

JEFFERIES GROUP INC /DE/  
Form 10-K  
January 27, 2012  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the fiscal year ended November 30, 2011**

**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: 1-14947**

**JEFFERIES GROUP, INC.**

*(Exact name of registrant as specified in its charter)*

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

**520 Madison Avenue,**

**New York, New York**  
*(Address of principal executive offices)*

**95-4719745**  
*(I.R.S. Employer  
Identification No.)*

**10022**  
*(Zip Code)*

**Registrant's telephone number, including area code:**

**(212) 284-2550**

**Securities registered pursuant to Section 12(b) of the Act:**

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Title of each class:  
**Common Stock, \$.0001 par value**

Name of each exchange on which registered:  
**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes   
No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$3,037,973,376 as of May 31, 2011.

Indicate the number of shares outstanding of the registrant's class of common stock, as of the latest practicable date. 205,958,550 shares as of the close of business on January 18, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE**

Information from the Registrant's Definitive Proxy Statement with respect to the 2012 Annual Meeting of Stockholders to be held on May 7, 2012 to be filed with the SEC is incorporated by reference into Part III of this Form 10-K.

**LOCATION OF EXHIBIT INDEX**

The index of exhibits is contained in Part IV herein on page 159.

**Table of Contents**

**JEFFERIES GROUP, INC.**

**2011 FORM 10-K ANNUAL REPORT**

**TABLE OF CONTENTS**

**PART I**

Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	7
Item 1B.	<u>Unresolved Staff Comments</u>	12
Item 2.	<u>Properties</u>	12
Item 3.	<u>Legal Proceedings</u>	13
Item 4.	<u>(Removed and Reserved)</u>	13

**PART II**

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 6.	<u>Selected Financial Data</u>	17
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	68
Item 8.	<u>Financial Statements and Supplementary Data</u>	69
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	157
Item 9A.	<u>Controls and Procedures</u>	157
Item 9B.	<u>Other Information</u>	157

**PART III**

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	158
Item 11.	<u>Executive Compensation</u>	158
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	158
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	158
Item 14.	<u>Principal Accountant Fees and Services</u>	158

**PART IV**

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	159
----------	---	-----

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**PART I**

**Item 1. Business.**  
**Introduction**

Jefferies Group, Inc. and its subsidiaries operate as a global full service, integrated securities and investment banking firm. Our principal operating subsidiary, Jefferies & Company, Inc. ( Jefferies ), was founded in the U.S. in 1962 and our first international operating subsidiary, Jefferies International Limited, was established in the U.K. in 1986. On July 1, 2011, we acquired the Bache Global Commodities Group from Prudential Financial, Inc. and we now operate a full service futures commission merchant through Jefferies Bache, LLC in the U.S. and a global commodities and financial derivatives broker through Jefferies Bache Limited in the U.K. Since 2000, we have grown considerably and become increasingly diversified, increasing our market share and the breadth of our business. Our growth has been achieved through the ongoing addition of talented personnel in targeted areas, as well as the acquisition of complementary businesses.

As of November 30, 2011, we had 3,898 employees in the U.S., Europe, the Middle East and Asia. Our global headquarters and executive offices are located at 520 Madison Avenue, New York, New York 10022. We also have regional headquarters offices in London and Hong Kong. Our primary telephone number is (212) 284-2550 and our Internet address is [jefferies.com](http://jefferies.com).

The following documents and reports are available on our public website:

Code of Ethics;

Reportable waivers, if any, from our Code of Ethics by our executive officers;

Board of Directors Corporate Governance Guidelines;

Charter of the Audit Committee of the Board of Directors;

Charter of the Corporate Governance and Nominating Committee of the Board of Directors;

Charter of the Compensation Committee of the Board of Directors;

Annual and interim reports on Form 10-K;

Quarterly reports on Form 10-Q;

Current reports on Form 8-K;

## Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Beneficial ownership reports on Forms 3, 4 and 5; and

Any amendments to the above-mentioned documents and reports.

Shareholders may also obtain a printed copy of any of these documents or reports by sending a request to Investor Relations, Jefferies & Company, Inc., 520 Madison Avenue, New York, NY 10022, by calling 203-708-5975 or by sending an email to [info@jefferies.com](mailto:info@jefferies.com).

### **Business Segments**

We currently operate in two business segments, Capital Markets and Asset Management. Our Capital Markets reportable segment consists of our securities and commodities trading activities (including the results of

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC), and our investment banking activities. The Capital Markets reportable segment is managed as a single operating segment that provides the research, sales, trading and/or origination and execution effort for various equity, fixed income and advisory products and services. The Asset Management segment includes asset management activities and related services.

Financial information regarding our reportable business segments as of November 30, 2011, November 30, 2010 and December 31, 2009 is set forth in Note 22 of the Notes to Consolidated Financial Statements, titled *Segment Reporting* and is incorporated herein by reference.

**Our Businesses**

***Capital Markets***

Our Capital Markets segment includes our Equities, Fixed Income and Investment Banking businesses. We primarily serve institutional investors, corporations and government entities.

**Equities**

***Equities Sales & Trading***

We operate a full-service, client-focused equities research, sales and trading business across global securities markets. We earn commissions or spread revenue by executing transactions for clients across these markets in equity and equity-related products, including common stock, American depository receipts, global depository receipts, exchange-traded funds, exchange-traded equity options, convertible products, and closed-end funds. Our primary competitors are global wholesale banks and securities firms. We act as agent or principal (including as a market-maker) when executing client transactions via traditional high-touch and electronic low-touch channels. In order to facilitate client transactions, we may act as principal to provide liquidity which requires the commitment of our capital and maintenance of dealer inventory.

In 2011, we focused our equity research, sales and trading efforts into three geographical regions: the Americas; Europe, the Middle East, and Africa (EMEA); and Asia Pacific. Our main product lines within the regions are cash equities, electronic trading, derivatives, and convertibles. Our clients are primarily institutional market participants such as mutual funds, hedge funds, investment advisors, pension and profit sharing plans, and insurance companies. Through our global sales force, we maintain relationships with our clients, distribute investment research, trading ideas, market information and analyses and receive and execute client orders.

To develop further our global footprint and complement existing capabilities, during 2011 we expanded our EMEA and Asia Pacific cash equity research sales force. In Asia Pacific, we continued the development of a full-service research, sales and trading business with the establishment of our India broker-dealer, Jefferies India Private Limited, addition of employees in our Hong Kong and Japan offices, and establishment of a convertible securities sales presence in our Hong Kong office.

***Equity Finance***

Our Equity Finance business provides financing, securities lending and other prime brokerage services.

We offer prime brokerage services in the U.S. that provide hedge funds, money managers and registered investment advisors with execution, financing, clearing, reporting and administrative services. We finance our client's securities positions through margin loans that are collateralized by securities, cash or other acceptable

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

liquid collateral. We earn an interest spread equal to the difference between the amount we pay for funds and the amount we receive from our clients. We also operate a matched book in equity and corporate bond securities, whereby we borrow and lend securities versus cash or liquid collateral and earn a net interest spread. During 2011, we launched an Asia Pacific securities finance business based in our Hong Kong office.

Customer assets (securities and funds) held by us are segregated in accordance with SEC customer protection rules. We do not commingle customer and firm principal assets or rely on customer free credit balances to finance firm principal positions. We offer selected prime brokerage clients with the option of custodial services at an unaffiliated U.S. broker-dealer that is a subsidiary of a bank holding company. Under this arrangement, we provide our clients directly all customary prime brokerage services other than custody.

***Equity Research***

Our Global Equity Research provides investment ideas and analysis to our clients across a range of industries in the U.S., European, and Asia Pacific markets. Our research covers over 1,300 individual companies around the world.

***Wealth Management***

We provide tailored wealth management services designed to meet the needs of high net worth individuals, their families and their businesses, private equity and venture funds, and small institutions. Our advisors provide access to all of our institutional execution capabilities and deliver other financial services. Our open architecture platform affords clients with access to products and services from both our firm and from a variety of other major financial services institutions.

**Fixed Income**

Our Fixed Income business consists of fixed income sales and trading, as well as commodities, listed futures and over-the-counter derivative trading activities.

***Fixed Income Sales and Trading***

Over the last few years, we significantly strengthened and expanded our global fixed income platform. Our fixed income effort now encompasses the sales and trading of investment grade and high yield corporate bonds, U.S. and European government and agency securities, municipal bonds, repo finance, mortgage- and asset-backed securities, whole loans, leveraged loans, distressed securities and emerging markets debt. Jefferies is designated as a Primary Dealer by the Federal Reserve Bank of New York, and Jefferies International Limited, our U.K. regulated broker-dealer, is a primary dealer in the debt of Germany, the United Kingdom, the Netherlands, Portugal, Austria, Belgium and Slovenia, and trades a broad spectrum of other European government bonds.

Within the U.S., our high yield activities are primarily conducted through Jefferies High Yield Trading, LLC, which is a registered broker-dealer and a wholly owned subsidiary of Jefferies High Yield Holdings, LLC ( JHYH ). We own voting and nonvoting interests in JHYH and have entered into management, clearing, and other services agreements with JHYH. We and Leucadia National Corporation each have the right to nominate two of a total of four directors to JHYH 's board of directors. Two funds managed by us, Jefferies Special Opportunities Fund ( JSOP ) and Jefferies Employees Special Opportunities Fund ( JESOP ), are also investors in JHYH. The term of JHYH is through April 2013, with an option to extend.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

Our strategists and economists provide ongoing commentary and analysis of the global fixed income markets. In addition, our fixed income research professionals, including research and desk analysts, provide investment ideas and analysis across a variety of fixed income products.

***Futures, Foreign Exchange and Commodities***

In July 2011, we acquired a group of companies from Prudential Financial, Inc. ( Prudential ) that comprised Prudential s global commodities businesses, which operated as Prudential Bache. These companies as a group were then renamed Jefferies Bache. The businesses acquired include brokerage and clearing services in listed derivatives on major futures and options exchanges around the world, exchange-traded futures and options and commodities and over-the-counter products, including precious and base metals and foreign exchange.

Jefferies Bache provides 24-hour global coverage, with direct access to major commodity and financial futures exchanges including the CME, CBOT, NYMEX, ICE, NYSE Euronext, LME and Eurex and provides 24-hour global coverage, execution, clearing and market making in futures, options and derivatives on industrial metals including aluminum, copper, nickel, zinc, tin and lead. Products provided to clients include LME and CME futures and over-the-counter metals swaps and options.

We provide a full-service trading desk in all precious metals, cash, futures and exchange-for-physicals markets, and are a market maker providing execution and clearing services as well as market analysis. Jefferies Bache also provides prime brokerage services and is an authorized coin distributor of the U.S. Mint.

In addition, Jefferies Bache is a market-maker providing operational support in foreign exchange spot, forwards, swaps and options across major currencies and emerging markets globally.

**Investment Banking**

We offer our clients a full range of financial advisory services, as well as equity, debt and equity-linked capital raising services.

Over 675 investment banking professionals operate in the United States, Latin America, Europe and Asia, and are organized into industry, product and geographic coverage groups. Industry coverage groups include Aerospace and Defense, Banks, Business Services, Chemicals, CleanTech, Consumer, Energy, Financial Sponsors, Gaming, General Industrials, Healthcare, Maritime, Media, Mining & Metals, Real Estate, Retailing, Specialty Finance, Technology and Telecommunications.

***Equity Capital Markets***

We originate and sell direct placements, private equity, private placements, initial public offerings and follow-on offerings of equity and equity-linked convertible securities.

***Debt Capital Markets***

We offer a range of debt financing for companies, governmental entities and financial sponsors. We focus on structuring and distributing public and private debt in leveraged finance transactions, including investment grade and high yield corporate debt, leveraged buyouts, acquisitions, growth capital financings, mortgage-related and asset-backed securities, municipal securities, public finance, recapitalizations and Chapter 11 exit financings.



## **Table of Contents**

### **JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

#### ***Advisory Services***

We offer companies mergers and acquisitions, recapitalization and restructuring and other financial advisory services. We advise buyers and sellers on sales, divestitures, acquisitions, mergers, tender offers, joint ventures, strategic alliances and takeover defenses. We facilitate and finance acquisitions and recapitalizations on both buy-side and sell-side mandates. Our service to our clients includes leveraging our industry knowledge, extensive relationships, and capital markets and restructuring expertise.

We offer advisory services in connection with exchange offers, consent solicitations, capital raising, and distressed mergers and acquisitions. We provide advice and support in the structuring, valuation and placement of securities issued in recapitalizations and restructurings. We represent issuers, bondholders and creditors, as well as buyers and sellers of assets.

#### **Asset Management**

We provide investment management services to private investment funds, separate accounts (such as for pension funds, insurance companies and other institutional investors) and mutual funds. Our primary asset management programs are commodity asset management strategies, strategic investment programs and convertible bond strategies.

Our commodity asset management strategies are provided through Jefferies Asset Management, LLC, which is registered as an investment adviser with the SEC and as a commodity trading advisor with the CFTC. These strategies primarily seek to provide exposure to commodities as an asset class.

Our strategic investment programs, including our Structured Alpha Program, are provided through the Strategic Investments Division of Jefferies Investment Advisers, LLC, which is registered as an investment adviser with the SEC. These programs are systematic, multi-strategy, multi-asset class programs with the objective of generating a steady stream of absolute returns irrespective of the direction of major market indices or phase of the economic cycle. These strategies are provided through both long-short equity private funds and separately managed accounts.

Our convertible bond strategies are provided through Jefferies (Switzerland) Limited, which is licensed by the Swiss Financial Market Supervisory Authority. These strategies are long only investment solutions in global convertible bonds offered to pension funds, insurance companies and private banking clients.

#### **Competition**

All aspects of our business are intensely competitive. We compete directly with numerous domestic and international competitors, including bank holding companies and commercial banks, firms listed in the AMEX Securities Broker/Dealer Index, other brokers and dealers, investment banking firms, investment advisors, mutual funds and hedge funds. A number of our competitors have substantially greater capital and resources than we do. We believe that the principal factors affecting our competitive standing include the quality, experience and skills of our professionals, the depth of our relationships, the breadth of our service offerings and our tenacity and commitment to serve our clients.

