SEARS ROEBUCK & CO
Form 4
December 07, 2004

FORM 4

OMB APPROVAL

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
RICHTER GLENN R

(Last) (First) (Middle)

3333 BEVERLY ROAD, B6 277A

(Street)

HOFFMAN ESTATES, IL 60179

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SEARS ROEBUCK & CO [S]

3. Date of Earliest Transaction (Month/Day/Year)
12/06/2004

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Shares	12/06/2004	12/06/2004	M		50,000	A	$ 44.53	76,541	D	
Common Shares	12/06/2004	12/06/2004	S		14,500	D	$ 53.3	62,041	D	
Common Shares	12/06/2004	12/06/2004	S		4,500	D	$ 53.29	57,541	D	
Common Shares	12/06/2004	12/06/2004	S		5,500	D	$ 53.28	52,041	D	
Common Shares	12/06/2004	12/06/2004	S		5,000	D	$ 53.26	47,041	D	

Common Shares	12/06/2004	12/06/2004	S		20,500	D	$ 53.21	26,541	D	
Common Shares (401(k) Plan)								790.8825	I	401 (k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Option (Right to Buy)	$ 44.53	12/06/2004	12/06/2004	M			50,000	12/01/2004	02/04/2014	Common Shares	50,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RICHTER GLENN R 3333 BEVERLY ROAD B6 277A HOFFMAN ESTATES, IL 60179			Executive Vice President	

Signatures

By: /s/ Ellis A. Regenbogen as Attorney-in-Fact	12/07/2004
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Employee Stock Option grant in consideration of service as an employee.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. :10.0pt;">Smaller reporting company o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the issuer s common stock, as of the latest practicable date: 13,807,808 shares of Common Stock ($.01 par value) at June 8, 2009.

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BIO-REFERENCE LABORATORIES, INC.

FORM 10-Q

April 30, 2009

I N D E X

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Item 1

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Per Share Data]

ASSETS

	April 30, 2009 (Unaudited)	October 31, 2008
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 13,275	$ 12,696
Accounts Receivable - Net	99,970	93,718
Inventory	3,674	3,731
Other Current Assets	2,251	1,771
Deferred Tax Assets	8,659	7,635
TOTAL CURRENT ASSETS	127,829	119,551
PROPERTY AND EQUIPMENT - AT COST	47,274	42,688
LESS: Accumulated Depreciation	21,840	18,231
PROPERTY AND EQUIPMENT - NET	25,434	24,457
OTHER ASSETS:		
Deposits	571	525
Goodwill - Net	19,072	19,072
Intangible Assets - Net	5,007	5,574
Other Assets	1,280	1,224
Deferred Tax Asset	1,078	908
TOTAL OTHER ASSETS	27,008	27,303
TOTAL ASSETS	$ 180,271	$ 171,311

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Per Share Data]

LIABILITIES AND SHAREHOLDERS EQUITY

		April 30, 2009 (Unaudited)		October 31, 2008
CURRENT LIABILITIES:				
Accounts Payable	$	21,874	$	25,801
Accrued Salaries and Commissions Payable		7,155		5,590
Accrued Taxes and Expenses		3,466		7,315
Revolving Note Payable - Bank		25,839		18,831
Current Maturities of Long-Term Debt		1,185		1,175
Capital Lease Obligations - Short-Term Portion		2,316		2,278
TOTAL CURRENT LIABILITIES		61,835		60,990
LONG-TERM LIABILITIES				
Capital Lease Obligations - Long-Term Portion		3,101		3,052
Long - Term Debt Net of Current Portion		5,135		5,729
TOTAL LONG-TERM LIABILITIES		8,236		8,781
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS EQUITY				
Preferred Stock $.10 Par Value; Authorized 1,666,667 shares, including 3,000 shares of Series A Junior Preferred Stock None Issued				
Common Stock, $.01 Par Value; Authorized 35,000,000 shares: Issued and Outstanding 13,799,308 and 13,776,795 at April 30, 2009 and at October 31, 2008, respectively		138		138
Additional Paid-In Capital		42,517		42,085
Retained Earnings		67,545		59,317
TOTAL SHAREHOLDERS EQUITY		110,200		101,540
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	180,271	$	171,311

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

[Dollars In Thousands Except Per Share Data]

[UNAUDITED]

	Three months ended April 30, 2009	Three months ended April 30, 2008	Six months ended April 30, 2009	Six months ended April 30, 2008
NET REVENUES:	$ 87,183	$ 75,180	$ 162,918	$ 142,059
COST OF SERVICES:				
Depreciation and Amortization	1,770	1,407	3,445	2,783
Employee Related Expenses	20,371	18,384	39,453	34,859
Reagents and Laboratory Supplies	14,774	11,736	26,655	21,992
Other Cost of Services	7,971	7,471	15,373	14,592
TOTAL COST OF SERVICES	44,886	38,998	84,926	74,226
GROSS PROFIT ON REVENUES	42,297	36,182	77,992	67,833

	Year Ended March 31, 2007	2006	2005
		(in millions)	
Net income (unadjusted)	$ 188.0	$ 59.8	$ 84.2
Add: Refco integration costs	12.6	43.4	
Add: Refco loss		7.7	
Add: IPO-related costs	21.8		
Add: U.S. pension plan termination costs	18.3		
Add: Legal settlements	(10.6)		
Less: Exchange memberships gains	82.4	21.8	3.8
Adjusted net income	$ 147.7	$ 89.1	$ 80.4

For more information relating to these non-GAAP measures, see Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures .

(4) Includes exchange-traded futures and options contract volumes as derived from our management reporting systems, as adjusted (1) to include volumes attributable to the Refco assets from the date of the Refco acquisition until the date Refco s systems were integrated into ours, (2) to include futures and options volumes in Australia, India, Hong Kong and Canada and U.S.-based equity options and certain execution-only businesses captured by data sources not yet integrated in our management systems and (3) to exclude intercompany volumes.

(5) Execution-only volumes consist of trades we execute on an agency basis for clients that clear through another brokerage firm.

(6) Cleared volumes consist of trades we clear or execute and clear for clients.

(7) Represents amounts payable to customers.
See adjustment described in Note 3 to our combined financial statements.

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RISK FACTORS

An investment in our common shares involves significant and diverse risks. Before making an investment in our common shares, you should carefully consider the following risks, as well as all of the other information contained in this prospectus. The risks described below are the material risks we believe we face. Any of these risks could significantly and adversely affect our business, prospects, financial condition or results of operations. As a result, the trading price of our common shares could decline and you may lose a part or all of your investment in our common shares.

Risks Related to Our Industry and Business

Changes in U.S. and international market factors that reduce trading volumes or interest rates could significantly harm our business.

We generate revenues primarily from transaction fees we earn from executing and clearing client trades and from interest income we earn on cash balances in our clients accounts. In fiscal 2007, we derived approximately 29.1% of our total revenues, and approximately 50.0% of our revenues, net of interest and transaction-based expenses, from executing and clearing client trades. Similarly, we derived approximately 65.9% of our total revenues, and approximately 29.4% of our revenues, net of interest and transaction-based expenses, in fiscal 2007 from net interest income. These revenue sources are substantially dependent on client trading volumes and prevailing interest rates.

Reduced trading volumes could hurt our business.

Our clients trading volumes are particularly dependent on their demand for exchange-traded and over-the-counter, or OTC, derivative products, which relate to interest rates, equities, foreign exchange and commodities. Demand for these products, in turn, is driven by a number of factors, one of the most significant being the volatility of the market prices of the underlying assets that is, the extent to which and how rapidly those prices change during a given period. In general, demand for derivative products tends to rise when the volatility of the underlying assets is high and to decline when it is low. In recent years, volatility in the principal markets in which we operate has contributed to rising client trading volumes and thus rising revenues. Were we to enter a period of lower volatility in any of our principal markets in the future, our trading volumes and revenues may grow more slowly or even decline. Moreover, declines in trading volume could also make the markets less liquid meaning that market participants could find it harder to sell or otherwise close out their trading positions when they want to which would discourage active trading and further depress trading volumes. Diminished volatility could occur, for example, if interest rates were to remain unchanged or equity prices were to remain relatively flat for an extended period.

Trading volumes have also increased in recent years due to the growth and enhanced sophistication of significant market participants such as hedge funds. To the extent these trends do not continue, or to the extent that they reverse, demand for our services in many areas of our business would suffer. Trading volumes generated by significant market participants could decline for a variety of reasons. Market conditions in general could deteriorate, affecting many participants trading activities. Alternatively, one or more large market participants could suffer substantial losses that in turn could create a systemic financial risk and prompt other participants to curtail their trading. The latter type of shock events have occurred from time to time involving prominent hedge funds, such as Long Term Capital Management in 1998 and Amaranth in 2006.

Our trading volumes could also be adversely affected when the current bull markets in commodities and equities begin to recede or come to an end. In the past three years, prices in these markets have risen substantially, in some cases, such as oil and gas, to unprecedented levels. These bull markets have stimulated increasing demand for derivative products, and our trading volumes and revenues could be adversely affected as and when the current bull markets come to an end.

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Changes in interest rates could hurt our business.

In most cases, our interest income is directly affected by the spread between the short-term interest rates we pay our clients on their balances and the short-term rates we earn from re-investing their cash. While these spreads have remained within a relatively constant range over time, they can widen or narrow when interest rate trends change. In addition, a portion of our interest income relates to client balances on which we do not pay interest and thus is directly affected by the absolute level of short-term interest rates. As a result, a portion of our interest income will decline if interest rates fall, regardless of the spreads that determine most of our interest income. Overall, interest rates have risen since 2004, which has helped us to manage our interest rate spreads effectively and has increased our interest income on non-interest bearing client balances, and thus has had a generally positive impact on our revenues. However, interest rate trends change periodically and, if spreads begin to narrow or rates begin to decline, our revenues could be adversely affected. Short-term interest rates are highly sensitive to factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities.

Trading volumes and interest rates could be affected by many factors.

The volume of transactions our clients conduct with us and the rates at which we earn interest income on our clients balances are directly affected by a number of U.S. and international market factors that are beyond our control, including:

- economic, political and market conditions;
- broad trends in the brokerage and finance industry;
- changes in levels of trading activity in the broader marketplace;
- supply and demand for commodities;
- financial strength of market participants;
- price levels and price volatility in the derivatives, interest rate, equity, foreign exchange and commodity markets;
- legislative and regulatory changes;
- the actions of our competitors;
- consolidation among exchanges;
- the introduction of new products;
- changes in cost and fee structures;

changes in government monetary policies;

the level and volatility of foreign exchange rates;

disruptions in markets due to terrorism, war or extreme weather events; and

inflation.

Any one or more of the factors listed above, or other factors, may contribute to a decline in trading volumes or fluctuation in interest rates. Any significant decline in trading volume in the financial markets generally, or the derivatives, interest rate, equity, foreign exchange or commodity markets in particular, or any significant change in short-term interest rate spreads or overall levels could have a material adverse effect on our business and operating results.

We face intense competition from other companies, and if we are not able to compete successfully with them, our business may be harmed.

The derivatives and cash brokerage industry is fragmented and competitive, and we expect that competition will continue to intensify in the future. We compete with numerous U.S. and non-U.S. brokers in one or more markets. Although no one competitor operates in all of our markets, two brokers (The Fimat Group and Calyon

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Financial) compete in many of our markets, and both firms are subsidiaries of large, well capitalized financial institutions with global operations (Société Générale and Calyon, respectively). These two firms recently announced that they are engaged in exclusive discussions regarding a possible merger. In addition, affiliates of the largest commercial and investment banks, including Citi, Goldman Sachs, JPMorgan, Merrill Lynch, Morgan Stanley and UBS compete with us in key areas such as clearing services, which is a significant source of our revenues. We also compete with a large number of independent brokerage firms, such as R.J. O Brien, as well as regional brokers in particular markets around the world.

Our competitors may have greater resources than we do.

Many of our competitors and potential competitors have larger client bases, more established name recognition and greater financial, marketing, technological and personnel resources than we do. These resources may enable them, among other things, to:

- develop products and services that are similar to ours, or that are more attractive to clients than ours, in one or more of our markets;
- provide products and services we do not offer or in more markets than we do;
- provide execution and clearing services that are more rapid, reliable or comprehensive, or less expensive than ours;
- offer products and services at prices below ours to gain market share and to promote other businesses, such as prime brokerage, in which we engage to only a limited extent;
- offer better, faster and more reliable technology;
- outbid us for desirable acquisition targets;
- market, promote and sell their products and services more effectively; and
- develop stronger relationships with clients.

Our competitors may be better capitalized than we are.

In particular, our competitors, especially the largest commercial and investment banking firms, may have access to capital in greater amounts and at lower costs than we do. As we describe further below in this section, access to capital is critical to our business to satisfy regulatory obligations and liquidity requirements. Among other things, access to capital determines our creditworthiness, which if perceived negatively in the market could materially impair our ability to provide clearing services and attract client assets, both of which are important sources of revenues. Access to capital also determines the degree to which we can expand our operations. Thus, if we are unable to maintain or increase our capital on competitive terms, we could be at a significant competitive disadvantage, and our ability to maintain or increase our revenues and earnings could be materially impaired. We are highly focused on risk-management in part because we do not enjoy the same access to capital as some of our competitors. As a consequence, we frequently require additional collateral protection from our clients beyond legally mandated levels. This practice has at times, and may continue to, place us at a competitive disadvantage. Moreover, as described further below, we have historically relied on Man Group to provide us with the capital we need. However, following our separation from Man Group, we will need to develop new sources of capital and liquidity. These new sources may prove to be more costly and less reliable than the sources we have relied upon to date, and we may find it harder to compete with larger financial institutions than in the past.

We may not be competitive in developing regions.

We regard emerging international markets, particularly in the Asia/Pacific region, as an important area of potential growth for our business. Due to cultural, regulatory and other factors relevant to those markets, however, we may be at a competitive disadvantage in those regions relative to local firms or to international

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firms that have a well established local presence. In some regions, we may need to acquire local capacity or enter into joint ventures with local firms in order to gain a presence, and we may face intense competition from other international firms over relatively scarce opportunities for market entry. This competition could make it difficult for us to expand our business as planned.

New or existing competitors could make it difficult for us to maintain our current market share or increase it in desirable markets. Even if they do not significantly erode or limit our market share, they may offer their services at lower prices, and we may be required to reduce our fees significantly to remain competitive. A fee reduction without a commensurate reduction in expenses would decrease our profitability.

The current trend toward electronic trade execution has diminished the role of some brokers in the execution process. We must continue to offer attractive, value-added services to keep pace with this trend and other industry changes.

While clients have traditionally relied on brokers to execute orders by receiving them by telephone and routing them to exchanges, a growing number of exchanges have developed systems that permit orders to be routed through brokers electronically, thereby enabling clients to avoid more costly voice-execution services and pressuring brokers to lower their execution commission rates. In a number of cases, exchanges provide large clients with direct electronic access, enabling them to bypass brokers in the trade-execution process altogether, which is known as broker disintermediation. For example, some of our largest institutional clients are now able to execute orders on some exchanges directly by electronic means and, as a result, the portion of the fees we earn from these clients for execution services has, in some cases, declined relative to the portion we earn from providing clearing services for these trades. Although we believe that we are less vulnerable to this trend than other brokers, we expect to face increasing pressure to enhance the value-added execution services we can offer and to expand our role as a provider of clearing services in order to retain or expand our market share, as exchanges are devoting substantial resources to developing more efficient ways for clients to execute orders with reduced broker involvement. To the extent we are unsuccessful, our revenues and profitability will suffer. Additionally, market structure and practices in our industry could change significantly in other ways, including some we may not foresee and we may not be able to adapt to these changes on a timely and cost-effective basis. To the extent that we do not adapt as rapidly or efficiently to industry changes as our competitors do, our business will suffer.

Our business could be adversely affected if we are unable to retain our existing clients or attract new clients.

The success of our business depends on our ability to maintain and increase our client base. Our clients are particularly sensitive to the diversity and flexibility of the services, products, trading markets and regions that we make available and the quality, speed and reliability of our order execution and clearing services, as well as the costs of using our services. Because the financial services industry in general, and the futures brokerage industry in particular, are subject to rapid innovation in products and services, and particularly with regard to technological development, we face intense competitive pressure to continue enhancing our product and service offerings in order to maintain and increase our client base. To do so, we must continue to offer the breadth of trading options, the quality, speed and reliability of brokerage services and the pricing that clients desire. This will require not only continuing to perform at current levels but also finding ways to improve and diversify our client service on a regular basis. In particular, advanced, fast and reliable systems technology with global reach has been a critical aspect of client service, and we must be able to keep pace with the important innovations in our industry, which can be costly and present operational and other risks. We may also face more difficulties in attracting new clients if we fail to offer as broad a range of services as those of our competitors, such as investment banks, that also engage in non-brokerage businesses. Further, if our reputation for quality, speed and reliability is impaired, or if we fail to create new products and services or enter into new markets and regions, we may not be able to attract new clients, which may inhibit our growth.

Our clients are not obligated to use our services and can easily and quickly switch providers of execution and clearing services, transfer their positions or decrease their trading activity conducted through us at any time.

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This is particularly true for our institutional clients, who are sophisticated users of brokerage services, often have relationships with a number of competing brokers and generate a disproportionately large share of our client trading volume. As a result, we are vulnerable to potentially significant and sudden loss of revenues from our institutional client base. Similarly, while private clients in the past have generally been less likely to change brokers, their demand for brokerage services has generally been sensitive to broader market trends, so that a significant downturn or unusually heightened volatility in the derivatives or cash markets could lead to a substantial decline in revenues from our private client base. Many of our clients have longstanding relationships with individuals or teams within our company. To the extent any of those individuals or teams seek alternative employment, we may be in jeopardy of losing those clients.

We receive a significant amount of our private client business through our network of introducing brokers. Failure to maintain these relationships could adversely affect our business.

We have relationships with introducing brokers who assist us in establishing new client relationships and provide marketing and other services for a significant number of our clients for whom we execute and clear trades. We compensate these introducing brokers for introducing clients to us. Many of our relationships with introducing brokers are non-exclusive or may be terminated by the brokers on relatively short notice. In addition, our introducing brokers have no obligation to provide us with new client relationships or minimum levels of transaction volume. Our failure to maintain our relationships with these introducing brokers or the failure of these introducing brokers to establish and maintain client relationships would result in a loss of revenues, which could adversely affect our business. To the extent any of our competitors offers more favorable compensation to one of our introducing brokers, we could lose the broker s services or have to increase the compensation we pay to retain the broker. Our relationships with our introducing brokers also may expose us to significant reputational and other risks. See Risks Related to Regulation and Litigation We could be harmed by employee or introducing broker misconduct or errors that are difficult to detect and deter .

If we fail to attract or retain highly skilled management and other employees, our business may be harmed.

Our future success depends in large part on our management team, who possess extensive knowledge and managerial skill with respect to the critical aspects of our business, including our ability to operate globally across multiple markets and to manage our risk. We rely in particular on Kevin R. Davis, our Chief Executive Officer, as well as other members of our management team. Failure to retain Mr. Davis or one or more members of our management team could adversely affect our ability to manage our business effectively and execute our business strategy.

Our business is also dependent on highly skilled employees who provide specialized brokerage services to our clients and oversee our compliance and technology functions. Many of these employees have extensive knowledge and experience in highly technical and complex areas of the derivatives and cash brokerage industry. Because of the complexity and risks associated with the futures brokerage business and the specialized knowledge required to conduct this business effectively, and because the growth in our industry has increased demand for qualified personnel, many of our employees could readily find employment at other firms if they chose to do so, particularly if we fail to continue to provide competitive levels of compensation. Many of our employees also have extensive institutional knowledge of our services, products, trading markets and client base. As many of them have long-standing relationships with particular clients, the departure of any such employees could adversely impact our relationships with those clients. If we fail to retain our current employees, it would be difficult and costly to identify, recruit and train replacements needed to continue conducting our business. In addition, if we fail to attract highly qualified personnel going forward, we may have difficulty expanding our business and our competitiveness may suffer. In particular, failure to retain and attract qualified compliance and systems personnel could result in execution errors or regulatory infractions.

Consequently, failure to retain and attract highly skilled employees both management and non-management could have a significant adverse effect on our business, financial condition and results of

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operations. Our ability to retain and attract these personnel will depend heavily on the amount of compensation we offer. Compensation levels in the brokerage industry are highly competitive and can fluctuate significantly from year to year. Consequently, our profitability could decline as we compete for personnel.

Our acquisition and growth strategy involves significant risks, and if we are unable to manage them effectively, our business will be materially harmed.

In the past, we have significantly expanded our business both organically and through acquisitions. We have made acquisitions to advance our strategic development, by extending our presence into markets we have previously not served, and to achieve earnings growth through economies of scale, by adding clients and business in markets we already serve. We have generally consummated acquisitions either by purchasing client accounts from other brokers or by acquiring entire brokerage units or businesses. In some cases, we have recruited other brokers client personnel.

In order to continue our growth, we expect to continue to acquire other companies, personnel or assets. Acquisitions entail numerous risks, including the following:

- difficulties in the integration and retention of acquired client accounts or personnel and, in cases where we acquire an entire company or unit, the integration and effective deployment of operations or technologies. For example, the timely transfer of client accounts is key to the success of our acquisitions and a failure to quickly integrate our software systems with those of an acquired company could result in errors or service disruptions, which would adversely impact our ability to maintain an ongoing relationship with any affected clients;
- strain on our operational, information technology, compliance and financial systems and managerial controls and procedures, and the need to modify our systems or to add management resources;
- unforeseen difficulties in the acquired operations and disruption of our ongoing business;
- failure to achieve cost savings or other financial or operating objectives with respect to an acquisition;
- amortization of acquired intangible assets, which would reduce future reported earnings;
- possible adverse short-term effects on our cash flows or operating results;
- increased regulatory oversight and obligations, including higher capital requirements;
- diversion of management s attention from other business concerns;
- assumption of unknown material liabilities or regulatory non-compliance issues; and
- failure to obtain necessary regulatory approvals in the event of a change in control or otherwise.

For example, when we acquired the Refco assets, we incurred substantial severance and other acquisition costs that reduced our net income and will continue to do so for a period of time. In addition, by rapidly expanding our futures and securities brokerage operations through recent acquisitions, our compliance and supervisory functions have had to assume greater responsibility, which could undermine their effectiveness, and we have had to devote additional resources to these functions.

Competition for suitable acquisition targets is intense. Many of our largest competitors have substantially greater financial resources than we do and are able to outbid us on the most desirable targets. We may lack the financial resources necessary to consummate acquisitions in the future or may be unable to secure financing on favorable terms. We may not be able to identify suitable acquisition targets, or to complete any transactions we identify on sufficiently favorable terms, to meet our strategic goals. We also may be unable to obtain regulatory or other governmental approvals that may be necessary to complete acquisitions. In addition, any future acquisitions may entail significant transaction costs and risks associated with entry into new markets. Even when we complete an acquisition, we may not realize the benefits we expected to attain.

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Organic growth presents risks similar to those associated with acquisitions. In particular, if we expand our operations too rapidly or otherwise beyond our ability to manage them effectively, we could encounter serious operational issues. Among other things, our ability to manage risk and ensure regulatory compliance could be impaired and result in financial loss or regulatory violations, any of which could adversely affect our business and financial performance.

Failure to manage these acquisition and other growth risks could have a material adverse effect on our business, financial condition and operating results. If we continue to make acquisitions with similar or greater frequency, these risks could be magnified and our personnel and other resources could become subject to additional strain.

We do not have and cannot provide reliable historical financial information for the Refco assets we purchased.

In October 2005, Refco announced that it had discovered accounting fraud at the company implicating members of its senior management. The announcement prompted Refco clients to withdraw substantial amounts of assets from their accounts, which ultimately caused several Refco entities to file for bankruptcy. In November 2005, we purchased client brokerage accounts and other assets from regulated subsidiaries of Refco for $304.9 million. While the Refco clients whose accounts we purchased withdrew many of their assets prior to our purchase, we have worked since the acquisition to re-build the asset levels in the accounts we purchased. Thus, the Refco assets have become an important part of our business. During fiscal 2007, they accounted for approximately 11.3% of our total revenues, approximately 18.8% of our revenues, net of interest and transaction-based expenses, and approximately 12.3% of our income before provision for income taxes. These assets accounted for approximately 7.8% of our total assets at the end of fiscal 2007. In addition, we have sought to attract a number of former Refco clients who closed their accounts before the acquisition, and a substantial number of them have opened new accounts with us since the acquisition. (We did not purchase these new accounts and they are not part of the Refco assets.) See Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisition of Refco Assets . The trustee for one of the Refco entities has notified us of its position that approximately $57 million (calculated as of the closing date of the acquisition) of the Refco assets we acquired, which consist mainly of shares in the Chicago Mercantile Exchange, should not have been transferred to us as part of the acquisition. See Our Business Legal Proceedings Refco LLC Exchange Seats .

Because we acquired the Refco assets primarily in asset transactions, separate historical financial statements for the specific assets we purchased do not exist, and we have no right of access to the accounting records of the Refco entities that sold these assets to us. Moreover, because the amount of assets in the client accounts that we purchased shrank dramatically between Refco s October 2005 fraud acknowledgment and our purchase of those accounts in November 2005, we believe that any Refco financial statements relating to pre-acquisition periods would not contain meaningful information for investors. As a result, this prospectus does not include historical financial statements for the Refco assets for periods prior to the acquisition in November 2005 or pro forma financial statements showing the impact of the acquisition on our results of operations and financial condition prior to the acquisition.

Although our combined financial statements included in this prospectus reflect the performance of the Refco assets during the 16 months following the acquisition, this post-acquisition information does not necessarily indicate how the Refco assets performed historically prior to the acquisition.

The Refco acquisition is the largest acquisition we have made to date, and the Refco assets are an important part of our business. However, because we are unable to provide financial statements reflecting the performance of these assets prior to the acquisition, it may be more difficult for you to evaluate the possible future performance of these assets and their impact on our business than would otherwise be the case.

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Our international operations present special challenges that we may not be able to meet and this could adversely affect our financial results.

We currently conduct business internationally and plan to expand our international operations. Our most significant international markets are in Europe, and expanding our business in emerging markets in the Asia/Pacific region is an important part of our growth strategy. During fiscal 2007, we generated approximately 58.5% of our revenues, net of interest and transaction-based expenses, outside North America and 8.6% outside North America and Europe. We face significant risks in doing business in international markets, particularly in developing regions. These risks include:

- less developed technological infrastructure and higher costs, which could make our products and services less attractive or accessible in emerging markets;
- difficulty in complying with the diverse regulatory requirements of multiple jurisdictions, which may be more burdensome, not clearly defined and subject to unexpected change, potentially exposing us to significant compliance costs and regulatory penalties;
- inability to enforce contracts in some jurisdictions;
- difficulties and costs associated with staffing and managing foreign operations, including reliance on newly hired local experts;
- fluctuations in foreign currency exchange rates;
- tariffs and other trade barriers;
- currency and tax laws that may prevent or restrict the transfer of capital and profits among our various operations around the world; and
- time zone, language and cultural differences among personnel in different areas of the world.

In addition, in order to be competitive in these local markets, or in some cases because of restrictions on the ability of foreign firms to do business locally, we may seek to operate through joint ventures with local firms as, for example, in India, where we own a 70.2% interest in Man Financial-SIFY Securities India Private Ltd., and in Taiwan, where we own a 20% interest in Polaris Man Financial Futures Co. Ltd, which is a publicly traded company. Doing business through joint ventures may limit our ability to control the conduct of the business and could expose us to reputational and perhaps greater operational risks. Given the intense competition from other international brokers that are also seeking to enter these fast-growing markets, we may have difficulty finding suitable local firms willing to enter into the kinds of relationships with us that we may need to gain access to these markets.

Further, we and our subsidiaries are organized in a number of jurisdictions, which could have adverse tax consequences for our business. For example, withholding taxes may apply on payments of interest and dividends from our subsidiaries to us or among our subsidiaries, which could limit our operating flexibility and adversely affect our earnings, unless such withholding is reduced or eliminated by an applicable treaty among the relevant jurisdictions. In some cases there are no such treaties and in others where treaties exist, treaty eligibility may depend on the residency of the holders of our common shares. Because our common shares will be publicly traded following this offering, there can be no assurance that the necessary proportion of our common shares will be held by residents of the requisite jurisdiction, as provided by the relevant treaty. In addition, the pricing of our intercompany transactions may, from time to time, be subject to review by the relevant tax authorities. A challenge to our intercompany pricing policies could have an adverse effect on our business.

Regulatory liberalization may not continue in developing regions.

We have benefited from recent regulatory liberalization in several emerging markets in developing regions, such as India, which has enabled us to increase our presence in those markets. Our ability to continue to expand

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our presence in the Asia/Pacific region, however, will depend to an important extent upon continued evolution of the regulatory environment in several markets, and there is no assurance that the favorable regulatory trends of recent years will continue. Moreover, we currently have only a limited presence in a number of significant Asian markets and may not be able to gain a significant presence there unless and until regulatory barriers to international firms in certain of those markets, particularly China, are modified. Consequently, we cannot assure you that our recent success in the Asia/Pacific region, such as in India, will continue or that we will be able to develop our business in emerging markets as we currently plan.

Some developing regions may be unstable.

Our operations in some emerging markets may be subject to the political, legal and economic risks associated with politically unstable and less economically developed regions of the world, including the risks of war, insurgency, terrorism and government appropriation. For example, we do business in countries whose currencies may be less stable than those in our primary markets. Currency instability or government imposition of currency restrictions in these countries could impede our operations in the foreign exchange markets in these countries and our ability to realize the value of collateral held in local currencies. In addition, emerging markets may be subject to exceptionally volatile and unpredictable price movements that can expose clients and brokers to sudden and significant financial loss. Trading in these markets may be less liquid, market participants may be less well capitalized and market oversight may be less extensive, all of which can increase trading risk, particularly in markets for derivatives, commodities and currencies. Substantial trading losses by clients or client or counterparty defaults, or the prospect of them, in turn, can drive down trading volumes and brokerage revenues in these markets.

Fluctuations in currency exchange rates could reduce our earnings.

While our revenues and expenses are denominated primarily in U.S. dollars, British pounds and euros, the largest percentage of our revenues is denominated in U.S. dollars while the largest percentage of our non-U.S. expenses is denominated in British pounds and euros. As a result, our earnings can be affected by changes in the U.S. dollar/British pound and U.S. dollar/euro exchange rate. For example, a decline in the value of the U.S. dollar relative to the value of the British pound or euro can cause our expenses to rise faster than our revenues and thus reduce our earnings, and a rise in the value of the U.S. dollar relative to the British pound or euro can have the opposite effect. Such changes have occurred and placed downward or upward pressure on our earnings in recent years. While we seek to mitigate our exposure to currency exchange rates through hedging transactions, these efforts are not always successful. Thus we realized net currency translation losses totaling $1.0 million for fiscal 2007 and $10.8 million for fiscal 2005, and net currency translation gains of $11.3 million for fiscal 2006. See Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Market Risk . Adverse trends in currency exchange rates could have an adverse effect on our earnings, and while we have realized net currency translation gains in the most recent periods, we could incur significant currency translation losses again in the future. Moreover, changes in currency exchange rates from one period to the next could make period-to-period comparisons of our performance historically as well as in the future more difficult.

