly, these securities are categorized in Level 1 of the fair value hierarchy.

Exchange-traded or listed derivative contracts the Company carries are actively traded and valued based on the quoted market prices. Accordingly, they are categorized in Level 1 of the fair value hierarchy.

U.S. Agency debentures are generally valued based on the composites of end-of-day trade prices or executable broker or dealer quotes, if applicable. Otherwise, they are priced from independent pricing sources. U.S. agency debentures are generally categorized in Level 2 of the fair value hierarchy.

Mortgage-backed securities primarily consist of U.S. government mortgage pass-throughs, liquid private-label residential mortgage-backed securities and collateralized mortgage obligations. They are generally priced from independent pricing sources and categorized in Level 2 of the fair value hierarchy.

Corporate debt securities consist primarily of U.S. corporate bonds. The fair value of corporate bonds is estimated using recently executed transactions or market quoted prices, where observable. Independent pricing sources are also used for valuation. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Most of the Company s OTC derivative contracts are traded in liquid markets and include forward, swap and option contracts related to commodity prices, equity prices, foreign currencies and interest rates. The Company values these contracts based on pricing models which require a variety of pricing inputs. The pricing models used by the Company are industry-standard models for the types of derivative contracts and model selection does not require significant judgment. Pricing inputs are normally observable and they include contractual terms, market prices, yield curves, credit curves and volatility measures. Accordingly, these OTC derivative contracts are categorized in Level 2 of the fair value hierarchy.

Certain resale and repurchase agreements and securities borrowed and loaned are carried at fair value under the fair value option. These transactions are generally valued based on inputs with reasonable price transparency and are therefore generally categorized in Level 2 of the fair value hierarchy.

Shares held due to demutualization of exchanges are priced based on the latest market data available, typically the most recent bids or transactions completed. In certain cases, shares held due to demutualization of exchanges are priced using models with inputs that are observable at valuation. When model input prices are observable these securities are categorized as Level 2. When there is limited trading for these instruments, these securities are categorized as Level 3 of the fair value hierarchy.

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The following tables summarize the Company s financial assets and liabilities as of December 31 and March 31, 2010, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total as of December 31, 2010
Assets					
Securities owned					
U.S. government securities and federal agency obligations	$ 3,487,401	$ 761,533	$	$	$ 4,248,934
U.S. government agency mortgage backed securities		1,281,011			1,281,011
Private label mortgage backed securities		1,582			1,582
Corporate debt securities		340,325			340,325
Foreign government bonds	1,456,200				1,456,200
Equities	493,662				493,662
Shares held due to demutualization of exchanges		815	13,918		14,733
Other	43,616				43,616
Total securities owned (4)	$ 5,480,879	$ 2,385,266	$ 13,918	$	$ 7,880,063
Derivative Assets					
Futures transactions	$ 4,343,496	$	$	$ (3,058,986)	$ 1,284,510
Foreign currency and other derivative transactions	41,377	1,063,148		(1,037,805)	66,720
Total derivative assets (2)	4,384,873	1,063,148		(4,096,791)	1,351,230
Securities purchased under agreements to resell (5) (6)		31,292,482		(17,368,372)	13,924,110
Total assets at fair value	$ 9,865,752	$ 34,740,896	$ 13,918	$ (21,465,163)	$ 23,155,403
Liabilities					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	$ 4,286,917	$ 55,677	$	$	$ 4,342,594
U.S. government agency mortgage backed securities		1,226,515			1,226,515
Private label mortgage backed securities		18			18
Corporate debt securities		357,579			357,579
Foreign government bonds	173,642				173,642
Equities	188,465				188,465
Other	51,893				51,893
Total securities sold, not yet purchased	$ 4,700,917	$ 1,639,789	$	$	$ 6,340,706
Derivative liabilities					
Futures transactions	$ 4,327,367	$	$	$ (753,536)	$ 3,573,831

Foreign currency and other derivative transactions	30,676	1,026,574		(372,321)	684,929
Total derivative liabilities [3]	4,358,043	1,026,574		(1,125,857)	4,258,760
Securities sold under agreements to repurchase [5]		25,601,892		(17,368,372)	8,233,520
Total liabilities at fair value	$ 9,058,960	$ 28,268,255	$	$ (18,494,229)	$ 18,832,986

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(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 $2,872,942 within Receivables from customers and Receivables from brokers, dealers and clearing organizations which is accounted for at other than fair value. Excludes $43,616 which is recorded in Securities owned.

(3) Reflects derivative liabilities within Payables to customers and Payables to brokers, dealers and clearing organizations. Excludes $9,417,626 within Payables to customers and Payables to brokers, dealers and clearing organizations which is accounted for at other than fair value. Excludes $51,891 which is recorded in Securities sold, not yet purchased.

(4) Includes $415,276 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 purchased under agreements to resell and Securities sold under agreements to repurchase, which are held at contract value.

(6) Includes $854,364 of Securities purchased under agreements to resell which are held in segregation. These securities have been classified within Restricted cash and segregated securities.

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	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total as of March 31, 2010
Assets					
Securities owned					
U.S. government securities and federal agency obligations	$ 2,195,306	$ 1,647,723			$ 3,843,029
U.S. government agency mortgage backed securities		407,985			407,985
Private label mortgage backed securities		1,584			1,584
Asset backed securities		448			448
Corporate debt securities		205,133			205,133
Foreign government bonds	1,117,693				1,117,693
Equities	418,586				418,586
Shares held due to demutualization of exchanges			14,034		14,034
Other	1,110	11,700			12,810
Total securities owned (4)	$ 3,732,695	$ 2,274,573	$ 14,034	$	$ 6,021,302
Derivative Assets					
Futures transactions	$ 3,549,003	$	$	$ (1,925,278)	$ 1,623,725
Foreign currency and other derivative transactions	61,972	1,057,190		(1,036,079)	83,083
Total derivative assets (2)	3,610,975	1,057,190		(2,961,357)	1,706,808
Securities borrowed (5) (7)		1,008,534			1,008,534
Securities purchased under agreements to resell (5) (6)		40,955,248		(25,013,682)	15,941,566
Total assets at fair value	$ 7,343,670	$ 45,295,545	$ 14,034	$ (27,975,039)	$ 24,678,210
Liabilities					
U.S. government securities and federal agency obligations	$ 2,017,197	$ 1,105,240	$	$	$ 3,122,437
U.S. government agency mortgage backed securities		370,563			370,563
Corporate debt securities		162,586			162,586
Foreign government bonds	543,359				543,359
Equities	201,558				201,558
Other	946				946
Total securities sold, not yet purchased	$ 2,763,060	$ 1,638,389	$	$	$ 4,401,449
Derivative liabilities					
Futures transactions	$ 3,556,612	$	$	$ 566,804	$ 4,123,416
Foreign currency and other derivative transactions	63,908	1,055,513		(451,090)	668,331