#### **Regulation**

*Regulation In the United States.* The financial services industry in which we operate is subject to extensive regulation. In the U.S., the Securities and Exchange Commission ( SEC ) is the federal agency responsible for

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

the administration of federal securities laws, and the Commodity Futures Trading Commission ( CFTC ) is the federal agency responsible for the administration of commodity futures laws. In addition, self-regulatory organizations, principally Financial Industry Regulatory Authority ( FINRA ), are actively involved in the regulation of broker-dealers. The SEC and self-regulatory organizations conduct periodic examinations of broker-dealers. Securities firms are also subject to regulation by state securities commissions and attorneys general in those states in which they do business.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, anti-money laundering efforts, recordkeeping and the conduct of directors, officers and employees. Additional legislation, changes in rules promulgated by the SEC and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may directly affect the operations and profitability of broker-dealers. Futures commission merchants ( FCMs ) that engage in commodities and futures transactions, are subject to regulation by the CFTC and the National Futures Association ( NFA ). The SEC, self-regulatory organizations, state securities commissions, state attorneys general, the CFTC and the NFA may conduct administrative proceedings or initiate civil litigation that can result in censure, fine, suspension, expulsion of a firm, its officers or employees, or revocation of a firm's licenses.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ) was enacted in the United States. Implementation of the Dodd-Frank Act is to be accomplished through extensive rulemaking by the SEC and other governmental agencies. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues. These studies could lead to additional regulatory changes. At this time, it is difficult to assess the impact that the Dodd-Frank Act will have on us and on the financial services industry.

*Net Capital Requirements.* U.S. registered broker-dealers are subject to the SEC's Uniform Net Capital Rule (the Net Capital Rule ), which specifies minimum net capital requirements. Jefferies Group is not a registered broker-dealer and is therefore not subject to the Net Capital Rule; however, its United States broker-dealer subsidiaries are registered and are subject to the Net Capital Rule, which provides that a broker-dealer shall not permit its aggregate indebtedness to exceed 15 times its net capital (the basic method ) or, alternatively, that it not permit its net capital to be less than the greater of 2% of its aggregate debit balances (primarily receivables from customers and broker-dealers) or \$250,000 (\$1.5 million for prime brokers) computed in accordance with such Net Capital Rule (the alternative method ). Jefferies, Jefferies Execution Services, Inc. ( Jefferies Execution ) and Jefferies High Yield Trading, LLC ( JHYT ) use the alternative method of calculation. (See Net Capital within Item 7. Management's Discussion and Analysis and Note 21, Net Capital Requirements in this Annual Report on Form 10-K for additional discussion of net capital calculations.)

Compliance with the Net Capital Rule could limit operations of our broker-dealers, such as underwriting and trading activities, that require the use of significant amounts of capital, and may also restrict loans, advances, dividends and other payments by Jefferies, Jefferies Execution, or JHYT to us.

U.S. registered FCMs are subject to the CFTC's minimum financial requirements for futures commission merchants and introducing brokers. Jefferies Group is not a registered FCM and is therefore not subject to the minimum financial requirements; however, its United States FCM subsidiaries, Jefferies and Jefferies Bache, LLC, are registered and are subject to the minimum financial requirements. Under the minimum financial requirements, an FCM must maintain adjusted net capital equal to or in excess of the greater of (A) \$1,000 or (B) the FCM's risk-based capital requirements totaling (1) eight percent of the total risk margin requirement for positions carried by the FCM in customer accounts, plus (2) eight percent of the total risk margin requirement for positions carried by the FCM in noncustomer accounts. An FCM's ability to make capital and certain other distributions is subject to the rules and regulations of various exchanges, clearing organizations and other regulatory agencies which may have capital requirements that are greater than the CFTC's.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

*Regulation Outside the United States.* We are an active participant in the international fixed income and equity markets, engage in commodity futures brokerage and provide investment banking services throughout the world, but primarily in Europe and Asia. As is true in the U.S., our subsidiaries are subject to comprehensive regulations promulgated and enforced by, among other regulatory bodies, the U.K. Financial Services Authority, the Hong Kong Securities and Futures Commission and the Taiwan Financial Supervisory Commission. Every country in which we do business imposes upon us laws, rules and regulations similar to those in the U.S., including with respect to some form of capital adequacy rules, customer protection rules, compliance with other applicable trading and investment banking regulations and similar regulatory reform packages in response to the credit and liquidity crisis of 2007 and 2008.

**Item 1A. Risk Factors.**  
**Factors Affecting Our Business**

The following factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect our business or that could otherwise result in changes that differ materially from our expectations. In addition to the specific factors mentioned in this report, we may also be affected by other factors that affect businesses generally such as global or regional changes in economic or business conditions, acts of war, terrorism and natural disasters.

***Our expansion in the commodities futures business presents various risks.***

Our acquisition of the Global Commodities Group from Prudential Financial, Inc. represents a large and significant investment in the commodities futures business. We have not previously operated a commodities business of the scale of the Global Commodities Group. There can be no assurance that we will be able to integrate the acquired entities with our own operations successfully or that we will profitably operate the Global Commodities Group's business. The commodities business we acquired presents many operational and financial risks, including our obligation to pay, or reimburse and indemnify, those affiliates of Prudential Financial that have provided financial guarantees and other credit support for customers of the Global Commodities Group for amounts those affiliates may later become required to pay under such guarantees and credit support. If these operational, credit and financial risks materialize, they could cause us to experience losses that could affect our profitability and potentially restrict our ability to grow and diversify in other businesses.

***Recent legislation and new and pending regulation may significantly affect our business.***

Recent market and economic conditions have led to legislation and regulation affecting the financial services industry, both in the United States and abroad. These new measures include limitations on the types of activities in which certain financial institutions may engage as well as more comprehensive regulation of the over-the-counter derivatives market. In addition, fiduciary standards have been imposed on securities firms in their dealings with states, municipalities, and pension funds, among others, which may affect our municipal securities business.

These legislative and regulatory initiatives will affect not only us, but also our competitors and certain of our customers. These changes could eventually have an effect on our revenue and profitability, limit our ability to pursue certain business opportunities, impact the value of assets that we hold, require us to change certain business practices, impose additional costs on us, and otherwise adversely affect our business. Accordingly, we cannot provide assurance that the new legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial conditions.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

If we do not comply with the new, or existing, legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our business in the jurisdiction where any violations occur. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and taxes and increasing the potential risks associated with our operations. As this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results.

***Changing conditions in financial markets and the economy could result in decreased revenues, losses or other adverse consequences.***

As a global securities and investment banking firm, global or regional changes in the financial markets or economic conditions could adversely affect our business in many ways, including the following:

A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads.

Unfavorable financial or economic conditions could reduce the number and size of transactions in which we provide underwriting, financial advisory and other services. Our investment banking revenues, in the form of financial advisory and underwriting or placement fees, are directly related to the number and size of the transactions in which we participate and could therefore be adversely affected by unfavorable financial or economic conditions.

Adverse changes in the market could lead to losses from principal transactions on our inventory positions.

Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on our own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.

Limitations on the availability of credit, such as occurred during 2008, can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations.

New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect our profits.

Should one of our competitors fail, our securities prices and our revenue could be negatively impacted based upon negative market sentiment causing customers to cease doing business with us and our lenders to cease loaning us money, which could adversely affect our business, funding and liquidity.

***Unfounded allegations about us could result in extreme price volatility and price declines in our securities and loss of revenue, clients, and employees.***

In November 2011, we became the subject of unfounded allegations and false rumors, including among others those relating to our exposure to European sovereign debt. Despite the fact that we were able to dispel such rumors, both our stock and bond prices were significantly impacted. Our common stock suffered a 20% sell-off in minutes and, consequently, its trading was temporarily suspended, and our debt-securities prices suffered not only extreme volatility but also record high yields. In addition, our operations were impacted as some clients either ceased doing business or temporarily slowed down the level of business they do, thereby decreasing our revenue stream. Although we were able to reverse the negative impact of such unfounded allegations and false rumors, there is no assurance that we will be able to do so

successfully in the future and our potential failure to do so could have a material adverse effect on our business, financial condition and liquidity.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

***The downgrade of the U.S. credit rating and Europe's debt crisis could have a material adverse effect on our business, financial condition and liquidity.***

Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+ on August 5, 2011. A further downgrade or a downgrade by other rating agencies, including a Nationally Recognized Statistical Rating Organization, could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our business, financial condition and liquidity.

In addition, the possibility that certain European Union ( EU ) member states will default on their debt obligations have negatively impacted economic conditions and global markets. The continued uncertainty over the outcome of international and the European Union's financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. The negative impact on economic conditions and global markets could also have a material adverse effect on our business, financial condition and liquidity.

***A credit-rating agency downgrade could significantly impact our business.***

A credit-rating agency downgrade of our long-term debt rating, could negatively impact our stock and bond prices and could have a material adverse effect on our business, financial condition and liquidity.

***Our principal trading and investments expose us to risk of loss.***

A considerable portion of our revenues is derived from trading in which we act as principal. We may incur trading losses relating to the purchase, sale or short sale of fixed income, high yield, international, convertible, and equity securities and futures and commodities for our own account. In any period, we may experience losses on our inventory positions as a result of price declines, lack of trading volume, and illiquidity. From time to time, we may engage in a large block trade in a single security or maintain large position concentrations in a single security, securities of a single issuer, securities of issuers engaged in a specific industry, or securities from issuers located in a particular country or region. In general, because our inventory is marked to market on a daily basis, any downward price movement in these securities could result in a reduction of our revenues and profits. In addition, we may engage in hedging transactions that if not successful, could result in losses.

***Increased competition may adversely affect our revenues, profitability and staffing.***

All aspects of our business are intensely competitive. We compete directly with numerous bank holding companies and commercial banks, other brokers and dealers and investment banking firms. In addition to competition from firms currently in the securities business, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations. We believe that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, the ability to execute the transaction, relative price of the service and products being offered, bundling of products and services and the quality of service. Increased competition or an adverse change in our competitive position could lead to a reduction of business and therefore a reduction of revenues and profits.

Competition also extends to the hiring and retention of highly skilled employees. A competitor may be successful in hiring away an employee or group of employees, which may result in our losing business formerly serviced by such employee or employees. Competition can also raise our costs of hiring and retaining the key employees we need to effectively operate our business.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

***Operational risks may disrupt our business, result in regulatory action against us or limit our growth.***

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies, and the transactions we process have become increasingly complex. If any of our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

***Asset management revenue is subject to variability based on market and economic factors and the amount of assets under management.***

Asset management revenue includes revenues we receive from management, administrative and performance fees from funds managed by us, revenues from asset management and performance fees we receive from third party managed funds, and investment income from our investments in these funds. These revenues are dependent upon the amount of assets under management and the performance of the funds. If these funds do not perform as well as our asset management clients expect, our clients may withdraw their assets from these funds, which would reduce our revenues. Some of our revenues are derived from our own investments in these funds. We experience significant fluctuations in our quarterly operating results due to the nature of our asset management business and therefore may fail to meet revenue expectations. Even in the absence of a market downturn, below market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

***We face numerous risks and uncertainties as we expand our business.***

We expect the growth of our business to come primarily from internal expansion and through acquisitions and strategic partnering. As we expand our business, there can be no assurance that our financial controls, the level and knowledge of our personnel, our operational abilities, our legal and compliance controls and our other corporate support systems will be adequate to manage our business and our growth. The ineffectiveness of any of these controls or systems could adversely affect our business and prospects. In addition, as we acquire new businesses and introduce new products, we face numerous risks and uncertainties integrating their controls and systems into ours, including financial controls, accounting and data processing systems, management controls and other operations. A failure to integrate these systems and controls, and even an inefficient integration of these systems and controls, could adversely affect our business and prospects.

***Our international operations subject us to numerous risks which could adversely impact our business in many ways.***

Our business and operations are expanding globally. Wherever we operate, we are subject to legal, regulatory, political, economic and other inherent risks. The laws and regulations applicable to the securities and investment banking industries differ in each country. Our inability to remain in compliance with applicable laws and regulations in a particular country could have a significant and negative effect on our business and prospects in that country as well as in other countries. A political, economic or financial disruption in a country or region could adversely impact our business and increase volatility in financial markets generally.

***Extensive regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties.***

The financial services industry is subject to extensive laws, rules and regulation in every country in which we operate. Firms that engage in securities trading, commodity futures brokerage, asset management and investment banking must comply with the laws, rules and regulations imposed by the governing country, state, regulatory bodies and self-regulatory bodies with governing authority over such activities. Such laws, rules and regulations cover all aspects of the financial services business, including sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering efforts, recordkeeping and the conduct of directors, officers and employees. Financial institutions that engage in commodities and futures transactions are also subject to regulation by related agencies.

Each of our regulators engages in a series of periodic and special exams to monitor compliance with such laws, rules and regulations. In addition, if there are instances in which our regulators question our compliance with laws, rules, and regulations, they will investigate the facts and circumstances to determine whether we have complied. At any moment in time, including as of the date of this filing, we are subject to one or more such exams, investigations, or similar reviews. At this time, all such exams, investigations, and similar reviews are insignificant in scope and absolutely immaterial to us. However, there can be no assurance that, in the future, the operations of our businesses will not violate such laws, rules, and regulations and that related exams, investigations, and similar reviews could result in a regulatory enforcement action and fine.

Additional legislation, changes in rules, changes in the interpretation or enforcement of existing laws and rules, or the entering into businesses that subject us to new rules and regulations may directly affect our mode of operation and our profitability. Furthermore, legislative or regulatory changes that increase capitalization requirements or impose leverage ratio requirements may adversely affect our ability to maintain or grow our business.



---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

***Legal liability may harm our business.***

Many aspects of our business involve substantial risks of liability, and in the normal course of business, we have been named as a defendant or codefendant in lawsuits involving primarily claims for damages. The risks associated with potential legal liabilities often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. The expansion of our business, including increases in the number and size of investment banking transactions and our expansion into new areas impose greater risks of liability. In addition, unauthorized or illegal acts of our employees could result in substantial liability to us. Substantial legal liability could have a material adverse financial effect or cause us significant reputational harm, which in turn could seriously harm our business and our prospects.

***Our business is subject to significant credit risk.***

In the normal course of our businesses, we are involved in the execution, settlement and financing of various customer and principal securities and derivative transactions. These activities are transacted on a cash, margin or delivery-versus-payment basis and are subject to the risk of counterparty or customer nonperformance. Although transactions are generally collateralized by the underlying security or other securities, we still face the risks associated with changes in the market value of the collateral through settlement date or during the time when margin is extended and the risk of counterparty nonperformance to the extent collateral has not been secured or the counterparty defaults before collateral or margin can be adjusted. We may also incur credit risk in our derivative transactions to the extent such transactions result in uncollateralized credit exposure to our counterparties.