Our operating results are subject to significant fluctuations due to seasonality and, as a result, our operating results in any particular period may not be a reliable indicator of our future or annual performance.

In the past, our business has experienced seasonal fluctuations, reflecting reduced trading activity during summer months, particularly in August. We also generally experience reduced trading activity in December due to seasonal holidays. In addition, trading in some commodity derivatives, such as energy, is affected by the supply of, and demand for, the underlying commodity, which is seasonal and may change significantly. We also may experience reduced revenues in a quarter due to a decrease in the number of business days in that quarter. As of result of these seasonal fluctuations, our operating results in any particular period may not be a reliable indicator of our future or annual performance.

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Risks Related to Our Capital Needs and Financial Position

We must maintain substantial amounts of capital and liquidity to conduct and grow our business.

Our ability to provide clearing services, which is a critical part of our business, depends heavily on our ability to obtain capital. In order to serve as a clearing broker, we must maintain capital at or above specified minimum levels required by various regulators throughout the world, and our failure to do so could expose us to significant penalties and sanctions as we describe under Risks Related to Regulation and Litigation We are required to maintain high levels of capital, which could constrain our growth and subject us to regulatory sanctions . In order to protect ourselves against the risk of default by our clearing clients, we must also maintain capital at levels determined in accordance with our internal risk-management guidelines, which in many cases are more stringent than the capital requirements of our regulators. Thus, as a clearing broker, we must maintain capital not only to comply with applicable laws and regulations but to manage the risks inherent in our clearing operations in accordance with guidelines that we believe to be appropriate. Moreover, the level of capital that we maintain determines the extent to which we may expand our clearing operations; if we increase our capital, our clearing operations can grow, but if our capital is reduced due to financial loss, our clearing operations may decline.

The amount of capital we maintain also determines our creditworthiness and, therefore, the way we are perceived by clients and our ability to attract client assets. Liquidity, or ready access to these funds, is also essential to our operations and to our clients willingness to clear their transactions through us. Clients will clear their trades and clearinghouses and other clearing firms will deal only with firms that are regarded as well capitalized and having sufficient liquid assets, and that maintain acceptable credit ratings from the independent rating agencies such as Fitch, Moody s and S&P. In addition, our clearing contracts for investment products managed by Man Investments, as well as a number of our bilateral contracts in the OTC markets, include ratings maintenance requirements. Thus, if we are unable to maintain capital at levels that the rating agencies or the market generally consider appropriate for our business, if we experience actual or perceived liquidity issues, or if for any other reason the market loses confidence in our financial condition, we will be unable to provide competitive clearing services, which are a major part of our business, and our clients will withdraw assets from their accounts, which would impair a substantial source of our interest income. Any announcement by a rating agency that our credit rating is being downgraded, or even that we are being placed on creditwatch with potential negative implications, for example, could have a serious adverse impact on our results of operations and perhaps our financial condition. Moreover, concerns about our credit rating may limit our ability to pursue acquisitions and, to the extent we pursue acquisitions that affect our credit rating, our business may suffer. To avoid a situation where our credit rating is at risk, we may need to limit the growth of our business or even to reduce our operations or sell assets. We could also be compelled to raise additional capital on unfavorable terms, which in the case of debt capital could result in substantial additional interest expense and lower earnings and in the case of equity capital could result in substantial dilution to our shareholders.

For these reasons, we must maintain continuous access to adequate and sufficiently liquid sources of capital on acceptable terms. Failure to do so could have severe consequences from a regulatory, risk-management or credit perspective. Even a less severe outcome, such as retaining the ability to obtain capital but only at a higher cost, could significantly increase our interest expense and impair our earnings.

Our separation from Man Group could adversely affect our ability to obtain capital.

Until now, we operated as a division of Man Group. Because of Man Group s substantial resources, we have been able to obtain capital when needed and have benefited from Man Group s consolidated credit rating. As a result of this offering and our separation from Man Group, we will need to develop and maintain our own sources of capital and to establish and maintain credit ratings on a stand-alone basis. Our objective is to do so in a manner that will enable us to continue to conduct and expand our business as we have in the past. However, we cannot assure you that, on a stand-alone basis, our credit rating will be as favorable, or that we will be able to manage our cost of capital as effectively, as in the past.

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The Recapitalization will require us to obtain additional financing in the near future.

Prior to the completion of this offering, we intend to borrow, through one of our U.S. finance subsidiaries, MF Global Finance USA Inc., approximately $1.4 billion in a short-term bridge loan from several financial institutions, including affiliates of several of the underwriters in this offering. We will guarantee repayment under the bridge loan. We intend to use a portion of the net proceeds from the bridge loan to repay our outstanding borrowings owed to Man Group and third parties. These borrowings will substantially increase the portion of our indebtedness owed to unaffiliated third parties.

Under the terms of the bridge loan, we must repay the outstanding principal within one year after the loan is made. If we do not ultimately repay the principal by the due date, the lenders will be entitled to declare a default. The bridge loan will also subject us to some covenants that could restrict our operating flexibility, including our ability to incur additional debt, grant liens on our assets and sell assets or merge. The proposed terms of the bridge loan are described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

We currently plan to seek financing to replace the bridge loan by issuing a combination of senior notes and fixed-to-floating rate junior subordinated debentures in concurrent offerings shortly following this offering through one of our U.S. finance subsidiaries, MF Global Finance North America Inc. The offerings of senior notes and fixed-to-floating rate junior subordinated debentures are not conditioned on one another and may not be consummated at the same time. Our decision to proceed with the senior notes offering and the offering of fixed-to-floating rate junior subordinated debentures will be made independently of one another, subject to market conditions. However, we cannot assure you that we will be able to raise the funds we need within the required time frame, or that the terms of any replacement financing will be favorable. Our ability to fully replace the bridge loan on favorable terms will depend on market conditions as well as our financial performance and credit ratings, factors that we do not entirely control. If we are unable to replace this loan on favorable terms within a relatively short period of time after this offering, our financial condition could be impaired. The terms of any replacement financing could also contain covenants that restrict our operating flexibility, including our ability to make acquisitions.

Even if we are able to fully replace our bridge loan on favorable terms as currently planned, we expect that our capital needs going forward will be greater than they were prior to our separation from Man Group. For example, because of pending changes in U.K. regulations, the amount of regulatory capital we are required to maintain to support our current operations will increase substantially on January 1, 2008. We will also need to increase our regulatory capital as well as the capital required under our internal risk-management guidelines in order to expand our operations and make acquisitions in the future as we currently intend to do. See Risks Related to Regulation and Litigation . Thus, we may need to incur additional debt or sell additional equity in the future in order to expand or even to maintain our business. If our debt increases in the future, our earnings, our credit ratings and our business could be adversely affected. Similarly, if we sell additional equity in the future, your investment in our common shares could be diluted. We cannot assure you that our clients, the rating agencies, our lenders or our regulators will regard our capital position or financial strength going forward as favorably as they have in the past, that we will be able to obtain the additional capital we will need to sustain and grow our business on favorable terms or that our separation from Man Group will not have a material adverse effect on our access to capital and thus on our business.

Our clearing operations expose us to significant client and counterparty default risks.

When we clear transactions for our clients, either on an exchange or in the OTC markets, we are responsible for their performance to the other party to the transaction, which exposes us to the risk of default by our clients. Clients may default on their payment or delivery obligations for any number of reasons, including insolvency or lack of liquidity and operational failure. They may also claim error in the execution process and refuse to perform. In these situations, clients are generally obligated to maintain margin cash or other liquid collateral in amounts sufficient to secure their obligations to perform at all times while they maintain open positions. However, we may fail to monitor their positions and evaluate their risk exposures accurately, and thus fail to

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require that they post adequate margin initially or fail to increase their margin when necessary to keep pace with market movements that may increase their obligations from time to time. Additionally, we may extend credit to a limited number of corporate and institutional clients and within specified limits may waive or fund the margin requirements applicable to them. These actions could increase our losses from any potential default. If a default occurs, we may be unable to realize proceeds from the sale of the collateral sufficient to cover our exposure, perhaps because we are unable to act quickly enough to avoid a substantial decline in the value of the collateral or because market conditions may make it difficult to liquidate a defaulting client s position quickly. This could be the case in times of market stress, which are precisely the times when defaults may be most likely to occur. For example, the collapse of Enron in 2001 and, more recently, sharp price declines in the Indian equities markets in the spring of 2006, led to substantial stress and defaults in some of our markets, and while we did not incur any significant losses in those situations, we cannot assure you that we will be able to avoid significant losses when periods of market stress and defaults occur in the future. Among other things, our risk-management models may not accurately anticipate the impact from market stress.

In particular, systemic shocks could result from highly leveraged market participants, such as one or more large hedge funds, defaulting on their obligations to their brokers, who in turn could default on their obligations to counterparties. We may not be adequately prepared to handle such events, which may disrupt the financial markets and result in financial losses in the near term and reduced trading activity and profitability in the longer term.

Moreover, when we act as a clearing broker, we are also responsible to our clearing clients for performance by the other party to the transaction. While the other party is often a clearinghouse (through novation or substitution), in some OTC trades it may be another clearing broker or even a counterparty and, unless the other side is a counterparty, we generally do not receive collateral to secure its obligations. In addition, if a clearing member defaults on its obligations to a clearinghouse in an amount larger than its margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of other clearing members. Such a default by a clearing member of a clearinghouse of which we are also a clearing member could result in losses to us, including losses resulting from the defaults of other market participants. Thus, we are exposed to the risks of clearinghouse, clearing broker and counterparty default and, in the case of clearinghouses and clearing brokers, without collateral to offset these risks.

Although we regularly review our credit exposures to specific clients to address our credit concerns, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant in a particular market could lead to significant liquidity problems for other participants in that or related markets, leading in turn to losses or defaults by the other participants, which may include our clients and clearing counterparties, that could expose us to significant loss. We may be materially and adversely affected in the event of a significant default by any of our clients and clearing counterparties.

We also rely on the efficient functioning of settlement systems operated by third parties to conduct our operations, and any failure of these systems could result in substantial losses to us from failed trades and client or counterparty defaults. We also maintain large cash deposits and liquid investments at various banks and thus could lose substantial assets if these banks encountered financial difficulty. In addition, we deal extensively with non-clearing members of various exchanges, which have more limited financial resources than members that are authorized by exchanges to provide clearing services. Similarly, we engage in stock lending and repurchase agreements with various clients, and we could incur substantial losses in the event that these third parties fail to perform their obligations to deliver or repurchase securities, whether because of financial difficulty, inability to locate securities due to market conditions or any other reason.

For an analysis of our credit risk that is, the possibility that we may suffer losses from the failure of clients, counterparties and borrowers to meet their financial obligations to us please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Credit Risk , which includes information about default losses we have incurred and an analysis of our credit exposure based on

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our internal rating categories. The amount of default losses in prior periods is not necessarily indicative of the amount of losses we may suffer in any future period; losses in future periods could be substantial.

Derivative transactions are subject to unique risks, which may increase the risk of client default and thus our exposure to financial loss.

Unlike cash products, derivative transactions involve a significant degree of leverage, meaning that potential gains or losses from these trades could be substantially greater than the amount invested. As a result, our clients who trade in derivative products have greater exposure to loss from movements in market prices. This, in turn, increases the risk of default by our clients and thus our potential for financial loss. In addition, derivative trades in OTC markets are often effected without the benefit of a clearinghouse, which exposes us to counterparty credit risk when we act as a clearing broker for our clients. Moreover, derivative transactions generally involve longer settlement periods than cash trades that is, the parties obligations to make payments or deliveries extend over longer periods of time and may involve multiple payments or deliveries. As a result, derivative transactions frequently involve credit and market risks for longer periods of time and are often accompanied by hedging and collateral arrangements. The longer settlement periods, as well as the related hedging and collateral arrangements, make derivative transactions and the parties performance of their obligations more complex and may result in mismatches or delays in the timing of cash flows due from one party to the other, thus increasing the parties need for cash to fund potential timing shortfalls and, ultimately, the risk of losses due to default, human error, system failure or other shortcomings in our risk-management function.

Because derivative transactions can involve greater market, credit, liquidity and operational risks than cash trades, we also face a greater risk that our clients may seek to hold us responsible when they suffer financial losses on their trades, on the ground that these trades were not suitable for them or that the risks were not fully disclosed or were misrepresented to them. In addition, clients may claim that we breached a fiduciary duty allegedly owed to them. These risks are likely to be greatest with regard to our private clients but may exist across all client groups. The relatively complex nature of derivative transactions also makes it more difficult to monitor, evaluate and manage the risks associated with these trades, and thus makes us more vulnerable to the risk of client default.

While we take positions for our own account primarily to facilitate client trades on a matched-principal basis, our principal transactions nevertheless expose us to market risk.

When we take positions for our own account, we do so primarily to execute client orders and not for directional purposes i.e., not for the purpose of profiting from anticipated changes in market prices. Moreover, when we execute client orders in this manner we do so on a matched-principal basis, by entering into the requested trade for our own account and contemporaneously entering into an offsetting trade with another party. However, executing client orders on this basis exposes us to market risks for brief periods that is, to the risk that market prices will change before we are able to enter into an offsetting trade that eliminates our exposure to loss from changes in market prices. We believe this risk is limited by the fact that we are generally able to find an offsetting trade relatively quickly, often within minutes and generally on the same trading day, but we are not able to do so in all cases. In addition, the offsetting trades may not always be perfectly matched in terms of their duration or other aspects, and thus may not eliminate our exposure to market risk entirely.

In addition, we take positions for our own account in order to hedge our exposure to changes in foreign currency exchange rates and interest rates risks that are inherent in the international character and financial focus of our operations. Because of the limitations and uncertainties inherent in hedging strategies, however, our exposure to market risk from these transactions is not fully offset and may not always be fully known.

Overall, we believe that our exposure to market risk is substantially lower than it would be if we took positions for our own account primarily for directional purposes rather than primarily to facilitate client trades on a matched basis and to hedge and manage our corporate assets. However, for the reasons noted above, our trading practices do not eliminate market risk entirely, and we may incur trading losses from time to time. We cannot assure you that we will not incur significant losses at any time in the future, particularly in the event of severe market stress. See Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Market Risk .

Our risk-management methods might not be effective, which could negatively impact our business.

For us to manage the significant risks inherent in our business, we must maintain effective policies, procedures and systems that enable us to identify, monitor and control our exposure to market, credit, operational, legal and reputational risks. While we believe that our disciplined approach to risk management, and the diversified nature of our client risk exposures, help us to manage the risks in our business, our efforts to do so may not be effective. For a description of our risk-management systems, see Our Business Risk-Management . Our risk-management methods focus on monitoring each client s potential exposure at default that is, our potential exposure to loss in the event that the client defaults and adjusting that client s margin requirements accordingly in an effort to ensure that their collateral is sufficient to secure their performance obligations on their open positions. This function requires, among other things, that we properly record and verify hundreds of thousands of transactions and events each day, and that we continuously monitor and evaluate the size and nature of our clients positions and the associated risks. We must rely upon our analysis of information regarding markets, personnel, clients or other matters that are publicly available or otherwise accessible by us. That information may not in all cases be accurate, complete, up-to-date or properly analyzed. Further, we rely on a combination of technical and human controls and supervision that are subject to error and potential failure, the challenges of which are exacerbated by the 24-hour-a-day, global nature of our business. Our risk-management methods are based on internally developed controls, observed historical market behavior and what we believe to be industry practices. However, our methods may not adequately prevent future losses, particularly as they may relate to extreme market movements for which there is little historical precedent. Thus, our risk-management methods may prove to be ineffective because of their design, their implementation or the lack of adequate, accurate or timely information. If our risk-management efforts are ineffective, we could suffer losses that could have a material adverse effect on our financial condition or operating results. Additionally, we could be subject to litigation, particularly from our clients, and sanctions or fines from regulators.

Risks Related to Regulation and Litigation

We operate in a heavily regulated environment that imposes significant compliance requirements and costs on us.

We are extensively regulated by governmental bodies and self-regulatory organizations worldwide. Many of the regulations we are governed by are intended to protect the public, our clients and the integrity of the markets, and not necessarily our shareholders. Substantially all of our operations involving the execution and clearing of transactions in derivative and cash products are conducted through subsidiaries that are regulated by governmental bodies or self-regulatory organizations. In the United Kingdom, we are principally regulated by the Financial Services Authority. In the United States, we are principally regulated in the futures markets by the Commodity Futures Trading Commission and the Chicago Mercantile Exchange, and in the securities markets by the Securities and Exchange Commission and the National Association of Securities Dealers. We are also regulated in all regions by local regulatory authorities and the various exchanges of which we are members. For example, we are regulated by the Monetary Authority of Singapore, the Securities and Exchange Board of India, the Australian Securities and Investment Commission and the Investment Dealers Association of Canada, among others. These regulators and self-regulatory organizations regulate the conduct of our business in many ways and conduct regular examinations of our business to monitor our compliance with these regulations. For example the Financial Services Authority has required us to retain an independent third party to review and report on our anti-money laundering compliance function relating to our U.K. operations. See Our Business Regulation and Exchange Memberships . Among other things, we are subject to regulation with regard to:

our sales practices, including our interaction with and solicitation of clients and our marketing activities;

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- the custody, control and safeguarding of our clients assets;
- account statements, record keeping and retention;
- maintaining specified minimum amounts of capital and limiting withdrawals of funds from our regulated operating subsidiaries;
- making regular financial and other reports to regulators;
- anti-money laundering and other reporting practices;
- licensing for our operating subsidiaries and our employees;
- the conduct of our directors, officers, employees and affiliates; and
- supervision of our business.

Our failure to comply with regulatory requirements could subject us to sanctions and adversely affect our business.

Many of the laws and regulations by which we are governed grant regulators broad powers to investigate and enforce compliance with their rules and regulations and to impose penalties and other sanctions for non-compliance. For example, the Commodity Futures Trading Commission recently fined us $120,000 for failing to supervise a former employee who fraudulently solicited customers and ordered us to pay approximately $196,900 in restitution to customers. See Our Business Legal Proceedings . If a regulator finds that we have failed to comply with its rules and regulations, we may be subject to fines or other sanctions, which could adversely affect our reputation and operations. In particular, certain of the requirements that we must comply with are focused on protecting our private clients. If we fail to comply with applicable laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, removal of personnel, civil litigation or other sanctions, including, in some cases, increased reporting requirements or other undertakings, revocation of our operating licenses or criminal conviction. In addition, if we fail to comply with applicable laws, rules or regulations, we may also be subject to the loss of clients, negative publicity and litigation, particularly from our retail clients. Our ability to comply with all applicable laws and regulations is dependent in large part on our internal compliance function as well as our ability to attract and retain qualified compliance personnel. Non-compliance with applicable laws or regulations could adversely affect our reputation, prospects, revenues and earnings.

The regulatory environment in which we operate is subject to continual change.

The legislative and regulatory environment in which we operate has undergone significant changes in the recent past and there may be future regulatory changes in our industry. The financial services industry in general has been subject to increasing regulatory oversight in recent years. The governmental bodies and self-regulatory organizations that regulate our business may propose and consider additional legislative and regulatory initiatives and may adopt new or revised laws and regulations. As a result, in the future, we may become subject to new regulations that may affect the way in which we conduct our business and may make our business less profitable. Changes in the interpretation or enforcement of existing laws and regulations by those entities may also adversely affect our business.

In addition, the regulatory enforcement environment has created uncertainty with respect to certain practices or types of transactions that in the past were considered permissible and appropriate among financial services firms, but that later have been called into question or with respect to which additional regulatory requirements have been imposed. Legal or regulatory uncertainty and additional regulatory requirements could result in a loss of business. In Europe, regulators recently adopted the Markets in Financial Instruments Directive, known as MiFID, which will take effect on November 1, 2007. This directive extends the coverage of the existing Investment Services Directive and introduces new and more extensive requirements for most firms engaged in financial services relating to the conduct of their business and internal organization. As a result of MiFID, we will be required to establish policies for monitoring best execution of client trades and managing business conflicts of interest. Additionally, we will face enhanced record-keeping and know your customer obligations.

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We expect that the changes resulting from the implementation of this directive will require us to make additional investments in our information technology systems and compliance efforts. In addition, we will also be subject to the new Capital Requirements Directive, effective January 1, 2008, which sets forth requirements with respect to the minimum levels of regulatory capital we must hold. As discussed above, new and changing regulatory requirements may make it more difficult or less profitable for us to operate our business.

Requirements of the U.S. Office of Foreign Assets Control and the USA PATRIOT Act and similar laws may expose us to significant costs or penalties.

As participants in the financial services industry, our business is subject to laws and regulations, including the USA PATRIOT Act of 2001, or the PATRIOT Act, which requires us to know certain information about our clients and to monitor their transactions for suspicious financial activities. In addition, the U.S. Office of Foreign Assets Control, or OFAC, has issued regulations requiring that we refrain from doing business, or allowing our clients to do business through us, in certain countries or with certain organizations or individuals on a prohibited list maintained by the U.S. government. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. The cost of complying with the regulations of the U.S. Office of Foreign Assets Control and the PATRIOT Act and similar laws is significant. In particular, since we operate globally, we face significant difficulties in identifying our international clients, gathering the required information about them and monitoring their account activities. U.S. and other governmental agencies are highly focused on compliance with these laws. We face risks that our policies, procedures, technology and personnel directed toward complying with the regulations of the U.S. Office of Foreign Assets Control and the PATRIOT Act and similar laws are insufficient and that we could be subject to significant criminal and civil penalties due to non-compliance. These penalties could have a material adverse effect on our business, financial condition and operating results. For a discussion of these matters, including a pending review of our anti-money laundering policies and procedures that the Financial Services Authority has required us to undertake, see Our Business Regulation and Exchange Memberships .

We are required to maintain high levels of capital, which could constrain our growth and subject us to regulatory sanctions.

The Financial Services Authority, Commodity Futures Trading Commission, SEC and other U.S. and non-U.S. regulators have stringent rules requiring that we maintain specific minimum levels of regulatory capital in our operating subsidiaries that conduct our futures and securities business. As of March 31, 2007, on a separate company basis, we would have been required to maintain approximately $1.5 billion minimum capital (including $294 million in respect of goodwill and other intangible assets) in the aggregate across all jurisdictions, representing a 15.7% increase from our minimum regulatory capital requirement at March 31, 2006. Regulators in different jurisdictions require different amounts of regulatory capital to be met by shareholders equity. Approximately $1.1 billion of shareholder s equity was required to meet the minimum regulatory capital requirements at March 31, 2007. (We, in fact, generally maintain total risk capital well in excess of this level in order to meet our internal risk-management guidelines and, as a result, our capital costs are substantially higher than those attributable solely to applicable regulatory or self-regulatory requirements.) Regulators continue to evaluate and modify regulatory capital requirements from time to time in response to market events and to improve the stability of the international financial system. For example, we are in the process of implementing the new European Union Capital Requirements Directive, effective January 1, 2008, which will increase our required minimum levels of regulatory capital. We expect the revised capital adequacy framework, in combination with our separation from Man Group, to increase our regulatory capital requirements by approximately $600 million as of January 1, 2008. This increase largely results from revised regulatory capital requirements for operational risk, exchange-traded derivatives and certain intercompany exposures. We currently believe that our capital levels upon completion of the offering should be sufficient to cover this increase in our regulatory capital as of January 1, 2008. However, additional revisions to this framework or new capital adequacy rules applicable to us may be proposed and ultimately adopted, which could further increase our minimum capital requirements in the future.

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Even if regulators do not change existing regulations or adopt new ones, our minimum capital requirements will generally increase in proportion to the size of our business conducted by our regulated subsidiaries. As a result, we will need to increase our regulatory capital in order to expand our operations and increase our revenues, and our inability to increase our capital on a cost-efficient basis could constrain our growth. In addition, in many cases, we are not permitted to withdraw regulatory capital maintained by our subsidiaries without prior regulatory approval or notice, which could constrain our ability to allocate our capital resources most efficiently throughout our global operations. In particular, these restrictions could limit our ability to pay dividends or make other distributions on our shares and, in some cases, could adversely affect our ability to withdraw funds needed to satisfy our ongoing operating expenses, debt service and other cash needs.

Regulators monitor our levels of capital closely. We are required to report the amount of regulatory capital we maintain to our regulators on a regular basis, and we must report any deficiencies or material declines promptly. While we expect that our current amount of regulatory capital will be sufficient to meet anticipated short-term increases in requirements, including the effects of the European Union s Capital Requirements Directive, any failure to maintain the required levels of regulatory capital, or to report any capital deficiencies or material declines in capital could result in severe sanctions, including fines, censure, restrictions on our ability to conduct business and revocation of our registrations. The imposition of one or more of these sanctions could ultimately lead to our liquidation, or the liquidation of one or more of our subsidiaries. See Our Business Regulation and Exchange Memberships for more information on the minimum regulatory capital requirements for our futures and securities brokerage subsidiaries.

We could be harmed by employee or introducing broker misconduct or errors that are difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years. Unlike other firms that have incurred significant, well publicized losses of this kind in recent years, when we take positions for our own account, we do so primarily to execute client orders and not for directional purposes i.e., not for the purpose of profiting from anticipated changes in market prices. We also take positions for our own account, when hedging our exposure in foreign currency and interest rates. We believe that limiting trades for our own account to matched-principal and hedging trades reduces the risk that our employees may execute trades for our account in excess of our exposure limits. Nevertheless, we are exposed to other risks relating to employee misconduct. Among other things, our employees could execute unauthorized transactions for our clients or for their own or any of our accounts, use client assets improperly or without authorization, carry out improper activities on behalf of clients or use confidential client or company information for personal or other improper purposes, as well as misrecord or otherwise try to hide improper activities from us. For example, we are currently subject to litigation and a regulatory investigation involving allegations of employee misconduct. See Our Business Legal Proceedings . Such exposures could be heightened in the case of private clients accounts for which our brokers, in limited circumstances, exercise discretionary authority.

In addition, employee errors, including mistakes in executing, recording or reporting transactions for clients, have in the past caused us to enter into transactions that clients disavowed and refused to settle, which could also occur in the future. Employee errors expose us to the risk of material losses until the errors are detected and the transactions are unwound or reversed. The risk of employee error or miscommunication may be greater for products that are new or have non-standardized terms. Further, such errors may be more likely to occur in the aftermath of any acquisitions during the integration of or migration from technological systems.

Misconduct by employees of our clients can also expose us to claims for financial losses or regulatory proceedings when it is alleged we or our employees knew or should have known that an employee of our client was not authorized to undertake certain transactions. Dissatisfied clients can make claims against us, including claims for negligence, fraud, unauthorized trading, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions by associated persons and failures in the processing of transactions.

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We could also be held responsible for improper conduct by our introducing brokers, even though we do not control their activities. Introducing brokers are futures brokers that maintain client relationships and delegate to us the responsibilities associated with trade execution, and back office operations. If an introducing broker effects trades through us that are unlawful, our regulators could hold us responsible if they were to conclude that we knew or should have known that the trades were unlawful. Moreover, a substantial number of our introducing brokers in the United States are guaranteed introducing brokers, meaning that we have agreed to use our capital to effectively guarantee their capital in exchange for their agreement to effect client trades exclusively through us. Under the Commodity Exchange Act, we are financially responsible for the obligations of our guaranteed introducing brokers, and we are also effectively responsible for their obligation to comply with the Commodity Exchange Act and the rules and regulations of the Commodity Futures Trading Commission.

Employee or introducing broker misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. We have an active program for monitoring and verifying that our employees and introducing brokers comply with specified procedures; however, it is not always possible to deter or detect employee or introducing broker misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Our employees or introducing brokers may also commit good faith errors that could subject us to financial claims for negligence or otherwise, as well as regulatory actions.

We are subject to significant litigation risk, which could adversely affect our business.

Many aspects of our business involve risks that expose us to substantial liability under U.S. federal and state laws and court decisions, as well as the rules and enforcement efforts of our regulators and self-regulatory organizations worldwide. These risks include, among others, disputes with clients and other market participants over terms of a trade, client losses resulting from system delay or failure and client claims that we or our employees executed unauthorized transactions, recommended unsuitable trades, made materially false or misleading statements or lost or diverted client assets in our custody. We may also be subject to regulatory investigation and enforcement actions seeking to impose significant fines or other sanctions, which in turn could trigger civil litigation.

For example, we are currently involved in pending lawsuits and arbitrations in which parties have made claims for substantial damages against us. The largest of these claims, which relates to the Philadelphia Alternative Asset Fund (PAAF), is for damages in an estimated amount of at least $175 million (with the plaintiff claiming that these damages should be tripled under applicable law). We describe these proceedings under Our Business Legal Proceedings . We are not being indemnified by Man Group with respect to any litigation exposures related to periods prior to or after this offering, except to a limited extent with respect to the PAAF claim. For a further description of our indemnification agreement with Man Group and the conditions to which the indemnification agreement is subject, see Certain Relationships and Related Transactions . If our existing insurance and indemnity are unavailable or insufficient, an unfavorable judgment in some of these legal proceedings may have an adverse effect on our results of operations.

The volume of claims and the amount of damages and fines claimed in litigation and regulatory proceedings against financial intermediaries has been increasing, particularly in the post-Enron environment. The large amounts involved in the trades we execute, together with rapid price movements in our markets, can result in potentially large damage claims in any litigation resulting from such trades. Dissatisfied clients, particularly private clients, frequently make claims against their brokers, including us, regarding the quality of trade execution, improperly settled trades, mismanagement or even fraud, and these claims may increase as our business expands. For example, as our order flow for exchange-traded derivatives grows and we are able to execute more client orders internally without sending them to an exchange, we may become subject to an increasing number of claims of our clients that we failed to execute their orders on the most favorable terms.

Litigation may also arise from disputes over the exercise of our rights with respect to client accounts and collateral. Although our client agreements generally provide that we may exercise such rights with respect to client accounts and collateral as we deem reasonably necessary for our protection, our exercise of these rights has at times led to claims by clients that we have exercised these rights improperly.

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Even if we prevail in any litigation or enforcement proceedings against us, we could incur significant legal expenses defending against the claims, even those without merit. Moreover, because even meritless claims can damage our reputation or raise concerns among our clients, we may feel compelled to settle claims at significant cost. An adverse resolution of any claims or proceedings against us could have a material adverse effect on our reputation, financial condition or operating results. See Our Business Legal Proceedings .

Our business may be adversely affected if our reputation is harmed.