Total derivative liabilities [3]	3,620,520	1,055,513		115,714	4,791,747
Securities sold under agreements to repurchase [5]		34,295,108		(25,013,682)	9,281,426
Total liabilities at fair value	$ 6,383,580	$ 36,989,010	$	$ (24,897,968)	$ 18,474,622

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(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 $1,898,574 within Receivables from customers and Receivables from brokers, dealers and clearing organizations which is accounted for at other than fair value and $4,517 of interest receivable in securities borrowed. Excludes $3,506 which is recorded in Securities owned.
(3) Reflects derivative liabilities within Payables to customers and Payables to brokers, dealers and clearing organizations. Excludes $9,446,836 within Payables to customers and Payables to brokers, dealers and clearing organizations which is accounted for at other than fair value. Excludes $946 which is recorded in Securities sold, not yet purchased.
(4) Includes $347,779 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, which are held at contract value.
(6) Includes $1,115,806 of Securities purchased under agreements to resell which are held in segregation. These securities have been classified within Restricted cash and segregated securities.
(7) Includes $4,517 of interest receivable which is recorded in Receivables from brokers, dealers and clearing organizations.

Changes in unrealized gains and losses relating to assets or liabilities, measured at fair value, still held at the end of the period, are reported in Principal transactions revenues in the unaudited consolidated statements of operations. The risks or volatility associated with the transactions that make up this amount are often offset or reduced by certain hedging strategies associated with products within a different level in the fair value hierarchy (either Level 1 or Level 2). The Company often enters into positions with one counterparty which are generally offset with opposite transactions with other counterparties. These hedging transactions and the associated underlying financial instruments are often classified in different levels in the fair value hierarchy.

For the three and nine months ended December 31, 2010, the Company did not have significant transfers in or out of Level 1 and Level 2 in the fair value hierarchy.

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses during the periods for all financial assets and liabilities categorized as Level 3 as of the three and nine months ended December 31, 2010 and 2009. The net unrealized losses reflected in Level 3 should be considered in the context of the factors discussed below.

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

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

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

There were no transfers in or out of Level 3 for the three and nine months ended December 31, 2010.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Beginning balance	$ 14,089	$ 25,279	$ 14,034	$ 14,367
Total realized and unrealized gains	(171)	(4,936)	4,572	6,074
Purchases, sales and settlements, net			(4,683)	59
Transfers out of Level 3				(170)
Foreign currency translation		21	(5)	34
Balance, end of period	$ 13,918	$ 20,364	$ 13,918	$ 20,364

The balance at December 31, 2010 and 2009 respectively is comprised of shares held due to the demutualization of exchanges. Total realized and unrealized gains or losses represent the total gains and losses recorded for the Level 3 assets and liabilities and are reported in Gain on exchange seats and shares and in Other revenues in the unaudited consolidated statements of operations. Net unrealized gains/(losses) relating to instruments held at December 31, 2010 for the three and nine months ended was a loss of $171 and a gain of $71, respectively. Net unrealized gains/(losses) relating to instruments held at December 31, 2009 for the three and nine months ended was a loss of $4,936 and a gain of $6,074, respectively. Changes in the fair value hierarchy for a specific financial asset or financial liability may result in transfers in the hierarchy level.

The fair value of long-term borrowings at December 31 and March 31, 2010 was $234,796 and $531,800, respectively. The fair value of long-term debt was determined by reference to the December 31, 2010 market values of comparably rated debt instruments.

Derivative Activity

The Company provides trade execution and clearing services for exchange-traded and over-the-counter derivative products. In connection with these trading services, the Company may use derivative instruments to facilitate client transactions or to build inventory for future client demand. The Company also enters into derivative transactions for its own account including to offset the Company s exposure to counterparty transactions, changes in foreign currency, interest rate risks and to manage its liquid corporate assets. In accordance with the accounting standard for derivatives and hedging, the Company currently does not apply hedge accounting to its derivative activities.

The Company recognizes all of its derivative contracts as either assets or liabilities in the unaudited consolidated balance sheets at fair value, which are reflected net of cash paid or received pursuant to credit support arrangements with counterparties and reported on a net-by-counterparty basis under legally enforceable netting agreements. These derivative assets and liabilities are included in Receivables from and Payables to customers, Receivables from and Payables to broker dealers and clearing organizations, Securities owned and Securities sold, not yet purchased. Changes in the fair value of all derivative instruments are recognized in Principal transactions in the unaudited consolidated statements of operations.

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The following table summarizes the fair value of the Company s derivative contracts by major type on a gross basis as of December 31 and March 31, 2010.

	December 31, 2010								
	Derivative Assets (1)				Derivative Liabilities (2)				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Number of Contracts (3)
	(in thousands, except number of contracts)								
Derivative contracts									
Interest rate	$ 1,944	18,258		20,202	$ 1,522	13,489		15,011	37,738
Foreign exchange rate	42,488	457,980		500,468	30,966	446,330		477,296	2,578,669
Equity	40,999	118,030		159,029	32,236	106,743		138,979	1,158,137,576
Commodity	4,343,058	468,228		4,811,286	4,345,211	458,447		4,803,658	711,269
Other		652		652		1,564		1,564	1,338
Total fair value of derivative contracts				$ 5,491,637				$ 5,436,508	
Impact of netting and collateral				(4,096,791)				(1,125,857)	
Total fair value				$ 1,394,846				$ 4,310,651	

	March 31, 2010								
	Derivative Assets (1)				Derivative Liabilities (2)				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Number of Contracts (3)
	(in thousands, except number of contracts)								
Derivative contracts									
Interest rate	$ 1,135	4,345		5,480	$ 545	8,915		9,460	30,542
Foreign exchange rate	61,008	407,503		468,511	61,220	386,916		448,136	5,394,601
Equity	6,081	74,463		80,544	6,201	69,651		75,852	1,002,329,264
Commodity	3,543,858	573,278		4,117,136	3,553,501	590,030		4,143,531	848,042
Total fair value of derivative contracts				$ 4,671,671				$ 4,676,979	
Impact of netting and collateral				(2,961,357)				115,714	
Total fair value				$ 1,710,314				$ 4,792,693	

(1) Reflects derivative assets within Securities owned, Receivables from customers and Receivables from brokers, dealers and clearing organizations. Excludes non-derivatives included in Securities owned and Receivables from customers and Receivables from brokers, dealers and clearing organizations.
(2) Reflects derivative liabilities within Securities sold, not yet purchased, Payables to customers and Payables to brokers, dealers and clearing organizations. Excludes non-derivative Securities sold, not yet purchased and Payables to customers and Payables to brokers, dealers and clearing organizations which are accounted for at other than fair value.
(3) Contract equivalent is determined using industry standards and equivalent contracts in the futures market. OTC contract equivalents are determined by dividing OTC notionals by associated contract notionals. For minor currencies for which no futures contracts are traded, contract equivalents are determined to be equal to the USD notional divided by $1,000, which is consistent with other minor currency futures contracts.