We seek to control the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. We may require counterparties to deposit additional collateral or return collateral pledged. In the case of aged securities failed to receive, we may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty.

***Derivative transactions may expose us to unexpected risk and potential losses.***

We are party to a number of derivative transactions that require us to deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, we do not hold the underlying security, loan or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security, loan or other obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may not be able to obtain the security, loan or other obligation within the required contractual time frame for delivery. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the firm.

**Item 1B. *Unresolved Staff Comments.***

None

**Item 2. *Properties.***

Our global executive offices and principal administrative offices are located at 520 Madison Avenue, New York, New York under an operating lease arrangement. We maintain offices throughout the world including New York, Los Angeles, Stamford, Jersey City, London, Zurich, Hong Kong, Tokyo and Mumbai. In addition, we

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

maintain backup facilities with redundant technologies in Jersey City, New Jersey and Stamford, Connecticut. We lease all of our office space, which management believes is adequate for our business. For information concerning leasehold improvements and rental expense, see Note 2, Summary of Significant Accounting Policies and Note 20, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

**Item 3. *Legal Proceedings.***

Many aspects of our business involve substantial risks of legal and regulatory liability. In the normal course of business, we have been named as defendants or codefendants in lawsuits involving primarily claims for damages. We are also involved in a number of judicial and regulatory matters, including exams, investigations and similar reviews, arising out of the conduct of our business. Based on currently available information, we do not believe that any matter will have a material adverse effect on our financial condition.

**Item 4. *(Removed and Reserved).***

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock trades on the NYSE under the symbol JEF. The following table sets forth for the periods indicated the range of high and low sales prices per share of our common stock as reported by the NYSE.

	High	Low
<b>12 MONTHS ENDED NOVEMBER 30, 2011</b>		
Fourth Quarter	\$ 16.40	\$ 9.50
Third Quarter	22.11	14.33
Second Quarter	25.81	21.42
First Quarter	27.12	23.43
<b>11 MONTHS ENDED NOVEMBER 30, 2010</b>		
Fourth Quarter	\$ 26.16	\$ 22.03
Third Quarter	25.88	20.15
Second Quarter(1)	28.44	21.37
First Quarter(1)	27.72	23.65

(1) The first and second quarters of 2010 include the high and low sales prices of our common stock during the month of March. There were approximately 1,850 holders of record of our Common Stock at January 17, 2012. Our transfer agent is American Stock Transfer & Trust Company, LLC and their address is 59 Maiden Lane, Plaza Level, New York, NY 10038.

The only restrictions on our present ability to pay dividends on our common stock are the dividend preference terms of our Series A convertible preferred stock and the governing provisions of the Delaware General Corporation Law.

Dividends per Common Share (declared):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2011	\$ 0.075	\$ 0.075	\$ 0.075	\$ 0.075
2010	\$ 0.075	\$ 0.075	\$ 0.075	\$ 0.075

On December 19, 2011, the Board of Directors declared a quarterly dividend of \$0.075 per share of common stock, payable on February 15, 2012 to stockholders of record as of January 17, 2012.

**Issuer Purchases of Equity Securities**

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 1 - September 30, 2011	616,301	12.57	602,700	19,397,300

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

October 1	October 31, 2011	213,684	12.13	196,300	19,201,000
November 1	November 30, 2011	4,305,190	10.58	4,301,000	14,900,000
Total		5,135,175		5,100,000	

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

- (1) We repurchased an aggregate of 35,175 shares other than as part of a publicly announced plan or program. We repurchased these securities in connection with our stock compensation plans which allow participants to use shares to pay the exercise price of certain options exercised and to use shares to satisfy certain tax liabilities arising from the exercise of options or the vesting of restricted stock. The number above does not include unvested shares forfeited back to us pursuant to the terms of our stock compensation plans.
  
- (2) On September 20, 2011, we announced the authorization by our Board of Directors of the repurchase, from time to time, of up to an aggregate of 20,000,000 shares of our Common Stock, inclusive of prior authorizations.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Shareholder Return Performance Presentation**

The following graph compares the yearly change in the cumulative total shareholder return on our common stock, after consideration of all relevant stock splits during the period, against the cumulative total return of the Standard & Poor 500 and Standard & Poor 500 Financials Indices for the last five years. The performance graph assumes a \$100 investment in our Common Stock and each index based on the closing prices on November 30, 2006, and that all dividends have been reinvested. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Jefferies Group, Inc.	100	90	44	84	87	42
S&P 500	100	108	67	84	92	99
S&P 500 Financials	100	89	38	45	45	41

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Item 6. Selected Financial Data.**

The selected data presented below as of and for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and each of the years in the three year period ended December 31, 2009, 2008 and 2007 are derived from the Consolidated Financial Statements of Jefferies Group, Inc. and its subsidiaries. The data should be read in connection with the Consolidated Financial Statements including the related notes included in Item 8 of this Annual Report on Form 10-K.

	Twelve		Twelve Months Ended December 31,		
	Months Ended	Eleven			
	November	Months Ended			
	30,	November 30,			
	2011	2010	2009	2008	2007
	(In Thousands , Except Per Share Amounts )				
<b>Earnings Statement Data</b>					
Revenues:					
Commissions	\$ 534,726	\$ 466,246	\$ 512,293	\$ 611,823	\$ 524,716
Principal transactions	428,035	509,070	838,396	(80,479)	221,259
Investment banking	1,122,528	890,334	474,315	425,887	750,192
Asset management fees and investment income (loss) from managed funds	44,125	16,785	35,887	(52,929)	23,534
Interest	1,248,132	852,494	732,250	741,559	1,174,512
Other	152,092	62,417	38,918	28,573	24,311
<b>Total revenues</b>	<b>3,529,638</b>	<b>2,797,346</b>	<b>2,632,059</b>	<b>1,674,434</b>	<b>2,718,524</b>
Interest expense	980,825	605,096	468,798	660,448	1,150,779
<b>Net revenues</b>	<b>2,548,813</b>	<b>2,192,250</b>	<b>2,163,261</b>	<b>1,013,986</b>	<b>1,567,745</b>
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	3,622	14,916	37,248	(69,077)	4,257
<b>Net revenues, less mandatorily redeemable preferred interest</b>	<b>2,545,191</b>	<b>2,177,334</b>	<b>2,126,013</b>	<b>1,083,063</b>	<b>1,563,488</b>
Non-interest expenses:					
Compensation and benefits	1,482,604	1,282,644	1,195,971	1,522,157	946,309
Floor brokerage and clearing fees	126,313	110,835	80,969	64,834	66,967
Technology and communications	215,940	160,987	141,233	127,357	103,763
Occupancy and equipment rental	84,951	68,085	72,824	76,255	76,765
Business development	93,645	62,015	37,614	49,376	56,594
Professional services	66,305	49,080	41,125	46,948	41,133
Other	56,099	47,017	48,530	84,296	30,843
<b>Total non-interest expenses</b>	<b>2,125,857</b>	<b>1,780,663</b>	<b>1,618,266</b>	<b>1,971,223</b>	<b>1,322,374</b>
<b>Earnings (loss) before income taxes</b>	<b>419,334</b>	<b>396,671</b>	<b>507,747</b>	<b>(888,160)</b>	<b>241,114</b>
Income tax expense (benefit)	132,966	156,404	195,928	(293,359)	93,032
<b>Net earnings (loss)</b>	<b>286,368</b>	<b>240,267</b>	<b>311,819</b>	<b>(594,801)</b>	<b>148,082</b>
Net earnings (loss) to noncontrolling interest	1,750	16,601	36,537	(53,884)	3,634

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Net earnings (loss) to common shareholders	\$ 284,618	\$ 223,666	\$ 275,282	\$ (540,917)	\$ 144,448
Earnings per common share:					
Basic earnings (loss) per common share	\$ 1.28	\$ 1.10	\$ 1.36	\$ (3.30)	\$ 0.93
Diluted earnings (loss) per common share	\$ 1.28	\$ 1.09	\$ 1.35	\$ (3.30)	\$ 0.92
Weighted average common shares:					
Basic	211,056	196,393	200,446	166,163	141,515
Diluted	215,171	200,511	204,572	166,163	141,903
Cash dividends per common share	\$ 0.30	\$ 0.30		\$ 0.25	\$ 0.50



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

	November 30, 2011	November 30, 2010	2009	December 31, 2008	2007
	(In Thousands , Except Per Share Amounts )				
<b>Selected Balance Sheet Data</b>					
Total assets	\$ 34,971,422	\$ 36,726,543	\$ 28,121,023	\$ 19,978,685	\$ 29,793,817
Long-term debt	\$ 4,608,926	\$ 3,778,681	\$ 2,729,117	\$ 1,764,274	\$ 1,764,067
Mandatorily redeemable convertible preferred stock	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries	\$ 310,534	\$ 315,885	\$ 318,047	\$ 280,923	\$ 354,316
Total common stockholders' equity	\$ 3,224,312	\$ 2,477,989	\$ 2,298,140	\$ 2,115,583	\$ 1,760,645
Shares outstanding	197,160	171,694	165,638	163,216	124,453
<b>Other Data (Unaudited)</b>					
Common book value per share(1)	\$ 16.35	\$ 14.43	\$ 13.87	\$ 12.96	\$ 14.15

- (1) See Analysis of Financial Condition and Capital Resources in Item 7 of this Annual Report on Form 10-K for further information regarding our book value and stockholders' equity.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

This report contains or incorporates by reference forward looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words believe, intend, may, will, or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations and other financial projections, and may include statements of future performance, plans and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in this report and other documents we file. You should read and interpret any forward looking statement together with these documents, including the following:

the description of our business contained in this report under the caption Business ;

the risk factors contained in this report under the caption Risk Factors ;

the discussion of our analysis of financial condition and results of operations contained in this report under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations ;

the discussion of our risk management policies, procedures and methodologies contained in this report under the caption Risk Management included within Management's Discussion and Analysis of Financial Condition and Results of Operations;

the notes to the consolidated financial statements contained in this report; and

cautionary statements we make in our public documents, reports and announcements.

Any forward looking statement speaks only as of the date on which that statement is made. We will not update any forward looking statement to reflect events or circumstances that occur after the date on which the statement is made, except as required by applicable law.

**Consolidated Results of Operations**

On April 19, 2010, our Board of Directors approved a change to our fiscal year end from a calendar year basis to a fiscal year ending November 30. As such, the current period represents the twelve months ended November 30, 2011 and has been reported on the basis of the new fiscal year beginning as of December 1, 2010. Our prior period consisted of the eleven month transition period beginning January 1, 2010 through November 30, 2010. Financial information for 2009 and prior years continues to be presented on the basis of our previous calendar year end, December 31.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The following table provides an overview of our consolidated results of operations:

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
	(Dollars in thousands, except for per share amounts)		
Net revenues, less mandatorily redeemable preferred interest	\$ 2,545,191	\$ 2,177,334	\$ 2,126,013
Non-interest expenses	2,125,857	1,780,663	1,618,266
Earnings before income taxes	419,334	396,671	507,747
Income tax expense	132,966	156,404	195,928
Net earnings	286,368	240,267	311,819
Net earnings to noncontrolling interests	1,750	16,601	36,537
Net earnings to common shareholders	284,618	223,666	275,282
Earnings per diluted common share	\$ 1.28	\$ 1.09	\$ 1.35
Effective tax rate	31.7%	39.4%	38.6%

**Executive Summary**

Net revenues, less mandatorily redeemable preferred interest, for the twelve months ended November 30, 2011 increased 17% to a record \$2,545.2 million as compared to \$2,177.3 million for the eleven months ended November 30, 2010 primarily driven by the additional one month of results included in fiscal 2011 versus fiscal 2010, strong investment banking results, revenues associated with the Global Commodities Group business we acquired on July 1, 2011 from Prudential Financial, Inc. ( Prudential ) (also referred to as Jefferies Bache ) and a related bargain purchase gain of \$52.5 million, and a gain on debt extinguishment of \$21.1 million recognized in our fourth quarter. Non-interest expenses of \$2,125.9 million for the twelve months ended November 30, 2011 reflected a 19% increase over the 2010 eleven month period primarily attributable to an additional one month's costs in the fiscal year, as well as increased compensation and benefits costs, technology and communications expenses and business development expenses. Compensation costs for the twelve month period ended November 30, 2011 were 58% of net revenues as compared to 59% for the eleven month period ended November 30, 2010. Non-interest expenses for the twelve months ended November 30, 2011 and eleven months ended November 30, 2010 included our \$4.6 million charitable contribution for Japanese earthquake relief and our \$6.8 million donation to various Haiti earthquake charities, respectively.

Net revenues, less mandatorily redeemable preferred interest, for the eleven months ended November 30, 2010 increased 2% to \$2,177.3 million as compared to \$2,126.0 million for the twelve months ended December 30, 2009 primarily due to higher investment banking results, partially offset by lower sales and trading results over the respective twelve and eleven month periods. Non-interest expenses of \$1,780.7 million for the eleven months ended November 30, 2010 reflected a 10% increase over the 2009 period primarily attributable to increased compensation and benefits costs, floor brokerage and clearing fees, technology and communication expenses and business development expenses. Compensation costs for the eleven month period ended November 30, 2010 were 59% of net revenues as compared to a ratio of 55% for the twelve months ended December 31, 2009.

The effective tax rate was 31.7% for the twelve months ended November 30, 2011, 39.4% for the eleven months ended November 30, 2010 and 38.6% for the twelve months ended December 31, 2009. The decrease in our effective tax rate for the twelve months ended November 30, 2011 as compared to the 2010 fiscal periods was primarily attributable to the impact of the bargain purchase gain of \$52.5 million related to our acquisition of the Global Commodities Group in the third quarter of 2011, which is not tax able.



**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

At November 30, 2011, we had 3,898 employees globally, compared to 3,084 at November 30, 2010 and 2,628 at December 31, 2009. We added approximately 400 employees on July 1, 2011 as part of the Global Commodities Group acquisition.