In addition to litigation risks, our business is subject to significant reputational risks. If we fail, or appear to fail, to deal with various issues that may affect our reputation, our clients and our business and prospects could be seriously harmed. This could be the case not only in situations involving legal violations but also in those where no laws have been violated. Our reputation could be harmed in many different ways, including as a result of regulatory, governance, risk-management, technological or other failures, employee misconduct, adverse publicity, perceived or actual conflict of interests or ethical issues, money laundering, privacy concerns and sales and trading practices viewed as unfair to our clients. In recent years, there have been a number of highly publicized incidents in which financial services firms have suffered significant damage to their reputations that in turn resulted in sudden and in some cases irreparable harm to their business.

Risks Related to Our Separation from Man Group

As a result of this offering, we will need to make significant changes in order to operate as an independent company, and we will need to do so in a timely and cost-effective manner.

Prior to this offering, we operated as a division of Man Group, which provided financial and administrative support to us. Following this offering, Man Group will have no obligation to provide any support to us other than the limited services that will be provided pursuant to transitional services agreements described in Certain Relationships and Related Transactions . Under these agreements, Man Group has agreed to continue to provide us with corporate oversight and/or consultation services with respect to certain functions, such as limited tax administration, insurance management, company secretarial and global-risk management for a limited transition period. We do not intend, however, to enter into transitional agreements with Man Group regarding other services, such as external financial reporting, external communications and investor relations or treasury services. In addition, we intend to manage our global risk-management activities on a stand-alone basis with our own personnel using the global risk-management systems used by Man Group, which will grant us a license for the software we need to operate the systems ourselves. While Man Group has agreed to provide us with limited risk-management support and consulting services, we will be fully responsible for overseeing and managing our risk-management operations on a global basis.

As a result, for the first time, we will be independently responsible for these financial and administrative support functions. In addition to risk management, we will provide our own external financial reporting, external communications and investor relations, treasury services and most other corporate and administrative services. Although we have retained additional personnel to assist us in these areas, we expect to continue to evaluate our staffing needs and to hire additional personnel as necessary. Several individuals in financial reporting, external communications and treasury services roles are new to our company and have not yet had the experience of working together as a team or working at MF Global. In addition, aside from risk management services that Man Group will provide to us pursuant to a transitional services agreement, we will be responsible for providing our own capital and credit support, which we believe is our most significant challenge, as we describe above under the heading Risks Related to Our Capital Needs and Financial Position .

We may incur significantly greater costs than we did as a division of Man Group. While we have estimated these costs in our pro forma financial statements included elsewhere in this prospectus, our estimates may not be accurate and we may not have anticipated all of the additional costs that we may incur. As a result, our pro forma financial statements may not accurately indicate the costs we may incur as an independent company.

In addition, the tax indemnities that we receive from Man Group are limited in scope and there can be no assurance that we will not incur additional tax liabilities (either as a result of our Reorganization, Separation and

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Recapitalization from Man Group or as a result of our past or future business operations) that will not be covered by those indemnities. For a discussion of our tax indemnities refer to Certain Relationships and Related Transactions and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Provision for Income Taxes .

Moreover, while our management team includes personnel with significant experience operating a business within a combined group owned by a public company, they do not have experience managing our business on a stand-alone basis. Additionally, some of our senior executives own interests in Man Group that may be material to them. For more information about the ownership interests of some of our senior executives and directors in our company, please refer to Management .

If we are unable to manage and operate our company as an independent public entity, our business and results of operations will be adversely affected.

The terms of our service arrangements with Man Group may later prove to be more favorable than those we will be able to obtain from unaffiliated service providers after these arrangements expire.

As discussed above, prior to the completion of this offering, we will enter into several transitional services agreements with Man Group. These services and agreements are described in detail under the heading Certain Relationships and Related Transactions . We will contract with Man Group to provide these services, however, for only limited transitional periods of generally between 12 months and three years after the completion of this offering, depending on the nature of the service. After these periods, we expect to have developed the internal resources needed to provide these services ourselves. If our internal resources prove insufficient or have not been fully developed, we will need to obtain these services from unaffiliated third parties, which may be on terms more or less favorable than those we have negotiated with Man Group, or we will need to renegotiate and renew the terms of the services that Man Group was providing to us.

While we believe these agreements we negotiated with Man Group contain commercially reasonable terms that could have been negotiated with an independent third party, the terms of these agreements may later prove to be more or less favorable than any arrangements we may make to provide these services internally or to obtain them from unaffiliated service providers in the future. We cannot assure you that when these agreements expire we will be able to provide these services ourselves or obtain them from other sources on comparable terms. As a result, we may need to incur substantial additional costs in order to provide or obtain replacement services after these agreements expire, and we may not be able to operate as effectively if the quality of the replacement services is inferior. Our pro forma financial statements included elsewhere in this prospectus reflect only the estimated cost of obtaining these services under the agreements with Man Group, and may not provide a good indication of the actual cost we will incur for these services or the resulting impact on our earnings once the agreements expire.

We derive a portion of our revenues and earnings from clearing contracts with investment funds served by Man Group and may not be able to renew these contracts on acceptable terms when they expire after the offering.

We have for many years provided clearing services, under various arrangements, for a number of independent investment products managed by Man Investments Limited, which is a part of the asset management division of Man Group and will remain part of Man Group after the offering. We have also provided execution services for these investment products. These brokerage services are an important source of revenue for us, accounting for approximately 2.8% of our revenues, net of interest and transaction-based expenses, for fiscal 2007. These brokerage services, together with the brokerage services we provide to several investment products managed by entities that are partially owned by Man Group referenced below, represent a substantially greater percentage, which we estimate to be approximately 10-15%, of our adjusted income before taxes. We have recently entered into new clearing agreements with regard to the relevant investment products. These new clearing agreements relate only to investment products that are currently in existence, that make allocations to

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Man Investments managed futures program and for which clearing brokerage accounts have already been opened with us. These agreements provide for limited exclusivity, and do not provide for clearing services relating to investment products that may be created in the future. The new agreements do not relate to execution services.

The new clearing agreements generally provide for a term of 36 months (taking into account fixed term and notice periods) from the date of the Separation, subject to cancellation by the relevant fund at any time if we fail to perform our obligations adequately or upon certain other early termination events, including a downgrade in our credit rating by a rating agency below BBB (Standard & Poor s or the equivalent). In the case of each investment product, renewal upon expiration will require a determination by the independent directors who oversee the investment product that the quality of our services and the terms of our agreement are competitive and favorable with regard to the investment product. As a result, we cannot assure you that, when these new clearing agreements expire in 2010, the independent directors for the investment products will choose to renew them or, if they choose to renew, that they will renew them on terms that are acceptable to us. It is possible, therefore, that some or all of these new clearing agreements will expire without being renewed, will be renewed on terms that are less profitable for us or will be terminated early, any of which could have a material adverse effect on our revenues and profitability. In addition, our ability to generate revenue from the services we provide with respect to the investment products managed by Man Investments Limited will depend on the level and mix of trading activity relating to these products, factors that we do not control. Moreover, because these clearing agreements relate to activities that are subject to extensive regulation, it is possible that our ability to enforce these agreements could be impaired by applicable regulation or action by regulatory authorities. As a result, there is no assurance that we will continue to derive revenue from these arrangements to the same extent that we have in the past. We described the new clearing agreements under Certain Relationships and Related Transactions Ongoing Commercial Relationship with Man Group .

We may segregate up to an aggregate amount of $800 million of unrealized profits from trading in the OTC markets by certain investment products managed by Man Investments. In addition, as we often do in the ordinary course of our dealings with substantial clients, we may provide financing of these investment products initial margin requirements from time to time, in this case in an aggregate amount up to $500 million at any time outstanding. Although we have made no commitment in this regard, providing this financing could reduce the amount of our funds available to meet our own liquidity requirements and would, to the extent used, be taken into account for the purpose of determining our regulatory capital requirements.

We also provide brokerage services with respect to several investment products managed by entities that are partially owned by Man Group. Under their current agreements with Man Group, these entities have agreed to use us to provide brokerage services for these investment products. The brokerage services we provided for these investment products accounted for approximately 1.1% of our revenues, net of interest and transaction-based expenses, in fiscal 2007. We are not a party to any agreements between Man Group and these entities. As a result, if there were to be a change in the business relationship between Man Group and these entities, these agreements could be amended or terminated without our consent. Any such amendment or termination could result in the termination of these entities commitment to obtain clearing services from us for these investment products, which could have an adverse effect on our revenues.

Our existing and potential clients, industry vendors, recruiting candidates and investors may not recognize our new brand name, which may hurt our revenue and earnings.

In 2007, we introduced our new brand name, MF Global. In connection with this offering, we have officially changed our name from Man Financial to MF Global and we will market our business under this new name. We have entered into a trademark agreement with Man Group, which will grant us a license to use the Man trademark and the Man Financial trademark as part of a strapline for a period of six months following the completion of this offering. The license will also include the right of MF Global to use Man and/or Man Financial for two years following the completion of this offering in certain domain names solely for the purpose

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of re-directing website users to the home page of an appropriate MF Global website. In addition, our subsidiaries will have the right to continue to use the Man trademark as part of our legal and trade names for a period of six months following the completion this offering. Upon expiration of these periods, we will no longer be able to use the names Man or Man Financial in any way.

Because we have previously marketed our business under the name Man Financial, certain existing and potential clients, industry vendors and market participants generally may not recognize our new brand, and this may make it harder for us to maintain and develop our client base, at least during an initial transition period. Our name change also may affect our ability to recruit qualified personnel. We cannot predict the impact of this change on our business. If we fail to build strong new brand recognition, our revenue and profitability may decline and our business prospects may suffer. In addition, we expect to incur additional marketing costs associated with developing our brand, which will be in excess of our historical marketing expenditures.

Our historical financial results as a part of Man Group may not reflect what our results would have been or what our future results might be as a separate, independent entity.

The combined financial information included in this prospectus may not reflect our results of operations, financial condition and cash flows had we actually been an independent company during the periods presented. Because we did not operate, and Man Group did not account for us, as a separate, independent entity for the historical periods presented, our historical financial statements are based on estimates about the portion of certain Man Group consolidated expenses that is attributable to our business. Man Group has estimated and allocated to us expenses arising from shared services and infrastructure provided by Man Group, such as employee compensation and benefits, the use of office facilities and services related to certain corporate functions.

Accordingly, those estimated amounts expensed in our historical financial information may not be reflective of our results of operations, financial condition and cash flows had we been an independent company during the periods presented, and the historical financial information may not be a reliable indicator of what our results of operations, financial condition and cash flows will be in the future.

The pro forma financial information in this prospectus is based on estimates and assumptions that may prove to be materially different from our actual experience as a separate, independent company.

In preparing the pro forma financial information included elsewhere in this prospectus, we have made adjustments to the historical financial information based upon currently available information and upon estimates and assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the transactions contemplated by our separation from Man Group. However, these estimates are predicated on assumptions, judgments and other information which are inherently uncertain. For example, our estimated employee share compensation expense was calculated using assumptions with respect to the expected volatility of our common shares, the risk-free interest rate and the average expected life of our grants; and our estimated debt expense was calculated using assumptions regarding expected interest rates over the relevant period.

These estimates and assumptions used in the preparation of the pro forma financial information in this prospectus may be materially different from our actual experience as a separate, independent company. The pro forma financial information included elsewhere in this prospectus does not purport to represent what our results of operations would actually have been had we operated as a separate, independent company during the periods presented, nor do the pro forma data give effect to any events other than those discussed in the unaudited pro forma financial statements and related notes. See Unaudited Pro Forma Combined Financial Information .

If Man Group sells fewer shares in the offering than anticipated, it will retain significant influence over our business after the offering, and Man Group s interests in our business may conflict with yours.

Man Group has informed us that it currently intends to sell more than 80% of our common shares in this offering so that, upon completion of the offering, Man Group will own less than 20% of our issued and

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outstanding common shares (or less than 12% if the underwriters exercise their option in full). The number of shares Man Group actually sells, however, will depend on market conditions and may be less than planned. In the event that Man Group retains 20% or more of our issued and outstanding common shares after the offering, it will be required under U.K. capital regulations to continue to consolidate our business with its own for regulatory capital purposes and, as a result, its own regulatory capital obligations will continue to be affected by our business. Consequently, Man Group requires that it retain the right to continue to monitor and exercise a degree of control over the management of our business until such time as it ceases to own 20% of our common shares.

In the event Man Group sells fewer shares in the offering than necessary to reduce its ownership position to less than 20%, we will provide to Man Group, in an agreement to be signed before the offering is completed, certain significant oversight rights, including:

- a right to designate a member of our board of directors;
- a right to receive confidential financial and other information about our business; and
- a right to restrict or prevent developments in our business after the offering if they would materially increase Man Group s own regulatory capital requirements, which could restrict or prevent the growth of our operations, whether internally or by acquisitions, particularly growth in the OTC markets or from our entry into new lines of business.

We describe these potential oversight and other rights in Certain Relationships and Related Transactions Shareholder Rights of Man Group .

We cannot be sure that Man Group will sell enough shares in this offering to reduce its ownership to less than 20%. Even a small reduction in the number of shares Man Group sells in relation to the number it is currently offering could prevent it from reducing its ownership below the 20% level in this offering. Moreover, if Man Group does not reduce its ownership below 20% in this offering, we cannot predict how long it would take Man Group to sell below this threshold after the offering. Thus, Man Group could continue to retain significant influence over the management of our business after the offering is completed, perhaps for an extended period. Man Group s interests may differ from those of our other shareholders. In particular, significant growth in our operations after the offering, whether internally or through acquisitions, could result in higher regulatory capital costs for Man Group, and as a result it may decide to restrict or prevent such developments even if they would be favorable to our other shareholders.

Even if Man Group reduces its ownership of our shares to less than 20% in this offering as currently planned and thus does not retain any oversight rights going forward, it may still retain a large ownership position relative to other shareholders. As a significant shareholder, Man Group may be able to influence the composition of our board of directors and any action requiring the approval of our shareholders. In doing so, Man Group may act in ways that conflict with or harm the interests of our other shareholders. Moreover, we still expect investment products managed by a unit of Man Investments, the asset-management division of Man Group, in aggregate to represent our single largest source of revenue after this offering. For fiscal 2007, these investment products represented approximately 2.8% of our revenues, net of interest and transaction-based expenses. For a discussion of our ongoing commercial relationship with these entities, please refer to Certain Relationships and Related Transactions Ongoing Commercial Relationship with Man Group .

Our non-competition and non-solicitation agreements with Man Group will restrict our ability to engage in asset management activities and may not sufficiently restrict Man Group from competing with us.

In connection with the Reorganization, Separation and Recapitalization transactions, we have entered into a master separation agreement with Man Group that governs the principal terms of the separation of our business from Man Group. As part of this agreement, we and Man Group have agreed to non-competition and non-solicitation agreements that are intended to prevent us from competing against one another for a period of three

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years following the Separation. The non-competition agreement will, with certain exceptions, prohibit us from engaging during this period in various hedge fund asset management activities and from selling certain hedge fund products to third parties for distribution to retail investors. Similarly, with certain exceptions, Man Group will be prohibited during this period from providing any third party with brokerage, execution or clearing services for exchange-listed futures or options, cash equities or bonds, OTC derivatives related to equities, fixed income and commodities (including contracts for differences and spread-trading) or foreign exchange. In addition, we and Man Group have agreed that we will not solicit for a period of three years any employees of the other party or its subsidiaries.

The non-competition provisions will limit the scope of our business activities, which could limit our future growth opportunities. While Man Group has agreed to refrain from competing with us, this agreement may not be effective in preventing Man Group from competing with us in important markets, particularly following its expiration, or be broad enough to cover future activities in which we may engage following this offering. If the agreement limits our future growth or is not effective in preventing Man Group from competing with us, directly or indirectly, our business and results of operations may suffer. For more information on the terms of these non-competition and non-solicitation provisions, see Certain Relationships and Related Transactions Master Separation Agreement .

We will be required by Section 404 of the Sarbanes-Oxley Act to evaluate the effectiveness of our internal controls by the end of fiscal 2009 and we cannot predict the outcome of that effort.

As a U.S.-listed public company, we will be required to comply with Section 404 of the Sarbanes-Oxley Act by March 31, 2009. Section 404 will require that we evaluate our internal control over financial reporting to enable management to report on, and our independent auditors to audit, the effectiveness of those controls. While we have begun the lengthy process of evaluating our internal controls, we are in the early phases of our review and will not complete our review until well after this offering is completed. We cannot predict the outcome of our review at this time. During the course of our review, we may identify control deficiencies of varying degrees of severity, and we may incur significant costs to remediate those deficiencies or otherwise improve our internal controls. As a public company, we will be required to report control deficiencies that constitute a material weakness in our internal control over financial reporting. We would also be required to obtain an audit report from our independent auditors regarding the effectiveness of our internal controls over financial reporting. If we fail to implement the requirements of Section 404 in a timely manner, we may be subject to sanctions or investigation by regulatory authorities, including the SEC or the New York Stock Exchange. Furthermore, if we discover a material weakness or our auditor does not provide an unqualified audit report, our share price could decline and our ability to raise capital could be impaired.

Being a public company will increase our administrative expenses and workload.

As a public company with shares listed on a U.S. exchange, we will need to comply with an extensive body of regulations that did not apply to us previously, including provisions of the Sarbanes-Oxley Act, regulations of the SEC and requirements of the NYSE. Compliance will require a significant amount of the time of our board of directors and management and will increase our costs and expenses. We will need to:

- review and evaluate our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act and related SEC rules;
- prepare and disseminate periodic financial reports in compliance with SEC and exchange rules, including requirements that we prepare our financial reports in accordance with U.S. GAAP, and make them available to the public on a quarterly basis;
- establish internal policies and procedures to comply with SEC requirements for public companies;
- enhance our investor relations, marketing and corporate communications functions; and
- maintain directors and officers liability insurance.

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In addition, our being a public company in the U.S. market may subject our directors and officers to greater scrutiny and exposure to liability. This may make it more difficult for us to attract and retain qualified members of our board of directors and management.

Risks Related to Our Operations and Technology

If we experience systems interruptions, failures or capacity constraints, our ability to conduct our operations would be materially harmed.

We are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations, whether owned and operated by us or by third parties. We receive and process a large portion of our trade orders through electronic means, including public and private communications networks. Rapid, reliable processing of orders is critical to our clients, since any delay or disruption can cause them significant financial losses. If our clients become concerned about the reliability of our systems, they could quickly take their business to our competitors. Further, any upgrades or expansions may require significant expenditures of funds and may also increase the probability that we will suffer system degradations and failures.

Our computer and communications systems could slow down, malfunction or fail for a variety of reasons, including loss of power, vendor or network failure, acts of war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, heavy stress placed on our systems during peak trading times, intentional acts of vandalism, client error or misuse, lack of proper maintenance or monitoring and similar events. For example, during the terrorist attacks on the World Trade Center on September 11, 2001, we lost access to a significant portion of our communications and computer networks in New York and had to rely on our backup systems. Our systems could also fail in the event of a sudden, unpredicted surge in trading volume, such as could occur in times of severe market stress. Many of these risks are beyond our control.

If events of the kind described above were to occur in the future, they could cause material disruption or failure of our computer and communications systems, with any number of severe consequences, including:

- unanticipated disruptions in service to our clients;
- slower response times;
- delays in our clients trade execution;
- failed settlement of trades; and
- incomplete or inaccurate recording, reporting or processing of trades.

While we monitor system loads and performance and implement system upgrades to handle predicted increases in trading volume, we cannot assure you that we will be able to accurately predict future volume increases or that our systems will be able to accommodate these volume increases without failure or degradation. In addition, while we have developed backup technology and disaster-recovery plans to help us mitigate some of these risks, these precautions may not be effective and, even if they work as intended, may not prevent service disruptions entirely. The same may be true for our third-party service providers.

Delay, disruption or failure of our communications and computer systems may lead to financial losses, litigation or arbitration claims by our clients as well as investigations and sanctions by our regulators around the world, which require us to maintain trade execution and communications systems able to handle anticipated present and future peak trading volumes. Our reputation could also be harmed, causing us to lose existing clients and making it more difficult for us to attract new clients. Further, any resulting financial losses could be magnified by price movements of contracts involved in trades that are delayed or fail due to these events, and we may be unable to take corrective action to mitigate these losses.

Our networks and those of our third-party service providers may be vulnerable to security risks.

The secure transmission of confidential information over public and private communications networks is a critical element of our operations. We process many thousands of client orders and accounts on a daily basis. The

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networks we use, including our online trading platforms and those of our third-party service providers, as well as the networks of the exchanges and other market participants with whom we interact, may be vulnerable to unauthorized access, computer viruses and other security problems, including the inadvertent dissemination of non-public information. Any such problems or security breaches could result in our having liability to one or more third parties. Persons who circumvent security measures or gain access to client information could wrongfully use our or our clients information, or cause interruptions or malfunctions in our operations, any of which could have a material adverse effect on our business, financial condition and operating results. While we rely in part on security services and software provided by outside vendors to reduce this risk, we may nonetheless be subject to serious security breaches and other disruptions.

If an actual, threatened or perceived breach of our or our service providers security measures were to occur, or if we were to release confidential client information inadvertently, our reputation could be impaired and the market perception of the effectiveness of our security measures could be harmed. As a result, clients may reduce or stop their use of our services, including our online trading platforms. We or our service providers may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. The security measures we rely on may prove to be inadequate and could cause incidental system failures and delays, and thus could lower trading volumes and adversely affect our reputation, business, financial condition and operating results.

We must regularly maintain and upgrade our computer and communications systems in response to technological change and client and regulatory demands in order to remain competitive, which is costly.

The markets in which we compete are characterized by rapidly changing technology, evolving client demand and the emergence of new industry standards and practices that could render our existing technology and systems inadequate or obsolete. Our future success will depend in part on our ability to respond to demand for new services, products and technologies on a timely and cost-effective basis, and to adapt to technological advancements and changing standards, so as to address the increasingly sophisticated and varied needs of our clients and prospective clients. We cannot assure you that we will be successful in developing, introducing or marketing new services, products and technologies. We may experience difficulties that could delay or prevent us from doing so and any new service, product or technology we develop may not be accepted by the market. Any failure on our part to anticipate or respond adequately to technological advancements, client requirements or changing industry standards, or any significant delays in our doing so, could have a material adverse effect on our business, financial condition and operating results. We must also devote resources to the regular maintenance of our systems, which together with any necessary upgrades or expansions, could require significant expenditures of funds.

We depend on outside vendors to provide the principal computerized systems we use to execute and clear client trades. While we have adapted these systems to meet our needs in some important respects, our ability to modify them is limited. As a result, as our markets expand and our clients trading and investment needs evolve, we may need to develop our own proprietary systems to supplement or even replace our existing systems. That process would require a very significant capital investment and could involve difficult transition periods when service is interrupted or fails. While we currently have no plans to develop our own systems or to replace our existing systems, we will continue to evaluate this issue in the future.

If and when we decide, or are required, to upgrade or expand our systems (or to develop our own proprietary systems), we may not have the funds necessary and the changes we make or undertake to make may not be successful or accepted by our clients. Our failure to maintain our systems as necessary or to upgrade and expand them in response to evolving client demands or emerging industry standards would have a material adverse effect on our business and results of operations.

We rely on third parties for the software and systems we use to provide our brokerage services, and any interruption, degradation or cessation of service by these third parties could harm our business.

We depend upon third-party vendors to provide the principal computerized systems we use to execute and clear client trades. We rely primarily on two independent electronic platforms to process trades: a platform

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developed by Rolfe & Nolan and used primarily in Europe and Asia, and the GMI platform developed by SunGard and used primarily in the United States. While using two platforms that operate compatibly but independently provides some redundancy in the event of a system-provider failure on one platform, it does not eliminate this risk. In addition, we may be unable to renew our licensing agreements with these system-providers for the continued use of their technology upon expiration (April 1, 2016 for Rolfe & Nolan and December 31, 2012 for SunGard). If either or both vendors fail to provide their technology and services as agreed, our operations could be disrupted and our business could be harmed. In addition, if we are unable to renew these licensing agreements when they expire, we would need to obtain alternative system technology and services from other vendors, which may prove to be less effective or reliable and more costly. Changing systems could also result in service interruptions or failures during an initial transition period, which could subject us to loss, including loss of client business, and make us less competitive over the longer term. We could also incur substantial transition costs and have to pay higher fees over the life of the new contracts, which could negatively affect our earnings.

We rely on Rolfe & Nolan, SunGard and other third parties to enhance their current products, develop new products on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. If, in the future, enhancements or upgrades of third-party software and systems cannot be integrated with our technologies or if the technologies on which we rely fail to respond to industry standards or technological changes, we may be required to design our own proprietary systems. Software products may contain defects or errors, especially when first introduced or when new versions or enhancements are released. The inability of third parties to supply us with software or systems on a reliable, timely basis could harm relationships with our clients and our ability to achieve our growth targets.

Risks Related to Our Status as a Bermuda Company

Bermuda law differs from the laws in effect in the United States and may afford less protection to shareholders.

We are incorporated in Bermuda. As a result, our shareholders may have more difficulty protecting their interests than would shareholders of a corporation incorporated in a jurisdiction of the United States. Because we are a Bermuda company, the rights of holders of our common shares are governed by the Companies Act 1981. The Companies Act differs in some important respects from laws generally applicable to U.S. corporations and shareholders. For example, U.S. state laws generally permit shareholders to bring class actions and derivative actions against a company or its directors and officers, but such actions are generally not available under Bermuda law. Similarly, under Bermuda law we may indemnify our directors and officers from liability arising from their actions in a broader set of circumstances than would be permitted under U.S. state laws. Bermuda law also does not require that shareholders be permitted to amend the by-laws without board approval, as many U.S. state laws do. For additional details, refer to the discussion under the heading Description of Share Capital and Description of Share Capital Limitation of Liability and Indemnification Matters .

Our by-laws contain provisions that may discourage or prevent takeover attempts that shareholders may believe would be in their best interests and thus may limit the price that investors may be willing to pay in the future for our common shares. In addition, we have adopted a poison pill rights plan that may have similar consequences.

Our by-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors, even if shareholders believe that doing so would be in their best interests. For example, our by-laws authorize our board to authorize the issuance of preferred shares with such voting or conversion rights, preferences and other features as they may determine, without any vote by our shareholders. Thus, our board could authorize the issuance of preferred shares with rights that could adversely affect the voting or other rights of holders of our common shares and could have the effect of delaying or deterring a change in control of our company, even if shareholders believed that a change in control would be in their best interests.

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Our by-laws also impose various procedural and other requirements that could make it more difficult for shareholders to effect some corporate actions and influence management on important strategic and other matters that shareholders may believe are in their best interests and, therefore, should be effected. For example, shareholders:

- may not nominate directors;
- may remove directors only for cause and only upon the vote of at least 66 $^{2}/3$% of our issued and outstanding shares;
- must give us advance notice of any shareholder proposals; and
- may not act by written consent unless such consent is unanimous.

In addition, we have adopted a shareholder rights plan sometimes called a poison pill that may effectively prevent a takeover of our company by causing substantial dilution to a person or group that acquires 15% or more of our common shares unless the shareholder rights are first redeemed by our board of directors. If this occurs, a takeover of our company that our shareholders may believe would be in their best interests may be delayed or prevented. This plan has a term of three years unless renewed by our board.

These provisions could prevent or frustrate attempts to effect transactions that shareholders may believe would, if effected, be in their best interests and, moreover, could limit the price that investors might be willing to pay in the future for our common shares. See Description of Share Capital for additional information on the anti-takeover measures applicable to us.

Our exemption from certain Bermuda taxes is effective until March 28, 2016, and if it is not extended our results of operations and your investment could be adversely affected.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, has given us an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or any of our operations, shares, debentures or other obligations, except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property leased by us in Bermuda. See Material Bermuda and U.S. Federal Income Tax Considerations . This assurance by the Bermuda Minister of Finance expires on March 28, 2016. There is no guarantee that we will receive a renewed assurance from the Bermuda Minister of Finance, or that the Bermuda Government will not take action to impose taxes on our business. If the Bermuda Government imposed significant taxes on our business, our earnings could decline significantly.

U.S. tax authorities could treat us as a passive foreign investment company, or a PFIC, which could have adverse U.S. federal income tax consequences to U.S holders.

We believe that our common shares should not be treated as stock of a PFIC for U.S. federal income tax purposes, although we have not obtained and do not intend to obtain a ruling from the IRS. This conclusion is based on a factual determination that will be made annually and thus may be subject to change. If the IRS were to determine that we are a PFIC for any taxable year, our U.S. shareholders would face adverse U.S. tax consequences. For a further discussion on the tax consequences of owning shares of a PFIC, see Material Bermuda and U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of Our Shareholders PFIC Rules .

From time to time, certain international taxing authorities, including the U.S. government and the Organization for Economic Cooperation and Development, have considered taking steps that would result in an increase in our taxes, and they may take such steps in the future.

A number of international taxing authorities have from time to time considered imposing measures that would increase the amount of taxes we would be required to pay. For example, as part of the American Jobs

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Creation Act of 2004, the U.S. government enacted the so-called anti-inversion rules, which are intended to limit tax abuses involving U.S. corporations that transfer substantially all their assets to a foreign company in an effort to avoid or reduce their U.S. tax obligations. While we do not believe the anti-inversion rules apply to us, there can be no assurance that U.S. authorities will not take a different view. They could also make further changes in the applicable tax regulations in order to subject Bermuda companies like us to additional taxes. In addition, the Organization for Economic Cooperation and Development has published reports and launched a global dialogue among member and non-member countries as to whether to impose measures to counteract the effects of tax havens and preferential tax regimes in countries around the world. While the Organization for Economic Cooperation and Development has not identified Bermuda as an uncooperative tax haven, the Organization for Economic Cooperation and Development could change its view at any time. For further discussion of taxes, see Material Bermuda and U.S. Federal Income Tax Considerations .

We are not able to predict what developments with respect to the U.S. anti-inversion rules, the Organization for Economic Cooperation and Development s dialogue or any other tax regulations may occur or, if they do occur, what impact they may have on us. U.S. and international taxing authorities could subject us to additional taxation at any time, which would reduce our income and could adversely affect our profitability and the market value of our shares.

We are incorporated in Bermuda, and we expect several of our directors and a significant portion of their and our assets will be located outside the United States. As a result, it may not be possible for shareholders to enforce civil liability provisions of the U.S. federal or state securities laws.

We are incorporated under the laws of Bermuda and a significant portion of our assets are located outside the United States. In addition, we expect that some of our directors will not be citizens or residents of the United States and that a significant portion of and the assets of our non-U.S. directors will be located outside the United States. Consequently, it may be difficult to serve legal process within the United States upon any of our non-U.S. directors. In addition, it may not be possible to enforce court judgments obtained in the United States against us in Bermuda or against our non-U.S. directors in their home countries, or in countries other than the United States where we or they have assets, particularly if the judgments are based on the civil liability provisions of the federal or state securities laws of the United States. There is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the federal or state securities laws of the United States or would hear actions against us or those persons based on those laws. We have been advised by our legal advisors in Bermuda that the United States and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Bermuda. Similarly, those judgments may not be enforceable in countries, other than the United States, where we or our non-U.S. directors have assets.

