

MF Global Ltd.
Form 10-Q
August 07, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the **QUARTERLY PERIOD** ended **June 30, 2009**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-33590

MF GLOBAL LTD.

(Exact name of registrant as specified in its charter)

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| | |
|---|--|
| Bermuda (State or other jurisdiction of incorporation or organization) | 98-0551260 (I.R.S. Employer Identification No.) |
| Clarendon House 2 Church Street | |
| Hamilton HM11, Bermuda (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: (441) 296-1274 | |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

| | | | |
|--|---|--|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |
| (Do not check if a smaller reporting company) | | | |

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

The number of common shares outstanding of the registrant as of June 30, 2009, was 121,240,908.

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MF GLOBAL LTD.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements and Supplementary Data
MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

| | Three months ended June 30, | |
|---|------------------------------------|----------------|
| | 2009 | 2008 |
| Revenues | | |
| Execution only commissions | \$ 79,288 | \$ 119,063 |
| Cleared commissions | 259,525 | 374,173 |
| Principal transactions | 45,711 | 63,161 |
| Interest income | 112,189 | 345,819 |
| Other | 13,638 | 11,641 |
| Total revenues | 510,351 | 913,857 |
| Interest and transaction-based expenses: | | |
| Interest expense | 36,126 | 238,797 |
| Execution and clearing fees | 142,135 | 232,703 |
| Sales commissions | 60,572 | 67,703 |
| Total interest and transaction-based expenses | 238,833 | 539,203 |
| Revenues, net of interest and transaction-based expenses | 271,518 | 374,654 |
| Expenses | | |
| Employee compensation and benefits (excluding non-recurring IPO awards) | 172,669 | 210,665 |
| Employee compensation related to non-recurring IPO awards | 8,845 | 17,744 |
| Communications and technology | 27,158 | 32,426 |
| Occupancy and equipment costs | 9,701 | 10,255 |
| Depreciation and amortization | 13,618 | 14,165 |
| Professional fees | 20,002 | 31,020 |
| General and other | 38,331 | 15,495 |
| IPO-related costs | 871 | 5,468 |
| Impairment of intangible assets and goodwill | 542 | |
| Total other expenses | 291,737 | 337,238 |
| Gains/(losses) on exchange seats and shares | 638 | (648) |
| Loss on extinguishment of debt | 9,682 | |
| Interest on borrowings | 10,525 | 14,217 |
| (Loss)/income before provision for income taxes | (39,788) | 22,551 |
| (Benefit)/provision for income taxes | (14,426) | 6,726 |
| Equity in income/(loss) of unconsolidated companies (net of tax) | 620 | (878) |

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| | | |
|--|--------------------|------------------|
| Net (loss)/income | (24,742) | 14,947 |
| Net income attributable to noncontrolling interest | 410 | 556 |
| Net (loss)/income attributable to MF Global Ltd. | \$ (25,152) | \$ 14,391 |
| Dividends declared on preferred stock | 7,678 | |
| Net (loss)/income applicable to common shareholders | \$ (32,830) | \$ 14,391 |
| (Loss)/earnings per share (see Note 11): | | |
| Basic | \$ (0.27) | \$ 0.12 |
| Diluted | \$ (0.27) | \$ 0.12 |
| Weighted average number of common shares outstanding: | | |
| Basic | 122,918,795 | 120,122,933 |
| Diluted | 122,918,795 | 121,995,205 |