Our business, by its nature, does not produce predictable or necessarily recurring earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and our own activities and positions. For a further discussion of the factors that may affect our future operating results, see **Risk Factors** in Part I, Item 1A of this Annual Report on Form 10-K for the twelve months ended November 30, 2011.

**Revenues by Source**

The Capital Markets reportable segment includes our securities trading activities and our investment banking and capital raising activities. The Capital Markets reportable segment is managed as a single operating segment that provides the sales, trading and origination and execution effort for various equity, fixed income and advisory services. The Capital Markets segment comprises many business units, with many interactions and much integration among them. In addition, we separately discuss our Asset Management business.

For presentation purposes, the remainder of **Results of Operations** is presented on a detailed product and expense basis rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective sales and trading activities, which is a function of the mix of each business's associated assets and liabilities and the related funding costs. Prior to the first quarter of 2010, we separately presented revenues attributed from our high yield business within our **Revenues by Source** statement. As our firm has continued to expand, particularly geographically, we began to integrate our high yield platforms within our overall fixed income business and now present our high yield net revenue within **Fixed Income Net revenue** as of the first quarter of 2010. Additionally, prior to the first quarter of 2011, we presented revenues attributed from our convertibles business in **Fixed Income Net revenue**. Revenues from our convertibles business as of the first quarter of 2011 are presented within **Equities Net revenue**. Reclassifications have been made to our previous presentation of

**Revenues by Source** for the eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009 to conform to the current presentation.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary from period to period due to fluctuations in economic and market conditions and our own performance. The following provides a summary of Revenues by Source for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in thousands):

	Twelve Months Ended November 30, 2011		Eleven Months Ended November 30, 2010		Twelve Months Ended December 31, 2009	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	\$ 593,589	23%	\$ 556,772	25%	\$ 468,161	22%
Fixed income	714,956	28	728,359	33	1,177,226	54
Total sales and trading	1,308,545	51	1,285,131	59	1,645,387	76
Other	73,615	3			7,672	
Equity	187,288	7	126,363	6	89,807	4
Debt	384,921	15	347,471	16	193,187	9
Capital markets	572,209	22	473,834	22	282,994	13
Advisory	550,319	22	416,500	19	191,321	9
Investment banking	1,122,528	44	890,334	41	474,315	22
Asset management fees and investment income from managed funds:						
Asset management fees	33,425	1	16,519	1	28,512	1
Investment income from managed funds	10,700		266		7,375	
Total	44,125	1	16,785	1	35,887	1
Net revenues	2,548,813	100%	2,192,250	100%	2,163,261	100%
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	3,622		14,916		37,248	
Net revenues, less mandatorily redeemable preferred interest	\$ 2,545,191		\$ 2,177,334		\$ 2,126,013	

**Net Revenues**

**2011 v. 2010** Net revenues, before interest on mandatorily redeemable preferred interests, for the twelve months ended November 30, 2011 were a record \$2,548.8 million, an increase of 16% over the previous record of \$2,192.3 million recorded during the eleven months ended November 30, 2010. The increase was primarily due to an increase of 26% in investment banking revenue to a record \$1,122.5 million for fiscal 2011 and a 7% increase in equities sales and trading revenue as well as the additional one month of results included in fiscal 2011 versus fiscal 2010. These increases were partially offset by a 2% decline in fixed income revenue compared with the prior fiscal period, partially offset by added revenue from our Jefferies Bache businesses acquired during 2011. Net revenues for the twelve months ended November 30, 2011 also include within Other revenue a bargain purchase gain of \$52.5 million recognized in connection with our acquisition of the Global Commodities Group and a gain on extinguishment of debt of \$21.1 million related to transactions in our own debt by our broker-dealer's market-making desk and the repurchase of \$50.0 million of our senior notes due 2012.



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**2010 v. 2009** Net revenues, before interest on mandatorily redeemable preferred interests, for the eleven months ended November 30, 2010 were a record \$2,192.3 million, an increase of 1% over previous record 2009 net revenues of \$2,163.3 million. The increase was primarily due to an increase of 88% in investment banking revenue to a record \$890.3 million for fiscal 2010, and a 19% increase in equities sales and trading revenue from the 2009 year. These increases were partially offset by a 38% decline in fixed income revenue and a 53% decline in asset management revenue as compared with the prior year. Net revenues for the twelve months ended December 31, 2009 also included a gain on extinguishment of debt of \$7.7 million as we repurchased approximately \$20.3 million of our outstanding long-term debt during 2009.

Interest on mandatorily redeemable preferred interests of consolidated subsidiaries represents the allocation of earnings and losses from our consolidated high yield business to third party noncontrolling interest holders invested in that business through mandatorily redeemable preferred securities.

The following reflects the number of trading days in the respective operational periods:

<b>Twelve Months</b>	<b>Eleven Months</b>	<b>Twelve Months</b>
<b>Ended</b>	<b>Ended</b>	<b>Ended</b>
<b>November 30, 2011</b> 253 days	<b>November 30, 2010</b> 230 days	<b>December 31, 2009</b> 252 days

**Equities Revenue**

Equities revenue is comprised of equity commissions, principal transactions and net interest revenue relating to cash equities, electronic trading, equity derivatives, convertible securities, prime brokerage, securities finance, correspondent clearing and alternative investment strategies. Equities revenues also include our share of the net earnings from our investments in Jefferies Finance, LLC and Jefferies LoanCore, LLC joint ventures, which are accounted for under the equity method.

**2011 v. 2010** Total equities revenue was \$593.6 million and \$556.8 million for the twelve months ended November 30, 2011 and eleven months ended November 30, 2010, respectively, an increase of \$36.8 million or 7%. Our equities revenue is primarily driven by client transaction volumes. Equity market conditions during the first half of 2011 were mainly characterized by lower stock market volumes and a reduction in equity market volatility as compared with uneven equity prices and higher stock market volumes for the six months ended May 31, 2010. While volumes picked up significantly in August 2011 with increased volatility, investors' concern over the U.S. economy, the Standard & Poor's downgrade of the U.S. long-term credit rating and the continued sovereign debt crisis within the European region caused investors to be reluctant to take risk and transact in the remaining months of 2011. Further, client transaction flows were reduced notably in November 2011 due to the attention focused on our firm following the bankruptcy of MF Global Holdings, Ltd. Subsequent to November 2011, our transaction flows have returned to more normal levels consistent with those preceding the November events.

Declines in client stock volumes negatively impacted our U.S. cash equities trading revenues, while net revenues from U.S. derivatives grew slightly. International equities revenue benefited from the development of our Asia cash equities business, expansion of our Europe sales force and improved international electronic product capabilities. Prime brokerage and securities finance revenues benefited from new clients and higher balances, as well as transaction volumes with existing clients. A gain was also recognized related to our ownership of LME shares consistent with recent sales of shares of the exchange. These increases in equities revenue were partially offset by reduced net revenues from our equity joint ventures as increased interest expense was incurred in supporting these ventures. In November 2010, the Company entered into an agreement to sell certain correspondent broker accounts and assign the related clearing arrangements. The purchase price was dependent on the number and amount of client accounts that convert to the purchaser's platform. During fiscal 2011, proceeds amounted to \$11.0 million were received, of which revenues of \$9.1 million was recognized and



---

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

included within Other income on the Consolidated Statement of Earnings. Equities revenue for the eleven months ended November 30, 2010 does not include any significant gain from transaction and revenue from our correspondent clearing business.

2010 v. 2009 Total equities revenue was \$556.8 million and \$468.2 million, respectively, in fiscal 2010 and in 2009, a 19% increase from 2009. This increase was primarily due to positive block trading opportunities, higher alternative investment revenue and enhanced results from certain strategic investment strategies. Growth in our international equities platform, an increased client base and balances in our prime brokerage business and stronger revenue generated by our equity derivative business with greater market volatility also contributed to an increase in equities revenue for 2010 over the prior period. Increases in equities revenue from these businesses was partially offset by a decline in revenue generated by our cash equities business, which was affected by reduced client volumes for the eleven month 2010 period consistent with lower overall trading volumes experienced by the major exchanges.

***Fixed Income Revenue***

Fixed income revenue primarily includes commissions, principal transactions and net interest revenue from investment grade corporate bonds, mortgage- and asset-backed securities, government and agency securities, municipal bonds, emerging markets debt, high yield and distressed securities, bank loans and commodities trading activities. Fixed income revenue also includes the results of operations from Jefferies Bache sales and trading activities in commodities, foreign exchange, futures and other derivative products.

2011 v. 2010 The first half of the 2011 fiscal year was characterized by reasonable customer flow, tighter bid-offer spreads, ample liquidity and rising commodity prices. Beginning in the third quarter of 2011, concerns about European sovereign debt risk, the deteriorating global economy, the uncertainty created by the U.S. deficit negotiations and continuing high unemployment in the U.S. led to challenging trading conditions. Market volatility in certain fixed income sectors suppressed customer activity. Trading conditions were particularly difficult in August 2011. While the fixed income markets improved slightly in the fourth quarter of 2011, our customer volumes were negatively impacted during November 2011 due to external stresses concentrated on our business following the bankruptcy of MF Global Holdings Ltd. Customer volumes have since returned to more normal levels previously experienced before the disruptive events in November 2011.

Fixed income revenue was \$715.0 million for the twelve months ended November 30, 2011, a decrease of 2%, compared to \$728.4 million for the eleven months ended November 30, 2010. The decrease in fixed income revenue for fiscal 2011 as compared to 2010 is primarily attributed to declines in corporate, mortgage-backed security, high yield and emerging market revenues. The drop in prices in the second half of 2011 led to significant mark downs in high yield and corporate bonds and mortgage-backed securities. In addition, a flight to quality beginning in the third quarter of 2011 led to U.S. Treasury yields trading at the lowest levels on record, resulting in losses on short treasury positions used as inventory hedges in our corporates and mortgage-backed securities businesses. The results for 2011 also include losses on certain U.S. dollar denominated interest rate swap futures contracts (which fully closed out in August 2011) cleared through International Derivatives Clearing Group.

The decrease in fixed income revenue from these businesses was partially offset by revenue increases from our government and agency sales and trading revenues in the U.S., Europe and Asia. Fixed income revenue reflects the continued growth of our fixed income platform in Europe with strong performance from our Euro rates platform, as well as improved performance from our U.S. government and agency business due to increased customer flow from ample liquidity and, to a lesser extent, inventory appreciation as spreads tightened in the earlier part of the period. Stronger performance from our municipal trading activities benefited overall fixed income revenue as a result of recent strengthening of our trading effort and new products offered, partially offset

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

by trading losses and widening credit spreads that impacted the municipal trading business in the latter part of 2011. Fixed income revenue for fiscal 2011 also includes revenue contributions from Jefferies Bache for a five month period as a result of the acquisition from Prudential on July 1, 2011.

During November 2011, we significantly reduced our inventory holdings in sovereign debt of Portugal, Italy, Ireland, Greece and Spain with no meaningful profit or loss impact on our trading revenues. While we sold such positions, these actions had no substantive effect on our ability to fulfill our role and obligations as a primary dealer and market maker in the debt securities of these countries and no effect on our execution relationships with our clients. Our positions are held as inventory in the context of our market making activities and turn over frequently. Our inventory holdings of European sovereign debt are comprised of both financial instruments owned and financial instruments sold, not yet purchased (both long and short debt securities) as we are an active two-way market maker. We have continued to expand our market share and grow our Euro rates platform over the past several years and do not believe the reduction in our inventory in November 2011 or our ongoing exposure to European sovereign debt will negatively influence our growth or the success of our Euro rates platform.

2010 v. 2009 Fixed income market conditions during the eleven months ended November 30, 2010 were characterized by tightening bid offer spreads and Treasury yields as well as concerns over world economic conditions, particularly in Europe. This is compared with fixed income market conditions for the twelve months ended December 31, 2009, which were more favorable for fixed income trading, including widening spreads, and reflected a more favorable competitive landscape. This impact on the broad fixed income markets was partially offset by an improved market for high new issues of fixed income securities, particularly in the latter part of fiscal 2010. Fixed income revenue for the eleven month period ended November 30, 2010 as compared to the twelve months ended December 31, 2009 reflects the impact of the change in market conditions.

Fixed income revenue was \$728.4 million for the eleven months ended November 30, 2010, down 38% from revenue of \$1,177.2 million for the twelve months ended December 31, 2009. The decrease in revenue for fiscal 2010 reflects the challenging market conditions given economic disruption in certain world markets and the continued tightening of corporate bond and Treasury spreads. These factors had a dampening effect on customer flow across several of our fixed income businesses although improvement in overall volumes began in the fourth quarter of 2010 from the more recent quarterly periods. The decline in revenue for the 2010 period as compared to the 2009 period is largely attributed to declines in revenue from our corporate bond, U.S. government and agencies, mortgage-backed securities, emerging markets debt and bank loan trading activities as well as reduced revenue from certain principal transaction trading opportunities. The decline in revenue contributions was partially offset by revenue contributions for the eleven months ended November 30, 2010 from our European government bond trading business, which commenced operations in the latter part of 2009 and significantly expanded its platform in Europe in the early part of 2010, and improved revenue results from our high yield and commodities sales and trading activities as compared to the 2009 period.

Revenues from our investment grade corporate bond, convertible securities and emerging markets debt trading activities for the eleven months ended November 30, 2010 were negatively affected by tightening credit spreads and the difficult conditions in world credit markets during the period and downward pressure on yields, although this was partially offset by positive trading opportunities in Latin American debt in the latter part of 2010. This is compared to a period of historically wide credit spreads during the twelve months ended December 31, 2009 and market volatility in the credit markets resulting in a considerably strong performance from our corporate bond trading business in the 2009 period. Emerging markets revenue was also particularly strong in 2009 as both volumes and market share were higher and we benefited from trading opportunities from new issuances and sovereign debt restructurings.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

Continued tightening in Treasury yields and a consensus dampening on inflation during the eleven months ended November 30, 2010 contributed to the decline in trading revenue from our U.S. government and agencies business as compared to a favorable trading environment in the 2009 period. Mortgage-backed securities revenue decreased during the 2010 period on tightening bid offer spreads and a challenging international environment with an intensified sovereign debt crisis as compared to high levels of customer trading volume and certain exceptional trading opportunities in the comparable prior period. The expansion of our government and agencies platform in Europe, assisted by our appointment in several European jurisdictions as dealers for government bond issues resulted in additional fixed income generation for fiscal 2010 with increased customer flow volumes. High yield sales and trading revenue increased for the eleven months ended November 30, 2010 as compared to the twelve months ended December 31, 2009 benefiting from strong market conditions for high yield issuances and market volatility, although international high yield revenue was affected by the credit concerns within Europe and losses on certain credit hedges impacted the revenue contributions from our bank loan trading activities.