Risks Related to Our Common Shares

We expect that our share price will fluctuate significantly, and you may not be able to resell your shares at or above the initial public offering price.

The trading price of our common shares could be subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market in general, or in the financial services or brokerage industry in particular;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new services by us or our competitors;

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- major reductions in trading volumes on the exchanges on which we operate;
- issuance of new or changed securities analysts reports or recommendations;
- additions or departures of key personnel;
- legislative or regulatory developments, including changes in the status of our regulatory approvals or licenses;
- acquisition activity by us, our competitors or other key industry players such as exchanges;
- developments or disputes concerning our intellectual property or proprietary rights;
- litigation and governmental investigations; and
- economic, political, regulatory and military conditions or events within any of our current or anticipated future markets.

These and other factors may cause the market price and demand for our common shares to fluctuate substantially, which may limit or prevent investors from readily selling their shares and may otherwise negatively affect the liquidity of our common shares. In addition, when the market price of a stock has been volatile in the past, holders of that stock have, at times, instituted securities class action litigation against the company that issued the stock. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business and hurt our share price.

There may not be an active, liquid trading market for our common shares.

Prior to this offering, there has been no public market for our common shares. We cannot predict the extent to which a trading market will develop or how liquid that market will be. If an active trading market does not develop, you may have difficulty selling any of our common shares that you purchase. The initial public offering price of our common shares was determined by negotiation between us, Man Group and representatives of the underwriters based on a number of factors, and may not be indicative of prices that will prevail in the open market following the completion of this offering. The market price of our common shares may decline below the initial public offering price, and you may not be able to resell our common shares at or above the initial offering price.

Future sales of our common shares may cause our share price to fall.

If our shareholders sell substantial amounts of our common shares in the public market following this offering, the market price of our common shares could decrease significantly. The perception in the public market that our shareholders might sell our common shares could also depress our market price.

After giving effect to this offering, we will have 121,295,280 common shares issued and outstanding, 97,379,765 (or 80.3%) of which will be freely tradable in the open market, and 23,726,182 (or 19.6%) of which will be held by the Man Group selling shareholder. In addition, our directors, officers and other employees will hold restricted share units and/or options to purchase common shares, which if issued and outstanding would represent 10.8% of our total common shares outstanding after giving effect to this issuance. See Management 2007 Long Term Incentive Plan .

We, our directors, our executive officers and the Man Group selling shareholder have agreed with the underwriters to a 180-day lockup period (subject to extensions), meaning that, for a period of 180 days following the date of this prospectus, we and they will not, subject to certain exceptions, sell or transfer any common shares without the prior consent of the underwriters. Over 23,000,000 (or over 19%) of our common shares (excluding shares issuable upon the exercise of outstanding options or restricted share units) are subject to lock-up agreements. Common shares held by our employees, other than our officers who are subject to the lockup

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provisions, are not subject to these restrictions and may be sold without restriction at any time. With respect to shares subject to lock-up agreements, the underwriters may, in their sole discretion, at any time from time to time and without notice, waive the terms and conditions of the lockup agreements. When the lock-up period expires, these common shares will become eligible for sale, in some cases subject to the requirements of Rule 144 under the Securities Act, which are described under Shares Eligible for Future Sale . In addition, we have granted Man Group registration rights, which are described under Certain Relationships and Related Transactions Shareholder Rights of Man Group Registration Rights .

The market price of our common shares may decline significantly when the restrictions on resale by our existing shareholders lapse. A decline in the price of our common shares might impede our ability to raise capital through the issuance of additional common shares or other equity securities.

We do not expect to pay any dividends for the foreseeable future.

We do not anticipate paying any dividends to our shareholders for the foreseeable future. Because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends from our subsidiaries. However, most of our cash is held by our operating subsidiaries and they are subject to regulatory capital requirements that restrict our ability to withdraw cash from them. In addition, we expect the terms of some of our indebtedness may substantially restrict our ability to pay dividends to our shareholders. Accordingly, investors must be prepared to rely on sales of their common shares after any price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common shares. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend on our results of operations, financial condition, regulatory and contractual restrictions, restrictions imposed by applicable law (including Bermuda law) and other factors our board of directors deems relevant.

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FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary , Risk Factors , Management s Discussion and Analysis of Financial Condition and Results of Operations , Our Industry and Our Business contains forward-looking statements that are based on our present beliefs and assumptions and on information currently available to us. You can identify forward-looking statements by terminology such as may , will , should , could , would , targets , goal , expect , intend , plan , anticipate , believe , estimate , predict , potential , continue , or other comparable terminology. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. These risks and other factors include those listed under Risk Factors and elsewhere in this prospectus. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We caution you not to place undue reliance on these forward-looking statements. Forward-looking statements in this prospectus include, but are not limited to, statements about:

- our expectation to benefit from continued industry growth;
- our ability to continue to provide value-added brokerage services;
- our ability to capitalize on market convergence;
- our ability to continue to diversify our service offerings;
- our ability to pursue opportunities for enhanced operating margins;
- our ability to expand our business in existing and new geographic regions;
- our ability to continue to expand our business through acquisitions;
- expectations regarding the business environment in which we operate and the trends in our industry;
- the effects of pricing and other competitive pressures on our business as well as our perceptions regarding our business competitive position;
- our accuracy regarding our expectations of our revenues and various costs;
- the benefits to our business resulting from the reorganization and separation transactions as well as this offering and our additional financing plans;
- our plans to refinance the bridge loan shortly after this offering through offerings of senior notes and fixed-to-floating rate junior subordinated debentures and obtain access to necessary liquidity;

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

our ability to retain our management and other employees;

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

our ability to retain service providers to perform oversight or control functions or services that have otherwise been performed in the past by Man Group;

Man Group s ability to restrict the development of our business if it retains 20% or more of our shares;

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

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

changes in exchange membership requirements;

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

changes in our tax rate;

our ability to maintain trading volumes and market share;

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- our ability to maintain our credit rating;
- our ability to maintain our existing technology systems and to keep pace with rapid technological developments; and
- our ability to retain existing clients and attract new ones.

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

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THE REORGANIZATION, SEPARATION AND RECAPITALIZATION TRANSACTIONS

AND OUR ORGANIZATIONAL STRUCTURE

Pursuant to a series of transactions undertaken in connection with the Reorganization and Separation, Man Group is separating its brokerage business, referred to as the brokerage division , from its asset management business, referred to as the asset management division . Thereafter, prior to the pricing of this offering, we will acquire control over the operations and management of the brokerage division. These transactions, as well as our organizational structure after giving effect to these transactions and this offering, are described below.

The Reorganization and Separation Transactions

The Reorganization

Prior to the Reorganization, Man Group conducted our business its brokerage division and its asset management business through numerous direct and indirect subsidiaries, and each division operated autonomously from one another. In recent months, through a series of transactions, Man Group is reorganizing its corporate structure to separate its brokerage division from its asset management division. The brokerage division, which Man Group has historically operated under the name Man Financial, consists of all of our business, comprised of execution and clearing services for derivatives and cash products in financial markets throughout Europe, North America and the Asia/Pacific region.

The Reorganization is being effected by, among other things, transferring all of the entities and assets of Man Group that comprise our business to Man Financial Overseas Ltd. and ED&F Man Group Ltd., holding companies incorporated in the United Kingdom. MF Global Finance USA Inc. and a newly formed Delaware corporation, MF Global Finance North America Inc., will function as our U.S. finance subsidiaries, and we intend to form additional unregulated finance subsidiaries. We refer to this series of transactions as the Reorganization . Prior to the pricing of this offering, Man Group will complete all the stock and asset transfers contemplated by the Reorganization.

We will have a minority interest in two of the entities involved in the Reorganization:

Polaris Man Financial Futures Co. Ltd Polaris Man Financial Futures Co. Ltd is a company listed on the Taiwan Emerging Market in which we have a 20% ownership interest. Polaris Man Financial Futures Co. Ltd is a regulated provider of brokerage services in Taiwan.

United States Futures Exchange USFE is a Chicago-based electronic futures exchange in which we hold an indirect 1.8% ownership interest through our 23.9% interest in Exchange Place Holdings LP. Man Group acquired 64.7% ownership interest in USFE in October 2006, which it purchased from Eurex AG. Following the Reorganization and Separation transactions, Man Group will transfer to us a 46.1% direct economic interest in USFE. For more information on USFE, see Our Business Business Overview Investment in USFE .

In addition, two entities we control, but do not wholly own, will also be part of the Reorganization: Man Securities Limited, of which we own 91.0%, and Man Financial-Sify Securities India Private Limited, of which we own 70.2%.

The Separation

Following the completion of the Reorganization, and before the pricing of this offering, Man Group will complete the separation of our business from Man Group s asset management division, transferring all of the outstanding capital stock of Man Financial Overseas Ltd., ED&F Man Group Ltd., Man Financial (S) Pte Ltd. and Man Financial Holdings (HK) Ltd. to us. In exchange for full ownership of these transferred entities we will issue 103,726,353 of our common shares to the Man Group selling shareholder, which will represent all of our issued and outstanding share capital prior to the pricing of this offering (other than the additionally issued shares we will issue to the Man Group selling shareholder in the Recapitalization as described below). We refer to this

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transaction as the Separation . As a result of the Separation, prior to the pricing of the offering, we will own, directly or indirectly, all of the brokerage division and will be wholly owned by Man Group. Following the completion of these transactions, we will rename ED&F Man Group Ltd., Man Financial Overseas Ltd., Man Financial Holdings Limited and Man Group USA Inc. as MFG Europe Holdings Limited, MFG Overseas Holdings Limited, MFG Overseas Limited and MFG US Holdings Inc., respectively. See Organizational Structure below.

Prior to the pricing of this offering, we and several of our subsidiaries are entering into several transitional services agreements and other agreements with Man Group, which will govern our Separation from Man Group and the ongoing business relationships between us. The principal agreements include the following:

- Master Separation Agreement
- Trademark Agreement
- Insurance Services Agreement
- Tax Matters Deed
- Group Risk Services Agreement
- Treasury Services Agreement
- PAAF Indemnity

The term Separation includes our entry into these agreements with Man Group. For a description of these and other agreements, see the discussion under the heading Certain Relationships and Related Transactions .

The Recapitalization

In connection with this offering, we expect to engage in several additional transactions that will result in significant changes to our historical capital structure, as follows:

- prior to the pricing of this offering, Man Group will make a net capital contribution in cash to us in return for approximately 17.4 million additional common shares that we will issue to the Man Group selling shareholder, so that, upon the pricing of this offering, our pro forma shareholders equity will equal approximately $1.2 billion. For purposes of our pro forma combined balance sheet, the amount of the net capital contribution was calculated using our equity at March 31, 2007. The actual amount of the net capital contribution will be determined on the date of the Recapitalization using our balance sheet as of June 30, 2007, as adjusted for certain subsequent transactions. In addition, we and Man Group have agreed that the net capital contribution that Man Group will make to us prior to the pricing of this offering in exchange for approximately 17.4 million additional common shares will equal approximately $1.2 billion less our equity at June 30, 2007, as adjusted for certain subsequent transactions, which we will estimate on the date of the Recapitalization. During September 2007, we and Man Group will recalculate the net capital contribution amount that Man Group will make to us based on our balance sheet as of June 30, 2007, with reasonable adjustments thereto. To the extent the latter calculation of the net capital contribution produces a figure that is different from that which was initially calculated, we and Man Group will reconcile the difference through a further cash payment from Man Group to us, or a cash reimbursement from us to Man Group, as appropriate.

prior to the pricing of this offering, one of our U.S. finance subsidiaries, MF Global Finance USA Inc., will borrow (and we will guarantee the repayment of) approximately $1.4 billion in a 364-day bridge loan from several financial institutions, including affiliates of several of the underwriters in this offering; and

prior to the pricing of this offering, we will use a portion of the net proceeds from the bridge loan to repay all of our outstanding borrowings owed to Man Group and third parties.

We refer to the three transactions specified above, collectively, as our Recapitalization and we describe the estimated pro forma effects of these transactions under Our Capitalization and Unaudited Pro Forma

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Combined Financial Information . We intend to repay all borrowings under the bridge loan with the net proceeds of the offerings of senior notes and junior subordinated debentures by one of our U.S. finance subsidiaries, MF Global Finance North America Inc. The terms and timing of these transactions will depend on market conditions and other factors that we do not control and are subject to change. In addition, the offerings of senior notes and junior subordinated debentures referenced above will not be completed before this offering is consummated. Our current plans to repay the bridge loan could be postponed or changed depending on market conditions and other factors. We describe the anticipated terms of the bridge loan and the proposed offerings of notes and debentures in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

Organizational Structure

The following table sets forth a summary of our organizational structure after giving effect to the Reorganization and Separation transactions and this offering:

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USE OF PROCEEDS

All of the common shares are being sold by the Man Group selling shareholder. See Principal and Selling Shareholder and Underwriting . We will not receive any proceeds from the sale of these common shares. All proceeds from the sale of these common shares, net of underwriters discounts and offering expenses, will be received by the Man Group selling shareholder.

DIVIDEND POLICY

We currently do not intend to pay any cash dividends on our common shares in the foreseeable future. We intend to retain all our future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends on our common shares will be made, subject to applicable law (including Bermuda law), by our board of directors and will depend upon our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business and investment strategy and other factors that our board of directors deems relevant. Our board of directors may not determine to pay periodic dividends at any time in the future. As a result, you will likely need to sell your common shares to realize a return on your investment, and you may not be able to sell your common shares at or above the price you paid for them.

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OUR CAPITALIZATION

The following table, which should be read in conjunction with Selected Combined Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations , sets forth our cash and cash equivalents and our combined capitalization as of March 31, 2007 on (1) a historical basis and (2) on a pro forma basis to give effect to the Recapitalization to be effected in connection with this offering. The Recapitalization consists of the following transactions, each of which will occur prior to the pricing of this offering:

Man Group will make a net capital contribution in cash to us in return for approximately 17.4 million additional common shares that we will issue to the Man Group selling shareholder, so that, upon the pricing of this offering, our pro forma shareholders equity will equal approximately $1.2 billion. For purposes of our pro forma combined balance sheet, from which the following table is derived, the amount of the net capital contribution was estimated to be $651.7 million using our equity at March 31, 2007. The actual amount of the net capital contribution will be determined on the date of the Recapitalization, and subsequently adjusted if necessary, using our balance sheet as of June 30, 2007, as adjusted for certain subsequent transactions;

one of our U.S. finance subsidiaries, MF Global Finance USA Inc., will borrow (and we will guarantee the repayment of) approximately $1.4 billion in a 364-day bridge loan from several financial institutions, including affiliates of several underwriters in this offering; and

we will use a portion of the net proceeds from the bridge loan to repay all of our outstanding borrowings owed to Man Group and third parties.

	As of March 31, 2007		
	Historical	Adjustments for the Recapitalization	Pro Forma for the Recapitalization
		(in millions)	
Cash and cash equivalents	$ 1,733.1	$ 633.4	$ 2,366.5
Borrowings:			
Short-term borrowings	$ 82.0	$ 1,318.0 (1)	$ 1,400.0(3)
Long-term borrowings	594.6	(594.6)(2)	
Total borrowings	676.6	723.4	1,400.0
Shareholders equity:			
Preferred shares, $1.00 par value per share; 200,000,000 authorized; no shares issued and outstanding (pro forma)			
Common shares, $1.00 par value per share; 1,000,000,000 shares authorized; 121,295,280 shares issued and outstanding (pro forma)		121.3	121.3
Additional paid-in capital	537.8	540.9 (4)	1,078.7
Accumulated changes in shareholders equity			
Retained earnings			
Total shareholders equity	537.8	662.2	1,200.0
Total capitalization	$ 1,214.4	$ 1,385.6	$ 2,600.0

(1) Reflects the repayment of $82.0 million short-term borrowings owed to Man Group and other third parties in addition to new borrowings of $1.4 billion under the bridge loan.

(2) Reflects the repayment of $594.6 million long-term borrowings owed to Man Group and third parties.

(3) Shortly after the completion of this offering, we intend to replace the borrowings under the bridge loan with the issuance of a combination of senior notes and junior subordinated debentures through MF Global Finance North America Inc., one of our U.S. finance subsidiaries, subject to market conditions and other factors.

(4) Reflects the net capital contribution from Man Group of $651.7 million with $634.1 million included in additional paid-in-capital in exchange for the issuance of 17,379,493 additional common shares. Also reflects the net pro forma adjustments to historical equity of $10.7 million as well as the transfer of $103.9 million of equity to common shares at par value.

We describe the terms of the bridge loan under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Bridge Loan .

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SELECTED COMBINED FINANCIAL DATA

The following tables present certain selected combined financial data for our business. These tables should be read in conjunction with our combined financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

We derived the selected combined statement of operations for fiscal 2007, fiscal 2006 and fiscal 2005 and our combined balance sheet data as of March 31, 2007 and 2006 from our combined financial statements that are included elsewhere in this prospectus and were audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. We derived the summary combined balance sheet data as of March 31, 2005 from our fiscal 2005 audited combined financial statements, which are not included in this prospectus. We derived the selected combined statement of operations and balance sheet data for fiscal 2004 from our unaudited combined financial statements, which are not included in this prospectus. Our combined financial statements were prepared in accordance with U.S. GAAP. Our historical financial data are not necessarily indicative of our results for any future period. In management s opinion, the unaudited financial information set forth below has been prepared on substantially the same basis as the audited combined financial statements appearing elsewhere in this prospectus and includes all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited combined data.

	Year Ended March 31,			
	2007	**2006**	**2005**	**2004**
	(in millions, except per share data)			
Combined Statement of Operations				
Revenues:				
Execution-only commissions	$ 386.5	$ 261.8	$ 237.7	$ 234.8
Cleared commissions	1,280.0	865.6	687.0	685.7
Principal transactions	245.7	151.1	142.9	121.4
Interest income	3,775.4	1,294.0	583.0	358.7
Other	37.8	29.2	24.1	18.4
Total revenues	5,725.5	2,601.6	1,674.7	1,419.1
Interest and transaction-based expenses:				
Interest expense	3,370.4	1,071.9	450.8	258.0
Execution and clearing fees	700.4	463.4	396.3	389.1
Sales commissions	275.9	119.8	105.8	120.6
Total interest and transaction-based expenses	4,346.7	1,655.1	952.9	767.7
Revenues, net of interest and transaction-based expenses	1,378.7	946.5	721.8	651.4
Expenses:				
Employee compensation and benefits	834.7	595.7	415.3	381.8
Communications and technology	102.2	72.2	62.2	58.9
Occupancy and equipment costs	29.8	24.5	14.9	20.1
Depreciation and amortization	46.8	28.2	23.3	25.4
Professional fees	50.1	26.7	19.8	17.0
General and other	77.3	46.4	50.5	41.7
IPO-related costs	33.5			
Refco integration costs	19.4	66.8		
Total other expenses	1,193.9	860.5	586.1	544.9
Gains on exchange seats and shares	126.7	33.5	5.8	2.8
Net gain on settlement of legal proceeding	21.9			
Interest on borrowings	43.8	31.5	17.7	6.3
Income before provision for income taxes	289.7	88.0	123.8	103.0
Provision for income taxes	100.0	28.2	39.5	34.8
Minority interest in income of combined companies (net of tax)	1.7	0.3		
Equity in earnings of uncombined companies (net of tax)	0.1	0.3		

Net income	$	188.0	$	59.8	$	84.2	$	68.2
Pro forma basic shares outstanding(1)		121.3						
Pro forma diluted shares outstanding(1)		123.2						
Pro forma basic net income per share(2)	$	1.55						
Pro forma diluted net income per share(2)	$	1.53						
Dividends declared per share(3)	$	0.03						

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	At March 31, 2007	2006	2005	2004
	(in millions)			
Combined Balance Sheet Data				
Cash and cash equivalents	$ 1,733.1	$ 1,413.5	$ 1,111.7	$ 941.4
Total assets	51,670.3	34,314.6	21,910.7	14,621.5
Total borrowings	676.6	673.5	570.6	210.6
Equity	537.8	374.1	323.4	294.8

(1) Pro forma basic and diluted shares outstanding assume the reclassification of our capital structure prior to the completion of this offering in connection with the Reorganization and Separation transactions. See Note 1 to our combined financial statements. Prior to the reclassification, our capital structure was presented as equity, rather than share capital. For a description of the Reorganization and Separation transactions see The Reorganization, Separation and Recapitalization Transactions and Our Organizational Structure . For fiscal 2007, basic weighted average pro forma common shares outstanding is 121,295,280, representing the sum of (i) 100 common shares issued to the Man Group selling shareholder in connection with the formation of MF Global Ltd., (ii) 103,726,353 common shares issued to the Man Group selling shareholder in connection with the Reorganization and Separation transactions, (iii) 17,379,493 common shares issued to the Man Group selling shareholder in exchange for Man Group s net capital contribution, (iv) 160,000 common shares to be issued pursuant to the employee stock grants upon the consummation of this offering and (v) 29,334 restricted stock units granted to retirement-eligible employees, less any unvested common shares subject to repurchase or cancellation. For fiscal 2007, diluted weighted average pro forma common shares outstanding is 123,196,853, representing basic weighted average pro forma common shares outstanding plus pro forma dilutive common shares for the period. See Notes (i) and (j) to Unaudited Pro Forma Combined Financial Information .

(2) Pro forma net income per share is calculated by dividing historical net income for fiscal 2007 by the weighted average pro forma number of common shares outstanding (basic and dilutive) during fiscal 2007 as discussed in footnote (1) above.

(3) These dividends were paid to Man Group when we were wholly owned by Man Group and are not indicative of future dividends. We currently do not expect to pay any cash dividends on our common shares in the foreseeable future. Dividend declared per share is calculated by dividing dividends paid to Man Group by the pro forma number of basic shares outstanding as discussed in footnote (1) above.

See adjustment described in Note 3 to our combined financial statements.

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UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The historical unaudited pro forma combined financial information of our company presented below has been derived from our audited combined financial statements for the year ended March 31, 2007. In addition to the sale of 97,379,765 common shares by the Man Group selling shareholder in this offering, this information reflects the pro forma effects of the following items:

- a capital contribution by Man Group of approximately $651.7 million in cash to us in return for approximately 17.4 million additional common shares that we will issue to the Man Group selling shareholder;

- one of our U.S. finance subsidiaries, MF Global Finance USA Inc., will borrow (and we will guarantee the repayment of) approximately $1.4 billion in a 364-day bridge loan from several financial institutions; we will use a portion of the net proceeds of the bridge loan to repay all of our outstanding borrowings from Man Group and third parties;

- our entry into transitional services agreements with Man Group;

- the contribution to us by Man Group of a direct economic interest of 46.1% in USFE in connection with the Reorganization and Separation transactions, reflected for the full year;

- our grant of IPO Awards; and

- the provision for income taxes.

These items are collectively referred to as the Pro Forma Adjustments .

The Pro Forma Adjustments are based upon available information and certain assumptions that management believes are reasonable. Among other things, the number of common shares to be issued in respect of the IPO Awards will depend upon the initial public offering price per share. These share amounts assume that the initial public offering price per share will be the mid-point of the estimated price range on the cover of this prospectus. The pro forma combined financial information and accompanying notes should be read in conjunction with our combined financial statements and notes thereto included elsewhere in this prospectus.

The pro forma combined financial information presented is not necessarily indicative of the results of operations or financial condition that might have occurred had the pro forma adjustments actually taken place as of the dates specified, or that may be expected to occur in the future.

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Pro Forma Combined Statement of Operations

		Year Ended March 31, 2007	
	Historical	Pro Forma Adjustments	Pro Forma
		(in millions)	
Revenues:			
Execution-only commissions	$ 386.5	$	$ 386.5
Cleared commissions	1,280.0		1,280.0
Principal transactions	245.7		245.7
Interest Income	3,775.4		3,775.4
Other	37.8		37.8
Total revenues	5,725.5		5,725.5
Interest and transaction-based expenses:			
Interest expense(a)	3,370.4	10.1	3,380.5
Execution and clearing fees	700.4		700.4
Sales commissions	275.9		275.9
Total interest and transaction-based expenses	4,346.7	10.1	4,356.9
Revenues, net of interest and transaction-based expenses	1,378.7	(10.1)	1,368.6
Expenses:			
Employee compensation and benefits, excluding employee IPO awards(b)	834.7	(25.1)	809.6
Employee IPO awards(b)		92.8	92.8
Communications and technology	102.2		102.2
Occupancy and equipment costs	29.8		29.8
Depreciation and amortization	46.8		46.8
Professional fees	50.1		50.1
General and other(a)	77.3	0.8	78.1
IPO-related costs(c)	33.5	(33.5)	
Refco integration costs	19.4		19.4
Total other expenses	1,193.9	35.0	1,228.9
Gains on exchange seats and shares(d)	126.7	(28.6)	98.1
Net gain on settlement of legal proceeding	21.9		21.9
Interest on borrowings(e)(f)	43.8		
(e)		36.6	
(f)		2.0	
		38.6	82.4
Income before provision for income taxes	289.7	(112.3)	177.4
Provision for income taxes(g)	100.0	(39.3)	60.7
Minority interest in income of combined companies (net of tax)	1.7		1.7
Equity in earnings of uncombined companies (net of tax)(h)	0.1	(0.6)	(0.5)
Net income	$ 188.0	$ (73.6)	$ 114.4
Basic net income per share(j)			$ 0.94

Diluted net income per share(j)	$	0.93

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

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Pro Forma Combined Balance Sheet

		At March 31, 2007		
		Historical	Pro Forma Adjustments (in millions)	Pro Forma
Assets:				
Cash and cash equivalents		$ 1,733.1		
	(d)		$ 91.1	
	(e)		(109.4)	
	(k)		651.7	
			633.4	$ 2,366.5
Cash segregated under Federal and other regulations		4,373.5		4,373.5
Securities purchased under agreements to resell		19,056.3		19,056.3
Securities borrowed		4,843.3		4,843.3
Securities received as collateral		555.2		555.2
Securities owned, at fair value	(d)	13,599.0	(91.1)	13,507.9
Receivables:				
Brokers, dealers and clearing organizations		6,185.1		6,185.1
Customers		801.6		801.6
Affiliates		12.0		
	(l)		55.0	
	(e)		(67.0)	
			(12.0)	
Other		41.7		41.7
Memberships in exchanges, at cost		17.5		17.5
Furniture, equipment and leasehold improvements, net		45.8		45.8
Intangible assets, net		238.1		238.1
Other assets		168.1		
	(m)		(18.7)	
	(p)		10.9	
			(7.8)	160.3
Total assets		$ 51,670.3	$ 522.5	$ 52,192.8
Liabilities and Equity:				
Short-term borrowings, including current portion of long-term borrowings	(e)	$ 82.0	$ 1,318.0	$ 1,400.0
Securities sold under agreements to repurchase		16,874.2		16,874.2
Securities loaned		10,107.7		10,107.7
Obligation to return securities borrowed		555.2		555.2
Securities sold, not yet purchased, at fair value		3,378.5		3,378.5
Payables:				
Brokers, dealers and clearing organizations		2,561.5		2,561.5
Customers		15,756.0		15,756.0
Affiliates		869.9		
	(e)		(899.8)	
	(n)		29.9	
			(869.9)	
Accrued expenses and other liabilities		345.9		
	(l)		55.0	
	(m)		(48.6)	
	(o)		(0.2)	
	(p)		0.6	
			6.8	352.7
Long-term borrowings	(e)	594.6	(594.6)	0.0

Total liabilities		51,125.5	(139.7)	50,985.8
Minority interests in combined subsidiaries		7.0		7.0
Equity		537.8		
	(l)		55.0	
	(l)		(55.0)	
	(m)		29.9	
	(n)		(29.9)	
	(o)		0.2	
	(p)		10.5	
	(k)		(548.5)	
			(537.8)	0.0
Shareholders equity (pro forma):				
Preferred shares, $1.00 par value per share; 200,000,000 authorized; no shares issued and outstanding				
Common shares, $1.00 par value per share; 1,000,000,000 authorized; 121,295,280 shares issued and outstanding	(i)		121.3	121.3
Additional paid-in capital				
	(k)		444.6	
	(k)		634.1	
			1,078.7	1,078.7
Accumulated other comprehensive income				
Retained earnings				
Total shareholders equity (pro forma)		537.8	662.2	1,200.0
Total Liabilities and Equity		$ 51,670.3	$ 522.5	$ 52,192.8

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

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NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION

Note 1: Basis of Presentation

As permitted by the rules and regulations of the SEC, the Pro Forma Combined Financial Information is presented on a condensed basis. The pro forma combined statement of operations information for the year ended March 31, 2007 was prepared as if the Pro Forma Adjustments had taken place at the beginning of fiscal 2007. The pro forma combined balance sheet information was prepared as if the Pro Forma Adjustments had occurred as of March 31, 2007.

For pro forma purposes, the offering and the IPO Awards, where applicable, reflect an assumed initial public offering price of $37.50 per share, the mid-point of the estimated price range set forth on the cover page of this prospectus.

Note 2: Pro Forma Adjustments

(a) Transitional Services Agreements. Adjustment to reflect the change in our operating expenses due to transitional services agreements we have entered into with Man Group, pursuant to which we will rely on Man Group for the provision of certain administrative support and/or consultation services for several corporate functions. The services provided under these agreements, and the fees paid in respect of those services, are not expected to be materially different from the services provided by Man Group, or the fees paid, historically for similar services. However, in the past, we did not pay value-added tax (VAT) on these services; we have therefore included an adjustment of $0.8 million in general and other expenses to reflect appropriate VAT charges. We also included an adjustment reflecting a reduction in our net interest income by an amount that we receive on a portion of our client funds and that historically we have retained and included in our historical financial statements but that, going forward, we will pay directly to Man Group under our transitional services arrangements and will not retain. For fiscal 2007, the portion of interest on these funds was $10.1 million and this adjustment reduces our net interest income by this amount for the period. For a discussion of these transactions, see Certain Relationships and Related Transactions .

(b) Employee IPO Awards. Adjustment to reflect the increase in employee compensation and benefits as a result of the grant of share options and restricted share units to a broad group of employees, including our executive officers, under our equity incentive plan at the time we complete this offering. The historical compensation expense of $25.1 million, net of a cumulative effect of accounting change of $1.0 million, will be replaced with compensation expense on the new awards of $92.8 million for fiscal 2007, determined in accordance with SFAS No. 123(R) Share-Based Payment . Our estimate of fair value for the share option grants was made using the Black-Scholes model based upon an exercise price equal to the initial public offering price, volatility of 31%, risk free interest rate of 4.6% per year and an average expected life of 4.5 years. For a description of our equity incentive plan and the IPO Awards, see Management Compensation Discussion and Analysis Transition Policies IPO Awards .