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The Company s volumes of exchange traded futures and options executed and/or cleared, where the unrealized gain or loss is settled daily, and there is no receivable or payable associated with the contract, was 424,033,549 and 1,372,988,571 contracts for the three and nine months ended December 31, 2010, respectively, and 422,292,170 and 1,244,766,996 contracts for the three and nine months ended December 31, 2009, respectively. These contracts are primarily cleared through commodity clearing corporations.

The table below summarizes the gains or losses relating to the Company s trading activities as reported in Principal transactions in the unaudited consolidated statements of operations for the three and nine months ended December 31, 2010 and 2009.

	Three months Ended December 31,		Nine months Ended December 31,	
Type of Instrument	**2010**	**2009**	**2010**	**2009**
Fixed Income/ Interest rate	$ 11,740	$ 1,829	$ 22,487	$ 20,169
Foreign exchange	10,132	13,886	35,070	45,687
Equity	107	755	33,298	8,864
Commodity	16,581	14,727	55,864	42,571
Other	2,329	2,016	5,665	6,890
Total	$ 40,889	$ 33,213	$ 152,384	$ 124,181

Certain of the Company s derivative trading agreements contain provisions requiring the Company to post collateral according to the Company s long-term credit ratings. These terms are pursuant to bilateral agreements with certain counterparties, and could require immediate payment or ongoing overnight collateralization on derivative instruments in net liability positions. As of December 31, 2010, the aggregate fair value of derivative agreements, with credit-risk-related contingent features that were in a net liability position was $9,051, for which the Company has posted collateral of $56,862 in accordance with trading agreements. If the Company s long term credit rating had a one-notch or two-notch reduction, as of December 31, 2010, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately $702. As of March 31, 2010, the aggregate fair value of derivative agreements with credit-risk-related contingent features that were in a net liability position was $23,413, for which the Company has posted collateral of $29,861 in accordance with arrangements. If the Company s long term credit rating had a one-notch or two-notch reduction as of March 31, 2010, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately $3,162.

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:

	December 31, 2010		March 31, 2010	
	Receivables	**Payables**	**Receivables**	**Payables**
Securities failed to deliver/receive	$ 126,177	$ 114,698	$ 418,994	$ 403,959
Due from/to clearing brokers	1,122,058	4,064	1,056,664	2,699
Due from/to clearing organizations	935,049	48,729	1,100,520	58,364
Fees and commissions	841	53,352	934	55,289
Unsettled trades	1,415,114	339,482	593,417	1,669,777

Other	157,650	20,677	147,260	50,643
Total	$ 3,756,889	$ 581,002	$ 3,317,789	$ 2,240,731

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Note 7: Receivables from and Payables to Customers

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

	December 31, 2010		March 31, 2010	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	$ 337,629	12,064,729	$ 202,652	10,905,593
Foreign currency and other OTC derivative transactions	39,730	643,452	31,808	638,254
Securities transactions	46,306	379,386	43,329	445,303
Other	43,618	7,817	14,321	8,702
Total	$ 467,283	$ 13,095,384	$ 292,110	$ 11,997,852

Note 8: Goodwill and Intangible Assets

On November 1, 2010 the Company acquired Washington Research Group (WRG), a Washington, D.C.-based, policy-focused investment research firm that provides leading institutional equity investors with insights and analysis on the impact of government policy on investment opportunities. The Company does not consider this acquisition to be material to its operations. The Company recognized $304 and $2,027 of goodwill and intangible assets related to customer relationships, respectively, as part of this acquisition. The $304 of goodwill associated with this acquisition was subsequently written off as the result of the analysis described below.

There were no acquisitions during the three and nine months ended December 31, 2009.

During the three and nine months ended December 31, 2010, earn-out payments of $772 and $2,318 were made relating to a prior acquisition, which were accounted for as additional purchase consideration. As of December 31, 2010, the Company had one remaining arrangement that could result in 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 fiscal 2012), the Company s obligation to pay the earn-out can extend for up to 10 years (to fiscal 2017), subject to a remaining maximum of approximately $67,000.

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 11.49% as its

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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 stock, 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 December 31, 2010, 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 December 31, 2010. 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 of the Company s balance sheet and therefore recorded a charge of $1,076 and $2,622 in the three and nine months ended December 31, 2010, respectively, and $1,165 and $2,325 in the three and nine months ended December 31, 2009, respectively, to write-off the entire amount of the Company s goodwill. As discussed, the Company has an earn-out 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 summary of the Company s goodwill is as follows:

Balance as of March 31, 2010	$
Additions	2,622
Impairment	(2,622)
Balance as of December 31, 2010	$

Intangible assets, subject to amortization as of December 31 and March 31, 2010 are as follows:

	December 31, 2010	March 31, 2010
Customer relationships		
Gross carrying amount	$ 261,970	$ 259,943
Accumulated amortization	(203,970)	(193,157)
Net carrying amount	58,000	66,786
Technology assets		
Gross carrying amount	32,114	32,114
Accumulated amortization	(29,829)	(27,101)
Net carrying amount	2,285	5,013
Trade names		
Gross carrying amount	2,934	2,934

Accumulated amortization	(1,563)	(1,374)
Net carrying amount	1,371	1,560
Total	$ 61,656	$ 73,359

Intangible assets are assets obtained in a business combination for customer relationships, technology assets, and trade names. Intangible assets are reviewed at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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As a result of the impairment analysis performed during the three months ended December 31, 2010, the Company recorded an impairment charge of approximately $247 related to customer relationships from its 2007 acquisition of BrokerOne Pty. Ltd. There was no impairment charge related to intangible assets during the three and nine months ended December 31, 2009.

During the three and nine months ended December 31, 2010, the total impairment charges of intangible assets and goodwill were approximately $1,323 and $2,869, respectively. During the three and nine months ended December 31, 2009, the total impairment charges were approximately $1,165 and $2,325, respectively. These charges were recorded in Impairment of intangible assets and goodwill in the Company s unaudited consolidated statement of operations.