Of the results recognized in Jefferies High Yield Holdings, LLC (our high yield and distressed securities and bank loan trading and investment business), approximately 66%, 66% and 66% of such results for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and the twelve months ended December 31, 2009, respectively, are allocated to the minority investors and are presented within interest on mandatorily redeemable preferred interests and net earnings to noncontrolling interests in our Consolidated Statements of Earnings.

**Other Revenue**

Other revenue of \$73.6 million for the twelve months ended November 30, 2011 million represents the bargain purchase gain of \$52.5 million arising in the accounting for the acquisition of the Global Commodities Group and total gains on debt extinguishment of \$21.1 million in connection with the accounting treatment for certain purchases of our debt by our secondary market making corporates desk and the repurchase of \$50.0 million of our senior notes due 2012 in November 2011. For additional information on the acquisition and on the debt extinguishment gain, see Note 3, Acquisition of the Global Commodities Group, and Note 13, Long-term Debt, respectively in our consolidated financial statements.

**Investment Banking Revenue**

We provide a full range of financial advisory services to our clients across nearly all industry sectors in both the U.S. and international markets. Capital markets revenue includes underwriting revenue related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity convertible financing services. Advisory revenue is generated from our advisory services with respect to merger, acquisition and restructuring transactions and fund placement activities. The following table sets forth our investment banking revenue (in thousands):

	Twelve Months Ended	Eleven Months Ended	Twelve Months Ended	% Change	
	November 30, 2011	November 30, 2010	December 31, 2009	2011/2010	2010/2009
Equity	\$ 187,288	\$ 126,363	\$ 89,807	48%	41%
Debt	384,921	347,471	193,187	11%	80%
Capital markets	572,209	473,834	282,994	21%	67%
Advisory	550,319	416,500	191,321	32%	118%
<b>Total</b>	<b>\$ 1,122,528</b>	<b>\$ 890,334</b>	<b>\$ 474,315</b>	<b>26%</b>	<b>88%</b>

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**2011 v. 2010** Investment banking revenue increased 26% to a record \$1,122.5 million for the twelve months ended November 30, 2011 as compared to revenue of \$890.3 million for the eleven months ended November 30, 2010 and were principally driven by both record advisory revenues and our increasing success in winning book runner roles in debt and equity financing. The first half of fiscal 2011 benefited from a particularly strong environment for capital markets issuance. The second half of the year exhibited significant periods of volatility due to economic uncertainty caused by economic growth, unemployment and leverage concerns in Europe and the U.S., which contributed to a dramatic reduction in capital-raising by corporate issuers. Restructuring activity also declined due to the slower pace in the number of corporate defaults.

Capital markets revenue totaled \$572.2 million for the twelve months ended November 30, 2011, compared to \$473.8 million for the eleven months ended November 30, 2010, reflecting the strengthening in our market share and book runner roles in capital markets underwritings, the improved market environment for debt and equity underwritings in the first half of fiscal 2011, and the contribution of our mortgage securities origination and municipal bond underwriting platforms. Revenue from our advisory business increased 32% to a record \$550.3 million for 2011 as compared to the prior year revenue of \$416.5 million. The record result for 2011 is reflective of our increasing prominence in mergers and acquisition advisory work and a greater number of completed advisory engagements, including several larger-sized transactions. Investment banking revenue, overall, also benefited in the 2011 period from the addition of professional talent and expansion of our capabilities across sectors, products and geography.

**2010 v. 2009** Investment banking revenue was a record \$890.3 million for the eleven months ended November 30, 2010 as compared to revenue of \$474.3 million for the twelve months ended December 31, 2009, an 88% increase. Capital markets revenue totaled \$473.8 million for the eleven months ended November 30, 2010, compared to \$283.0 million for 2009, reflecting the strengthening in our market share and book runner roles in capital markets underwritings, improved market environment for debt and equity underwritings, and the contribution of our mortgage securities origination platform. Revenue from our advisory business of \$416.5 million for 2010 were double the prior year revenue of \$191.3 million, reflective of the overall strengthened market for mergers and acquisitions activity and were generated from a broad range of clients and transactions. Investment banking revenue overall benefited in the 2010 period from the addition of professional talent and capabilities during 2010 and the continued build out of client coverage efforts.

***Asset Management Fees and Investment Income from Managed Funds***

Asset management revenue includes revenues from management and performance fees from funds and accounts managed by us, revenue from asset management and performance fees and investment income from our investments in these funds and accounts in related party managed funds. The key components of asset management revenue are the level of assets under management and the performance return, both on an absolute basis and relative to a benchmark or hurdle. These components can be affected by financial markets, profits and losses in the applicable investment portfolios and client capital activity. Further, asset management fees vary with the nature of investment management services. The terms under which clients may terminate our investment management authority, and the requisite notice period for such termination, varies depending on the nature of the investment vehicle and the liquidity of the portfolio assets.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The following summarizes revenue from asset management fees and investment income for the twelve months ended November 30, 2011, eleven months ended November 30, 2010, and the twelve months ended December 31, 2009 (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Asset management fees:			
Fixed Income	\$ 3,725	\$ 3,590	\$ 6,740
Equities	5,335	3,708	2,912
Convertibles	13,703	5,429	17,808
Commodities	10,662	3,792	1,052
	33,425	16,519	28,512
Investment income from managed funds(1)	10,700	266	7,375
Total	\$ 44,125	\$ 16,785	\$ 35,887

- (1) Of the total investment income from managed funds, \$-0-, \$0.2 million and \$45,000 is attributed to noncontrolling interest holders for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and the twelve months ended December 31, 2009, respectively.

2011 v. 2010 Asset management fees increased to \$33.4 million for the twelve months ended November 30, 2011 as compared to \$16.5 million for the eleven months ended November 30, 2011. The increased fees resulted primarily from growth in management and performance fees in our global convertible bond fund and from customer asset inflows into our commodity managed accounts and commodity private funds. To a lesser extent, the launch of our Structured Alpha Program increased asset management fees.

Investment income from managed funds for the twelve months ended November 30, 2011 totaled \$10.7 million as compared to \$0.3 million for the eleven months ended November 30, 2010. The increase of \$10.4 million is primarily due to asset appreciation in our investments in Jefferies Capital Partners IV L.P. and an affiliated fund. In January 2010, our contracts to manage certain collateralized loan obligations ( CLOs ) were sold to Babson Capital Management, LLC. We no longer manage the CLOs, but are entitled for the remaining life of the contracts to receive a portion of the asset management fees which are presented as Fixed Income asset management fees in the table above. The returns on our remaining investments in the CLOs are included within Principal transaction revenues for the twelve months ended November 30, 2011.

2010 v. 2009 Asset management fees decreased to \$16.5 million for the eleven months ended November 30, 2010 as compared to asset management fees of \$28.5 million for 2009, primarily due reduced performance fee revenue generated by our global convertible bond fund business in 2010 as compared to 2009. Investment income from managed funds totaled \$0.3 million for 2010 as compared to investment income of \$7.4 million for 2009 primarily due to losses on our investment in one equity fund and reduced revenues generated from portfolio strategies in our convertible bond fund business, partially offset by improved valuations in our investment in Jefferies Capital Partners IV L.P. Additionally, investment income for the twelve months ended December 31, 2009 included returns on our investment in managed CLOs, which are now included within Principal transaction revenues as our contracts to manage the CLOs were sold in January 2010.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Assets under Management**

Period end assets under management by predominant asset strategy were as follows (in millions):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
Assets under management(1):		
Equities	\$ 318	\$ 88
Convertibles	1,532	1,863
Commodities	434	13
<b>Total</b>	<b>\$ 2,284</b>	<b>\$ 1,964</b>

- (1) Assets under management include assets actively managed by us including hedge funds and certain managed accounts. Assets under management do not include the assets of funds that are consolidated due to the level or nature of our investment in such funds.

**Change in Assets under Management**

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010 (in millions)	% Change
Balance, beginning of period	\$ 1,964	\$ 3,424	-43%
Net cash flow in (out)	525	(1,524)	
Net market depreciation	(205)	64	
	320	(1,460)	
<b>Balance, end of period</b>	<b>\$ 2,284</b>	<b>\$ 1,964</b>	<b>16%</b>

The net increase of \$0.3 billion in assets under management to \$2.3 billion during the twelve months ended November 30, 2011 resulted primarily from cash inflows into our commodity programs and our Structured Alpha Program, net of fund outflows from our global convertible bond programs. The net decrease in assets under management of \$1.5 billion during the eleven months ended November 30, 2010 is primarily attributable to the sale of our contracts to manage certain CLOs and market depreciation in the underlying assets

**Managed Accounts**

We manage certain portfolios as mandated by client arrangements and management fees are assessed on an agreed upon basis such as notional account value or another measure specified in the investment management agreement. Managed accounts based on this measure by predominant asset strategy were as follows:

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

(notional account value)	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
	(in millions)	
Managed Accounts:		
Equities	\$	\$ 147
Commodities	1,612	802
	\$ 1,612	\$ 949

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)***Change in Managed Accounts*

(notional account value)	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
	(in millions)	
Balance, beginning of period	\$ 949	\$ 560
Net account additions	629	372
Net account appreciation	34	17
Balance, end of period	\$ 1,612	\$ 949

The change in the value of managed accounts for the twelve months ended November 30, 2011 is primarily due to customer inflows into new and existing commodity accounts, partially offset by outflows from our financial services sector equity managed account.

The following table presents our invested capital in managed funds at November 30, 2011 and November 30, 2010 (in thousands):

	November 30, 2011	November 30, 2010
Unconsolidated funds(1)	\$ 70,224	\$ 131,024
Consolidated funds(2)	10,076	53,843
Total	\$ 80,300	\$ 184,867

- (1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statement of Financial Condition.
- (2) Invested capital in managed funds includes funds that are actively managed by us and by third parties and related parties including hedge funds, managed accounts and other private investment funds. Due to the level or nature of our investment in such funds and accounts, certain funds and accounts are consolidated and the assets and liabilities of these funds and accounts are reflected in our consolidated financial statements primarily within Financial instruments owned. We do not recognize asset management fees for funds and accounts that we have consolidated.

**Non-interest Expenses**

Non-interest expenses for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, were as follows:

Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
---	--	--



Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

	(in thousands)		
Compensation and benefits	\$ 1,482,604	\$ 1,282,644	\$ 1,195,971
Floor brokerage and clearing fees	126,313	110,835	80,969
Technology and communications	215,940	160,987	141,233
Occupancy and equipment rental	84,951	68,085	72,824
Business development	93,645	62,015	37,614
Professional services	66,305	49,080	41,125
Other	56,099	47,017	48,530
Total non-compensation expenses	\$ 643,253	\$ 498,019	\$ 422,295
Non-interest expenses	\$ 2,125,857	\$ 1,780,663	\$ 1,618,266

---

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)*****Compensation and Benefits***

Compensation and benefits expense consists primarily of salaries, benefits, cash bonuses, commissions, annual share-based compensation awards, the amortization of certain nonannual share-based and cash compensation to employees. Annual share-based awards to employees as a part of year end compensation generally contain provisions such that employees who terminate their employment or are terminated without cause may continue to vest in their awards, so long as those awards are not forfeited as a result of other forfeiture provisions of those awards. Accordingly, the compensation expense for a substantial portion of share-based awards granted at year end as part of annual compensation is fully recorded in the year of the award

2011 v. 2010 Compensation and benefits expense totaled \$1,482.6 million for the twelve months ended November 30, 2011, a ratio of compensation and benefits to net revenues of 58.2%. This is in comparison to Compensation and benefits expense of \$1,282.6 million for the eleven months ended November 30, 2010, a ratio of compensation and benefits to net revenues of 59%. For the twelve months ended November 30, 2011, compensation and benefits expense included \$11.8 million relating to the acquisition of the Global Commodities Group, comprising severance costs for certain employees of the acquired group that were terminated subsequent to the acquisition, the amortization of stock awards granted to Jefferies Bache employees as replacement awards for previous Prudential stock awards that were forfeited as a result of the acquisition, bonus costs for employees as a result of the completion of the acquisition and the amortization of retention awards totaling \$11.8 million. When excluding these expenses, together with the bargain purchase gain of \$52.5 million and the gain on debt extinguishment of \$21.1 million recognized in Other revenues, our ratio of compensation and benefits expense to net revenues for the twelve months ended November 30, 2011 was 59.4%.

Compensation and benefit expense increased \$200.0 million, or 16%, for the twelve months ended November 30, 2011 as compared to the 2010 prior period. This increase was partially due to the additional month's expense in the 2011 results and the increased headcount, both domestically and internationally, in connection with our business growth, which included Jefferies Bache as of July 1, 2011. The increase in compensation and benefits expense was partially offset by reduced cash awards offered to employees in lieu of stock compensation while, compensation and benefits as a percentage of net revenues remained relatively flat over the comparable periods.

Compensation and benefits expense includes share-based amortization expense for senior executive awards previously granted in January 2010 and non-annual share-based and cash-based awards to other employees. Employee headcount increased to 3,898 employees globally at November 30, 2011 as compared to 3,084 employees at November 30, 2010. Approximately 400 employees were added to our firm on July 1, 2011 in connection with the acquisition of the Global Commodities Group.