(c) IPO-related costs. Adjustment to reflect the elimination of $33.5 million of costs directly attributable to the Reorganization, Separation and Recapitalization transactions, referred to as IPO-related costs. For a further description of these costs, see Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures .

(d) Excess exchange memberships. Adjustment to reflect the contribution of certain excess exchange seats and shares to a subsidiary of Man Group at fair value in connection with the Reorganization and Separation transactions. As a result, we will no longer recognize gains or losses based on the fair market value movements of these seats or shares or receive dividends from these shares. Therefore, we have eliminated $28.6 million gain on exchange seats and shares, and have included an adjustment of $91.1 million to our securities owned, at fair value line item to reflect the sale of these exchange seats and shares.

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(e) Bridge Loan / Repayment of Debt. Adjustment to reflect the net increase in interest on borrowings that would have been realized in connection with the repayment of all of our outstanding borrowings owed to Man Group and third parties using the net proceeds from the borrowing by one of our U.S. finance subsidiaries, MF Global Finance USA Inc., (and our new guarantee of the repayment) of approximately $1.4 billion in a 364-day bridge loan. Any net difference will result in net cash and cash equivalents inflows/outflows. The new borrowings will result in increased interest expense on borrowings of $36.6 million for fiscal 2007, assuming an interest rate for the bridge loan of 5.75%. The bridge loan will provide for interest to accrue at a floating rate equal to (1) a specified base rate or (2) LIBOR for a varying period of one, two or three months plus a margin. For the purpose of this pro forma adjustment, we have assumed a fixed rate of 5.75%, which was the sum of the LIBOR rate in effect on June 20, 2007 and the applicable margin (including facility fee) of 0.40%. The effect on income before provision for income taxes of a $^{1}/_{8}$% variance in these rates would be approximately $1.75 million for an annual period.

Assuming we issue a combination of senior notes and junior subordinated debentures, through one of our U.S. finance subsidiaries, to repay in full the bridge loan shortly following this offering, the pro forma combined financial information would be further adjusted as follows:

Interest on borrowings: Adjustment to reflect the net increase in interest on borrowings that would have been realized in connection with the repayment of the $1.4 billion bridge loan with the net proceeds of the issuance of senior notes and junior subordinated debentures. Any net difference will affect net cash and cash equivalent cash flows/inflows. The new borrowings are expected to result in an increased interest expense on borrowings of between $11.7 million and $18.7 million for fiscal 2007. Our ability to fully replace the bridge loan on favorable terms will depend on market conditions as well as other factors we do not entirely control and no assurances can be given as to final interest on borrowings as such interest will be dependent upon market conditions including, among other things, prevailing spreads and Treasury rates.

Short-term borrowings: Adjustment to reflect the repayment of $1.4 billion of short-term borrowings under the bridge loan.

Long-term borrowings: Adjustment to reflect the increase in long-term borrowings of $1.4 billion, representing senior notes and the junior subordinated debentures.

(f) Bridge Loan / Liquidity Facility Fees. Adjustment to expense the arrangement fee of $0.5 million and the administration fee of $0.1 million related to the $1.4 billion bridge loan and $1.5 billion liquidity facility, as well as the annual liquidity facility fee of $1.4 million, calculated assuming a BBB+ rating. All these fees relate to the bridge loan or liquidity facility and will be expensed within the first year.

Assuming we issue a combination of senior notes and junior subordinated debentures, through one of our U.S. finance subsidiaries, to repay in full the bridge loan shortly following this offering, we expect to incur placement fees of approximately $10.0 million, which would result in a further adjustment to Interest on borrowings.

(g) Income Tax Provision. Adjustment to reflect the change to our income tax expense of $39.3 million for fiscal 2007 using a weighted statutory rate of 35%, as a result of the Reorganization and Separation transactions and this offering, including the tax attributes of the Pro Forma Adjustments.

(h) Ownership interest in USFE. Adjustment to reflect our additional 46.1% direct economic ownership in USFE, acquired in October 2006, for the full year, representing a loss of $0.6 million net of taxes. USFE is accounted for as an uncombined entity, and our share of the net loss since the acquisition in October 2006 has been included in our fiscal 2007 results. For further details on the transfer, see Our Business Investment in USFE .

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(i) Pro Forma Common Shares. Common shares outstanding after giving effect to the Pro Forma Adjustments:

Basic weighted average pro forma common shares outstanding:	
Shares issued to Man Group selling shareholder at MF Global formation	100
Shares issued to Man Group selling shareholder in Reorganization and Separation transactions	103,726,353
Shares issued to Man Group selling shareholder in exchange for capital contribution	17,379,493
Stock grant awarded to employees	160,000
Restricted stock units granted to retirement-eligible employees	29,334
Total	121,295,280
Diluted weighted average pro forma common shares outstanding:	
Basic weighted average pro forma common shares outstanding	121,295,280
Dilutive common shares	1,901,573
Total	123,196,853

See also note (j) below. The employee stock grants represent common shares granted to certain employees, which will be issued following the pricing of this offering. Diluted weighted average pro forma common shares outstanding does not include common shares underlying the 9,007,600 share options and 3,803,147 of the 5,704,720 outstanding restricted share units granted as part of the employee IPO Awards as they are considered antidilutive under U.S. GAAP.

(j) Pro Forma Net Income Per Common Share. Pro forma net income per common share is computed by dividing pro forma net income for fiscal 2007 by the basic weighted average pro forma number of common shares outstanding during the period. Pro forma diluted net income per common share is computed by dividing pro forma net income for fiscal 2007 by the sum of basic weighted average pro forma common shares outstanding plus pro forma dilutive common shares for the period. Pro forma basic and diluted shares also include the additional 17,379,493 common shares to be issued to the Man Group selling shareholder in exchange for the net capital contribution as discussed below in note (k).

	Year Ended March 31, 2007
Basic and diluted pro forma net income per common share:	
Numerator:	
Net income	$ 114.4
Denominator for basic calculation:	
Basic weighted average common shares outstanding	121,295,280
Denominator for diluted calculation:	
Basic weighted average common shares outstanding	121,295,280
Effect for dilutive securities	1,901,573
Diluted weighted average common shares outstanding	123,196,853
Basic pro forma net income per share	$ 0.94
Diluted pro forma net income per share	$ 0.93

(k) Capital Contribution. Adjustment to reflect the transfer of equity of $548.5 million historically presented on a carve-out basis to (i) pro forma shareholders equity presented as common shares of $103.9 million and (ii) additional paid-in capital of $444.6 million. Adjustment also reflects the receipt of an assumed net capital contribution of $651.7 million from Man Group prior to the pricing of this offering with $634.1 million included in additional paid-in-capital, in exchange for the issuance of 17,379,493 additional common shares to the Man Group selling shareholder. The amount of the net capital contribution will equal approximately $1.2 billion less our equity at June 30, as adjusted for certain subsequent transactions and, for purposes of this pro forma combined balance sheet, is estimated using our equity at March 31, 2007.

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Certain transactions will occur as the result of our Reorganization and Separation from Man Group and the offering that are not recurring and, therefore have not been adjusted for in the pro forma combined statement of operations. These items are, however, included within the pro forma combined balance sheet:

(l) Adjustment of $55.0 million to reflect estimated tax liabilities incurred in connection with the Reorganization and this offering in accordance with SFAS No. 109 Accounting for Income Taxes . The amount of anticipated taxes is a non-recurring item and, therefore, is not reflected in the pro forma statement of operations but does result in a reduction of retained earnings in the pro forma balance sheet. Furthermore, subject to various limitations and conditions, MF Global has the right to receive the economic benefit of indemnity payments from Man Group for the tax costs incurred in connection with the Reorganization and this offering. This indemnification results in a receivable from affiliates and is accounted for as increased paid-in-capital.

(m) Adjustment to reflect the tax effect of vesting and termination of our employees participation in various Man Group share plans. Our balance sheet at March 31, 2007 includes a deferred tax asset for unrealized tax benefits for future employee vesting in deferred tax assets in the amount of $18.7 million. This amount was calculated using the value of shares at the time of historical grants to our employees. Upon the consummation of this offering, our employees interests in the Man Group plans will vest on a prorated basis. Such vesting and employee exercises will result in the realization by MF Global of tax deductions that are calculated using the fair market value of the shares at the time of vesting. The excess of anticipated tax benefits of $29.9 million is calculated using the value of the shares at the time of vesting as compared to the value at the time of their grant (referred to as the windfall tax savings) and is represented as an increase to additional paid-in capital in our Pro Forma combined balance sheet in accordance with SFAS No. 123(R) Share-Based Payments . The total adjustment of $48.6 million reduces taxes payable within accrued expenses and other liabilities.

(n) Adjustment of $29.9 million to reflect an obligation to remit the windfall tax savings of the vesting of our employees in the Man Group share plans to Man Group. Under the terms of the Tax Matters Deed, we have agreed to pay to Man Group the amount of tax savings that are ultimately realized by MF Global upon employee vesting in Man Group share plans in excess of the amount of related deferred tax assets at March 31, 2007. The incurrence of this affiliates payable is offset by a distribution of retained earnings in our Pro Forma combined balance sheet.

(o) An adjustment of $11.1 million is recognized in compensation expense as a result of this offering due to the immediate vesting of existing employees stock compensation awards granted under several stock-based incentive plans established by Man Group. This adjustment consists of a $0.2 million reduction to accrued expenses and other liabilities on the liability plan, and a $11.3 million increase to equity on the equity plans. It also decreases retained earnings by $11.1 million.

(p) Adjustment to reflect the tax implications of the contribution of certain excess exchange seats to Man Group prior to this offering. Our March 31, 2007 balance sheet includes deferred tax liabilities for the appreciation in the Company s historic investment in those excess market seats in the amount of $19.7 million. These deferred tax costs were calculated using the fair value of these exchange seats at March 31, 2007. The contribution of the exchange seats will result in a reversal of the $19.7 million deferred tax liabilities mentioned above and the recognition of a deferred tax asset of $10.9 million. In addition, a portion ($20.3 million) of the contribution is not anticipated to result in tax costs, which will cause a reversal of the corresponding deferred taxes which in turn will result in a net increase to accrued expenses and other liabilities of $0.6 million. Furthermore, this also reflects a non-recurring decrease in tax expense of $10.5 million represented herein as a credit to retained earnings.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the factors described under the caption Risk Factors and elsewhere in this prospectus. You should read the following discussion in conjunction with the information included under the captions Unaudited Pro Forma Combined Financial Data and Selected Combined Financial Data and our historical combined financial statements and the related notes thereto included elsewhere in this prospectus. In this discussion, references to fiscal 2005 , fiscal 2006 , fiscal 2007 and fiscal 2008 mean our fiscal years ended March 31, 2005, 2006 and 2007 and our fiscal year ending March 31, 2008, respectively.

Overview

We are the leading broker of exchange-listed futures and options in the world. We provide execution and clearing services for exchange-traded and over-the-counter, or OTC, derivative products as well as for non-derivative foreign exchange products and securities in the cash markets. Our business is based on a diversified yet fully integrated model that allows us to offer a variety of products across a broad range of trading markets, geographic regions and clients and through multiple distribution channels. We operate and manage our business on an integrated basis as a single operating segment.

Our revenues, net of interest and transaction-based expenses, have grown 111.7% from $651.4 million in fiscal 2004 to $1,378.7 million in fiscal 2007. During the same period, our total revenues grew 303.5% from $1,419.1 million to $5,725.5 million. The main factors contributing to our growth during this period were:

- overall growth in transaction volumes and volatility in the markets in which we operate;
- growth from accounts of former Refco clients, which we acquired from regulated subsidiaries of Refco in fiscal 2006; and
- our continued focus on expanding our business model to include additional products, trading markets and regions.

Factors Affecting Our Results

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

Trading Volumes and Volatility

Our trading volumes are particularly dependent on our clients demand for exchange-traded and OTC derivative products, which relate to interest rates, equities, foreign exchange and commodities. Demand for these products is driven by a number of factors, including the degree of volatility of the market prices of the underlying assets that is, the extent to which and how rapidly those prices change during a given period. Higher price volatility increases the need for some clients to manage price risk and creates opportunities for speculative trading for others. While higher prices do not necessarily lead to increases in trading volumes, changes in the absolute price levels of financial assets or commodities can have a significant impact on trading volumes. In recent years, volatility in the primary markets in which we operate has been relatively high and has contributed to rising client trading volumes and thus rising revenues. The total volume of exchange-traded futures and options transactions we executed and cleared increased 125.1% from 668.0 million contracts in fiscal 2004 to

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1,503.5 million contracts in fiscal 2007. All volume statistics presented throughout this prospectus include exchange-traded futures and options contract volumes as derived from our management reporting systems, as adjusted (1) to include volumes attributable to the Refco assets from the date of the Refco acquisition until the date Refco s systems were integrated into ours; (2) to include futures and options volumes in Australia, India, Hong Kong and Canada and U.S.-based equity options and certain execution-only businesses captured by data sources not yet integrated in our management systems; and (3) to exclude intercompany volumes. We believe these adjustments result in more meaningful and useful data.

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

We estimate that our volumes of exchange-traded futures and options transactions executed and cleared for the first quarter of fiscal 2008 to date are consistent with the general volume trends in the futures and derivatives markets. Based on publicly available data from CME, Eurex and CBOT, derivatives volumes on those exchanges generally declined in the early part of the first quarter of fiscal 2008 from the record levels of the previous quarter, although volumes have since experienced notable improvement given recent market volatility. There can be no assurance that volumes will sustain recent levels.

Interest Rates

Our interest income is directly affected by the spread between short-term interest rates we pay our clients on their account balances and the short-term interest rates we earn from re-investing their cash. While these spreads have remained within a relatively constant range over time, they can widen or narrow when interest rate trends change. In addition, a portion of our interest income relates to client balances on which we do not pay interest and thus is directly affected by the absolute level of short-term interest rates. As a result, our interest income is impacted by the level and volatility of interest rates. Overall, interest rates have risen since 2004, which has helped us to manage our interest rate spreads effectively and has increased our interest income on non-interest bearing client balances, and thus has had a generally positive impact on our revenues. In addition, our interest on borrowings is affected by changes in interest rates, which could increase or decrease our interest expense (recorded as interest on borrowings) on our variable rate debt.

Reorganization, Separation and Recapitalization

Prior to this offering, we were a division of Man Group known as Man Financial . Man Group is listed on the London Stock Exchange and is a FTSE 100 company. Man Investments, the asset management division of Man Group, is a leading company in the alternative investment industry. Going forward, we will conduct our business independently of Man Group, under the name MF Global , as a public company listed on the New York Stock Exchange. We refer to the various transactions implemented in preparation for this offering as the Reorganization and Separation transactions, which are described under The Reorganization, Separation and Recapitalization Transactions and Our Organizational Structure .

Following the Reorganization and Separation transactions and in order to manage our capital, liquidity and operations efficiently, we intend to use our wholly owned finance subsidiaries in the United States, MF Global Finance North America Inc. and MF Global Finance USA Inc., and form additional new finance subsidiaries outside the United States (collectively, the Fincos) to conduct our financing activities going forward. We anticipate that we will fully and unconditionally guarantee all financings by the Fincos.

This prospectus does not include the historical financial statements of MF Global Ltd. because it was formed on May 3, 2007 for the purpose of effecting the Reorganization and Separation transactions. Until the consummation of these transactions, MF Global Ltd. had no material assets and did not engage in any operations.

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Our separation from Man Group and our transition to a public company will have certain consequences on our results of operations and financial condition following this offering. The principal consequences include:

New Group Net Capital Contribution. Prior to the pricing of this offering, Man Group will make a net capital contribution in cash to us in return for approximately 17.4 million additional common shares that we will issue to the Man Group selling shareholder, so that, upon the pricing of this offering, our pro forma shareholders equity will equal approximately $1.2 billion. For purposes of our pro forma combined balance sheet, the amount of the net capital contribution was estimated to be $651.7 million using our equity at March 31, 2007. The actual amount of the net capital contribution will be determined on the date of the Recapitalization, and subsequently adjusted if necessary, using our balance sheet as of June 30, 2007, as adjusted for certain subsequent transactions. We describe the net capital contribution and the Recapitalization in further detail under The Reorganization, Separation and Recapitalization Transactions and Our Organizational Structure The Recapitalization .

Bridge Loan. Prior to the pricing of this offering, one of our U.S. finance subsidiaries, MF Global Finance USA Inc., will borrow (and we will guarantee the repayment of) approximately $1.4 billion under a 364-day bridge loan from several financial institutions, including affiliates of several of the underwriters in this offering. Subject to market conditions and other factors, we intend to refinance our borrowings under the bridge loan shortly after the completion of this offering with a combination of senior notes and junior subordinated debentures. We describe the anticipated terms of the bridge loan and the proposed offering of notes and debentures under Liquidity and Capital Resources below.

Repayment of Outstanding Debt. Prior to the pricing of this offering, we will use a portion of the net proceeds from the $1.4 billion bridge loan to repay all of our outstanding borrowings owed to Man Group and third parties.

Equity Compensation. Following the Reorganization and Separation transactions, our employees will no longer participate in equity compensation or other benefit plans sponsored by Man Group. Prior to the completion of this offering, we will adopt new equity plans and intend to use equity as a larger part of our ongoing compensation program as a public company. In connection with this offering, we intend to make an initial grant of share options and/or restricted share units to our executive officers and a broad group of other employees under our Long-Term Incentive Plan. These initial awards will take into account existing unvested share options and/or other share-based awards of Man Group held by our officers and employees that will be forfeited under the terms of the relevant Man Group plans as a result of the Reorganization and Separation transactions. For a discussion of these awards, see Management Compensation Discussion and Analysis Transition Policies . The impact of these awards will be to increase our employee compensation and benefits expense during the periods over which the associated expense is amortized.

The actual amounts and other terms of the transactions described above are subject to change based on market conditions and our business needs. For information on the pro forma effects of the Recapitalization transactions and our transition to a public company, see Unaudited Pro Forma Combined Financial Information and the accompanying notes thereto and Our Capitalization .

In addition, we have for many years provided clearing services, under various arrangements, for a number of independent investment products managed by Man Investments Limited, which is a part of the asset management division of Man Group and will remain part of Man Group after the offering. We have also provided execution services for these investment products. These brokerage services are an important source of revenue for us, accounting for approximately 2.8% of our revenues, net of interest and transaction-based expenses, for fiscal 2007. These brokerage services, together with the brokerage services we provide to several investment products managed by entities that are partially owned by Man Group, represent a substantially greater percentage, which we would estimate to be approximately 10-15%, of our adjusted income before taxes. We have recently entered into new clearing agreements with regard to the relevant investment products.

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Acquisition of Refco Assets

In the past, we have significantly expanded our business both organically and through acquisitions. We have made acquisitions to advance our strategic development and to achieve earnings growth through economies of scale. In many cases, we make acquisitions by purchasing client accounts from other brokers or recruiting other brokers client teams and in other cases by acquiring entire brokerage units or companies.

On November 25, 2005, we acquired client accounts, balances and certain other assets (e.g., exchange seats and trading technology) from regulated subsidiaries of Refco for $304.9 million. We also hired a substantial number of Refco brokers and other employees. The assets related primarily to Refco s regulated commodity futures business, primarily in the United States and to a lesser extent in Canada and Asia. Most of the U.S. and Canadian assets related to private clients. The acquisition was structured as a purchase of assets, although we also acquired stock of some small non-U.S. entities. See Note 4 to our audited combined financial statements. We acquired the Refco assets as a result of an auction conducted under the authority of the U.S. Bankruptcy Court pursuant to Sections 363 and 365 of Title 11 of the United States Code.

Because we acquired the Refco assets primarily in asset transactions, separate historical financial statements for the specific assets we purchased do not exist. In addition, we have no right of access to the accounting records of the Refco entities that sold these assets to us. Moreover, the amount of assets in the client accounts we purchased shrank significantly between October 2005, when news of Refco s accounting problems prompted substantial client withdrawals, and November 2005, when we purchased the Refco assets. Consequently, we do not believe that any Refco historical financial statements relating to pre-acquisition periods would contain meaningful information for investors. For these reasons, this prospectus does not include historical financial statements for the Refco assets for periods prior to our acquisition of them in November 2005 or pro forma financial statements showing the impact of the acquisition on our results of operations and financial condition prior to the acquisition. Although our combined financial statements included in this prospectus reflect the performance of the Refco assets since the acquisition, this post-acquisition information does not indicate how the Refco assets performed historically prior to the acquisition.

The Refco acquisition is the largest acquisition we have made to date, and the Refco assets are an important part of our business. For fiscal 2007, these assets contributed approximately 11.3% of our total revenues, approximately 18.8% of our revenues, net of interest and transaction-based expenses, and approximately 12.3% of our income before provision for income taxes. At March 31, 2007, these assets accounted for approximately 7.8% of our total assets. Since our acquisition of the Refco assets, we have also attracted a substantial number of new accounts from former Refco clients who had closed their Refco accounts before the acquisition. These new accounts were not part of the Refco assets we purchased, although they also have contributed to our growth since the Refco acquisition. Whenever we refer to the Refco assets or their impact on our results of operations or financial condition in the discussion that follows, we refer to the assets we purchased from Refco subsidiaries in November 2005 and not to any new accounts of former Refco clients we have attracted after the acquisition, which we consider part of our organic growth, unless otherwise indicated.

Basis of Presentation

We have not previously prepared financial statements for our company on a stand-alone basis. The audited combined financial statements included elsewhere in this prospectus have been prepared as if we had existed on a stand-alone basis for all periods presented and in conformity with U.S. GAAP.

Our audited combined financial statements include the carve-out accounts of Man Financial, the brokerage business of Man Group plc, and its majority and wholly owned subsidiaries, in each case using the historical basis of accounting for the results of operations, assets and liabilities of the respective businesses. Our audited combined financial statements may not necessarily reflect the results of operations, financial position and cash flows we would have achieved had we actually existed on a stand-alone basis during the periods presented. Transactions between us and Man Group and entities that will remain part of Man Group after this offering,

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herein referred to as related party or affiliated transactions, have not been eliminated in combination, but all significant intercompany balances and transactions between the entities included in our audited combined financial statements have been eliminated in combination.

Our audited combined financial statements include our direct expenses as well as our allocation of expenses arising from shared services and infrastructure provided to us by Man Group. These expenses primarily relate to employee compensation and benefits, use of office facilities and services related to overall corporate functions, including tax, legal, risk management, insurance, finance, internal audit and executive management. These expenses have been allocated to us using estimates that management considers a reasonable reflection of our use of these services or benefits we received. See Note 21 to our annual combined financial statements included elsewhere in this prospectus for further information related to these costs.

Results of Operations

We operate and manage our business on an integrated basis as a single operating segment. We derive our revenues principally from execution and clearing services we provide to our clients, including interest income related to providing these services. While we provide these services to a diverse client base across multiple products, trading markets and geographic regions, we do not manage our business, allocate resources or review our operating results based on the type of client, product or trading market or the geographic region in which these services are provided. For information related to our geographic regions, see Note 20 to our annual combined financial statements.

Sources of Revenues

We derive our revenues from execution-only commissions, cleared commissions, principal transactions, interest income and other income.

Execution-Only Commissions

Execution-only commissions consist of transaction fees we earn for executing trades on an agency basis for clients that do not have clearing accounts with us and clear through another brokerage firm. We provide execution-only services primarily to institutional clients. We charge a per-contract fee for the execution-only services we provide. These fees generally are established at market rates and vary based on the product traded. While we negotiate these fees with individual clients, the fees we charge for a particular product type do not vary significantly among our clients. Execution-only commissions do not include (1) commissions we earn when we both execute *and* clear the transaction for the client, which we recognize as cleared commissions described below, or (2) markups we earn from executing client trades on a matched principal basis, which we recognize as revenues under principal transactions described below. We generally bill execution-only commissions either electronically as part of the relevant transaction or through a manual invoice process. The amount of execution-only fees we earn in any period fluctuates primarily based on the volume of client transactions executed and the types of product traded, and to a lesser extent on the fees we charge.

Cleared Commissions

Cleared commissions consist of transaction fees we earn for executing and clearing trades for clients that have clearing accounts with us. Our clearing relationships with clients give rise to two ways we provide clearing services to our clients. First, in most instances, we both execute and clear transactions for clients. Second, less frequently, we only provide clearing services where the trade is executed by another brokerage firm and then routed to our system for clearing, or given up to us because the client has a clearing account with us. Cleared commissions include fees we earn for providing both types of services.

We charge per-contract fees at various rates based on the type of product traded, the method of trading and the volume of trading activity that a particular client conducts with us. We generate cleared commissions from a

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broad range of clients trading in multiple markets and we negotiate our fee rates and related rebates (discussed below) with clients on an individual basis. As a result, our transaction fee rates generally vary among our clients. Cleared commissions are debited directly from the client s account with us, either on the trade date or on the closing date of the related transaction depending on the contractual arrangement we have with the client. In both cases, cleared commission revenue is recorded on a trade-date basis as client transactions occur.

Cleared commissions are presented net of rebates earned by clients. As part of our client fee arrangements, we pay rebates to clients based on the volume of transactions they execute and clear with us, which effectively reduces the per-contract fee we receive for executing and clearing transactions for these clients. The aggregate amount of cleared commission revenues we earn in any period fluctuates based on the volume of client transactions we execute and/or clear and the amount of commissions, net of rebates, we charge to clients in respect of those transactions.

Principal Transactions

Principal transactions reflect revenues we earn primarily from matched-principal transactions we execute to facilitate client trades and to a lesser extent from derivatives transactions we execute for our own account to hedge our foreign currency exposure as well as our hedging in respect of our interest rate exposure. As discussed below, the revenues earned in these transactions consist of the markups, or profits, we earn on these trades and are net of the value of the trades.

When we execute client orders on a matched-principal basis we take the other side of the trade for our own account and contemporaneously (often within minutes and generally on the same trading day) enter into an offsetting transaction with another party. By entering into offsetting trades contemporaneously, we reduce our exposure to the risk that market prices might change before the trade is completed. The offsetting trades may differ from the client trades in some respects, however, such as duration or other terms, and therefore we do not eliminate our exposure to market risk.

We engage in matched-principal execution primarily in the OTC foreign exchange and fixed income markets and in the listed metals markets outside the United States. In these transactions, we do not separately bill commissions to these clients, but include an amount in lieu of commissions in our revenues from principal transactions, following execution of the transactions on behalf of the clients. We seek to price these transactions so that we earn a positive spread, or markup, on the offsetting transaction, which we record as revenues from principal transactions. The markups represent our compensation for executing these clients orders. These revenues are a function of both the price of the underlying asset as well as the spread between the buy and sell prices for the underlying asset. This spread is affected by market conditions, including volatility and volume. Any markups (profits) or losses are recorded on the trade date.

Because we act as principal, rather than as agent, in these transactions, we are required to record realized and unrealized gains and losses relating to these transactions. Any gains or losses are for the account of our clients who secure payment to us for any losses by depositing margin funds as collateral. In addition, any trading errors are included in principal transactions.

In addition to these matched-principal trades, we enter into principal transactions in order to hedge our corporate exposure to foreign currency and interest rate risk. Our hedging transactions typically involve cash and derivative products in the foreign exchange market and fixed income derivatives. We enter into derivative transactions to hedge our exposure to British pounds and euros, both of which are currencies in which we pay a portion of our employee compensation and related benefits expenses. We generally hedge forecasted expenditures between 12 and 18 months in advance of payment. We also enter into derivatives transactions to hedge our exposure to changes in interest rates, which could affect the revenues we earn on cash balances and collateralized refinancing transactions as well as our cost of borrowing. We may engage in more interest rate hedging transactions in the future. Our hedging transactions do not fully offset our associated risk exposure. We also enter into principal transactions to invest and manage our liquid corporate assets. Our investment

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transactions typically involve government and investment-grade corporate debt securities as well as money- market funds. Profit and losses arising from all securities transactions entered into for our own account are recorded on a trade date basis.

Interest Income

We earn interest income from balances in our clients accounts, balances in our accounts, collateralized financing arrangements such as stock lending and resale and repurchase agreements and on the notional amounts of clients positions in contracts for differences. We also earn interest from investing our capital. As discussed below under Component of Expenses Interest Expense , we also incur related interest expense in connection with many of the transactions from which we derive interest income.

Our interest income is driven by the amount of client deposits placed with our brokerage operations, the level of prevailing interest rates, the portion of client balances on which we do not pay interest, the level of secured financing transactions provided to our clients and the degree to which we are able to optimize our capital structure. Typically, the net interest that we earn is lower in a lower interest rate environment and higher in a higher interest rate environment.

Revenues from interest income principally represent interest we earn from the investment of client funds deposited with us as margin for their trading activities, interest we earn on excess cash balances in our accounts and interest we earn from investing our capital. The majority of the interest income we earn relates to client balances on which we also pay interest to our clients, and therefore the net interest income we earn will depend on the spread between the short-term rates we pay and the short-term rates we earn. A portion of the interest income we earn relates to the client balances of some clients on which we do not pay interest. As a result, the interest income we earn on those client balances will depend on the absolute level of short-term interest rates.

We also earn interest from collateralized financing arrangements, which include resale agreements and securities lending transactions. When we enter into resale transactions, we earn interest on the cash payment we make to clients in exchange for securities deposited with us as collateral under agreements to resell at future dates. Conversely, when we enter into repurchase transactions, we pay interest on the cash we receive in exchange for pledging securities we own under agreements to repurchase at future dates. The amount of interest we earn depends on client activity and the difference between the interest rate we pay to our clients on their cash collateral and the interest rate we receive from investing the cash received by, or the collateral deposited with, us. These transactions result in a gross-up of interest income and interest expense in our combined statements of operations which are effectively netted as part of our revenues, net of interest and transaction-based expenses. Similarly, we enter into transactions where we borrow securities and pay related interest expense on the securities borrowed.

We also earn interest on the notional amount of clients positions in contracts for differences. In these transactions, the parties agree to settle a contract based on the difference between the opening and the closing prices of the contract, and our client posts with us as margin only a small percentage of the initial contract value. We charge these clients interest daily based on the notional amount of the contract for effectively financing the cost of the trade.

Our net interest income for fiscal 2007 and fiscal 2006 included approximately $10.1 million and $8.1 million, respectively, that we earned on certain client funds. Going forward, we will pay a similar portion of the net interest income earned on these funds directly to Man Group under our transitional services arrangements.

Other Revenues

Other revenues consist of revenues we earn from other normal business operations that are not otherwise included above. These types of revenues include, among other things:

- certain ancillary services provided to clients;
- software and related fees charged to clients for the use of software products; and
- profits or losses on the sale or disposal of fixed assets and other long-term investments.

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Components of Expenses

Our expenses consist of three principal components: (1) interest expense, (2) transaction-based expenses and (3) other expenses. A significant portion of our expenses is variable.