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

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

| | June 30, 2009 | March 31, 2009 |
|---|--------------------------|---------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 822,198 | \$ 639,183 |
| Restricted cash and segregated securities | 9,187,130 | 9,670,494 |
| Securities purchased under agreements to resell (\$15,480,589 and \$0 at fair value, respectively) | 18,320,915 | 12,902,670 |
| Securities borrowed | 10,266,044 | 8,624,906 |
| Securities received as collateral | 72,101 | 54,488 |
| Securities owned (\$7,543,648 and \$3,202,430 pledged, respectively) | 9,918,474 | 3,605,908 |
| Receivables: | | |
| Brokers, dealers and clearing organizations | 4,054,683 | 2,473,341 |
| Customers (net of allowances of \$25,872 and \$24,585, respectively) | 365,371 | 415,532 |
| Affiliates | 89 | 95 |
| Other | 55,407 | 36,884 |
| Memberships in exchanges, at cost (market value of \$21,700 and \$19,375, respectively) | 6,388 | 6,370 |
| Furniture, equipment and leasehold improvements, net | 63,471 | 62,717 |
| Intangible assets, net | 144,209 | 151,688 |
| Other assets | 201,147 | 191,359 |
| TOTAL ASSETS | 53,477,627 | 38,835,635 |
| Liabilities and Shareholders' Equity | | |
| Short-term borrowings, including current portion of long-term borrowings | 166,235 | 148,835 |
| Securities sold under agreements to repurchase (\$10,077,558 and \$0 at fair value, respectively) | 28,507,968 | 14,271,698 |
| Securities loaned | 4,354,140 | 5,951,679 |
| Obligation to return securities borrowed | 72,101 | 54,488 |
| Securities sold, not yet purchased, at fair value | 2,433,422 | 2,884,591 |
| Payables: | | |
| Brokers, dealers and clearing organizations | 4,246,059 | 1,077,379 |
| Customers | 11,351,469 | 11,766,390 |
| Affiliates | 3,142 | 1,602 |
| Accrued expenses and other liabilities | 204,605 | 293,207 |
| Long-term borrowings | 698,339 | 938,007 |
| TOTAL LIABILITIES | 52,037,480 | 37,387,876 |
| Commitments and contingencies (Note 13) | | |
| Preference shares, \$1.00 par value per share; 200,000,000 shares authorized; | | |
| 1,500,000 Series A Convertible, issued and outstanding, cumulative | 96,167 | 96,167 |
| 1,500,000 Series B Convertible, issued and outstanding, non-cumulative | 128,035 | 128,035 |
| SHAREHOLDERS' EQUITY | | |
| Common shares, \$1.00 par value per share; 1,000,000,000 shares authorized, 121,163,519 and 120,723,046 shares issued and outstanding, respectively | 121,164 | 120,723 |

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| | | |
|---|-----------|-----------|
| Treasury shares | (127) | (97) |
| Receivable from shareholder | (29,779) | (29,779) |
| Additional paid-in capital | 1,343,711 | 1,335,449 |
| Accumulated other comprehensive loss (net of tax) | (16,300) | (24,015) |
| Accumulated deficit | (216,649) | (191,497) |
| Noncontrolling interest | 13,925 | 12,773 |

| | | |
|-----------------------------------|------------------|------------------|
| TOTAL SHAREHOLDERS' EQUITY | 1,215,945 | 1,223,557 |
|-----------------------------------|------------------|------------------|

| | | |
|---|----------------------|----------------------|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 53,477,627 | \$ 38,835,635 |
|---|----------------------|----------------------|

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

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

| | Three months ended June 30, | |
|---|------------------------------------|-------------|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss)/income | \$ (24,742) | \$ 14,947 |
| Less: Net income attributable to noncontrolling interest | 410 | 556 |
| Net (loss)/income attributable to MF Global Ltd. | \$ (25,152) | \$ 14,391 |
| Adjustments to reconcile net (loss)/income attributable to MF Global Ltd. to net cash provided by operating activities: | | |
| Gains on sale of exchanges seats and shares | (45) | (5,897) |
| Depreciation and amortization | 13,618 | 14,165 |
| Stock-based compensation expense | 18,096 | 28,046 |
| Bad debt expense | (33) | (368) |
| Deferred income taxes | (18,369) | (6,258) |
| Equity in (income)/losses of unconsolidated affiliates, net of tax | (620) | 878 |
| Income attributable to noncontrolling interests, net of tax | 410 | 556 |
| Loss on extinguishment of debt | 9,682 | |
| Gain on disposal of furniture, equipment and leasehold improvements | | (100) |
| Impairment of goodwill and intangible assets | 542 | |
| Amortization of debt issuance costs | 1,933 | |
| Decrease/(increase) in operating assets: | | |
| Restricted cash and segregated securities | 514,799 | 146,717 |
| Securities purchased under agreements to resell | (5,418,245) | 3,182,498 |
| Securities borrowed | (1,641,138) | (965,148) |
| Securities owned | (6,311,897) | 2,052,321 |
| Receivables: | | |
| Brokers, dealers and clearing organizations | (1,564,700) | (582,729) |
| Customers | 51,164 | 1,549,441 |
| Affiliates | 6 | 12,776 |
| Other | (18,230) | 9,861 |
| Other assets | (1,519) | (49,323) |
| Increase/(decrease) in operating liabilities: | | |
| Securities sold under agreements to repurchase | 14,236,270 | (4,332,950) |
| Securities loaned | (1,597,539) | 372,588 |
| Securities sold, not yet purchased, at fair value | (451,169) | (387,515) |
| Payables: | | |
| Brokers, dealers and clearing organizations | 3,168,253 | (2,292,340) |
| Customers | (458,608) | 1,630,537 |
| Affiliates | (360) | 318 |
| Accrued expenses and other liabilities | (90,979) | (39,228) |
| Net cash provided by operating activities | \$ 416,170 | \$ 353,237 |

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