2010 v. 2009 Compensation and benefits expense totaled \$1,282.6 million for the eleven months ended November 30, 2010, a ratio of compensation and benefits to net revenues of 59%. This is in comparison to compensation and benefits expense of \$1,196.0 million for the twelve months ended December 31, 2009, with a ratio of compensation and benefits expense to net revenues of 55%. Employee headcount increased to 3,084 employees globally as compared to 2,628 global employees at December 31, 2009. The increase in compensation and benefits expense in 2010 as compared to 2009 is consistent with the increased staffing levels both domestically and internationally in connection with our business growth. The increase in compensation and benefits expense and the related ratio of compensation expense to net revenues for the eleven months ended November 30, 2010 as compared to the twelve months ended December 31, 2009 is also reflective of significant investments in our support groups. Compensation and benefits expense in 2010 includes the cost of the fair value of restricted stock and RSUs granted to employees (other than our two most senior executive officers) as part of year end bonus compensation. Compensation costs for 2010 also include share-based amortization expense for senior executive awards granted in January 2010 and nonannual share-based awards to other employees.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

On March 30, 2010, the U.S. President signed the Health Care and Education Reconciliation Act of 2010, which is a reconciliation bill that amends the Patient Protection and Affordable Care Act that was signed by the President on March 23, 2010 (collectively the Acts). Jefferies currently provides its employees and their eligible dependents with health insurance. Our insurance plan is self-insured (with stop loss coverage for large claims) administered by a third party. Former employees who meet age and service criteria are eligible for retiree coverage both before and after age 65. Jefferies does not subsidize any medical benefits for such former employees and therefore receives no Medicare Part D subsidy to help pay for prescription drug coverage. Because we never received the subsidy, the elimination of this subsidy will have no impact on us. Other health care mandated provisions under the Acts, such as dependent coverage to age 26 and elimination of waiting periods and lifetime benefit limits are not expected to have material effect on the cost of the health plan.

***Non-Compensation Expenses***

**2011 v. 2010** Non-compensation expenses were \$643.3 million for the twelve months ended November 30, 2011, a 29% increase as compared to expenses of \$498.0 million for the eleven months ended November 30, 2010. In addition to the increase related to the additional month included in the 2011 twelve months results, a portion of the overall increase relates to non-compensation expenses with the addition of Jefferies Bache and corresponding integration costs of \$4.9 million. Technology and communications expense increased 34% or \$55.0 million to \$215.9 million for the twelve months ended November 30, 2011 versus \$161.0 million for the eleven months ended November 30, 2010 due to the continued expansion of our business platforms and support infrastructure, particularly in Europe and Asia. Business development costs increased 51% or \$31.6 million to \$93.6 million for 2011 due to continued efforts to build market share and further enhance the Jefferies brand, including due to increased global travel in connection with these efforts. Occupancy and equipment expense increased 25% or \$16.9 million to \$85.0 million for 2011 primarily due to office growth in Asia. Professional services expense increased 35% for 2011, or \$17.2 million, to \$66.3 million primarily driven by legal and consulting fees related to the acquisition of the Global Commodities Group. Other non-interest expense includes a \$4.6 million charitable contribution for Japanese earthquake relief. Non-compensation expenses as a percentage of net revenues was 25% for the twelve months ended November 30, 2011 as compared to 23% for the eleven months ended November 30, 2010.

**2010 v. 2009** Non-compensation expenses were \$498.0 million for the eleven months ended November 30, 2010, an 18% increase as compared to expenses of \$422.3 million for the twelve months ended December 31, 2009. Floor brokerage and clearing expense increased 37% due to added business platforms. Technology and communications expense increased 14% as the expansion of personnel and business platforms increased the demand for market data and technology connections. Business development expense increased 65% commensurate with our focused efforts of strengthening our presence and globalizing our client based. Professional services expense increased 19% primarily due to infrastructure growth to support business growth. Other non-interest expense includes our donation to Haiti earthquake related charities in January 2010 totaling \$6.8 million, an increase in assessments from SIPC consistent with SIPC rate increases for the overall industry and the write-off of certain trade and loan receivables.

***Earnings Before Income Taxes***

Earnings before income taxes was \$419.3 million for the twelve months ended November 30, 2011, up from \$396.7 million for the eleven months ended November 30, 2010 and down from \$507.7 million for the twelve months ended December 31, 2009.

***Income Taxes***

The provision for income taxes was a tax expense of \$133.0 million, an effective tax rate of 31.7%, for the twelve months ended November 30, 2011, compared with \$156.4 million, an effective tax rate of 39.4%, for the

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

eleven months ended November 30, 2010 and \$195.9 million, an effective tax rate of 38.6%, for the twelve months ended December 31, 2009. The decrease in our effective tax rate for the twelve months ended November 30, 2011 as compared to the prior period is primarily attributable to the impact of the bargain purchase gain of \$52.5 million, which is non-taxable, arising on the acquisition of the Global Commodities Group from Prudential in the third quarter of 2011 and, to a lesser extent, a change in the mix of taxable profits by business line and region. Excluding the effect of the bargain purchase gain, \$11.8 million in compensation and benefits costs, \$7.8 million in intangible asset amortization and professional fees associated with the acquisition, and the gain on extinguishment of debt of \$20.2 million related to transactions in our own debt by our broker-dealer's market-making desk, our effective tax rate for the twelve months ended November 30, 2011 was 36.2%.

***Earnings per Common Share***

Diluted net earnings per common share was \$1.28 for the twelve months ended November 30, 2011 on 215,171,000 shares, compared to earnings per common share of \$1.09 for the eleven months ended November 30, 2010 on 200,511,000 shares and diluted earnings per common share of \$1.35 for the twelve months ended December 31, 2009 on 204,572,000 shares. See Note 18, Earnings Per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

**Recent Accounting Developments**

***Balance Sheet Offsetting Disclosures.*** In December 2011, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standards Update ( ASU ) Disclosures about Offsetting Assets and Liabilities ( ASU 2011-11 ) to Topic 210, Balance Sheet. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective December 1, 2013 and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, we do not expect this guidance to affect our financial condition, results of operation or cash flows.

***Goodwill Testing*** In September 2011, the FASB issued an ASU, Testing Goodwill for Impairment ( ASU 2011-08 ) to Topic 350, Intangibles Goodwill and Other. The update outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The update is effective for annual and interim goodwill tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance will not affect our financial condition, results of operation or cash flows.

***Fair Value Measurements and Disclosures.*** In May 2011, the FASB issued accounting updates to ASC 820, Fair Value Measurements Topic Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provide clarifying guidance on how to measure fair value and additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2; and for Level 3 fair value measurements, a description of our valuation processes and additional information about unobservable inputs impacting Level 3 measurements. The updates are effective March 1, 2012 and will be applied prospectively. The adoption of this guidance will not affect our financial condition, results of operation or cash flows.

***Reconsideration of Effective Control for Repurchase Agreements.*** In April 2011, the FASB issued accounting guidance that removes the requirement to consider whether sufficient collateral is held when

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. The guidance is effective prospectively for transactions beginning on January 1, 2012. The adoption of this guidance will not have an impact on our financial condition, results of operations or cash flows.

*Consolidation* We adopted accounting changes described in ASC 810, Consolidation Topic, as of January 1, 2010, which require that the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity consolidate the variable interest entity. The changes to ASC 810, effective as of January 1, 2010, eliminate the quantitative approach previously applied to assessing whether to consolidate a variable interest entity and require ongoing reassessments for consolidation. Upon adoption of these accounting changes on January 1, 2010, we consolidated certain CLOs and other investment vehicles. The consolidation of these entities resulted in an increase in total assets of \$1,606.9 million, an increase in total liabilities of \$1,603.8 million and an increase to total stockholders equity of \$3.1 million on January 1, 2010. Subsequently, we sold and assigned our management agreements for the CLOs to a third party; thus we no longer have the power to direct the most significant activities of the CLOs. Upon the assignment of the management agreements in January 2010, we deconsolidated the CLOs and accounted for our remaining interests in the CLOs at fair value.

**Critical Accounting Policies**

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ), which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results can and may differ from estimates. These differences could be material to the financial statements.

We believe our application of U.S. GAAP and the associated estimates are reasonable. Our accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

We believe our critical accounting policies (policies that are both material to the financial condition and results of operations and require our most subjective or complex judgments) are our valuation of financial instruments, assessment of goodwill and our use of estimates related to compensation and benefits during the year.

***Valuation of Financial Instruments***

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Unrealized gains or losses are generally recognized in Principal transactions in our Consolidated Statements of Earnings.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased, as of November 30, 2011 and November 30, 2010 (in thousands):

	November 30, 2011		November 30, 2010	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	\$ 1,235,079	\$ 1,330,096	\$ 1,565,793	\$ 1,638,372
Corporate debt securities	2,868,304	1,614,493	3,630,616	2,375,925
Government, federal agency and other sovereign obligations	7,471,563	3,209,713	5,191,973	4,735,288
Mortgage- and asset-backed securities	3,923,303	50,517	4,921,565	129,384
Loans and other receivables	376,146	151,117	434,573	171,278
Derivatives	525,893	249,037	119,268	59,552
Investments	105,585		77,784	
Physical commodities	172,668			
	\$ 16,678,541	\$ 6,604,973	\$ 15,941,572	\$ 9,109,799

At November 30, 2011 derivative liabilities included within Financial instruments sold, not yet purchased were comprised primarily of exchange traded equity options, over-the-counter ( OTC ) foreign currency forwards and options, OTC commodity forwards and options, and interest rate and commodity swaps. At November 30, 2010 derivative liabilities within Financial instruments sold, not yet purchased were comprised primarily of exchange traded equity options and interest rate swaps.

**Fair Value Hierarchy**

In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs, where Level 1 uses observable prices in active markets and Level 3 uses valuation techniques that incorporate significant unobservable inputs and broker quotes that are considered less observable. Greater use of management judgment is required in determining fair value when inputs are less observable or unobservable in the marketplace, such as when the volume or level of trading activity for a financial instrument has decreased and when certain factors suggest that observed transactions may not be reflective of orderly market transactions. Judgment must be applied in determining the appropriateness of available prices, particularly in assessing whether available data reflects current prices and/or reflects the results of recent market transactions. Prices or quotes are weighed when estimating fair value with greater reliability placed on information from transactions that are considered to be representative of orderly market transactions.

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 5, Financial Instruments, in our consolidated financial statements.

Level 3 Assets and Liabilities The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class (in thousands):

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
Loans and other receivables	\$ 97,291	\$ 227,596	\$ 10,157	\$ 47,228
Residential mortgage-backed securities	149,965	132,359		
Investments	78,326	77,784		
Corporate debt securities	48,140	73,408	74	
Collateralized debt obligations	47,988	31,121		
Corporate equity securities	13,489	22,619		38
Commercial mortgage-backed securities	52,407	6,004		
Other asset-backed securities	3,284	567		
U.S. issued municipal securities	6,904	472		
Derivatives	124		9,409	2,346
Sovereign obligations	140			
<b>Total Level 3 financial instruments</b>	<b>498,058</b>	<b>571,930</b>	<b>\$ 19,640</b>	<b>\$ 49,612</b>
Level 3 financial instruments for which the firm bears no economic exposure(1)	(45,901)	(204,139)		
Level 3 financial instruments for which the firm bears economic exposure	452,157	367,791		
Investments in managed funds	70,740	131,585		
Level 3 assets for which the firm bears economic exposure(1)	\$ 522,897	\$ 499,376		
<b>Total Level 3 assets</b>	<b>\$ 568,798</b>	<b>\$ 703,515</b>		
Total Level 3 financial instruments as a percentage of total financial instruments	3%	4%	0.3%	0.5%

(1) Consists of Level 3 assets which are financed by nonrecourse secured financing or attributable to third party or employee noncontrolling interests in certain consolidated entities.

While our Financial instruments sold, not yet purchased, which are included within liabilities on our Consolidated Statement of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities included with Other liabilities of approximately \$3.8 million and \$85.7 million at November 30, 2011 and 2010, respectively.





**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The following table reflects activity with respect to our Level 3 assets and liabilities (in millions):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
<b>Assets:</b>			
Transfers from Level 3 to Level 2	\$ 105.5	\$ 163.9	\$ 126.1
Transfers from Level 2 to Level 3	63.6	18.0	143.8
Net (losses) gains	(14.3)	108.5	43.3
<b>Liabilities:</b>			
Transfers from Level 3 to Level 2	\$ 0.04	\$ 93.3	\$ 5.1
Transfers from Level 2 to Level 3		0.04	3.0
Net (losses) gains	(6.6)	2.3	2.3

See Note 5, Financial Instruments, in our consolidated financial statements for additional discussion on transfers of assets and liabilities among the fair value hierarchy levels.

**Controls Over the Valuation Process for Financial Instruments** Our valuation team, independent of the trading function, plays an important role in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. Where a pricing model is used to determine fair value, these control processes include reviews of the pricing model's theoretical soundness and appropriateness by risk management personnel with relevant expertise who are independent from the trading desks. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

**Goodwill**

At least annually, and more frequently if warranted, we assess whether goodwill has been impaired by comparing the estimated fair value of each reporting unit with its carrying value. The fair value of reporting units are based on valuations techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods. (Refer to Note 11, Goodwill and Other Intangible Assets, in our Consolidated financial statements for further detail on our assessment of goodwill.)

**Compensation and Benefits**

A portion of our compensation and benefits represents discretionary bonuses, which are finalized at year end. In addition to the level of net revenues, our overall compensation expense in any given year is influenced by prevailing labor markets, revenue mix, profitability, individual and business performance metrics, and our use of share-based compensation programs. We believe the most appropriate way to allocate estimated annual total compensation among interim periods is in proportion to projected net revenues earned. Consequently, during the year we accrue compensation and benefits based on annual targeted compensation ratios, taking into account the mix of our revenues and the timing of expense recognition. Our compensation and benefits expense for the twelve months ended November 30, 2011, reflects the actual total compensation and benefits we expect to pay for the 2011 compensation year.

For further discussion of these and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements.



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Liquidity, Financial Condition and Capital Resources**

Our Chief Financial Officer and Treasurer are responsible for developing and implementing our liquidity, funding and capital management strategies. These policies are determined by the nature and needs of our day to day business operations, business opportunities, regulatory obligations, and liquidity requirements.

Our actual levels of capital, total assets, and financial leverage are a function of a number of factors, including, asset composition, business initiatives and opportunities, regulatory requirements and cost and availability of both long term and short term funding. We have historically maintained a balance sheet consisting of a large portion of our total assets in cash and liquid marketable securities, arising principally from traditional securities brokerage activity. The liquid nature of these assets provides us with flexibility in financing and managing our business.

**Analysis of Financial Condition**

A business unit level balance sheet and cash capital analysis is prepared and reviewed with senior management on a weekly basis. As a part of this balance sheet review process, capital is allocated to all assets and gross and adjusted balance sheet limits are established. This process ensures that the allocation of capital and costs of capital are incorporated into business decisions. The goals of this process are to protect the firm's platform, enable our businesses to remain competitive, maintain the ability to manage capital proactively and hold businesses accountable for both balance sheet and capital usage.