Interest Expense

Interest expense includes interest paid to our clients on the funds they maintain with us and interest paid to counterparties in connection with secured financing transactions, such as repurchase agreements and for securities we borrow. As discussed above, a substantial portion of our interest expense pertains to related client transactions from which we derive interest income but in respect of which we also incur interest expense. Our interest income and interest expense are effectively netted in our combined statements of operations as part of our revenues, net of interest and transaction-based expenses. The comparison of our period-to-period results described below also presents our interest income and interest expense on a net basis. For purposes of calculating revenues, net of interest and transaction-based expenses, interest expense excludes interest paid on long-term debt, which we disclose separately under Other Expenses below.

Transaction-Based Expenses

Transaction-based expenses are variable expenses we incur directly to generate revenues from providing execution and clearing services and consist of (1) execution and clearing fees paid to third parties and (2) sales commissions paid to introducing brokers.

Execution and clearing fees reflect our costs of executing, clearing and settling trades on behalf of our clients. We pay execution- and clearing-related fees primarily to clearing brokers, exchanges, clearinghouses and regulatory and self-regulatory bodies at contractually agreed rates. These expenses are variable and depend on the volume of transactions we execute or clear through these third parties, the types of product traded and the markets in which the products are traded. Execution and clearing fees also include losses due to trading errors.

Sales commissions consist of fees paid to introducing brokers. We pay introducing brokers a percentage of the commission fees we receive from their clients for providing execution and/or clearing services. We enter into clearing agreements with introducing brokers and customer agreements with their clients, pursuant to which we negotiate our transaction fees and corresponding sales commission for the individual introducing broker. The amount of sales commission we pay is variable and depends on the fee arrangement we have negotiated, which is generally based on the volume of business introduced by the broker as a percentage of the revenues we earn.

Other Expenses

Other expenses consist of expenses relating to (1) employee compensation and benefits, (2) communications and technology, (3) occupancy and equipment costs, (4) depreciation and amortization, (5) professional fees, (6) general and other, (7) IPO-related costs and (8) Refco integration costs.

Employee Compensation and Benefits

Employee compensation and benefits expense is the principal component of our expenses. These expenses include all compensation paid to employees and any related expenses, such as salaries, sign-on bonuses, incentive compensation and related employee benefits and taxes. The most significant component of our overall employee compensation and benefits expense is the employment costs of our front office staff, which includes our brokers, traders and other personnel interacting with our clients.

Our employee compensation and benefits expense for all employees has both a fixed and variable component. The fixed component consists of base salaries and benefit costs. The variable component depends on whether the employee is classified as front or back office staff. Front office staff receive production-based compensation, or earnouts, under negotiated arrangements based on the profitability of their team. Back office staff, which generally includes our executive officers and corporate, administrative, accounting, information technology and related support personnel, receive discretionary bonuses on an annual basis and that are based more broadly on our corporate performance. Production-based compensation payments are paid on a monthly or quarterly basis depending on the negotiated arrangement. Discretionary bonuses are paid in the first quarter of our fiscal year. For many of our front office staff, their production-based compensation constitutes a significant component of their overall compensation. Discretionary bonuses for back office staff, excluding members of our executive management committee, are generally a smaller component of overall compensation. Production-based compensation and discretionary bonus costs, and therefore employee compensation and benefits expense, vary based on our operating results. We accrue our discretionary bonus costs monthly.

Employee compensation and benefits expenses also include expenses related to awards granted to our employees under several stock-based incentive plans established by Man Group. For a discussion of the Man Group stock compensation plans that our employees participated in prior to the Reorganization and Separation transactions, as well as the accounting for those awards, see Note 15 to our audited combined financial statements. As described under Management Compensation Discussion and Analysis Transition Policies , effective upon completion of this offering, we expect to grant to our executives and a broad group of other employees initial awards of share options and/or restricted share units under our LTIP. These awards will take into account existing unvested share options and/or other share-based awards of Man Group held by our officers and employees that will be forfeited under the terms of the relevant Man Group plans as a result of the Reorganization and Separation transactions.

We estimate that we will realize approximately $303.0 million of stock-based compensation in future periods related to awards issued prior to March 31, 2007 as well as IPO Awards expected to be granted to employees upon consummation of this offering. Of this amount, we expect approximately $91.4 million, $94.5 million, $89.8 million and $27.3 million, will be recognized as expense in the years ending March 31, 2008, 2009, 2010 and thereafter, respectively. The restricted shares granted pursuant to the IPO Awards generally vest in full on the third anniversary of the pricing of the offering. The share options granted pursuant to the IPO Awards will have an exercise price equal to the offering price and will vest in equal installments over the three-year period and therefore are not exercisable for the first year following the offering. For more information concerning these IPO Awards, see Management Compensation Discussion and Analysis Transition Policies IPO Awards .

We expect that our employee compensation and benefits expense will vary from quarter to quarter due to the performance of our business, the hiring of additional employees associated with the growth of our business and the product and geographic mix of our business, which affects our compensation structure. As of March 31, 2007, we had 3,271 employees.

Communications and Technology

Communications and technology expenses consist of expenses incurred to purchase, lease, use and maintain the technology-related hardware, software and communications systems we use to operate our business. These types of expenses include expenses incurred to make network or data connections to market platforms, clients or other clearing agents, fees paid for access to external market data, software licenses, repairs and maintenance of hardware and software (including service agreements), as well as expenses for disaster recovery and redundancy systems. These expenses are impacted by the number of front office staff as well as the number of clients that require direct lines or data transfer capabilities. Communications and technology expenses are recognized on an accrual basis.

Occupancy and Equipment Costs

Occupancy and equipment costs consist of expenses incurred to lease, furnish and maintain our offices and other facilities, including rent, real estate broker fees, maintenance fees, utilities, other fixed asset-service fees, repair and leasehold improvement expenses and rents for exchange floor booths. Occupancy and equipment costs are recognized on an accrual basis.

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Depreciation and Amortization

Depreciation and amortization expenses consist of expenses related to the depreciation of facilities, furniture, fixtures and equipment and the amortization of intangible assets, including acquired client relationships and internally developed software. Depreciation and amortization expenses are recognized over the period of the asset s useful life.

Professional Fees

Professional fees consist of fees paid to consultants and advisors, including audit, legal, information technology and recruiting costs. Professional fees do not include any legal settlement costs, which are recorded as part of general and other expenses below. Professional fee expenses are recognized on an accrual basis.

As a public company, we will be subject to various reporting and corporate governance requirements, including the requirements of the Sarbanes-Oxley Act of 2002 and the SEC rules and regulations implementing that Act, as well as the Exchange Act and the NYSE listing standards. To comply with these requirements, we expect to incur additional professional fees in fiscal 2007 and 2008.

General and Other

General and other expenses consist of other recurring expenses that have not been separately classified in our statement of operations. These types of expenses include, among other items, travel and entertainment, advertising, promotion, insurance premiums, bad debts, legal reserve costs, translation gains and losses, and general banking expenses. The amount of general and other expenses incurred by a particular team will impact the profitability of that team and, therefore, the amount of the production-based compensation received by its staff. We believe that this compensation structure encourages our front office staff to manage their travel and entertainment and other general expenses accordingly. General and other expenses are recognized on an accrual basis.

IPO-Related Costs

In connection with the Reorganization, Separation and Recapitalization transactions, we have incurred legal, consulting and other non-recurring professional fees, including fees relating to implementing new reporting and corporate governance requirements, adapting our accounting systems and marketing activities undertaken as part of our rebranding effort. We expect to incur additional professional fees relating to the Reorganization, Separation and Recapitalization transactions in fiscal 2008. As the company is receiving no proceeds from the offering, these costs have been expensed.

Refco Integration Costs

Refco integration costs consist of the costs incurred in connection with our acquisition of the Refco assets in November 2005, including retention costs and bonuses, redundancy and severance payments and professional fees.

Gains on Exchange Seats and Shares

Gains on exchange seats and shares consist of unrealized gains or losses we recognize on exchange seats or shares we hold in excess of the exchange seats and shares we are required to hold to conduct our business, which we refer to as excess seats and shares. The amount of any unrealized gain or loss is based on changes in the mark-to-market value of the excess seats or shares. We also recognize realized gains or losses on the sale of any seats and/or shares. The amount of any realized gain is based on the difference between the book value of such seats and/or shares and the sale price. Finally, gains on exchange seats and shares also include dividend income we earn from exchange seats or shares. All exchange seats or shares that we are required to hold in order to conduct our business are recorded at cost and do not impact our statements of operations. Certain exchange shares are subject to restrictions on resale. In the future, we do not plan to hold a material portfolio of excess seats or shares.

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Interest on Borrowings

Interest on borrowings consists of interest expense charged to us by Man Group for subordinated borrowings as well as any interest expense incurred on borrowings from third parties. This interest expense is incurred separately from trading activities and client transactions. In connection with the Reorganization and Separation transactions, we have entered into a bridge loan and intend to draw on this loan prior to the Recapitalization to repay our existing indebtedness to Man Group and third parties. Subject to market conditions and other factors, we intend to use the net proceeds of our offerings of senior notes and junior subordinated debentures to repay borrowings under the bridge loan. For a discussion of our historical borrowings, see Notes 14 and 21 to our annual combined financial statements. For a discussion of our proposed offerings of senior notes and junior subordinated debentures, see Liquidity and Capital Resources Proposed Offerings of Senior Notes and Junior Subordinated Debentures .

Provision for Income Taxes

Our provision for income taxes includes all current and deferred provisions for federal, state, local and foreign taxes.

The income tax provision reflected in this prospectus is presented as if we operated on a stand-alone basis, consistent with the liability method prescribed by Statement of Financial Accounting Standards (SFAS), Statement No. 109 Accounting for Income Taxes . Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion of the deferred tax assets will not be realized. Any increase or decrease in a valuation allowance could have a material adverse or beneficial impact on our income tax provision and net income in the period in which the determination is made. Our effective income tax rate can vary from period to period, depending on, among other factors, the geographic and business mix of our earnings, the availability of losses, the level of non-deductible expenses and the effect of tax audits.

Our effective tax rate in fiscal 2007 and fiscal 2006 was 34.5% and 32.1%, respectively. In fiscal 2007 and 2006, our U.S. taxable income has been affected by the costs of the Refco integration. We expect our U.S. taxable income to increase in future periods as a percentage of our total revenues. However, we expect our tax rate to decline over time as a result of our more efficient tax structure resulting from the Reorganization as well as the proposed reduction in the corporation tax rate in the United Kingdom, which could take effect in 2008.

Man Group has agreed to indemnify us against certain specified tax and other liabilities that may arise in connection with the Reorganization and Separation and this offering, subject to various limitations and conditions. We describe this indemnification in Certain Relationships and Related Transactions . To the extent that we incur a tax or other liability for which we are indemnified, our payment of the liability should generally be offset from a financial perspective by our receipt of the indemnity payments (subject to timing differences and the extent of the indemnification). Even if we are fully indemnified against a particular tax or other liability, however, our financial results of operations as reflected in our financial statements could be adversely affected. For accounting purposes, an indemnity payment would generally be treated as a net capital contribution to us from Man Group, and the incurrence of the related liability could reduce our net income as reported in our financial statements. The Reorganization and Separation and this offering will likely cause us to incur tax liabilities for which we would expect to receive the economic benefit of an indemnity payment under the tax matters deed. While those liabilities should not affect our cash flow, assuming we receive full indemnification, they are likely to have a significant non-cash impact on our statement of operations for the period following the offering.

Minority Interest in Income of Combined Companies (net of tax)

We combine the results of operations and financial position of entities we control, but do not wholly own. We own 91.0% of Man Securities Limited and 70.2% of Man Financial-Sify Securities India Private Limited. Earnings for these entities are combined on a post-tax basis.

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Equity in Earnings of Uncombined Companies (net of tax)

Equity in earnings of uncombined companies includes our pro rata share of earnings for entities in which we own between 20% and 50% of the entity s common equity and over which we have the ability to exert influence, although not control, relating to such entities operating and financial policies. We currently own a 20% interest in Polaris Man Financial Futures Co Ltd and a 47.9% interest in U.S. Futures Exchange LLC (USFE). For more information on our ownership interest in USFE, see Our Business Business Overview Investment in USFE .

Year Ended March 31, 2007 Compared to the Year Ended March 31, 2006

	For the Year Ended March 31,		
	2007	2006	% Change
	(in millions)		
Revenues			
Execution-only commission	$ 386.5	$ 261.8	47.6%
Cleared commission	1,280.0	865.6	47.9
Principal transactions	245.7	151.1	62.6
Interest income	3,775.4	1,294.0	191.8
Other	37.8	29.2	29.5
Total revenues	5,725.5	2,601.6	120.1
Interest and transaction-based expenses:			
Interest expense	3,370.4	1,071.9	214.4
Execution and clearing fees	700.4	463.4	51.1
Sales commission	275.9	119.8	130.3
Total interest and transaction-based expenses	4,346.7	1,655.1	162.6
Revenues, net of interest and transaction-based expenses	1,378.7	946.5	45.7
Expenses			
Employee compensation and benefits	834.7	595.7	40.1
Communications and technology	102.2	72.2	41.6
Occupancy and equipment costs	29.8	24.5	21.6
Depreciation and amortization	46.8	28.2	66.0
Professional fees	50.1	26.7	87.6
General and other	77.3	46.4	66.6
IPO-related costs	33.5		
Refco integration costs	19.4	66.8	(71.0)
Total other expenses	1,193.9	860.5	38.7
Gains on exchange seats and shares	126.7	33.5	278.2
Net gain on settlement of legal proceeding	21.9		
Interest on borrowings	43.8	31.5	39.0
Income before provision for income taxes	289.7	88.0	229.2
Provision for income taxes	100.0	28.2	254.6
Minority interest in income of combined companies (net of tax)	1.7	0.3	466.7
Equity in earnings of uncombined companies (net of tax)	0.1	0.3	(66.7)
Net income	$ 188.0	$ 59.8	214.4%

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Overview

Revenues, net of interest and transaction-based expenses, increased $432.2 million, or 45.7%, to $1,378.7 million for fiscal 2007 from $946.5 million for fiscal 2006. Total revenues increased $3,123.9 million, or 120.1% during the same period, to $5,725.5 million for fiscal 2007 from $2,601.6 million for fiscal 2006. This increase was primarily due to a 48.7% increase in our total volumes of executed or cleared exchange-traded futures and option transactions from 1,011.4 million contracts for fiscal 2006 to 1,503.5 million contracts for fiscal 2007. The increase of 492.1 million contracts in our total volumes of executed or cleared exchange-traded futures and option transactions was generated across all of our primary products, trading markets and regions and is attributable to the organic growth of our business and the Refco acquisition. The assets we acquired from Refco in November 2005 are reflected in our fiscal 2006 financial results for a period of four months, compared to the full year in fiscal 2007. More than half of our volume growth was attributable to these Refco assets, with the remainder of the volume increase due to organic growth in our business. For fiscal 2007, we attribute 290.3 million contracts of our executed or cleared transactions to the acquisition of the Refco assets compared to 80.5 million contracts for fiscal 2006. Also contributing to this increase in our total revenues and our revenues, net of interest and transaction-based expenses, was an increase in average client balances for fiscal 2007, in large part due to the Refco acquisition, which resulted in a significant increase in our interest income. Increased market activity and volatility in the foreign exchange, energy and metals sectors further contributed to the increase in our total revenues and our revenues, net of interest and transaction-based expenses because greater volatility resulted in our receiving better spreads during fiscal 2007 than we did during fiscal 2006. During fiscal 2007, there was also a slight increase in other revenues of $8.6 million earned from increased ancillary services provided to clients.

Our other expenses, which refer to our expenses other than interest and transaction-based expenses, increased $333.4 million, or 38.7%, to $1,193.9 million for fiscal 2007 from $860.5 million for fiscal 2006. The increase was primarily due to the $239.0 million increase in employee compensation and benefits expenses directly related to the growth in our total revenues and our revenues, net of interest and transaction-based expenses, combined with an increase in head count for fiscal 2007 resulting in part from the Refco integration. Also contributing to the increase in our other expenses were $19.4 million in costs related to the Refco integration, a $26.7 million settlement and curtailment expense related to the termination of the U.S. defined benefit plans in which our U.S. employees participated, $5.6 million in legal reserves and $33.5 million in incremental professional fees incurred in connection with the Reorganization and Separation transactions.

Income before provision for income taxes increased $201.7 million, or 229.2%, to $289.7 million for fiscal 2007 from $88.0 million for fiscal 2006. This increase was primarily due to increased total revenues and revenues, net of interest and transaction-based expenses, as a result of the growth in transaction volumes we experienced across all markets, products and geographies, the inclusion of the Refco assets for the full period for fiscal 2007, the increased gains on exchange seats and shares and the gain on the settlement of the Cargill legal proceeding. These increases were offset in part by the increase in other expenses described above.

Net income increased $128.2 million, or 214.4%, to $188.0 million for fiscal 2007 from $59.8 million for fiscal 2006. Net income, as a percentage of revenues, net of interest and transaction-based expenses, increased to 13.6% for fiscal 2007 from 6.3% for fiscal 2006, as a result of the increase in income before taxes as a percentage of revenues, net of interest and transaction-based expenses.

Revenues

Execution-only Commissions

Execution-only commissions increased $124.7 million, or 47.6%, to $386.5 million for fiscal 2007 from $261.8 million for fiscal 2006. This increase was primarily due to an increase of 29.9% in our volume of execution-only exchange-traded futures and options transactions from 337.6 million contracts for fiscal 2006 to 438.4 million contracts for fiscal 2007, combined with a higher portion of our transaction volumes being generated in higher-margin trading markets or regions or by higher-margin clients. The increase in our

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transaction volumes was primarily driven by an increase in the number of trades in interest rate products we executed during the period, reflecting interest rate uncertainties and increased trading activity in the interest rate derivative markets. Execution-only commissions, as a percentage of total revenues, decreased for fiscal 2007 from fiscal 2006, partly due to higher growth in our interest income, net and principal transactions, during the period.

Cleared Commissions

Cleared commissions increased $414.4 million, or 47.9%, to $1,280.0 million for fiscal 2007 from $865.6 million for fiscal 2006. This increase was primarily due to an increase of 58.1% in our volume of cleared exchange-traded futures and options transactions from 673.8 million contracts for fiscal 2006 to 1,065.1 million contracts for fiscal 2007. Approximately 50.8% of this increase in our volume of cleared transactions was due to additional transactions generated by the acquisition of the Refco assets. We experienced an increase in transaction execution and clearing volumes across almost all products, trading markets and regions. Cleared commissions, as a percentage of total revenues, decreased for fiscal 2007 from fiscal 2006, as a result of higher growth in our interest income, net and principal transactions, during this period.

Principal Transactions

Principal transactions increased $94.6 million, or 62.6%, to $245.7 million for fiscal 2007 from $151.1 million for fiscal 2006. This increase was primarily due to greater market volatility in both the foreign exchange and metals trading markets (which primarily involve matched-principal execution), predominantly in Europe, resulting in an increased spread between buy and sell transactions and therefore higher revenues. Foreign exchange and metals have historically represented, and continue to represent, the trading markets in which the largest portion of our matched principal execution occurs. Principal transactions, as a percentage of total revenues, decreased for fiscal 2007 from fiscal 2006, primarily as a result of growth in interest income, net during the period.

Interest Income, Net

Interest income, net, increased $182.9 million, or 82.4%, to $405.0 million for fiscal 2007 from $222.1 million for fiscal 2006. This increase was primarily due to an increase in interest rates combined with a 28.7% increase in the amount of average client balances attributable in large part to client accounts acquired as part of the Refco assets in November 2005. The average federal funds rate in the United States increased from 3.71% during fiscal 2006 to 5.17% during fiscal 2007. The increase in interest income, net, is also due in part to the growth in the contract value of our client activity in our fixed income products, consisting of both secured financings of repurchase and reverse repurchase transactions and stock borrowing and lending activities. This was evidenced by the fact that the book value of reverse repurchase and stock borrowed transactions increased $13.2 billion, or 123.9%, to $23.9 billion as of March 31, 2007 from $10.7 billion as of March 31, 2006. In addition, the book value of repurchase and stock loan transactions increased $15.0 billion, or 125.9%, to $27.0 billion as of March 31 2007 from $11.9 billion as of March 31, 2006. Interest expense as a percentage of interest income rose to 89.3% for fiscal 2007 from 82.8% for fiscal 2006. Our client funds as of March 31, 2007 were $15.8 billion, compared to $15.4 billion as of March 31, 2006.

Other Revenues

Other revenues increased $8.6 million, or 29.5%, to $37.8 million for fiscal 2007 compared to $29.2 million for fiscal 2006. Other revenues during these periods consisted primarily of third-party fees received from clients and other counterparties for the use of various trading systems, data and other back-office services and support. Other revenues, as a percentage of total revenues, decreased for fiscal 2007 from fiscal 2006, as a result of higher growth in our interest income, net and principal transactions during this period.

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Transaction-based Expenses

Execution and Clearing Fees

Execution and clearing fees increased $237.0 million, or 51.1%, to $700.4 million for fiscal 2007 from $463.4 million for fiscal 2006. This increase was primarily due to a 48.7% increase in our volume of executed or cleared exchange-traded futures and options transactions from 1,011.4 million contracts for fiscal 2006 to 1,503.5 million contracts for fiscal 2007, combined with a slight shift in clients trading to products, markets or regions that result in higher third-party execution and clearing fees. We experienced increased transaction volumes in most of our principal trading markets, products and geographic regions. Approximately 42.6% of this volume increase was due to incremental transactions generated by the acquisition of the Refco assets, in excess of acquired Refco volume in fiscal 2006. Our execution and clearing fees are not fixed, but instead are calculated on a per-contract basis, and vary based on the market on which transactions are executed and cleared. Execution and clearing fees, as a percentage of total revenues, decreased for fiscal 2007 from fiscal 2006, partly due to the increase in interest income and principal transactions as a percentage of revenues, which do not result in increased execution and clearing fees.

Sales Commissions

Sales commissions increased $156.1 million, or 130.3%, to $275.9 million for fiscal 2007 from $119.8 million for fiscal 2006. This increase reflects the growth in volumes as well as the expansion of business operations through the acquisition of the Refco assets, which included customer accounts and associated legacy relationships with introducing brokers resulting in sales commissions of $122.7 million for fiscal 2007. Depending on the specific arrangements with introducing brokers, increased volumes usually result in a proportionate increase in commissions paid to brokers. Sales commissions, as a percentage of total revenues, increased for fiscal 2007 from fiscal 2006, due in part to a larger percentage of our business being conducted through introducing brokers, primarily from the Refco acquisition, in fiscal 2007.

Other Expenses

Employee Compensation and Benefits

Employee compensation and benefits increased $239.0 million, or 40.1%, to $834.7 million for fiscal 2007 from $595.7 million for fiscal 2006. This increase was primarily due to the 45.7% increase in revenues, net of interest and transaction-based expenses, resulting in a comparable increase in variable compensation paid to employees based on sales volumes and profit contributions. To a lesser extent, our employee compensation and benefits expenses increased due to a larger number of brokerage personnel in fiscal 2007 following the Refco acquisition in November 2005, in addition to the $26.7 million in costs related to the termination of the U.S. defined benefit plans in which our U.S. employees participated. See Note 16 to our combined financial statements for further details regarding the termination of the plan. Fixed front and back office compensation as a percentage of total employee compensation and benefits decreased to 39.6% for fiscal 2007 from 43.1% for fiscal 2006. This is partly due to the additional charge of $26.7 million related to the termination of the U.S. defined benefit plan included within employee compensation and benefits in fiscal 2007, which is not part of our fixed front and back office compensation. The adoption of SFAS 123R in April 2006 also resulted in a cumulative benefit from accounting change of $1.0 million in fiscal 2007. The benefit from accounting change reflects the net cumulative impact of estimating future forfeitures in determining expenses for the period, rather than recording forfeitures when they occur as previously permitted under APB 25. Employee compensation and benefits, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 60.5% for fiscal 2007 from 62.9% for fiscal 2006. This is mainly due to additional compensation-related expenses incurred during the last quarter of fiscal 2006 of $38.4 million as a result of management s decision to retain a large number of Refco employees rather than terminating these employees outright after our acquisition.

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Communications and Technology

Communications and technology expenses increased $30.0 million, or 41.6%, to $102.2 million for fiscal 2007 from $72.2 million for fiscal 2006. This increase was primarily due to the incremental ongoing expenses associated with servicing additional brokerage personnel and key client accounts and systems, as a result of both our acquisition of the Refco assets and the organic growth of our business. Increases in transaction volumes tend to result in increased demand for direct lines and data transfer capabilities, although at a lower growth rate than volumes. Communications and technology, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 7.4% for fiscal 2007 from 7.6% for fiscal 2006.

Occupancy and Equipment Costs

Occupancy and equipment costs increased $5.3 million, or 21.6%, to $29.8 million for fiscal 2007 from $24.5 million for fiscal 2006. This increase was primarily due to the incremental rent and occupancy expenses associated with the acquired Refco assets and the resulting increase in headcount during the year. Occupancy and equipment costs, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 2.2% for fiscal 2007 from 2.6% for fiscal 2006.

Depreciation and Amortization

Depreciation and amortization increased $18.6 million, or 66.0%, to $46.8 million for fiscal 2007 from $28.2 million for fiscal 2006. This increase was due to the amortization of additional client relationships and other intangibles acquired as part of the Refco acquisition, partially offset by other historical intangible assets getting closer to the end of their remaining useful lives. Depreciation and amortization, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.4% for fiscal 2007 from 3.0% for fiscal 2006 reflecting these additional intangible assets.

Professional Fees

Professional fees increased $23.4 million, or 87.6%, to $50.1 million for fiscal 2007 from $26.7 million for fiscal 2006. This increase was primarily due to consulting fees related to the implementation of new regulatory requirements, such as the BASEL II capital adequacy framework, as well as legal costs related to numerous legal proceedings, accounting services and other professional fees incurred during fiscal 2007. Professional fees, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.6% for fiscal 2007 from 2.8% for fiscal 2006.

General and Other

General and other expenses increased $30.9 million, or 66.6%, to $77.3 million for fiscal 2007 from $46.4 million for fiscal 2006. This increase was due primarily to the recording of a legal provision of $5.6 million related to certain litigation reserves during the period, a reversal of translation gains in fiscal 2006 and the recognition of a translation loss in fiscal 2007 totaling a $12.3 million change, as well as numerous other sundry increases. General and other expenses, as a percentage of revenues, net of interest and transaction-based expenses, increased to 5.6% for fiscal 2007 from 4.9% for fiscal 2006.

IPO-Related Costs

We incurred costs of $33.5 million, or approximately 2.4% of our revenues, net of interest and transaction-based expenses, for fiscal 2007 in connection with the Reorganization, Separation and Recapitalization transactions. These costs consisted primarily of legal, accounting and consulting fees. Since we will not receive proceeds from this offering, we have expensed these costs.

Refco Integration Costs

Refco integration costs decreased by $47.4 million, or 71.0%, to $19.4 million for fiscal 2007 from $66.8 million for fiscal 2006. The Refco integration costs for fiscal 2007 consisted primarily of retention payments to Refco employees. Refco integration costs, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 1.4% for fiscal 2007 from 7.1% for fiscal 2006.

Gains on Exchange Seats and Shares

Gains on exchange seats and shares increased $93.2 million, or 278.2%, to $126.7 million for fiscal 2007 from $33.5 million for fiscal 2006. These gains for fiscal 2007 were mainly due to gains on sale of NYMEX seats of $53.3 million and CME shares of $2.9 million, as well as mark-to-market gains of $6.0 million on excess CME shares, $16.1 million on excess CBOT shares, $19.2 million on excess NYMEX shares and $23.9 million on excess IntercontinentalExchange, London Stock Exchange, London Mercantile Exchange and Singapore Exchange Ltd. exchange shares. We will be contributing approximately 60% of our excess exchange seats and shares to a subsidiary of Man Group in connection with the Reorganization and Separation transactions and intend to dispose of substantially all of our remaining excess exchange seats and shares following this offering. As a result, absent future demutualizations or changes in trading requirements, we do not expect to recognize material amounts of gains on seats and shares in future periods.

Net Gain on Settlement of Legal Proceeding

We received a net gain on the settlement of a legal proceeding of $21.9 million, or 1.6% of our revenues, net of interest and transaction-based expenses, for fiscal 2007. This gain was a result of the settlement agreement with Cargill on March 30, 2007 of $28.0 million, net of the contingent asset of $0.8 million recognized at acquisition and the contingent legal costs incurred of $5.3 million.

Interest on Borrowings

Interest on borrowings increased $12.3 million, or 39.0%, to $43.8 million for fiscal 2007 from $31.5 million for fiscal 2006. This increase was primarily due to increased interest rates related to our subordinated debt and intercompany borrowings with Man Group, offset by a decrease in the principal amount of our long-term debt to finance acquisitions and working capital requirements. Interest from borrowings, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 3.2% for fiscal 2007 from 3.3% for fiscal 2006.

Provision for Income Taxes

Income taxes increased $71.8 million, or 254.6%, to $100.0 million, for fiscal 2007 from $28.2 million for fiscal 2006. Our effective income tax rate was 34.5% for fiscal 2007, up from 32.1% in fiscal 2006. The increase in income tax expense was primarily due to the overall growth of the business at the level of income before income taxes (an increase of $201.7 million, or 229.2%, to $289.7 million for fiscal 2007 from $88.0 million for fiscal 2006). The increase in effective income tax rate primarily relates to a significantly higher taxable profit in relative terms from the United States in fiscal 2007, partly as a result of the non-recurring costs incurred in connection with the acquisition and integration of the Refco assets in fiscal 2006 and non-deductible IPO-related costs incurred in fiscal 2007.

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Year Ended March 31, 2006 Compared to the Year Ended March 31, 2005

	Year Ended March 31, 2006	Year Ended March 31, 2005	% Change
	(in millions)		
Revenues			
Execution-only commissions	$ 261.8	$ 237.7	10.1%
Cleared commissions	865.6	687.0	26.0
Principal transactions	151.1	142.9	5.7
Interest income	1,294.0	583.0	122.0
Other	29.2	24.1	21.2
Total revenues	2,601.6	1,674.7	55.3
Interest and transaction-based expenses:			
Interest expense	1,071.9	450.8	137.8
Execution and clearing fees	463.4	396.3	16.9
Sales commissions	119.8	105.8	13.2
Total interest and transaction-based expenses	1,655.1	952.9	73.7
Revenues, net of interest and transaction-based expenses	946.5	721.8	31.1
Expenses			
Employee compensation and benefits	595.7	415.3	43.4
Communications and technology	72.2	62.2	16.1
Occupancy and equipment costs	24.5	14.9	64.4
Depreciation and amortization	28.2	23.3	21.0
Professional fees	26.7	19.8	34.8
General and other	46.4	50.5	(8.1)
Refco integration costs	66.8		
Total other expenses	860.5	586.1	46.8
Gains on exchange seats and shares	33.5	5.8	477.6
Interest on borrowings	31.5	17.7	78.0
Income before provision for income taxes	88.0	123.8	(28.9)
Provision for income taxes	28.2	39.5	(28.6)
Minority interest in income of combined companies (net of tax)	0.3		
Equity in earnings of uncombined companies (net of tax)	0.3		
Net income	$ 59.8	$ 84.2	(29.0)%

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Overview

Revenues, net of interest and transaction-based expenses, increased $224.7 million, or 31.1%, to $946.5 million for fiscal 2006 from $721.8 million for fiscal 2005. Total revenues increased $926.9 million, or 55.3% during the same period, to $2,601.6 million for fiscal 2006 from $1,674.7 million for fiscal 2005. This increase was primarily due to a 32.7% increase in our total volumes of executed or cleared exchange-traded futures and options transactions from 761.9 million contracts for fiscal 2005 to 1,011.4 million contracts for fiscal 2006, which was generated across the primary trading markets, products and geographic regions that we serve combined with growth in our client balances. This growth also reflected the continued growth in market share reflected by our increased volumes and the benefits of continued activity in our markets. The Refco acquisition accounted for approximately one-third of the increase in our transaction volumes executed or cleared and almost one-third of the increase in our customer balances, all of which were attributable to the last four months of fiscal 2006. For fiscal 2006, we attribute 80.5 million contracts of our executed and cleared transactions to the Refco acquisition.