The amortization included in Depreciation and amortization for the three and nine months ended December 31, 2010 was $4,299 and $15,136, respectively. The estimated amortization expense to be recorded for the remainder of fiscal 2011 is approximately $3,393. The estimated amortization expense for the remaining intangible assets for the next five fiscal years, starting fiscal 2012, is approximately $13,574, $13,011, $11,050, $7,544 and $4,993, respectively.

Note 9: Borrowings

Short term borrowings consist of the following:

	December 31, 2010	March 31, 2010
Other short-term borrowings	$ 517,500	$ 142,500
Bank overdrafts	14,811	367
Total	$ 532,311	$ 142,867

Long-term borrowings consist of:

	December 31, 2010	March 31, 2010
9.00% Convertible Notes due 2038	$ 191,387	$ 199,389
Other long-term borrowings		300,000
Total	$ 191,387	$ 499,389

Liquidity Facility

At March 31, 2010, the Company had a $1,500,000 unsecured committed revolving credit facility maturing June 15, 2012 (the liquidity facility) with a syndicate of banks.

On June 29, 2010, the liquidity facility was amended (the Amendment) (i) to permit the Company, in addition to certain of its subsidiaries, to borrow funds under the liquidity facility and (ii) to extend the lending commitments of certain of the lenders by two years, from June 15, 2012 (the Old Maturity Date) to June 15, 2014 (the Extended Maturity Date). Aggregate commitments under the amended liquidity facility are $1,200,875, all of which is available to the Company for borrowing until the Old Maturity Date (at which time, $511,250 will cease to be available for borrowing), and $689,625 is available for borrowing until the Extended

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Maturity Date. On June 15, 2012, outstanding borrowings subject to the Old Maturity Date (currently equal to $220,316) will become due. Under the terms of the amended liquidity facility, the Company may borrow under the available loan commitment subject to the Extended Maturity Date to repay the outstanding balance on the Old Maturity Date and also for general corporate purposes.

With respect to commitments and loans maturing on the Old Maturity Date (and at the current rating level and utilization), the Company pays a facility fee of 10 basis points per annum and LIBOR plus 1.90% per annum on the outstanding borrowing. The liquidity facility is subject to a ratings-based pricing grid. In the event credit ratings are downgraded, the highest rate on the grid would bring the facility fee to 12.5 basis points per annum and the rate on the outstanding borrowing to LIBOR plus 2.375% per annum.

With respect to commitments and loans maturing on the Extended Maturity Date (and at the current rating level and utilization), the Company pays a facility fee of 40 basis points per annum and LIBOR plus 2.35% per annum on the outstanding borrowing. In the event credit ratings are downgraded, the highest rate on the grid would bring the facility fee to 75 basis points per annum and the rate on the outstanding borrowing to LIBOR plus 2.75% per annum.

On borrowings in excess of $500,000 related to the total liquidity facility, the Company will only pay a facility fee of 10 basis points per annum and LIBOR plus 0.40% per annum with respect to commitments and loans maturing on the Old Maturity Date. With respect to commitments and loans maturing on the Extended Maturity Date, pricing is unchanged on amounts in excess of $500,000 of the total liquidity facility.

In all cases, borrowings are subject to the terms and conditions set forth in the liquidity facility which contains financial and other customary covenants. The amended liquidity facility includes a covenant requiring the Company to maintain a minimum Consolidated Tangible Net Worth of not less than the sum of (i) 75% of the pro forma Consolidated Tangible Net Worth as of March 31, 2010 after giving effect to the offering by the Company of equity interests on June 2, 2010, including exercise of the underwriters option to purchase additional shares, and the consummation in whole or in part of the offer to exchange of the Company dated June 1, 2010 plus (ii) 50% of the net cash proceeds of any offering by the Company of equity interests consummated after the second amendment effective date plus (iii) 25% of cumulative net income for each completed fiscal year of the Company after the second amendment effective date for which consolidated net income is positive. The amended liquidity facility also requires the Company to limit its Consolidated Capitalization Ratio to be no greater than 40% prior to March 31, 2011; 37.5% on or after March 31, 2011 and before March 31, 2012; and 35% on or after March 31, 2012. Furthermore, commencing on March 31, 2012, the amended liquidity facility also require the Company to limit its Consolidated Leverage Ratio as at the last day of any period of four fiscal quarters to be no greater than 3 to 1. Under the amended liquidity facility, the Company has agreed that it will not use proceeds of any borrowing under the liquidity facility to redeem, repurchase or otherwise retire any Convertible Notes. Furthermore, beginning March 31, 2012, the Company will not permit at any time prior to July 1, 2013, cash and cash equivalents to be less than the entire outstanding amount of the Convertible Notes.

The amended liquidity facility continues to provide that if (i) the Company fails to pay any amount when due under the facility, (ii) or to comply with its other requirements mentioned above, (iii) fails to pay any amount when due on other material debt (defined as $50,000 or more in principal) (iv) or other material debt is accelerated in whole or in part by the lenders, (v) 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

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permitted to make any further borrowings under the facility. In December 2010, for purposes of prudent liquidity management, the Company borrowed $75,000 from the liquidity facility, which was subsequently repaid in January 2011. As of December 31 and March 31, 2010, $517,500 and $442,500 was outstanding under the liquidity facility with the remainder available to the Company. The Company has classified the $517,500 of outstanding loans at December 31, 2010 under the liquidity facility as short term debt. In connection with the Amendment, the Company paid a one-time fee to participating lenders of $6,818 recorded in Other assets which will be amortized over the life of the facility.

At December 31, 2010, the Company was in compliance with its covenants under the liquidity facility.

Convertible Senior Notes

The Company has outstanding $195,663 aggregate principal amount of 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. 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 stock or a combination thereof at the Company s election. The initial conversion rate for the Convertible Notes is 95.6938 shares of common stock per $1 principal amount of Convertible Notes, equivalent to an initial conversion price of approximately $10.45 per share of common stock. 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.

On July 15, 2010, the Company completed its offer to exchange shares of Common Stock and a cash premium for any and all of its outstanding Convertible Notes. In the exchange offer, $9,337 in aggregate principal amount of the Convertible Notes were validly tendered and for each $1 principal amount of Convertible Note tendered, the Company issued 95.6938 shares of its Common Stock and paid a cash premium of $0.48, plus accrued interest up to, but not including, July 15, 2010, amounting to approximately $7.25 per $1 principal amount of notes. The Company issued, in the aggregate, 893,486 shares of its Common Stock and paid an aggregate cash premium of $4,482 to the tendering holders of such Convertible Notes.