We actively monitor and evaluate our financial condition and the composition of our assets and liabilities. Substantially all of our Financial instruments owned and Financial instruments sold, not yet purchased are valued on a daily basis and we monitor and employ balance sheet limits for our various businesses. In connection with our government and agency fixed income business and our role as a primary dealer in these markets, a great portion of our securities inventory is comprised of U.S. government and agency securities and other G-7 government securities.

The following table provides detail on key balance sheet asset and liability line items (in millions):

	November 30, 2011	November 30, 2010	% Change
Total assets	\$ 34,971.4	\$ 36,726.5	-5%
Cash and cash equivalents	2,393.8	2,189.0	9%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,345.0	1,636.8	104%
Financial instruments owned	16,678.5	15,941.6	5%
Financial instruments sold, not yet purchased	6,605.0	9,109.8	-27%
Total Level 3 assets	568.8	703.5	-19%
Level 3 financial instruments for which we have economic exposure	452.2	367.8	23%
Securities borrowed	\$ 5,169.7	\$ 8,152.7	-37%
Securities purchased under agreements to resell	2,893.0	3,252.3	-11%
Total securities borrowed and securities purchased under agreements to resell	\$ 8,062.7	\$ 11,405.0	-29%
Securities loaned	\$ 1,706.3	\$ 3,109.0	-45%
Securities sold under agreements to repurchase	9,620.7	10,684.1	-10%
Total securities loaned and securities sold under agreements to repurchase	\$ 11,327.0	\$ 13,793.1	-18%



---

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The decrease in total assets at November 30, 2011 from November 30, 2010 is primarily due to management's decision to reduce trading balances and leverage to demonstrate the underlying liquidity of our trading assets and liabilities. This reduction in trading balances was done across asset classes and fair value hierarchy levels. During the twelve months ended November 30, 2011, average total assets were approximately 37% higher than at November 30, 2010. The decrease in trading related assets as of the 2011 year end was partially offset by asset balances arising as a result of our acquisition of the Global Commodities Group from Prudential on July 1, 2011 and the reinvestment of trading reductions into cash and cash equivalents. As a result of Jefferies Bache, specifically, the outstanding balance of cash and securities segregated and of certain financial instruments owned (liquid derivative contracts and physical commodities) increased at November 30, 2011 from November 30, 2010.

As a futures commission merchant, Jefferies Bache, LLC (our U.S. futures commission merchant) and Jefferies Bache Limited (our U.K. commodities and financial futures broker-dealer), receive cash or securities as margin to secure customer futures trades. As a result of the acquisition of this business and the related margin requirements for such activity, the balance of cash and securities segregated has increased at November 30, 2011 from the prior period end. Jefferies & Company, Inc. (a U.S. broker-dealer), under SEC Rule 15c3-3, and Jefferies Bache, LLC, under CFTC Regulation 1.25, are required to maintain customer cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients. We are required to conduct customer segregation calculations to ensure the appropriate amounts of funds are segregated and that no customer funds are used to finance firm activity. Similar requirements exist with respect to our U.K.-based activities conducted through Jefferies Bache Limited and Jefferies International Limited (a U.K. broker-dealer). Customer funds received are separately segregated and locked-up apart from our funds. If we rehypothecate customer securities, that activity is conducted only to finance customer activity. Additionally, we do not lend customer cash to counterparties to conduct securities financing activity (i.e., we do not lend customer cash to reverse in securities). Further, we have no customer loan activity in Jefferies International Limited and we do not have any European prime brokerage operations. In Jefferies Bache Limited, any funds received from a customer are placed on deposit and not used as part of our operations. We do not transfer U.S. customer assets to our U.K. entities.

A significant portion of the increase in our total financial instruments owned inventory resulted from increased holdings of government and agency securities. Our inventory of government, federal agency and other sovereign obligations increased from \$5.2 billion at November 30, 2010 to \$7.5 billion at November 30, 2011. This net increase in our inventory positions (long and short inventory) is primarily attributed to the continued growth of our U.S. government and agencies and other sovereign debt trading businesses, both domestically and internationally. As a Primary Dealer in the U.S. and our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. While our 2011 inventory balance has increased from that of the end of 2010, the balance of our inventory in U.S. government and agency securities and other sovereign obligations at November 30, 2011 reflects a significant decrease in outstanding positions from that of prior quarters and the average balance throughout the year as we sought to reduce our gross financial instruments inventory with significant liquidation of our inventory exposure to Portugal, Italy, Ireland, Greece and Spain in the latter part of fiscal 2011. Given the liquid nature of this market-making trading book, at one point during November 2011, we sold, in a brief period of time, approximately \$1.1 billion of financial instruments owned and \$1.1 billion in financial instruments sold, but not yet purchased with minimal resulting impact on net earnings. For further detail on our remaining outstanding sovereign exposure as of November 30, 2011, refer to the Risk Management section within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, within this Annual Report on Form 10-K.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

Our net inventory positions also increased as of November 30, 2011 from November 30, 2010 due to the acquisition of Jefferies Bache, which resulted in an increase in derivative contracts and physical commodities from that of the prior year. Our mortgage- and asset-backed securities inventory decreased by 20%, from \$4,921.6 million at November 30, 2010 to \$3,923.3 million at November 30, 2011, and our corporate debt securities inventory similarly decreased by 21% from \$3,630.6 million at November 30, 2010 to \$2,868.3 million at November 30, 2011. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets.

Of our total Financial instruments owned, approximately 84% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of our policy, a portion of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Further, our Financial instruments owned consists of high yield bonds, bank loans, investments and non-agency mortgage-backed securities that are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent than the haircuts used in the market for secured funding; and we maintain surplus capital at these maximum levels.

At November 30, 2011 and November 30, 2010, our Level 3 financial instruments owned for which we have economic exposure was 3% and 2%, respectively, of our total financial instruments owned. Level 3 mortgage- and asset-backed securities represent 5% of total mortgage- and asset-backed securities inventory at November 30, 2011 and 3% at November 30, 2010 and represent 36% and 20% of total Level 3 assets at November 30, 2011 and November 30, 2010, respectively. As we reduced our overall trading inventory at the latter part of 2011, the reduction was fairly consistent across all inventory products resulting in a relatively consistent asset profile from period to period as evidenced by the consistent percentage of Level 3 asset as of 2011 year end as compared to the 2010 year end.

Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The outstanding balance of our securities borrowed and securities purchased under agreements to resell decreased by 29% from November 30, 2010 to November 30, 2011 due to a reduction in the use of secured financing activity to support our fixed income business and a reduction in matched booked activity for our Equities securities financing business given reduced market opportunities for returns on this activity in the low interest rate environment. Similarly the outstanding balance of our securities loaned and securities sold under agreements to repurchase decreased by 18% from November 30, 2010 to November 30, 2011. Additionally, during 2011, we utilized more repurchase agreements executed with central clearing corporations rather than bi-lateral repurchase agreements, which reduces the credit risk associated with these arrangements and results in decreased net outstanding balances. The average increase in our securities financing assets and liabilities was 67% and 37%, respectively, higher than quarter end balances for the twelve months ended November 30, 2011 and 11% and 7%, respectively, higher than quarter end balances for the eleven months ended November 30, 2010.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The following table presents our period end balance, average balance and maximum balance at any month end within the periods presented for Securities purchased under agreements to resell and Securities sold under agreements to repurchase (in millions):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
<b>Securities Purchased Under Agreements to Resell</b>			
Period end	\$ 2,893	\$ 3,252	\$ 3,515
Month end average	4,780	3,769	3,521
Maximum month end	6,956	4,983	4,984
<b>Securities Sold Under Agreements to Repurchase</b>			
Period end	9,621	10,684	8,239
Month end average	13,024	11,464	8,936
Maximum month end	18,231	14,447	12,688

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. The general growth in outstanding repurchase activity from early 2009 through 2011 is reflective of supporting our overall business growth, particularly the continued expansion of our mortgage-backed securities sales and trading platform, our appointment as a U.S. Federal Reserve Primary Dealer in June 2009 and our appointment in similar capacities in various European jurisdictions in 2010. In November 2011, we reduced our overall trading inventory as part of an overall strategy to reduce our leverage and demonstrate the liquidity of our trading positions. Repurchase agreements were simultaneously reduced near 2011 year end as the financing needs for the trading book were decreased. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented is influenced in any given period by our clients' balances and our clients' desires to execute collateralized financing arrangements via the repurchase market or via other financing products.

Average balances and period end balances will fluctuate based on market and liquidity conditions and we consider the fluctuations intraperiod to be typical for the repurchase market.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Leverage Ratios**

The following table presents total assets, adjusted assets, total stockholders' equity and tangible stockholders' equity with the resulting leverage ratios as of November 30, 2011 and 2010 (in thousands):

	November 30, 2011	November 30, 2010
Total assets	\$ 34,971,422	\$ 36,726,543
Deduct: Securities borrowed	(5,169,689)	(8,152,678)
Securities purchased under agreements to resell	(2,893,043)	(3,252,322)
Add: Financial instruments sold, not yet purchased	6,604,973	9,109,799
Less derivative liabilities	(249,037)	(59,552)
Subtotal	6,355,936	9,050,247
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(3,344,960)	(1,636,755)
Goodwill and intangible assets	(385,589)	(368,078)
Adjusted assets	\$ 29,534,077	\$ 32,366,957
Total stockholders' equity	\$ 3,536,975	\$ 2,810,965
Deduct: Goodwill and intangible assets	(385,589)	(368,078)
Tangible stockholders' equity	\$ 3,151,386	\$ 2,442,887
Leverage ratio(1)	9.9	13.1
Adjusted leverage ratio(2)	9.4	13.2

(1) Leverage ratio equals total assets divided by total stockholders' equity.

(2) Adjusted leverage ratio equals adjusted assets divided by tangible stockholders' equity.

Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. Our leverage ratio and adjusted leverage ratio decreased from November 30, 2010 to November 30, 2011 commensurate with the reduction in our trading inventory near the end of November 2011 as we actively sought to demonstrate the liquidity of our market-making and trading inventory and due to additional equity capital raised in April 2011.

**Liquidity Management**

The key objectives of the liquidity management framework are to support the successful execution of our business strategies while ensuring sufficient liquidity through the business cycle and during periods of financial distress. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material franchise or business impact.



## Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

The principal elements of our liquidity management framework are our Contingency Funding Plan, our Cash Capital Policy and our assessment of Maximum Liquidity Outflow.

*Contingency Funding Plan.* Our Contingency Funding Plan is based on a model of a potential liquidity contraction over a one year time period. This incorporates potential cash outflows during a liquidity stress event,

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

including, but not limited to, the following: (a) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (b) maturity rolloff of outstanding letters of credit with no further issuance and replacement with cash collateral; (c) higher margin requirements than currently exist on assets on securities financing activity, including repurchase agreements; (d) liquidity outflows related to possible credit downgrade; (e) lower availability of secured funding; (f) client cash withdrawals; (g) the anticipated funding of outstanding investment commitments; and (h) certain accrued expenses and other liabilities and fixed costs.

*Cash Capital Policy.* We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of \$8.2 billion as of November 30, 2011 exceeded our cash capital requirements.

*Maximum Liquidity Outflow.* Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change. As a result of our policy to ensure we have sufficient funds to cover what we estimate may be needed in a liquidity crisis, we hold more unencumbered securities and have greater long-term debt balances than our businesses would otherwise require. As part of this estimation process, we calculate a Maximum Liquidity Outflow that could be experienced in a liquidity crisis. Maximum Liquidity Outflow is based on a scenario that includes both a market-wide stress and a firm-specific stress, characterized by some or all of the following elements:

Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.

Severely challenged market environment with material declines in equity markets and widening of credit spreads.

Damaging follow-on impacts to financial institutions leading to the failure of a large bank.

A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Maximum Liquidity Outflow:

Liquidity needs over a 30-day scenario.

A two-notch downgrade of our long-term senior unsecured credit ratings.

No support from government funding facilities.

## Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

No diversification benefit across liquidity risks. We assume that liquidity risks are additive. The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.

Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.

A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration.

Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives and other outflows due to trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings.

Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives and any increase in initial margin and guarantee fund requirements by derivative clearing houses.

Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions.

Liquidity outflows to clearing banks to ensure timely settlements of cash and securities transactions.

Draws on our unfunded commitments considering, among other things, the type of commitment and counterparty.

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At November 30, 2011, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Sources of Liquidity**

We continue to maintain significant cash balances on hand. The following are financial instruments that are cash and cash equivalents or are deemed by management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time (in thousands):

	As of November 30, 2011	Average balance Quarter ended November 30, 2011(1)	As of November 30, 2010
<b>Cash and cash equivalents:</b>			
Cash in banks	\$ 846,990	\$ 865,881	\$ 325,227
Money market investments	1,546,807	770,170	1,863,771
<b>Total cash and cash equivalents</b>	<b>2,393,797</b>	<b>1,636,051</b>	<b>2,188,998</b>
<b>Other sources of liquidity:</b>			
Securities purchased under agreements to resell(2)	233,887	128,845	
U.K. liquidity pool(2)	303,416	320,563	100,761
Other(3)	509,491	732,888	441,492
<b>Total other sources</b>	<b>1,046,794</b>	<b>1,182,296</b>	<b>542,253</b>
<b>Total cash and cash equivalents and other liquidity sources</b>	<b>\$ 3,440,591</b>	<b>\$ 2,818,347</b>	<b>\$ 2,731,251</b>

(1) Average balances are calculated based on weekly balances.

(2) The liquidity pool, segregated by our U.K. broker-dealer as required by FSA regulation, consists of high quality debt securities issued by a government or central bank of a state within the European Economic Area ( EEA ), Canada, Australia, Japan, Switzerland or the USA; reserves in the form of sight deposits with a central bank of an EEA state, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.

(3) Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that could be reasonably expected to be obtained from our financial instruments owned that are currently not pledged after considering reasonable financing haircuts and additional funds available under the committed senior secured revolving credit facility available for working capital needs of Jefferies Bache.