Our other expenses, which refer to our expenses as other than interest and transaction-based expenses, increased $274.4 million, or 46.8%, to $860.5 million for fiscal 2006 from $586.1 million for fiscal 2005. This increase was primarily due to a $180.4 million increase in employee compensation and benefits primarily due to the increase in variable compensation as a result of the increase in our total revenues and our revenues, net of interest income and transaction-based expenses, the incurrence of $66.8 million in retention, termination and other costs in connection with the Refco integration, an increase in head count for the last four months of fiscal 2006 due to the Refco acquisition, as well as a net operating loss of $11.8 million from Refco-related operations for the last four months of fiscal 2006. These expenses were partially offset by a $27.7 million increase in the gains on exchange seats and shares from $5.8 million in fiscal 2005 to $33.5 million in fiscal 2006.

Income before provision for income taxes decreased $35.8 million, or 28.9%, to $88.0 million for fiscal 2006 from $123.8 million for fiscal 2005, with income before taxes, as a percentage of revenues, net of interest and transaction-based expenses decreasing from 17.2% to 9.3%. This decrease was primarily due to the factors identified above.

Net income decreased $24.4 million, or 29.0%, to $59.8 million for fiscal 2006 from $84.2 million for fiscal 2005. This decrease was primarily due to the incurrence of additional expenses in connection with the acquisition and integration of Refco, offset in part by the increase in gains on exchange seats and shares, as described above. Net income, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 6.3% for fiscal 2006 from 11.7% for fiscal 2005.

Revenues

Execution-only Commissions

Execution-only commissions increased $24.1 million, or 10.1%, to $261.8 million for fiscal 2006 from $237.7 million for fiscal 2005. This increase was due to an increase of 23.2% in our volume of execution-only exchange-traded futures and options transactions from 274.0 million contracts in fiscal 2005 to 337.6 million contracts in fiscal 2006, offset in part by the fact that a smaller portion of our transaction volumes was generated in higher margin trading markets or regions, or by higher margin clients. The increase in our transaction volumes was primarily driven by an increase in the volume of interest rate products we executed during the period as a result of interest rate uncertainties and increased trading volumes in interest rate derivatives. Execution-only commissions, as a percentage of total revenues, decreased for fiscal 2006 from fiscal 2005, as our volume of execution-only transactions for fiscal 2006 grew at a lower rate than other service areas, primarily interest income, net, during that period. In addition, the growth in transaction volumes resulting from the Refco acquisition impacted our cleared commissions since most of the former Refco clients have clearing accounts with us but did not impact the volume of our execution-only transactions.

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Cleared Commissions

Cleared commissions increased $178.6 million, or 26.0%, to $865.6 million for fiscal 2006 from $687.0 million for fiscal 2005. This increase was primarily due to an increase of 38.1% in our volume of cleared exchange-traded futures and options transactions executed and cleared from 487.9 million contracts for fiscal 2005 to 673.8 million contracts for fiscal 2006. Approximately 43.2% of this volume increase was generated as a result of the Refco acquisition during the last four months of fiscal 2006. We experienced an increase in transaction execution and clearing volumes across almost all of our products, trading markets and regions.

Principal Transactions

Principal transactions increased $8.2 million, or 5.7%, to $151.1 million for fiscal 2006 from $142.9 million for fiscal 2005. This increase was primarily due to a moderate increase in the level of market volatility in both the foreign exchange and metals markets (which principally involve matched-principal execution), primarily in Europe. Foreign exchange and metals have historically represented, and continue to represent, the trading markets in which the largest portion of our matched principal execution occurs. Principal transactions, as a percentage of total revenues, decreased for fiscal 2006 from fiscal 2005, primarily as a result of higher growth in other revenue sources, primarily interest income, net, during the period.

Interest Income, Net

Interest income, net, increased $89.9 million, or 68.0%, to $222.1 million for fiscal 2006 from $132.2 million for fiscal 2005. This increase was primarily due to an increase in average interest rates as combined with a $6.6 billion, or 75.0% increase in the amount of client funds to $15.4 billion as of March 31, 2006 compared to $8.8 billion as of March 31, 2005, attributable in large part to client accounts acquired as part of the Refco acquisition. The average federal funds rate in the United States increased from 1.72% during fiscal 2005 to 3.71% during fiscal 2006. The increase in interest income, net, is also due in part to the growth in the contract value of our client activity in our fixed income business, consisting of both secured financings of repurchase and reverse repurchase transactions and stock borrowing and lending activities. The book value of reverse repurchase and stock borrowed transactions increased by $541.6 million, or 5.9%, to $10.7 billion as of March 31, 2006 from $10.1 billion as of March 31, 2005. The contract value of repurchase and stock loan transactions increased by $2.0 billion, or 20.2%, to $11.9 billion as of March 31, 2006 from $9.9 billion as of March 31, 2005. Interest expense as a percentage of interest income increased to 82.8% for fiscal 2006 from 77.3% for fiscal 2005. Our client funds increased 75.0% to $15.4 billion as of March 31, 2006 from $8.8 billion as of March 31, 2005 due in part to the Refco acquisition.

Other Revenues

Other revenues increased $5.1 million, or 21.2%, to $29.2 million for fiscal 2006 from $24.1 million for fiscal 2005. This increase was primarily due to an increase in fees for third-party services provided to clients, such as fees paid by clients for the use of trading screens and other ancillary services, in part because of the increase in the number of our clients as a result of our acquisition of the Refco assets. Other revenues, as a percentage of total revenues, decreased slightly for fiscal 2006 from fiscal 2005, as a result of higher growth in our net interest income and principal transactions during this period.

Transaction-based Expenses

Execution and Clearing Fees

Execution and clearing fees increased $67.1 million, or 16.9%, to $463.4 million for fiscal 2006 from $396.3 million for fiscal 2005. This increase was due to a 32.7% increase in our volume of executed or cleared exchange-traded futures and options transactions to 1,011.4 million contracts in fiscal 2006 from 761.9 million contracts in fiscal 2005, offset in part by the fact that a smaller portion of our transaction volumes was generated in higher margin trading markets or regions, or by higher margin clients. We experienced

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increased transaction volumes in most of our principal trading markets, products and geographic regions. Approximately half of this increase (representing an approximately 11.5% increase in our transaction volume) was due to additional transactions generated in the last four months of fiscal 2006 as a result of the Refco acquisition. Our execution and clearing fees are not fixed, but instead are calculated on a per-contract basis and vary based on the market in which transactions are executed and cleared. Execution and clearing fees, as a percentage of total revenues, decreased for fiscal 2006 from fiscal 2005. This decrease is partly due to the increase in net interest income as a percentage of revenues, which does not result in increased execution and clearing fees.

Sales Commissions

Sales commissions increased $14.0 million, or 13.2%, to $119.8 million for fiscal 2006 from $105.8 million for fiscal 2005. This increase primarily reflects the increase in transaction volumes, as well as the expansion of our business operations through the Refco acquisition, which included customer accounts and associated legacy relationships with introducing brokers. Sales commissions, as a percentage of total revenues, decreased for fiscal 2006 from fiscal 2005.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits increased $180.4 million, or 43.4%, to $595.7 million for fiscal 2006 from $415.3 million for fiscal 2005. The increase was primarily due to the 31.1% increase in revenues, net of interest and transaction-based expenses, resulting in a comparable increase in variable compensation paid to employees based on team profitability under negotiated agreements. Also contributing to this increase were (1) an increase in expenses recognized in connection with stock-based compensation from $13.0 million in fiscal 2005 to $24.5 million in fiscal 2006 due to the increase in the price of Man Group s stock and the resulting impact on the intrinsic value of the awards determined pursuant to APB 25, and (2) an increase in the number of brokerage personnel in the last four months of fiscal 2006 as part of the Refco acquisition. Fixed compensation as a percentage of total employee compensation and benefits was 43.1% in fiscal 2006 and 42.7% in fiscal 2005. Employee compensation and benefits, as a percentage of total revenues, net of interest and transaction-based expenses, increased to 62.9% for fiscal 2006 from 57.5% for fiscal 2005. This increase is directly related to the increase in volumes and negotiated compensation arrangements for front office staff. Primarily as a result of our acquisition of the Refco assets, our number of employees increased to 2,980 as of March 31 2006, compared to 1,650 as of March 31, 2005.

Communications and Technology

Communications and technology expenses increased $10.0 million, or 16.1%, to $72.2 million for fiscal 2006 from $62.2 million for fiscal 2005. This increase was primarily due to the incremental ongoing expenses incurred in the last four months of fiscal 2006 in servicing additional brokerage personnel and key client accounts and systems, both acquired as part of the Refco acquisition, as well as additional expenses incurred throughout fiscal 2006 due to the organic growth of our business. Increases in transaction volumes tend to result in increased demand for direct lines and data transfer capabilities, although at a lower growth rate. Communications and technology, as a percentage of total revenues, net of interest and transaction-based expenses, decreased to 7.6% for fiscal 2006 from 8.6% for fiscal 2005.

Occupancy and Equipment Costs

Occupancy and equipment costs increased $9.6 million, or 64.4%, to $24.5 million, for fiscal 2006 from $14.9 million for fiscal 2005. This increase was due to the incremental expenses in the last four months of fiscal 2006 in connection with the Refco acquisition. Occupancy and equipment costs, as a percentage of total revenues, net of interest and transaction-based expenses, increased to 2.6% for fiscal 2006 from 2.1% for fiscal 2005.

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Depreciation and Amortization

Depreciation and amortization increased $4.9 million, or 21.0%, to $28.2 million for fiscal 2006 from $23.3 million for fiscal 2005. This increase was due to the amortization of additional client relationships and other intangibles acquired as part of the Refco acquisition, offset in part by other historical intangible assets getting closer to the end of their remaining useful lives. Depreciation and amortization, as a percentage of total revenues, net of interest and transaction-based expenses, decreased to 3.0% for fiscal 2006 from 3.2% for fiscal 2005.

Professional Fees

Professional fees increased $6.9 million, or 34.8%, to $26.7 million for fiscal 2006 from $19.8 million for fiscal 2005. This increase was primarily due to additional information technology consulting and legal fees incurred in fiscal 2006 in connection with additional data warehousing projects and ongoing litigation, respectively. Professional fees, as a percentage of total revenues, net of interest and transaction-based expenses, increased slightly, to 2.8% for fiscal 2006 from 2.7% for fiscal 2005.

General and Other

General and other expenses decreased $4.1 million, or 8.1%, to $46.4 million for fiscal 2006 from $50.5 million for fiscal 2005. This decrease was primarily due to a $22.1 million change in foreign currency translation gain on translating monetary assets and liabilities of subsidiaries that are held in a currency other than the subsidiary s functional currency. The decrease was offset in part by a $5.2 million increase in travel and entertainment expenses, a $2.2 million increase in administration, marketing and advertising expenses, a $2.8 million increase in legal expenses, as well as numerous other sundry increases. General and other expenses, as a percentage of total revenues, net of interest and transaction-based expenses, decreased to 4.9% for fiscal 2006 from 7.0% for fiscal 2005.

Refco Integration Costs

We incurred costs of approximately $66.8 million in relation our acquisition of the Refco assets in November 2005, consisting of the following components:

	Year Ended 2006 (in millions)
Retention costs and bonuses	$ 38.7
Redundancy/severance	14.0
Professional fees	7.3
Other	6.8
Total	$ 66.8

Gains on Exchange Seats and Shares

Gains on exchange seats and shares increased $27.7 million to $33.5 million for fiscal 2006 from $5.8 million for fiscal 2005. The gains for fiscal 2006 were mainly due to mark-to-market gains of $20.4 million on excess London Stock Exchange, IntercontinentalExchange and Chicago Mercantile Exchange shares and gains of $11.7 million on sales of Chicago Mercantile Exchange and IntercontinentalExchange shares.

Interest on Borrowings

Interest on borrowings increased $13.8 million, or 78.0%, to $31.5 million for fiscal 2006 from $17.7 million for fiscal 2005. This increase was primarily due to increased interest rates on our subordinated debt and intercompany borrowings with Man Group, as well as an increase in the principal amount of our long-term debt to finance acquisitions and working capital requirements. Interest on borrowings, as a percentage of total revenues, net of interest and transaction-based expenses, increased to 3.3% for fiscal 2006 from 2.5% for fiscal 2005.

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Provision for Income Taxes

Income taxes decreased $11.3 million, or 28.6%, to $28.2 million, for fiscal 2006 from $39.5 million for fiscal 2005. Our effective income tax rate was 32.1% for fiscal 2006, up from 31.9% in fiscal 2005. This increase was primarily due to one-off adjustments relating to the release of tax provisions in an amount of $3.8 million that ceased to be required in fiscal 2005, which was offset in part by net losses incurred in the United States in connection with the acquisition and integration of the Refco assets in fiscal 2006.

Non-GAAP Financial Measures

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

- Refco integration costs and fiscal 2006 Refco loss
- U.S. pension plan termination costs
- Exchange membership gains and losses
- IPO-related costs
- Legal settlements

We do not believe that any of these items are representative of our future operating performance. Other than exchange membership gains and losses, and, to a certain extent, legal settlements, these items reflect costs that were incurred for specific reasons outside of normal operations.

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

Refco integration costs and related losses

On November 25, 2005, we acquired the Refco assets for $304.9 million. We incurred integration costs directly related to the acquisition of $66.8 million in fiscal 2006 and $19.4 million for fiscal 2007, which related primarily to retention and severance of Refco personnel. In addition, we incurred a loss of $11.8 million from Refco operations in the last four months of fiscal 2006. This loss is in addition to the $66.8 million of integration costs described above and is due primarily to additional compensation-related expenses we incurred of approximately $38.4 million during this period as a result of management s decision to retain a large number of Refco employees rather than terminating these employees outright following our acquisition. Due in part to the bankruptcy proceedings then affecting certain Refco subsidiaries, our management decided to offer continued employment to these employees and to defer the decision regarding which of these employees to retain as longer-term employees by a few months, which resulted in a significant additional compensation expense, and a loss, in these four months. This decision was an unusual one and integrally related to the Refco integration. As a result, we do not believe that these costs or this loss are representative of our future operating performance, or that we will incur similar costs or a similar loss in connection with our future acquisitions. We therefore have excluded the Refco loss from our adjusted net income and our adjusted income before taxes.

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U.S. pension plan termination costs

We have also excluded the settlement and curtailment costs related to the termination of the predecessor pension plan in which all Man Financial employees in the U.S. participated. We do not believe that these costs will be recurring or are representative of our future operating performance since they directly relate to the termination of the plan in anticipation of this offering. All pension costs related to this plan have been included within the historical financial statements.

Exchange membership gains and losses

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

In addition, we will be contributing to Man Group approximately 60% of our excess exchange seats and shares to a subsidiary of Man Group in connection with the Reorganization and Separation transactions. Shortly following this offering, we intend to dispose of substantially all of our remaining excess exchange seats and shares. As a result, we will no longer recognize gains or losses based on the fair market value movements of these seats or shares. We do not believe that historical gains resulting from exchange seats and shares are representative of our future operating performance. In addition, as a result of the transfer of substantially all of our excess seats and shares, we do not expect to hold a material portfolio of excess seats or shares going forward, and therefore, absent future demutualization or changes in trading rights, we do not expect to recognize realized gains or losses on the sale of, or fair market value movements with respect to, a material number of seats or shares in the future.

IPO-related costs

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

Legal settlements

We have also excluded (1) settlement costs related to two specific legal disputes, including the Midland Euro cases described under Our Business Legal Proceedings Midland Euro Cases , and (2) a gain on settlement of legal proceeding resulting from the Cargill litigation described under Our Business Legal Proceedings Cargill . We believe that these settlement costs and this settlement gain, which relate solely to three specific proceedings, are infrequent and unusual, result from unusual facts or circumstances and are not representative of our historical performance or indicative of our future performance, as they may or may not recur with similar materiality or impact in future periods. We have not incurred settlement costs of similar individual significance, nor have we recognized any similar gain on the settlement of any legal proceeding, within the prior two years.

Our use of non-GAAP financial measures

We use these non-GAAP financial measures internally to evaluate our performance and in making financial and operational decisions. We believe that our presentation of these measures provides investors with greater transparency and supplemental data relating to our results of operations. In addition, we believe the presentation

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of these measures is useful for period-to-period comparison of results because (1) the Refco acquisition costs, U.S. pension termination costs and IPO-related costs described above do not reflect our historical operating performance and (2) gains on exchange seats and shares and gains on, or costs incurred in connection with, legal settlements, fluctuate significantly from period to period and are not indicative of our core operating performance and, with respect to gains on exchange seats and shares, are not expected to be realized following the Reorganization and Separation transactions.

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

GAAP Reconciliation

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

	Year Ended March 31, (in millions)		
	2007	2006	2005
Income before taxes (unadjusted)	$ 289.7	$ 88.0	$ 123.8
Add: Refco integration costs	19.4	66.8	
Add: Refco loss		11.8	
Add: IPO-related costs	33.5		
Add: U.S. pension plan termination costs	28.1		
Add: Legal settlements	(16.3)		
Less: Exchange memberships gains	126.7	33.5	5.8
Adjusted income before taxes	$ 227.7	$ 133.1	$ 118.0
Net income (unadjusted)	$ 188.0	$ 59.8	$ 84.2
Add: Refco integration costs	12.6	43.4	
Add: Refco loss		7.7	
Add: IPO-related costs	21.8		
Add: U.S. pension plan termination costs	18.3		
Add: Legal settlements	(10.6)		
Less: Exchange memberships gains	82.4	21.8	3.8
Adjusted net income	$ 147.7	$ 89.1	$ 80.4
Basic pro forma shares outstanding	121.3		
Diluted pro forma shares outstanding	123.2		
Pro forma adjusted net income per basic share(1)	$ 1.22		
Pro forma adjusted net income per diluted share(1)	$ 1.20		
Adjusted diluted pro forma shares outstanding(2)	127.0		

(1) Pro forma adjusted net income per share is computed by dividing adjusted net income by the weighted average pro forma number of basic and diluted shares outstanding during the period, which for fiscal 2007 was 121.3 million and 123.2 million shares, respectively.

(2) We believe it is meaningful to investors to present adjusted net income per adjusted diluted pro forma common share. Adjusted diluted pro forma shares outstanding are adjusted to add back shares underlying an additional 3,803,147 restricted share units granted as part of the IPO Awards that are not considered dilutive under U.S. GAAP and therefore not included in pro forma diluted common shares outstanding. For fiscal 2007, our adjusted diluted pro forma shares outstanding would be 127.0 million. Since we expect to add back the expenses associated with these awards in determining our adjusted net income in future periods, we believe it is more meaningful to investors to calculate pro forma adjusted net income per common share based on adjusted diluted shares outstanding. We believe that this presentation is meaningful because it demonstrates the dilution that investors will experience at the end of the three-year vesting period of these awards.

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Liquidity and Capital Resources

We expect our primary uses of cash over the next 12 months to be for working capital and our debt service obligations. We believe we will have sufficient cash on hand and committed liquidity under our liquidity facility to fund our operations for at least the next 12 months. See Credit Facilities and Sources of Liquidity below. Also, consistent with past practice and our business strategy, we may from time to time evaluate acquisition opportunities in our core businesses. If we were to consummate an acquisition, we may use cash and/or issue additional equity or debt securities.

Cash Flows

Our cash flows are complex and interrelated and highly dependent upon our operating performance, levels of client activity and financing activities.

The following tables present, for the periods indicated, the major components of net increases (decreases) in cash and cash equivalents:

	Year Ended March 31,		
	2007	2006 (in millions)	2005
Cash flows from:			
Operating activities	$ 237.8	$ 442.7	$ (170.9)
Investing activities	19.6	(235.0)	(7.3)
Financing activities	49.5	94.6	347.3
Effect of exchange rate changes	12.6	(0.5)	1.1
Net increase (decrease) in cash and cash equivalents	$ 319.6	$ 301.9	$ 170.2

Operating Activities

Net cash received in operating activities was $237.8 million for fiscal 2007 and $442.7 million for fiscal 2006, compared to net cash used in operating activities of $170.9 million for fiscal 2005. Net cash from operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation and amortization, gains on sale of exchange seats and shares, stock-based compensation expense and deferred income taxes, as well as the effects of changes in working capital. Working capital results in the most significant fluctuations to cash flows from operating activities, primarily reflecting (1) the levels of our collateralized financing arrangements, including repurchase and resale agreements, securities borrowing/lending transactions and securities owned, (2) the levels of our cash segregated under federal and other regulations and (3) payables to customers due to margin and contractual commitments. Collateralized financing arrangements often result in significant fluctuations in cash flows, as cash is often received or used as collateral in these arrangements, and therefore the level of activity in these transactions at period-end directly impacts our cash flows from operating activities, without a specific correlation to our revenues or net income. In fiscal 2007, 2006 and 2005, these arrangements resulted in $1,809.5 million, $1,467.9 million and $1,002.5 million net cash received, respectively, offset by increases in securities owned resulting in cash used of $5,472.2 million, $4,779.0 million and $1,056.6 million, respectively.

Investing Activities

Net cash received in investing activities was $19.6 million for fiscal 2007, compared to net cash used in investing activities of $235.0 million for fiscal 2006 and $7.3 million for fiscal 2005. These activities primarily relate to proceeds received from sale of seats and shares, offset by purchase of furniture, equipment and leasehold improvements. In fiscal 2007, we received cash of $61.1 million from the sale of exchange seats and shares, which was partially offset by $26.4 million of cash used to purchase furniture, equipment and leasehold improvements. In fiscal 2006, we used $297.6 million (net of cash acquired) in connection with our acquisition of the Refco assets and $19.4 million to purchase furniture, equipment and leasehold improvements, which was partially offset by cash received of $87.9 million from the sale of exchange seats and shares.

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Financing Activities

Net cash received in financing activities was $49.5 million for the year ended March 31, 2007, and net cash received in financing activities was $94.6 million for the year ended March 31, 2006 and $347.3 million for the year ended March 31, 2005. Net cash received in financing activities primarily relates to proceeds from and repayments of short-term borrowings, as well as proceeds of borrowings from Man Group. There were also dividends paid to Man Group during fiscal 2007, fiscal 2006 and 2005 of $3.8 million, $6.1 million and $12.5 million, respectively.

Working Capital

Our primary requirement for working capital relates to funds we are required to maintain at exchanges or clearing organizations to support our clients trading activities. We require that our clients deposit funds with us in support of their trading activities, which we in turn deposit with exchanges or clearing organizations to satisfy our obligations. These required deposits account for the majority of our working capital requirements and thus our primary use of working capital is funded directly or indirectly by our clients. Our working capital needs are otherwise primarily limited to regulatory capital requirements that we have satisfied in the past from internally generated cash flow and available funds. We believe that our current working capital is sufficient for our present requirements.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds or timing differences associated with the settlement of client transactions in securities markets. Historically, these timing differences have been funded either with internally generated cash flow or, if needed, with short-term borrowings. For a discussion of our liquidity sources following this offering, see Credit Facilities and Sources of Liquidity below.

Our primary regulated subsidiaries in the United States are registered as a futures commission merchant and as a broker-dealer and accordingly are subject to the capital rules of the Commodity Futures Trading Commission, the SEC and the National Association of Securities Dealers and the principal exchanges of which we are a member. The Commodity Futures Trading Commission s net capital rules require us to maintain adjusted net capital equivalent to the greater of $250,000 or the aggregate of 8% of customer maintenance margin requirements and 4% of non-customer maintenance margin requirements. At March 31, 2007, we had adjusted net capital, as defined, of $537.8 million, which was $180.2 million in excess of the minimum capital required to be maintained. The SEC s Uniform Net Capital Rule (Rule 15c3-1) of the Exchange Act requires us to maintain minimum net capital equal to the greater of $250,000 or 2% of aggregate debit items as defined by Rule 15c3-1. At March 31, 2007, we had net capital, as defined, of $84.7 million, which was $82.2 million in excess of the minimum capital required to be maintained. We are also subject to certain notifications and other provisions of the net capital rules of the Commodity Futures Trading Commission and SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At March 31, 2007, we were in compliance with all of these requirements.

In the United Kingdom, we are required to comply with the Financial Resources requirements of the Financial Services Authority. Capital is held to absorb unexpected losses and is calculated in accordance with a standard regulatory formula that relates primarily to credit and market risk. The Financial Services Authority requires firms to hold capital against counterparty/credit risk, position/market risk, foreign exchange risk, large exposures and fixed overheads. The major components of the calculation are counterparty risk and position risk. Counterparty risk is calculated as a percentage of unpaid client margin for exchange traded business and an exposure calculation for off-exchange business. Position risk is calculated by applying percentages to positions based on the underlying instrument and maturity. As of March 31, 2007, we were in compliance with all these requirements. We are in the process of implementing the new European Union Capital Requirements Directive, effective January 1, 2008, which will increase our required minimum levels of regulatory capital. We expect the revised capital adequacy framework, in combination with the Separation, to increase our regulatory capital requirements by approximately $600 million as of January 1, 2008. This increase largely results from revised regulatory capital requirements for operational risk, exchange-traded derivatives and certain intercompany exposures. Because certain of our subsidiaries domiciled outside the European Union will no longer be subject to the Financial Services Authority s consolidated supervision after the Separation, however, we will be able to satisfy a larger portion of our aggregate regulatory capital requirements in the form of debt, rather than equity, such that these incremental regulatory capital requirements should only require a moderate increase in our equity capital. We currently believe that our capital levels upon completion of the offering should be sufficient to cover this increase in our regulatory capital as of January 1, 2008. However, additional revisions to this framework or new capital adequacy rules applicable to us may be proposed and ultimately adopted, which could further increase our minimum capital requirements in the future.

We are also subject to the requirements of other regulatory bodies and exchanges of which we or our subsidiaries are a member in other international locations in which we conduct business. We were in compliance with all of these requirements at March 31, 2007.

As a matter of policy, we maintain excess capital to provide liquidity during periods of unusual market volatility, which has been sufficient in the past to absorb the impact of volatile market events. Similarly, for our brokerage activities in the OTC markets, despite these transactions being brokered as principal and not as agent, we have adopted a futures-style margin methodology to protect us against price movements, and this also reduces the amount of capital needed to conduct business because even if we are required to post funds with clearing organizations or other counterparties in order to facilitate client-initiated transactions, we are able to use client deposits for this purpose rather than our own funds. As a result, we are able to execute a substantial volume of transactions without the need for large amounts of working capital.

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

Long-term Debt

Our long-term debt consists of subordinated borrowings from Man Group and private placement notes. At March 31, 2007 and March 31, 2006, we had $143.0 million and $124.5 million, respectively, in subordinated borrowings outstanding from Man Group, which bear interest at variable rates per annum that are reset periodically. See Note 21 to our audited combined financial statements for a description of this indebtedness. We have also issued several tranches of senior and subordinated notes to third parties, approximately $499.3 million and $490.0 million of which were outstanding as of March 31, 2007 and March 31, 2006, respectively, which are described in Note 14 to our audited combined financial statements. These borrowings bear interest at both fixed and floating rates and mature between 2007 and 2015. In connection with this offering, we intend to repay our outstanding borrowings with a portion of the net proceeds of our bridge loan described below.

From time to time, we have entered into interest rate swaps to swap the fixed rate interest payments on our subordinated and senior debt to floating rate. These instruments are described under Derivative instruments and hedging activities in Note 2 to our audited combined financial statements. The weighted average effective interest rates (giving effect to the interest rate swaps) for our senior notes were 6.2%, 5.7% and 3.7% for the years ended March 31, 2007, 2006 and 2005, respectively. The weighted average effective interest rates (giving effect to the interest rate swaps) for the subordinated notes were 7.5%, 7.1% and 5.3% for the years ended March 31, 2007, 2006 and 2005, respectively.

Bridge Loan

In June 2007, one of our U.S. finance subsidiaries, MF Global Finance USA Inc., entered into a 364-day unsecured revolving credit facility in an aggregate principal amount of up to $1.4 billion, which we refer to as the bridge loan, with several financial institutions, including affiliates of certain underwriters. On the date of the

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Recapitalization, MF Global Finance USA Inc. will borrow $1.4 billion under the bridge loan, which we will guarantee. Borrowings under the bridge loan will bear interest at a rate per annum equal to either, at our option, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three- or six-month LIBOR plus a margin up to 0.55% per annum, depending on our senior unsecured non-credit enhanced credit rating from Standard & Poor s and Moody s. Advances will be subject to certain conditions, including the accuracy of certain representations and warranties and the absence of a default. The bridge loan contains a minimum tangible net worth financial covenant as well as other customary covenants, including those that limit debt incurrence, asset sales, incurrence of liens, our ability to be acquired, fundamental changes to our business and failure to maintain required regulatory capital. We have agreed to pay an arrangement fee of $0.5 million and an administration fee of $0.1 million in connection with the bridge loan and liquidity facility (described below). In addition, we also expect to pay a fee not to exceed 10 basis points per annum during the period the bridge loan is in effect. We intend to use the net proceeds of our offerings of senior notes and junior subordinated debentures to repay our borrowings under the bridge loan, although our plans could be postponed or changed depending on market conditions and other factors.

Credit Facilities and Sources of Liquidity

We have historically had access to Man Group s committed and uncommitted lines of credit which we have used to assist with working capital requirements, as needed. We have had other credit agreements with financial institutions, in the form of trading relationships, which facilitate execution, settlement and clearing flow on a day-to-day basis for our clients, as well as provide evidence, as required, of liquidity to the exchanges on which we conduct business. Following this offering, we plan to obtain similar committed and uncommitted lines of credit from third-party lenders to provide us with sufficient liquidity to satisfy our regulatory and business needs.