As of December 31, 2010, $195,663 in aggregate principal amount of Convertible Notes remains outstanding. The terms and conditions of the Convertible Notes remain unchanged.

Note 10: 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 directly or through one of its operating subsidiaries.

Unauthorized Trading Incident of February 26/27, 2008

One of the brokers of the Company s US operating subsidiary MF Global Inc. (MFGI), Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of MFGI s front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26,

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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, MFGI, as a clearing member of the exchange, was required to pay the $141,045 shortfall (the Dooley Trading Incident). The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by MFGI the next day. As a result of the Dooley 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 had 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 appealed. The Second Circuit Court of Appeals vacated the decision and remanded the case for further consideration. The parties engaged in mediation and have agreed to a preliminary settlement, which is subject to various customary conditions, including preliminary approval by the United States District Court for the Southern District of New York, notice to class members, class member opt-out thresholds, a final hearing, and final approval by the District Court. The settlement provides for a total payment of $90,000 to plaintiffs, $2,500 of which is to be paid and has been accrued by the Company.

Insurance Claim. MFGI 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, MFGI s Bond insurers denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They also initiated an action against MFGI in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. MFGI believes the insurers position to be in error and filed a counterclaim in order to seek to enforce its right to payment in court. The Bond insurers sought partial summary judgment, which the Court denied. The Bond insurers have filed a Notice of Appeal in the First Department and have filed a motion to Renew or Reargue with the Supreme Court, challenging the portion of the decision that found that Dooley was an employee of the Company.

Bank of Montreal (BMO)

On August 28, 2009, BMO instituted suit against MFGI 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 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 MFGI s broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that MFGI and Saab knew that Lee was fraudulently misrepresenting prices in his natural gas options book and aided and abetted his ability to do so by sending price indications to BMO, and substantially assisted Lee s breach of his fiduciary duties to BMO as its employee. The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims

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CAD 680,000 (approximately $660,900) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to MFGI (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 except for defendants alleged illegal conduct. MFGI made a motion to dismiss the complaint, which was denied by the court. This litigation is in its early stages and MFGI believes it has meritorious defenses. No provision for losses has been recorded in connection with this matter.

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, MFGI, along with four other futures commission merchants (FCMs), was named as a defendant 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 MFGI 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. MFGI filed a motion to dismiss the amended complaint, which was granted by the court and appealed by the plaintiffs. No provision for losses has been recorded in connection with this litigation.

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 arbitration is in its early 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 MFGI in June 2009 on the theory that MFGI 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. MFGI believes there are meritorious defenses available to it and it intends to resist the Trustee s attempt to recover those funds from MFGI. In addition, to the extent the Trustee recovered any funds from MFGI 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. No provision for losses has been recorded in connection with this claim.

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Agape World

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and MFGI, among others, in the United States District Court for the Eastern District of New York, alleging that MFGI, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost $400,000. MFGI made a motion to dismiss which has been granted with prejudice. If plaintiffs appeal, MFGI believes it has meritorious defenses. No provision for losses has been recorded in connection with this matter.

Phidippides Capital Management/Mark Trimble

In the late spring of 2009, MFGI 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 MFGI 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. MFGI made a motion to dismiss which was granted by the court. Plaintiffs have appealed. The Court of Civil Appeals for the State of Oklahoma upheld MFGI s dismissal. No provision for losses has been recorded in connection with this matter.

Man Group Receivable

In late April 2009, the Company formally requested payment of certain amounts that Man Group (its largest shareholder at the time and former parent company) owed to the Company. Man Group demanded arbitration and, as a result of this unresolved claim, the Company recorded a receivable for the amount owed in equity. In June and July 2010, this matter was heard by the LCIA which in September 2010 issued an award in favor of the Company. Man Group paid the Company $32,619, which was comprised of the full amount owed plus an agreed upon amount for costs and interest. Of the amounts paid, $29,779 has been recorded against equity on the consolidated balance sheet, plus an additional payment of $2,840 for legal costs and interest, which has been recorded within Other revenues on the consolidated statement of operations.

Morgan Fuel/Bottini Brothers

MFGI and MF Global Market Services LLC (Market Services) are currently involved in litigation with the principals (the Bottinis) of a former customer of Market Services, Morgan Fuel & Heating Co., Inc. (Morgan Fuel). 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.

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. Market Services asserted a claim of breach of contract based upon the Bottinis failure to honor the personal and unconditional guarantees they had issued for the obligations of Morgan Fuel. This arbitration is proceeding.

Morgan Fuel v. MFGI and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFGI and Market Services. Morgan Fuel claims that MFGI 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 MFGI and Market Services should not

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have allowed Morgan Fuel to enter into, or maintain, the swap transactions. MFGI moved to permanently stay this arbitration on the ground that there was no agreement to arbitrate. The Supreme Court of New York for the County of New York denied the motion and MFGI appealed that decision. The Appellate Division, First Department reversed the order of the Supreme Court, permanently stayed the arbitration of Morgan Fuel s claims, and subsequently denied Morgan Fuel s motion seeking leave to appeal this decision to the Court of Appeals. Morgan Fuel filed for leave to appeal with the New York Court of Appeals, which was denied.

The Bottinis had asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFGI, Market Services and Steven Bellino (a former MFGI employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim had been denied by the trial court and, on appeal, the Appellate Division, First Department reversed the order of the trial court, permanently stayed this claim and subsequently denied Morgan Fuel s motion seeking leave to appeal this decision to the Court of Appeals. The Bottinis then withdrew their third-party claim against Morgan Fuel, which is no longer a party to the arbitration on the unconditional guarantees. Morgan Fuel filed for leave to appeal with the New York Court of Appeals, which was denied.

There is no affirmative claim against Market Services at this time, which intends to pursue its arbitration vigorously. No provision for losses has been recorded in connection with this claim.

In re: Platinum and Palladium Commodities Litigation

On August 4, 2010, MFGI was added as a defendant to a consolidated class action complaint filed against Moore Capital Management and related entities in the United States District Court for the Southern District of New York which alleged claims of manipulation and aiding and abetting manipulation in violation of the Commodities Exchange Act. Specifically, the complaint alleged that, between October 25, 2007 and June 6, 2008, Moore Capital directed MFGI, as its executing broker, to enter large market on close orders (at or near the time of the close) for platinum and palladium futures contracts, which allegedly caused artificially inflated prices. On August 10, 2010, MFGI was added as a defendant to a related class action complaint filed against the Moore-related entities on behalf of a class of plaintiffs who traded the physical platinum and palladium commodities in the relevant time frame, which alleges price fixing under the Sherman Act and violations of the civil Racketeer Influenced and Corrupt Organizations Act. On September 30, 2010 plaintiffs filed an amended consolidated class action complaint that includes all of the allegations and claims identified above on behalf of subclasses of traders of futures contracts of platinum and palladium and physical platinum and palladium. Plaintiffs claimed damages have not been quantified. This matter is in its earliest stages and no provision for losses has been recorded in connection with this claim.