Prior to the completion of this offering, through one of our finance subsidiaries, we intend to borrow up to $1.4 billion under the bridge loan. We intend to use a portion of the proceeds of our bridge loan to repay all of our outstanding borrowings from Man Group and third parties. We intend to replace the borrowings under the bridge loan with a combination of senior notes and junior subordinated debentures shortly after the completion of this offering. As discussed below, we intend to maintain access to external liquidity sources consistent with our liquidity policy. We expect to obtain both committed and uncommitted credit facilities through our finance subsidiaries. In addition to the bridge loan discussed above, which we intend to repay with the net proceeds of our proposed offerings of senior notes and junior subordinated debentures, we have entered into a $1.5 billion five-year unsecured revolving credit facility with a syndicate of banks, including affiliates of certain underwriters, that we and our finance subsidiaries entered into concurrently with the bridge loan. The liquidity facility contains financial and other customary covenants that are similar to those in the bridge loan. No borrowings under the liquidity facility are currently outstanding.

We also intend to enter into committed and uncommitted credit lines as described above. The terms and timing of our plans to refinance the bridge loan with a combination of senior notes and junior subordinated debentures will depend on market conditions and other factors, and are subject to change.

Proposed Offerings of Senior Notes and Junior Subordinated Debentures

Following this offering, one of our U.S. finance subsidiaries, MF Global Finance North America Inc., intends to offer a combination of senior notes and junior subordinated debentures in an aggregate principal amount of approximately $1.4 billion. We expect that our finance subsidiary will offer two series of fixed rate senior notes: one series maturing in 2012 and the other in 2017. We will fully and unconditionally guarantee each series of senior notes. Concurrently with the offering of the senior notes, MF Global Finance North America Inc. intends to offer fixed-to-floating rate junior subordinated debentures, which we will fully and unconditionally guarantee on a subordinated basis. We intend to repay all borrowings under the bridge loan with the net proceeds of the offerings of senior notes and junior subordinated debentures. The offerings of the senior notes and junior subordinated debentures are not conditioned upon one another and may not be consummated at the same time.

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The terms and timing of these transactions will depend on market conditions and other factors that we do not control and are subject to change. Our decision to proceed with either offering will be made independently from each other. In addition, these offerings will not be completed prior to the consummation of this offering. Our current plans to repay the bridge loan could be postponed or changed depending on market conditions and other factors.

Contractual Obligations

The following table provides a summary of our contractual obligations as of March 31, 2007:

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
			(in millions)		
Long-Term Debt Obligations(1)(2)	$ 642.2	$ 56.5	$ 326.7	$ 108.5	$ 150.5
Operating Lease Obligations(3)	51.9	12.1	17.6	11.2	11.0
Net Estimated Payments Under Interest Rate Swaps(4)	6.3	5.1	1.8	(0.3)	(0.3)
Interest Payments on Long-Term Debt Obligations(5)	82.9	25.5	37.8	12.3	7.3
Total	$ 783.3	$ 99.2	$ 383.9	$ 131.7	$ 168.5

(1) We intend to use a portion of the net proceeds of the $1.4 billion bridge loan to repay all our outstanding borrowings from Man Group and third parties. As a result, we will repay in full $642.2 million in long-term debt obligations, and we will have total debt obligations of $1.4 billion payable in less than one year.

(2) We intend to refinance the bridge loan shortly after this offering with a combination of senior notes and junior subordinated debentures as described above.

(3) We have operating lease arrangements with unaffiliated parties for the use of certain office facilities, equipment and computer hardware. Under certain circumstances, payments may be escalated.

(4) These payments are based on estimated movements in LIBOR.

(5) The fixed-rate interest payments on our long-term debt obligations are offset by the fixed leg under the terms of our interest rate swaps.

Off-Balance Sheet Arrangements and Risk

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

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

In the normal course of business, our client activities involve the execution, settlement and financing of various client transactions. These activities may expose us to off-balance sheet risk in the event our client or the other broker is unable to fulfill its contracted obligations and we have to purchase or sell the financial instrument

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underlying the contract at a loss. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is our policy to review, as necessary, the credit standing of each counterparty with which we conduct business.

Critical Accounting Policies and Estimates

The preparation of our combined financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our combined financial statements on the reported amounts of revenues and expenses during the reporting period. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described in Risk Factors cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be materially adversely affected.

Our significant accounting policies are summarized in Note 2 to our combined financial statements included elsewhere in this prospectus. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

- the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimate or assumption on our financial condition or operating performance is material.

Intangible Assets, Net

Our intangible assets represent the cash we paid in a business acquisition for the purchase of customer relationships, technology assets, and trade names. We amortize finite-lived intangible assets over their estimated useful lives on a straight-line basis, which range from 4 to 14 years, unless the economic benefits of the intangible are otherwise impaired. We review our intangible assets at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If former Refco clients depart, our intangible assets could be impaired.

Allowance for Doubtful Accounts

Our receivables are generally collateralized with marketable securities. Our allowance for doubtful accounts is based upon management s continuing review and evaluation of relevant factors, such as collateral value, aging and the financial condition of our clients. The allowance is assessed to reflect our best estimate of probable losses that have been incurred as of the balance sheet date. Any changes are included in the current period operating results. In circumstances where a specific client s inability to meet its financial obligation is known, we record a specific provision for bad debts against amounts due to reduce the receivable to the amount we reasonably believe will be collected.

Although these reserves have been adequate historically, the default of a large client or prolonged period of weakness in global financial markets could adversely affect the ability of our clients to meet their obligations.

Legal and Regulatory Reserves

In the ordinary course of business, we have been named as a defendant in a number of legal and regulatory proceedings. We estimate potential losses that may arise out of legal and regulatory proceedings and recognize liabilities for such contingencies to the extent such losses are probable and the amount of loss can be reasonably estimated. We review outstanding claims with internal and external counsel to assess probability and estimates of loss. We reassess the risk of loss as new information becomes available, and reserves are adjusted, as appropriate. Any future increases to our loss contingency reserves or releases from these reserves may affect our results of operations.

Fair Value of Financial Instruments

Financial instruments and related revenues and expenses are recorded in the financial statements on a trade- date basis. Financial instruments include related accrued interest or dividends. Market value generally is based on published market prices or other relevant factors, including dealer price quotations. Substantially all of our financial instruments are recorded at fair value or contract amounts that approximate fair value. The fair value of a financial instrument is determined using external market quotations or the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Management estimates that the aggregate fair value of financial instruments recognized on the combined balance sheets, including receivables, payables, accrued expenses and subordinated borrowings, approximates their fair value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent fair value repricing.

Commissions

Commission revenues are recorded on a trade-date basis as client transactions occur. Fees are charged at various rates based on the product traded and the method of trade. Execution-only commissions consist of income charged for executing trades for counterparties that have clearing accounts with other broker institutions. Cleared commissions reflect income earned from clients with clearing accounts with us.

Principal Transactions

Revenues from matched-principal transactions are recorded in principal transactions in the combined statements of operations. For these activities, a commission is not separately billed to the client; instead a commission equivalent amount is included in the transaction revenues following its execution on behalf of the client.

Principal transactions are recorded on the trade date. Profits and losses arising from transactions entered into for our account and risk are recorded on a trade-date basis.

Recent Accounting Pronouncements

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN No. 48), which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 requires enterprises to assess and account for the effect of uncertainty of tax positions taken or to be taken on tax returns in their financial statements. We are currently considering the impact of the adoption of FIN No. 48 on our combined financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently considering the impact of the adoption of SFAS No. 157 on our combined financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB

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No. 108). SAB No. 108 is effective for annual financial statements for fiscal years ending after November 15, 2006, and requires registrants to assess the effects of correcting prior years misstatements on the current year s statement of income. The cumulative effect, if any, of initial application is to be reported as of the beginning of such fiscal year. We have adopted the provisions of SAB No. 108.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statement No. 87, 88, 106 and 132(R) (SFAS No. 158). This Standard requires recognition of the funded status of a benefit plan in the Balance Sheet. The Standard also requires recognition, in other comprehensive income, of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. Due to the curtailment and settlement of our domestic pension plans, the provisions of SFAS No. 158 are not applicable.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We are currently considering the impact of the adoption of SFAS No. 159 on our combined financial statements.

Risk Management

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

- market risk;
- credit risk;
- cash liquidity risk;
- operational risk; and
- regulatory capital risk.

Market Risk

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

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

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

Going forward, we intend to hedge certain foreign exposures on a forward basis at the beginning of the year, adjusting and optimizing our hedging strategy as appropriate. A large percentage of our employee compensation is variable and not subject to currency risk at year-end due to the fact that we convert these foreign commitments to U.S. dollars on a monthly basis with no adjustment required at quarter-end that could impact our earnings volatility. We also intend to hedge our fixed expenses where possible. However, there may be certain expenses that we do not hedge. The table below shows the approximate effect on our shareholders equity of instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures at March 31, 2007 against the U.S. dollar.

	Adverse exchange rate movement against the U.S. dollar	Approximate increase in general and other expenses (in millions)
British pounds	10%	$ 18.3
Euros	10%	$ 0.5

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

In the ordinary course of our operations, we have limited our exposure to interest rate risk. Our balance sheet, which reflects a substantial amount of short-term and highly liquid assets, frequently also reflects matching liabilities (and vice versa). We generate interest income from the positive spread earned on client deposits or secured client financing transactions, and the basis for the calculation of interest received and paid is matched. This is the case in both rising and falling interest rate environments, although we have the opportunity to create higher levels of interest income in a rising interest rate environment. Based on our current portfolio, a 25 basis point decrease in interest rates would result in a decrease in our annual revenues of approximately $4.6 million. However, we currently hedge a portion of our portfolio against rate reductions, using an 18-month time horizon, such that a 25 basis point decrease would reduce our annual revenues by $2.6 million, rather than $4.6 million. We may change this time frame in the future as part of our regular portfolio review process.

Credit Risk

Credit risk is the possibility that we may suffer a loss from the failure of clients, counterparties or borrowers to meet their financial obligations at all or in a timely manner. We act as both an agent and principal in providing execution and clearing services, primarily for exchange-traded products. Our client securities activities are transacted on either a cash or margin basis. In margin transactions, we extend credit to our clients, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the clients accounts. In connection with these activities, we execute and clear client transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose us to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that clients may incur. In the event the client fails to satisfy its obligations, we may be required to purchase or sell financial instruments at prevailing market prices to fulfill the client s obligations.

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

Margin Risk

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

Unsecured Credit Risk

At March 31, 2007, we had granted credit lines to clients in an aggregate amount of $1,069.8 million, of which $688.1 million related to initial margin that customers were not required to cover with cash or collateral and $381.7 million related to credit lines provided for variation margin. At March 31, 2007, $305.3 million was outstanding under these credit lines, of which $236.8 million related to initial margin and $68.5 million related to variation margin. In addition, at March 31, 2007, clients owed us $57.8 million primarily related to margin calls and commissions receivable for execution business only.

Default Risk

The default risks include both pre-settlement and settlement risk. Pre-settlement risk is the possibility that, should a counterparty default on its obligations under a derivative contract, we could incur a loss when we cover the resulting open position because the market price has moved against us. Settlement risk is the possibility that we may pay a counterparty, such as a bank in a foreign exchange transaction, and fail to receive the corresponding settlement in turn. Many of these exposures are subject to netting agreements which reduce the net exposure to us. Limits for counterparty exposures are based on the creditworthiness of the counterparty and are subject to formal lines of approval. The credit risk is diversified between clients and counterparties across a wide range of markets and jurisdictions.

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

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input in our evaluation of the credit risk in our economic capital methodology. As illustrated in the chart below, a substantial majority of our credit portfolio is represented by highly rated counterparties.

Analysis of Stressed Credit Exposures

As of March 30, 2007

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

Risk Mitigation

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

- establishing risk parameters based on analysis of historical prices and product price volatility;
- intra-day and end of day risk limit monitoring, including intra-day position and trade monitoring to identify any accounts trading beyond pre-set limits and parameters;
- market risk analysis and evaluation of adequacy of margin requirements for traded products;
- establishing and monitoring of margin levels and client margin calls;
- stress testing of risk scenarios (both regular and longer term);
- intra-day stress analysis for material market moves or accounts with material position taking; and
- approval of pricing, margin requirements, limits and risk control of new instruments.

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

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On cleared business, we require the initial margin to be paid by clients as a deposit before they commence trading. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. For fiscal 2004, 2005, 2006 and 2007, our bad debt, as a percentage of revenues, net of interest and transaction-based expenses, was 0.0%, 0.3%, 0.5% and 0.3%, respectively. For fiscal 2004, 2005, 2006 and 2007, our trading errors as a percentage of revenues, net of interest and transaction-based expenses, were 0.8%, 1.5%, 1.1% and 0.9%, respectively.

Cash Liquidity Risk

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

We may segregate up to an aggregate amount of $800 million of unrealized profits from trading in the OTC markets by certain funds (which Man Group refers to as investment products) that are part of Man Investments, managed futures program and to which we provide clearing services. In addition, as we often do in the ordinary course of our dealings with substantial clients, we may provide financing of these investment products initial margin requirements from time to time, in this case in an aggregate amount up to $500 million at any time outstanding. Although we have made no commitment in this regard, providing this financing could reduce the amount of our funds available to meet our own liquidity requirements.

We generally do not engage in proprietary trading meaning that we do not engage in directional trading in order to profit from anticipated changes in market prices. When we do take positions for our own account, we do so primarily on a matched-principal basis in response to client demand. We also take positions for our own account to hedge our exposure to foreign currency and interest rate risk, which is inherent in the international nature and financial focus of our business. We believe that, because we take positions for our own account primarily to facilitate client trades and for hedging purposes, we are less susceptible to the cash liquidity risks faced by many proprietary traders. Under adverse conditions, however, our cash liquidity risk may be heightened to the extent that we are required to satisfy obligations relating to open client positions that exceed the amount of collateral available in their margin accounts. To address this risk, we have developed a liquidity policy.

Our liquidity policy seeks to ensure that we maintain access to liquidity at both our unregulated and regulated subsidiaries. As discussed above, we must observe all relevant exchange margin requirements, and we maintain our own, in many cases more stringent, margin requirements, which are intended to ensure that clients will be able to cover their positions in most reasonably foreseeable economic environments. Our liquidity policy requires that we have sufficient readily available liquid assets and committed liquidity facilities to ensure that we can meet our financial obligations as they become due under both normal and some unusual or distressed market conditions. To this end, our policy requires that we have sufficient liquidity to satisfy all of our cash needs for at least one year without access to the capital markets. To ensure we have dedicated liquidity available following this offering, we have entered into a $1.5 billion multi-year revolving unsecured credit facility with a syndicate of banks. We also intend to have committed and uncommitted credit lines of approximately $2.0 billion, together with substantial multiple trading lines from a large and highly diversified group of financial institutions to support the business in respect of settlement and intra day requirements. We also anticipate accessing these facilities and credit lines from time to time.

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

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Operational Risk

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

Regulatory Capital Risk

Various domestic and foreign governmental bodies and self-regulatory organizations responsible for overseeing our business activities require that we maintain specified minimum levels of regulatory capital in our operating subsidiaries. If not properly monitored and adjusted, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to imposing partial or complete restrictions on our ability to conduct business. To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our operating subsidiaries and adjust the amounts of regulatory capital in each operating subsidiary as necessary to ensure compliance with all regulatory capital requirements. We also maintain excess regulatory capital to provide liquidity during periods of unusual or unforeseen market volatility, and we intend to continue to follow this policy. In addition, we monitor regulatory developments regarding capital requirements and prepare for increases in the required minimum levels of regulatory capital that may occur from time to time in the future. For example, we are in the process of implementing the new European Union Capital Requirements Directive, effective January 1, 2008, which will increase our required minimum levels of regulatory capital. We expect the revised capital adequacy framework, in combination with the Separation, to increase our regulatory capital requirements by approximately $600 million as of January 1, 2008. This increase largely results from revised regulatory capital requirements for operational risk, exchange-traded derivatives and certain intercompany exposures. Because certain of our subsidiaries domiciled outside the European Union will no longer be subject to the Financial Services Authority s consolidated supervision after the Separation, however, we expect to be able to satisfy a larger portion of our aggregate regulatory capital requirements in the form of debt, rather than equity, such that these incremental regulatory capital requirements should only require a moderate increase in our equity capital. We currently believe that our capital levels upon completion of the offering should be sufficient to cover this increase in our regulatory capital as of January 1, 2008. However, we will also need to increase our regulatory capital as well as the capital required under our internal risk-management guidelines in order to expand our operations and make acquisitions in the future as we currently intend to do.

Value-At-Risk

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

Our end-of-day historical simulation value-at-risk for our financial instrument positions, estimated at a 95% confidence level over a one-day time horizon, was $1.3 million as of March 30, 2007. This calculation excludes exchange shares, U.S. treasury securities deposited at commodity clearing organizations and investments of segregated client funds.

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

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

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

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

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OUR INDUSTRY

Introduction

We provide brokerage execution and clearing services across a broad range of derivative products traded on exchanges and in the over-the-counter, or OTC, markets throughout the world. We also provide brokerage execution services for products in the non-derivative, or cash, markets. We refer to the industry in which we operate as the derivatives and cash brokerage industry.

Derivatives and cash products are traded in two distinct market places: (1) regulated futures and securities exchanges and (2) OTC markets. Exchanges offer trading in instruments with standardized contract characteristics, whereas OTC markets facilitate transactions involving bilateral contracts privately negotiated and traded among specific counterparties. Exchange-traded contracts are cleared through a central clearinghouse, whereas OTC contracts have historically been settled between counterparties. In recent years, however, clearinghouses have increasingly offered clearing services for OTC trades. Cleared contracts are novated to a clearinghouse, which in effect steps between the parties to the contract and becomes a party in back-to-back contracts with each side. The clearinghouse generally marks the cleared contracts to market at least daily, and requires margin adjustments from the parties clearing brokers based on changes in the market value of the underlying asset until final settlement at expiration, which may occur after a period of days, months or years.

The global derivatives sector of our industry has experienced rapid growth in recent years in the volume of exchange-traded derivatives and the outstanding notional amounts of OTC derivatives. This growth has been driven by many factors, including globalization and the development of new trading markets, a move to commercially oriented business practices at exchanges, increased demand for financial risk-management, migration to fully electronic trading markets, deregulation and regulatory changes, market convergence, product innovation on exchanges and migration from OTC markets to exchange-based trading and enhanced sophistication of market participants. According to the Bank for International Settlements, the global turnover, or trading volume, in exchange-traded derivatives contracts increased at a compound annual growth rate of 21.6% per annum from the 12-month period ended December 31, 2001 to the 12-month period ended December 31, 2006 and the global notional amounts outstanding for OTC derivatives increased at a compound annual growth rate of 30.1% per annum between December 31, 2001 and December 31, 2006.

Derivatives

A derivative is a contract between a buyer and seller whose value is determined by the performance of one or more underlying financial or physical assets, such as interest rates, equity securities, foreign exchange rates, energy products, metals and agricultural or other commodities, as well as indices based on these assets. Examples of financial derivatives include contracts based on the value of interest rates, equity indices, individual equity securities and foreign exchange rates (such as LIBOR futures, e-mini S&P 500 options, options on a single stock and EUR/USD swaps, respectively). Examples of physical derivatives include contracts based on the value of energy products, agricultural commodities and metals (such as WTI crude oil futures, ethanol calendar swaps and futures and options on copper, respectively). Most derivatives are financially settled, whereby settlement is made through cash payments based on the value of the underlying asset, although some derivatives are physically settled by delivering the underlying product. Each derivative specifies whether it will be financially or physically settled. Unlike trades in the cash markets, which typically settle within a period of days, derivative contracts frequently do not settle for extended periods, often months or years after they are entered into. Because the parties performance obligations, whether to make payment or delivery, may continue for extended periods, the parties typically are required to provide collateral, or margin, to secure performance of their obligations.

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Types of Derivatives

The most common types of exchange-traded derivatives are futures and options on futures. Several additional types of derivatives are traded in the OTC markets, including swaps, forwards and options. The principal types of derivatives include:

Futures: A future is a standardized contract, traded on futures exchanges, to buy or sell a specified quantity of an underlying financial or physical asset (or the cash value of the asset) at a future date for a specified price.

Options: An option is a contract that conveys to the buyer the right, but not the obligation, to call (buy) or put (sell) a specified quantity of an underlying financial or physical asset (or the cash value of the asset) during a specified period at a price determined at the time of the execution of the option. Options may be exchange-traded such as an option on a futures contract, or privately negotiated and traded on the OTC markets.

Forwards and Swaps: A forward contract is an agreement between two parties to deliver a specified quantity of an underlying asset on a specified date and at a specified location against payment of an agreed-upon price. Unlike futures contracts, forward contracts are not standardized, but are negotiated on an individual basis between counterparties. Swaps are OTC derivative contracts generally between the holders of two different assets with different risk and performance profiles in which the risk or performance characteristics are exchanged by cash payments on one or more specified dates. Swaps may be settled against the future price of a single asset or against an index of multiple asset prices.

Other Derivatives: There is a wide array of other derivatives with varied characteristics, including contracts for differences and swap options. A contract for difference is a contract between two parties (buyer and seller) stipulating that the seller will pay to the buyer the difference between the current value of an asset and its value at contract time. If the difference is negative, then the buyer will pay instead to the seller.

The table below illustrates some common examples of the different types of derivatives:

	Types of Derivatives				
	Exchange-Traded		**OTC**		
Underlying Asset	Future	Option	Swap	Forward	Option
Interest Rate	Eurodollar future	Option on Eurodollar future	Interest rate swap	Forward rate agreement	Interest rate cap
Equity Index	DJIA Index future	Option on DJIA Index future	Equity swap	Equity index forward	Equity index option
Single Stock	Single stock future	Single share option	Equity swap	Repurchase agreement	Stock option or warrant
Foreign Exchange	FX future	Option on FX future	Currency swap	FX forward	FX option
Commodity	WTI Crude Oil future	Option on WTI Crude Oil future	Natural gas basis swap	North American power forward	Option on crude oil

Derivatives can provide market participants with an efficient mechanism for the management of price risk. Derivatives are used for risk-management, asset allocation, speculation, arbitrage and physical delivery of the underlying asset. Generally, derivatives are traded by two types of market participants: hedgers, or those who seek to minimize and manage price risk, and speculators, or those who are willing to take on risk in the hope of making a profit. By buying and selling derivatives, hedgers seek to protect themselves from adverse price changes. Speculators, on the other hand, trade derivatives with the expectation of making a profit from changes in the value of the underlying asset. The interaction of hedgers and speculators in exchange-traded derivatives helps to provide liquid, active and competitive markets.

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Cash Brokerage

Cash brokerage involves the execution and clearing of client trades in non-derivative products such as equity and debt securities and foreign exchange. In these transactions, market participants generally seek to purchase or sell a specified amount of securities or currencies at a specified price for cash, with settlement delivery of the products against payment occurring within a few days after the trades are executed. Cash trades in securities occur on exchanges where the securities are listed as well as in the OTC markets, but generally are cleared through a central clearinghouse. Cash trades in foreign exchange are referred to as spot transactions , whereby parties agree to buy or sell one currency in exchange for another at a price based on the prevailing spot exchange rate, or the current value of one currency compared to another. Market participants also trade foreign exchange in the derivative markets in various instruments, such as futures, forwards, currency swaps and foreign exchange options.

As the trading strategies of market participants continue to evolve and diversify, and the derivatives and cash markets continue to converge, brokers are increasingly able to bridge the gap between these markets and to offer services in a number of related markets. Accordingly, many brokers active in the derivatives markets have become increasingly active in the cash markets as well. For a discussion of the industry trend of market convergence, see Industry Trends Market Convergence .

Exchange and OTC Trading

There are two types of market structures within the derivatives and cash brokerage industry: regulated exchanges and the OTC markets. These market structures are distinguished by their unique regulatory, participatory, reporting and operational requirements.

Derivatives Exchanges

A derivatives exchange is a regulated entity that provides trading in standardized derivative products. Currently, there are more than 100 regulated derivatives exchanges located in over 40 countries. Historically, trading in these markets was restricted to standardized contracts on traditional, physical commodities such as agricultural commodities but has expanded to include trading in additional types of standardized contracts in different market sectors, such as interest rates, foreign exchange products and stock indices. For a sample of the types of products traded on derivatives exchanges, see the table in Derivatives Types of Derivatives . In a typical derivatives market, participants can trade either futures contracts or options on futures contracts.

Historically, trading in futures contracts took place exclusively through face-to-face interaction on a physical trading floor of an exchange, also known as the pit , through an auction process known as open-outcry . In an auction market, prices are established publicly by participants posting bids (or buying indications) and offers (or selling indications). Typically, a derivatives exchange restricts its hours of operation and floor trading to a limited number of exchange members. Non-exchange members are required to execute trades through intermediaries, such as brokers known in the United States as futures commission merchants who are members of the exchange.

In recent years, following technological innovations that have increased the speed of communications and the availability of information, there has been an increasing acceptance and adoption of electronic trading. As a result, many futures and derivatives exchanges have expanded access to their markets by replacing their floor-based trading system with an electronic market or by supplementing open-outcry trading with electronic market access. Examples of electronic trading platforms include the GLOBEX system provided by the Chicago Mercantile Exchange, LIFFE Connect and the fully electronic derivatives exchange operated by IntercontinentalExchange, Inc. s subsidiary, ICE Futures, Inc.

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OTC Markets for Derivatives

Over-the-counter, or OTC, is a term used to describe trading activity that does not take place on a regulated exchange. According to the Bank for International Settlements, at the end of December 2006, the global notional amounts of outstanding derivatives in the OTC market was over five times that of exchange-traded derivatives. In the OTC market, commercial participants have historically entered into privately negotiated, non-standardized bilateral contracts. In recent years participants have begun to take advantage of cleared OTC contracts that, like exchange-traded derivatives, are virtually standardized and cleared through a central clearinghouse.

In contrast to the limited range of futures contracts available for trading on regulated exchanges, participants in the OTC markets have the ability to trade an unlimited range of customized contracts between counterparties. As a result, OTC derivatives encompass a broader range of contracts, which may have terms that are more varied and specialized than exchange-traded derivatives. For a sample of the types of products traded in the OTC markets, see the table in Derivatives Types of Derivatives . Unlike derivatives exchanges, OTC markets operate virtually around the clock and do not impose membership requirements.

Since participants in OTC markets have traditionally entered into individually negotiated, bilateral contracts, the OTC markets historically have been characterized by fragmented liquidity and a lack of price transparency. Without a centralized, comprehensive source of pricing data and an observable, real-time market for a specific contract, it may often be difficult for market participants to determine the best price available for their trade.

Cash Markets

In the cash markets, equity and debt securities are traded both on exchanges and in the OTC markets, while cash foreign exchange products are traded exclusively in the OTC markets. Equity securities are traded principally through the facilities of the securities exchange where they are listed, either directly if the broker is a member of the relevant exchange or indirectly by routing the order through a member firm. Cash trades in equity securities may also occur in the OTC markets, although OTC trades tend to be executed by market-makers and other dealers who maintain inventory and act as principals. Debt securities are predominately traded between dealers and large institutions in the OTC markets and cash foreign exchange products are traded exclusively in the OTC cash markets, principally in London, New York, Tokyo and Singapore.

As participants seek to bridge the cash and derivatives markets, there has been growth in derivatives that combine both cash products and derivatives. For example, an exchange of futures for physicals is a derivative transaction in which one counterparty buys cash products and sells futures contracts while the counterparty on the opposite side sells cash products and buys futures contracts. As a result, the parties trade cash products and simultaneously enter into an offsetting futures transaction. Exchange for physicals are executed in the OTC market directly or through brokers and are submitted for clearing to clearinghouses by clearing member firms, like us. The appeal of exchange for physicals is that the parties to the transaction are free to negotiate the prices, quantities and other terms of the transaction. As a result, fund managers and other institutional investors often use exchange for physicals to enter or exit futures market positions on agreed upon terms and thereby exchange or modify exposures between the cash and derivatives markets.

Execution and Clearing Process for Derivatives

As discussed above, trades in listed futures and options are executed on the trading floor or through the electronic market of the exchange where they are listed. In general, the execution function is performed by executing brokers, who must be members of the exchange for execution purposes, and the clearing function is performed by a central clearinghouse and clearing firms who must be approved as clearing members of the exchange. The clearinghouse is designated by the exchange and often is a division or affiliate of the exchange. The clearing firms are generally banks or brokers with substantial capital and are designated by the counterparties to the trade. Executing brokers may be, but often are not, clearing members, and vice versa. Thus, some firms may provide only execution services, others may provide only clearing services and still others like us may provide both.

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Typically, when a client wishes to trade a listed future or option, it must give its order to an execution broker who is a member of the exchange for execution purposes, and who sends the order to the exchange for execution. Historically, most executions were handled by voice brokers who referred client orders by telephone to the relevant exchange for execution and charged their clients a commission. As a result of the migration to electronic trading in recent years, clients have been able to route orders to exchanges electronically, generally through systems maintained by executing brokers, which has led to lower commissions for execution services. Moreover, some exchanges have also provided clients, particularly large, active traders, with direct online access to their order-execution systems, which permits these clients to bypass the executing brokers entirely. While this ability of clients to bypass executing brokers, or disintermediation, has affected order flow for traditional voice brokers, many clients still choose to execute trades through brokers like us that offer clients value-added services in addition to voice execution. See Our Business Our Growth Strategy .

In some cases, the executing broker may have sufficient order flow from its clients that it is able, where permitted by law, to execute client orders internally by matching a buy-side order from one client with a sell-side order from another client or vice versa. Internal execution permits the broker to work an order meaning that it holds the order while it seeks out one or more orders on the other side that would result in a match on terms more favorable than those available when the order was initially received and thus to achieve better pricing for the client than if it simply routed the order to the exchange for matching in an automated execution system. We refer to this practice as internal agency execution. In cases where the client demands immediate execution, in contrast, the broker may, where permitted by law, take the other side of the trade for its own account while contemporaneously entering into an offsetting trade with another party, either internally with another client or externally with a market participant. We refer to this practice as internal matched-principal execution. By executing on a matched-principal basis, the broker limits its exposure to changes in market prices to a transitory, usually brief period while it finds an offsetting trade. Brokers generally earn higher profits per trade when they execute client orders on a matched-principal basis than on an agency basis. While current laws and regulations generally do not permit matched-principal execution in the U.S. listed markets, we believe that matched-principal execution will become more prevalent in European listed markets due to pending regulatory changes in that region. See Industry Trends Deregulation and Regulatory Changes . Matched-principal execution of client orders is permitted and more common in the OTC markets, where trading is conducted primarily on a principal-to-principal basis.

In all cases, the broker routes the client orders (including, where permitted by law, those matched internally) to the relevant exchange for execution and clearing. If an order is not matched internally before it is routed, it will be matched with orders received by the exchange from other brokers for execution. Where permitted by law, orders matched internally, whether with orders of other clients or with orders for the broker s account, will not be exposed to other orders and the internal matches will simply be confirmed. Once an order is matched by the exchange, the trade has been ex