Marion Hecht as Receiver for Joseph Forte, L.P.

On December 21, 2010, Marion Hecht, as Receiver for Joseph Forte, L.P. (the Partnership), filed a complaint against MFGI in the United States District Court for the Eastern District of Pennsylvania that alleges one claim of negligence. Specifically, the complaint alleges that the Partnership had a trading account with MFGI and that MFGI violated its duties imposed by state law and under the Commodity Exchange Act by failing to recognize that the Partnership was not properly registered with the CFTC or the National Futures Association, and failed to make sufficient inquiries regarding the registration when discrepancies existed, and that MFGI s conduct enabled the Partnership to operate a Ponzi scheme and cause damage to the investors. The Receiver claims MFGI caused losses in excess of $10,000. MFGI has not yet been served with the complaint. No provision for losses has been recorded in connection with this claim.

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In re: Agape World Inc. Bankruptcy

On January 28, 2011, Kenneth Silverman as Chapter 7 Trustee of Agape World, Inc. (a substantively consolidated bankruptcy estate of various Agape entities, collectively, Agape) filed a complaint against MFGI in the United States Bankruptcy Court, Eastern District of New York seeking to recover the transfers made by Agape to MFGI totaling $27,100 plus any fees earned in connection with the trades. Specifically, the Trustee alleges that MFGI failed to conduct sufficient diligence when opening the account, failed to respond to red flags about how account principal Nicholas Cosmo was using Agape s funds and failed to provide proper oversight and monitoring which, if conducted, would have caused termination of the accounts and trading, and prevented losses to the investors. This matter is in its earliest stages and no provision for losses has been recorded in connection with this claim.

Other

In addition to the matters discussed above, from time to time the Company is party to, or is involved through one of its operating subsidiaries in, 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.

U.K. Bonus Tax

In December 2009, the U.K. government introduced legislation which would impose a 50% charge on certain discretionary bonus payments in excess of £25, made between December 9, 2009 and April 5, 2010 to U.K. employees within the financial services industry. As of March 31, 2010, this law had not been enacted and no accrual had been made with respect to this item in the Company s financial statements. This law was enacted in April 2010. The Company recorded a charge of approximately $3,000 during the first fiscal quarter of 2011 which was paid during the three months ended September 30, 2010.

Guarantees

The Company is required to disclose representations and warranties which it enters into and which may provide general indemnifications to others. As of December 31, 2010 and 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 December 31, 2010 and 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 and under standard membership agreement; members are required to guarantee collectively the performance of other members. If another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company s liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the Company believes that the potential for the Company to be required to make payments under these arrangements is remote, and accordingly, no liability has been recorded.

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Other Commitments

Certain clearing-houses, clearing banks, and clearing firms utilized 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.

Lines of Credit

The Company has a $1,200,875 committed revolving liquidity facility. See Note 9 for further information. 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. The Company had $0 and $6,200 of issued letters of credit as of December 31 and March 31, 2010, respectively.

Note 11: Convertible Preferred Stock

Non-Cumulative Convertible Preferred Stock, 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 Preferred Stock, Series B (the Series B Preferred Stock). The Company pays dividends on the Series B Preferred Stock, 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. Dividends on the Series B Preferred Stock are not cumulative and may be paid in cash, common stock or both.

The Series B Preferred Stock is convertible, at the holder s option, at any time, initially into 9.5694 shares of common stock 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 stock 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 Preferred Stock to be automatically converted into common stock at the then-prevailing conversion price. There is no beneficial conversion feature to be recognized at the issuance date of the Series B Preferred Stock, however, given certain conditions, a beneficial conversion feature could be recognized in the future.

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

On July 15, 2010, the Company completed its offer to exchange shares of Common Stock and a cash premium for any and all of its Series B Preferred Stock. In the exchange offer, 1,096,450 shares of Series B Preferred Stock were validly tendered and for each share of Series B Preferred Stock tendered, the Company issued 9.5694 shares of Common Stock and paid a cash premium of $44.50 per share of Series B Preferred Stock, plus accrued dividends up to, but not including, July 15, 2010, amounting to approximately $1.60 per share of Series B Preferred Stock. The Company issued, in the aggregate, 10,492,366 shares of Common Stock and paid an aggregate cash premium of $48,792 to the tendering holders of such shares of Series B Preferred Stock. For the nine months ended December 31, 2010, this cash premium is presented as a deemed dividend in the unaudited consolidated statement of operations to calculate Net loss applicable to common shareholders.

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As of December 31, 2010, 403,550 shares of Series B Preferred Stock remain outstanding. The terms and conditions of the Series B Preferred Stock remain unchanged.

Cumulative Convertible Preferred Stock, Series A

On July 18, 2008, the Company completed the issuance and sale of $150,000 in aggregate liquidation preference of its Cumulative Convertible Preferred Stock, Series A (the Series A Preferred Stock) to J.C. Flowers II L.P. (J.C. Flowers). The Company used the net proceeds from the sale of the Series A Preferred Stock to repay a portion of the Company s then outstanding 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 Preferred Stock and Convertible Notes, the Company paid J.C. Flowers approximately $36,300 in cash and reset the annual dividend rate on the Series A Preferred Stock, from 6.0% to 10.725%. In July 2008, 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 Preferred Stock ranks senior to the Company s common stock 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 1,500,000 shares, for an aggregate value of $150,000 and up to a maximum of 3,000,000 shares, for an aggregate value of $300,000, of a newly authorized series of the Company s convertible preferred stock, designated as 6.0% Cumulative Convertible Preferred Stock, Series A at a stated offer price which was 100% of their liquidation amount or preference, i.e. $100 per share. The Series A Preferred Stock is convertible any time, at the option of the holder, into eight shares of the Company s common stock, 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 stock 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 then existing shareholder rights plan (which has since been terminated) 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 stock, and until such time as either it falls below the threshold or becomes the owner of 20% or more of the Company s common stock, from the provision that triggers the shareholder rights plan when any person acquires 15% or more of the Company s issued and outstanding common stock 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 Preferred Stock are cumulative at the rate of 10.725% per annum, payable in cash or common stock, at the Company s option, and holders will participate in common stock 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 Preferred Stock 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 shares of its common stock during any period when dividends on the Series A Preferred Stock are in arrears. Holders will have the right to vote with holders of the common stock on an as-converted basis. The Company may require the holders to convert the stock at any time after May 15, 2013 when the closing price of the common stock exceeds 125% of the conversion price for a specified period. 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, the Company appointed David I. Schamis to its board. In

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addition, if the Company fails to pay dividends on the Series A Preferred Stock for six quarterly periods, whether or not consecutive, the Series A preferred shareholders will have the right as a class to elect two additional directors to the Company s board.

On April 28, 2010, the Company s Board of Directors declared a quarterly dividend on the Series A Preferred Stock and Series B Preferred Stock in amounts of $4,022 and $3,656, respectively. These dividends had a record date of May 3, 2010, and were paid on May 14, 2010. On July 27, 2010 and October 28, 2010, the Company s Board of Directors declared a quarterly dividend on the Series A Preferred Stock and Series B Preferred Stock in amounts of $4,022 and $984, respectively. These dividends had a record date of August 2, 2010 and November 1, 2010, and were paid on August 13, 2010 and November 12, 2010.

Note 12: Stock-Based Compensation Plans

The Company has established the 2007 Long-term Incentive Plan (LTIP) which provides for equity compensation awards in the form of stock options, stock appreciation rights, restricted stock, restricted stock 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. As of December 31, 2010, the LTIP provides for the issuance of up to 24,340,597 shares.

The Company issued restricted stock units, stock options, and restricted stock under the LTIP. Generally, stock 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. Stock options have an exercise price, equal to the price per share of common stock at the grant date. Restricted stock units vest ratably or in full after three years, subject to continued employment or meeting certain retirement eligibility criteria. Certain restricted stock units and restricted stock issued at the Company s initial public offering (IPO) were defined as non-recurring IPO awards and are presented in Employee compensation related to non-recurring IPO awards within the unaudited consolidated statement of operations.

Compensation expense for the stock-based compensation plans has been measured in accordance with ASC 718. Net income for the three and nine months ended December 31, 2010 and 2009 includes the following related to the Company s stock-based compensation arrangements:

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Employee compensation and benefits (excluding IPO awards)	$ 11,802	$ 8,409	$ 31,636	$ 26,984
Employee compensation related to non-recurring IPO awards		7,086	10,921	25,099
Total	$ 11,802	$ 15,495	$ 42,557	$ 52,083
Income tax benefits	$ 4,092	$ 3,181	$ 13,741	$ 14,862

The Company has no pool of windfall tax benefits. The Company records deferred taxes on its unaudited consolidated balance sheets related to stock compensation awards. 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 and any shortfall will result in a charge to the

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unaudited consolidated statement of operations in (Benefit)/provision for income taxes. A shortfall of $28,210 related to stock compensation awards issued in connection with the IPO was recorded as tax expense in the unaudited consolidated statement of operations in the nine months ended December 31, 2010.

The fair value of each stock 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 stock, the Company based its expected volatility on a representative peer group that took into account the following 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 on its Common Stock 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.

	Nine months ended December 31,	
	2010	**2009**
Expected volatility	49.8%	55.0%
Risk free interest rate	2.3%	2.9%
Expected dividend yield	0%	0%
Expected term	5.1 years	4.5 years

The following tables summarize activity for the Company s plans for the nine months ended December 31, 2010:

	Options	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding at April 1, 2010	7,119,502	$ 19.72		
Granted	4,297,317	8.44		
Exercised	(96,857)	3.01		
Forfeited and cancelled	(1,339,744)	15.78		
Stock options outstanding as of December 31, 2010	9,980,218	15.55	5.9	$ 4,897
Stock options expected to vest as of December 31, 2010	9,622,984	15.86	5.9	4,448

Stock options exercisable at December 31, 2010	4,510,125	24.15	3.9	$ 1,132

During the nine months ended December 31, 2009, 1,317,530 options were granted, 3,301,162 options were exchanged in connection with the stock option exchange program and 964,605 options were forfeited or cancelled. The weighted-average grant-date fair value of options granted during the nine months ended

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December 31, 2010 and 2009 was $3.90 and $2.81, respectively. The total cash received from options exercised during the nine months ended December 31, 2010 was $292 and the tax benefits realized from these exercises was $98. The total intrinsic value of options exercised during the nine months ended December 31, 2010 was $418. No options were exercised during the nine months ended December 31, 2009.

	Restricted Stock Units	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2010	8,394,256	$ 17.42
Granted	9,151,972	7.80
Exercised	(6,168,643)	20.81
Forfeited	(1,319,873)	9.15
Nonvested as of December 31, 2010	10,057,712	$ 7.68
Total unrecognized compensation expense remaining	$ 54,614	
Weighted-average years expected to be recognized over	2.4	

During the nine months ended December 31, 2009, 1,631,145 restricted stock units were granted with a weighted average grant date fair value of $5.91, 284,455 restricted stock units were granted in connection with the stock option exchange program with a weighted average grant date fair value of $10.45 and 214,205 restricted stock units were forfeited. During the nine months ended December 31, 2009, 525,579 shares of stock were issued from the vesting of restricted stock units. The total fair value of restricted stock units exercised during the nine months ended December 31, 2010 and 2009 was $128,369 and $8,861, respectively.

	Restricted Stock	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2010	242,720	$ 25.25
Granted	83,100	7.22
Vested	(258,964)	23.76
Forfeited	(4,528)	16.96
Nonvested as of December 31, 2010	62,328	$ 7.22
Total unrecognized compensation expense remaining	$ 330	
Weighted-average years expected to be recognized over	0.5	

During the nine months ended December 31, 2009, 44,976 shares of restricted stock were granted and 78,044 shares of stock vested. The total fair value of restricted stock vested during the nine months ended December 31, 2010 and 2009 was $6,153 and $525, respectively. No shares of restricted stock were forfeited during the nine months ended December 31, 2009.

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. During the nine months ended December 31, 2010, 75,609 shares of stock were awarded from this plan. No shares were awarded from this plan during the nine months ended December 31, 2009. In the U.K., participants can withhold up to

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£0.25 per month over 3 to 5 years to purchase shares at a 20% discount from the price on the date of grant. During the nine months ended December 31, 2010, 2,396 shares were awarded from this plan, while no shares were awarded from this plan during the nine months ended December 31, 2009. These plans are accounted for as compensatory under ASC 718.

Note 13: Income Taxes

Effective Income Tax Rate

The effective income tax rate for the three and nine months ended December 31, 2010 was approximately 50.5% and (2,416.5)%, respectively, as compared to approximately (18.4)% and 26.4% for the three and nine months ended December 31, 2009, respectively. The change in the Company s effective tax rate for the three months ended December 31, 2010 reflects (i) a benefit relating to the Company s state tax liability applicable to current and prior periods, (ii) a write-off of deferred tax assets associated with equity compensation awards that vested at a lower fair market value on the vesting date, (iii) a greater percentage of profits being earned in higher-tax jurisdictions, and (iv) the tax effect of non-deductible items. In addition, recent changes in tax laws significantly reduced the projected full year effective tax rate. The Company s effective tax rate on ordinary operations (excluding discrete items) for the nine months ended December 31, 2010, was approximately 37.3% compared to 38.0% for the nine months ended December 31, 2009.

Realization of the Company s deferred tax assets is dependent upon multiple variables including available loss carry-backs, the timing of future earnings, the reversal of current timing differences, and planning. US GAAP requires that the Company continually assess the need for a valuation allowance against all or a portion of its deferred tax assets. As of December 31, 2010, the Company had significant deferred tax assets that it does not have a valuation allowance against because the Company believes that it is more likely than not that these deferred tax assets will be realized in the future. Although realization is not assured, the Company anticipates that realization of these assets will occur.

Uncertain Tax Positions

As of March 31, 2010, the Company had total unrecognized tax benefits of $21,950. For the nine months ended December 31, 2010, the Company decreased gross unrecognized tax benefits by $794 as a result of settlements with certain tax authorities and $2,057 as a result of changes in facts surrounding certain income tax positions. The Company increased gross unrecognized tax benefits by $1,349 which includes $665 of interest on previously-recorded unrecognized tax benefits. The total balance of unrecognized tax benefits of $20,448 would, if recognized, affect the Company s effective income tax rate in future periods. It is expected that unrecognized tax benefits may decrease by an immaterial amount in the next 12 months as a result of expiring statutes of limitations or settlements.

Note 14: Earnings per Share

The Company computes earnings per share in accordance with applicable accounting standards, which discuss the accounting for earnings per share and participating securities and the two-class method. The Company s Series A Preferred Stock is classified as participating securities whereby the holder participates in undistributed earnings with common shareholders.

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(Unaudited)

(Dollars in thousands, except share and per share amounts)

The numerator for Basic EPS is net income attributable to MF Global Holdings Ltd., reduced by an allocation of earnings between common shareholders and the Series A Preferred shareholder, based on their respective rights to receive dividends on the Company s common stock as well as any undeclared dividends for the Series A Preferred Stock where the shareholder has a cumulative right to dividends. This is then reduced by dividends declared for the Series B Preferred Stock. The denominator for Basic EPS is the weighted average number of shares of common stock outstanding.

If dilutive, the numerator for Diluted EPS is net income attributable to MF Global Holdings 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 shares of common stock outstanding with the potential effect of stock awards outstanding, calculated as Convertible Notes, Series A and Series B Preferred Stock, if dilutive, in accordance with the if-converted method. The Company then uses the treasury stock method to reflect the potentially dilutive effect of the unvested restricted stock, restricted stock units and unexercised stock options. In calculating the number of shares of dilutive stock outstanding, the shares of common stock underlying unvested restricted stock is 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 December 31, 2010 and (b) the amount of tax benefit, if any, that was credited to additional paid-in capital assuming vesting and delivery of the restricted stock. The tax benefit is the amount resulting from a tax deduction, if any, for compensation in excess of compensation expense recognized for financial statement reporting purposes.

The computation of earnings per share is as follows:

	Three months ended December 31, 2010		Nine months ended December 31, 2010	
	2010	2009	2010	2009
Basic and diluted loss per share:				
Numerator:				
Net loss attributable to MF Global Holdings Ltd.	$ (4,709)	$ (14,618)	$ (34,642)	$ (48,103)
Less: Dividends declared for Series A Preferred Stock	(4,021)	(4,022)	(12,065)	(12,066)
Dividends declared on Series B Preferred Stock	(984)	(3,656)	(7,376)	(10,968)
Deemed dividend resulting from exchange offer			(48,792)	
Net loss applicable to common shareholders	$ (9,714)	$ (22,296)	$ (102,875)	$ (71,137)
Denominator:				
Basic and diluted weighted average shares of common stock outstanding	163,268,035	123,272,712	151,379,516	123,149,652
Basic and Diluted loss per share	$ (0.06)	$ (0.18)	$ (0.68)	$ (0.58)

Diluted loss per share is the same as basic loss per share for all periods presented, as the impact of outstanding stock awards, Convertible Notes, and Series A and Series B Preferred Stock is anti-dilutive. The Convertible Notes, and Series A and Series B Preferred Stock are weighted based on the period outstanding

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during the respective period presented. The following table presents the potential stock excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive in each period:

	Three months ended December 31, 2010		Nine months ended December 31, 2010	
	2010	2009	2010	2009
Restricted stock units and restricted stock	10,080,691	8,304,651	10,080,691	8,304,651
Stock options	9,980,218	7,185,632	9,980,218	7,185,632
9.0% Convertible Notes	18,723,732	19,617,225	18,723,732	19,617,225
Series B Preferred Stock	3,861,722	14,354,067	3,861,722	14,354,067
Series A Preferred Stock	12,000,000	12,000,000	12,000,000	12,000,000
Total	54,646,363	61,461,575	54,646,363	61,461,575

Note 15: Related Party Transactions

Beginning in July 2007, Man Group, through one of its subsidiaries, held an investment in the Company s outstanding Common Stock. During the three months ended September 30, 2009, Man Group sold its remaining investment, which at the time of sale was approximately 18.4% of the Company s outstanding Common Stock and, as such, transactions between Man Group and the Company after September 30, 2009 are no longer separately disclosed as related party transactions. Income and expense transactions between Man Group and the Company are disclosed below as related party transactions for the six months ended 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.

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

	Six months ended September 30, 2009
Revenues	
Commissions	$ 11,617
Interest income	291
Total revenues	11,908
Less: Interest expense	301
Revenues, net of interest and transaction-based expenses	11,607
Expenses	
Employee compensation and benefits	109
Communications and technology	877

Occupancy and equipment costs		2,508
Professional fees		2
General and other		1,555
Total non-interest expenses		5,051
Total, net	$	6,556

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The Company leases office space from and subleases office space to Man Group. In connection with the leasing of office space from Man Group, the Company receives certain office services that will continue for the duration of the lease.

In September 2010, Man Group paid the Company $32,619 related to an arbitration. See Note 10 for further information.

Note 16: 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 amount is as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2010	2009	2010	2009
Revenues, net of interest and transaction-based expenses:				
North America	$ 137,135	$ 135,891	$ 415,853	$ 407,019
Europe	71,860			