During November 2011, we sought to increase our liquidity and cash balances in order to demonstrate our liquidity and financial stability. Accordingly, we liquidated various trading positions and reduced the overall size of our financial instruments inventory from the prior third quarter end and held the proceeds in cash balances.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. We have the ability to readily obtain repurchase financing for 84% of our inventory at haircuts of 10% or less, which reflects the marketability of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at November 30, 2011 and November 30, 2010 (in thousands):

	November 30, 2011		November 30, 2010	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments(2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments(2)
Corporate equity securities	\$ 1,105,271	\$ 297,408	\$ 1,453,744	\$ 264,603
Corporate debt securities	2,193,821	48,503	2,813,465	
U.S. Government, and agency securities	6,109,749	19,003	2,978,192	223,455
Other sovereign obligations	1,166,577	336,453	2,181,413	168,523
Agency mortgage- and asset-backed securities(1)	3,249,366		3,607,895	
Physical commodities	172,668	88,307		
	\$ 13,997,452	\$ 789,674	\$ 13,034,709	\$ 656,581

(1) Consists solely of agency mortgage-backed securities issued by FreddieMac, FannieMae and GinnieMae. These securities include pass-through securities, securities backed by adjustable rate mortgages ( ARMs ), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments for the three months ended November 30, 2011 were approximately \$18.6 billion.

In addition to being able to be readily financed at modest haircut levels, we estimate that each of the individual securities within each asset class could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. There are no restrictions on the unencumbered liquid securities, nor have they been pledged as collateral.

**Sources of Funding and Capital Resources**

Our assets are funded by equity capital, senior debt, convertible debt, mandatorily redeemable convertible preferred stock, mandatorily redeemable preferred interests, securities loaned, securities sold under agreements to repurchase, customer free credit balances, bank loans and other payables.

**Secured Financing**

We rely principally on secured and readily available funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short term secured funding, primarily through securities financing transactions. We do not use or rely on wholesale funding, a catch-all term typically used to refer to unsecured short-term funding, such as brokered deposits,



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

foreign deposits or commercial paper. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively "repos"), respectively. Approximately 87% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

During the first ten months of fiscal 2011, and despite the increasingly uncertain economic situation in Europe and elsewhere, we continued to gain access to additional liquidity providers and increased funding availability both in terms of asset classes being financed and the term of the financing being offered. Near the end of the third quarter, given the instability and possible credit tightening of European banks, we began to execute more of our financing of European Sovereign inventory using central clearinghouse financing arrangements rather than via bi-lateral arrangements repo agreements. For those asset classes not eligible for central clearinghouse financing, we successfully increased the term of the bi-lateral financings. The remaining 13% of our outstanding repo balances is currently contracted bi-laterally of which a significant portion is on a term basis. The following table provides detail on the composition of our outstanding repurchase agreements at November 30, 2011 (in millions):

Contract Type	Repo Profile by Instrument Type				
	Total Contract Amount	Clearing Organization Eligible	% of Total	Non-Eligible	% of Total
Treasury	\$ 7,462	\$ 7,462	100%	\$	0%
Sovereign	729	729	100%		0%
Agency Debt	3,156	3,156	100%		0%
Agency MBS	5,985	4,756	79%	1,229	21%
Non-Agency MBS/ABS	438		0%	438	100%
Corporate Debt	854	250	29%	604	71%
Municipal	113		0%	113	100%
Other	3		0%	3	100%
	\$ 18,740	\$ 16,354	87%	\$ 2,386	13%

This is also augmented by our \$939.1 million of uncommitted secured and unsecured bank lines, comprised of \$925.0 million of bank lines and \$14.1 million of letters of credit. Secured amounts are collateralized by a combination of customer and firm securities. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities.

**Short-term Borrowings**

Bank loans represent temporary (usually overnight) secured and unsecured short term borrowings, which are generally payable on demand and generally bear interest at a spread over the federal funds rate. Bank loans that are unsecured are typically overnight loans used to finance financial instruments owned or clearing related balances. We had \$52.7 million for debt securities sold as part of our U.S. broker dealer's market making in our long-term debt as of November 30, 2011 and no outstanding secured or unsecured bank loans as of November 30, 2010. Average daily bank loans for the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010 were \$12.0 million and \$23.8 million, respectively.



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

In connection with the acquisition of the Global Commodities Group from Prudential on July 1, 2011, Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited entered into a short-term \$1.0 billion revolving credit facility with Prudential with an expiration date of September 29, 2011. The borrowings under the facility were used to provide working capital for the Global Commodities Group. On September 16, 2011, the credit facility with Prudential was terminated and repaid in full and subsequently replaced with a longer-term committed senior secured revolving credit facility with a group of commercial banks. See Long-term Capital within this Liquidity, Financial Condition and Capital Resources section of Management's Discussion and Analysis for further information regarding the replacement facility. Average borrowings outstanding under the Prudential credit facility were \$195.7 million during the period from July 1, 2011 to September 16, 2011.

Long-term Debt and Long-term Capital

We had total long-term capital of \$8.2 billion and \$7.0 billion resulting in a long-term debt to equity capital ratio of 1.33:1 and 1.50:1, at November 30, 2011 and November 30, 2010, respectively. Our total capital base as of November 30, 2011 and November 30, 2010 was as follows (in thousands):

	November 30, 2011	November 30, 2010
Long-Term Debt(1)	\$ 4,254,000	\$ 3,778,681
Mandatorily Redeemable Convertible Preferred Stock	125,000	125,000
Mandatorily Redeemable Preferred Interest of		
Consolidated Subsidiaries	310,534	315,885
Total Stockholders' Equity	3,536,975	2,810,965
Total Capital	\$ 8,226,509	\$ 7,030,531

(1) Long-term debt for purposes of evaluating long-term capital at November 30 2011 excludes \$254.9 million of our 7.75% Senior Notes as the notes mature in less than one year from the balance sheet date and excludes \$100.0 million outstanding in borrowings under our long-term revolving Credit Facility.

In ensuring a stable and adequate long-term capital base, we raised \$430 million of common equity in April 2008; and in connection with our announcement of the \$422 million acquisition of Prudential Bache's Global Commodities Group, in April 2011, we raised \$500 million of additional common equity and \$800 million in unsecured senior notes with a maturity of 7 years. On August 26, 2011 we entered into a committed senior secured revolving credit facility (Credit Facility) with a group of commercial banks in Dollars, Euros and Sterling, in aggregate totaling \$950.0 million, of which \$250.0 million can be borrowed unsecured. At November 30, 2011, we had borrowings outstanding under the Credit Facility amounting to \$100.0 million. These long-term capital raises and the funding facility exceeds the needs of Jefferies Bache and provides us with additional liquidity.

Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility terminates on August 26, 2014. Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. Borrowings outstanding under the Credit Facility at November 30, 2011 were \$100.0 million. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group, Inc. to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis, a financial officer of Jefferies Group, Inc. provides a certificate to the Administrative Agent of the Credit Facility as to the maintenance of

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

various financial covenant ratios at all times during the preceding month. At November 30, 2011, the minimum tangible net worth requirement was \$2,015.1 million and the minimum liquidity requirement was \$411.0 million for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred. We expect to remain in compliance both in the near term and long term given our current liquidity, anticipated additional funding requirements given our business plan and profitability expectations. While our subsidiaries are restricted under the Credit Facility from incurring additional indebtedness beyond trade payable and derivative liabilities in the normal course of business, we do not believe that these restrictions will have a negative impact on our liquidity.

We issued \$400 million and \$150 million in unsecured senior notes in June and July 2010 with maturities of approximately 11 years and \$500.0 million in unsecured senior notes in November 2010 with a maturity of 5 years. During the fourth quarter of 2011, we repurchased approximately \$50.0 million of our outstanding long-term debt, resulting in a gain on debt extinguishment of \$0.9 million, which was recognized in Other income. Additionally, our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases of our debt have been treated as debt extinguishments and sales have been treated as reissuances of debt. As a result, we recognized a gain of \$20.2 million as a gain on debt extinguishment reported in Other income for the twelve months ended November 30, 2011. Additionally, the balance of Long-term debt was reduced by \$23.8 million as a result of the repurchase activity. At November 30, 2011, an obligation to deliver long-term debt securities of \$52.7 million is outstanding for debt securities sold and accordingly treated as reissuances of debt securities, which are reported as Short-term borrowings on the Consolidated Statement of Financial Condition.

As of November 30, 2011, our long-term debt has an average maturity exceeding 9 years, excluding the 7.775% Senior Notes, due in 2012, payable in March 2012. As of November 30, 2011, including our 7.75% Senior Notes, due in 2012, our long-term debt has a weighted average maturity rating of 8.7 years. We have no scheduled debt maturities until 2014 apart from the \$254.9 million Senior Notes due in March 2012.

Our long-term debt ratings are as follows:

	<b>Rating</b>	<b>Outlook</b>
Moody's Investors Service	Baa2	Stable
Standard and Poor's	BBB	Stable
Fitch Ratings	BBB	Stable

There were no changes to our long-term debt ratings from the previous quarter. Subsequent to November 30, 2011, Fitch Ratings and Moody's Investors Service have reaffirmed our credit ratings taking into account recent events, including the bankruptcy of MF Global Holdings, Ltd., investors' heightened focus on balance sheet liquidity, the composition of our balance sheet and recent actions we have taken with regard to our balance sheet composition.

We rely upon our cash holdings and external sources to finance a significant portion of our day to day operations. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including our debt ratings. Our current debt ratings are dependent upon many factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trend and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings thereby increasing the cost of obtaining funding and impacting certain trading revenues, particularly where collateral agreements are referenced.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

to our external credit ratings. In connection with certain OTC derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties in the event of a credit rating downgrade. At November 30, 2011, the amount of additional collateral that could be called by counterparties under the terms of such agreements in the event of a one-notch downgrade of our long-term credit rating was \$20.2 million and \$77.5 million could be called in the event of a two-notch downgrade.

**Contractual Obligations and Commitments**

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of November 30, 2011. The table presents principal cash flows with expected maturity dates (in millions):

	Expected Maturity Date					Total
	2012	2013	2014 and 2015	2016 and 2017	2018 and Later	
<b>Debt obligations:</b>						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	\$ 254.9	\$	\$ 748.5	\$ 349.0	\$ 3,156.5	\$ 4,508.9
Interest payment obligations on senior notes	265.6	258.8	494.8	415.6	1,020.8	2,455.6
Mandatorily redeemable convertible preferred stock					125.0	125.0
Interest payment obligations on Mandatorily redeemable convertible preferred stock	4.1	4.1	8.1	8.1	73.6	98.0
	524.6	262.9	1,251.4	772.7	4,375.9	7,187.5
<b>Commitments and guarantees:</b>						
Equity commitments	0.7	1.3	8.4		585.1	595.5
Loan commitments	44.7	76.7	418.3	19.9	42.8	602.4
Mortgage-related commitments	437.6		990.2			1,427.8
Forward starting repos	424.3					424.3
Derivative contracts:						
Derivative contracts non credit related	32,826.7	1,154.7	47,140.2			81,121.6
Derivative contracts credit related			5.0	270.3	40.0	315.3
	33,734.0	1,232.7	48,562.1	290.2	667.9	84,486.9
	\$ 34,258.6	\$ 1,495.6	\$ 49,813.5	\$ 1,062.9	\$ 5,043.8	\$ 91,674.4

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

As lessee, we lease certain premises and equipment under noncancelable agreements expiring at various dates through 2022 which are operating leases. Future minimum lease payments for all noncancelable operating leases at November 30, 2011 are as follows for the fiscal years through 2022 (in thousands):

	Gross	Subleases	Net
2012	\$ 60,330	\$ 6,118	\$ 54,212
2013	57,009	5,437	51,572
2014	48,849	4,988	43,861
2015	27,887	2,372	25,515
2016	24,413	2,221	22,192
Thereafter	94,459	300	94,159
	\$ 312,947	\$ 21,436	\$ 291,511

Certain of our derivative contracts meet the definition of a guarantee and are therefore included in the above table. For additional information on commitments, see Note 20, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives notional amounts nor underlying instrument values are reflected as assets or liabilities in our consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the consolidated Statements of Financial Condition as Financial instruments owned derivative contracts or Financial instruments sold, not yet purchased derivative contracts as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 5, Financial Instruments, and Note 6, Derivative Financial Instruments, in our consolidated financial statements.

We are routinely involved with variable interest entities ( VIEs ) in connection with our mortgage-backed securities securitization activities. VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. Where we are the primary beneficiary of a VIE, such as is the case with Jefferies High Yield Holdings, LLC, we consolidate the VIE. We do not generally consolidate the various VIEs related to our mortgage-backed securities securitization activities because we are not the primary beneficiary. At November 30, 2011, we did not have any commitments to purchase assets from our securitization vehicles. At November 30, 2011, we held \$567.8 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial instruments owned on our consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 8, Securitization Activities and Note 9, Variable Interest Entities, in our consolidated financial statements.

Due to the uncertainty regarding the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table. See Note 19, Income Taxes, in our consolidated financial statements for further information.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Equity Capital**

Common stockholders' equity increased to \$3,224.3 million at November 30, 2011 from \$2,478.0 million at November 30, 2010. The increase in our common stockholders' equity during the twelve months ended November 30, 2011 is principally attributed to our issuance of 20.6 million shares of treasury stock, net earnings to common shareholders, tax benefits for issuance of share-based awards and share-based compensation. This increase in our common stockholders' equity is partially offset by dividend and dividend equivalents paid during the twelve months ended November 30, 2011 and repurchases of approximately 9.9 million shares of our common stock during the period for \$152.8 million.

The following table sets forth book value, adjusted book value, tangible book value and adjusted tangible book value per share (in thousands, except per share data):

	November 30, 2011	November 30, 2010
Common stockholders' equity	\$ 3,224,312	\$ 2,477,989
Less: Goodwill and intangible assets	(385,589)	(368,078)
<b>Tangible common stockholders' equity</b>	<b>\$ 2,838,723</b>	<b>\$ 2,109,911</b>
Common stockholders' equity	\$ 3,224,312	\$ 2,477,989
Add: Unrecognized compensation(6)	199,309	160,960
Adjusted common stockholders' equity	\$ 3,423,621	\$ 2,638,949
Tangible common stockholders' equity	\$ 2,838,723	\$ 2,109,911
Add: Unrecognized compensation(6)	199,309	160,960
<b>Adjusted tangible common stockholders' equity</b>	<b>\$ 3,038,032</b>	<b>\$ 2,270,871</b>
Shares outstanding	197,160,006	171,694,146
Outstanding restricted stock units(5)	23,962,020	28,734,563
Year-end restricted stock awards(7)	6,339,000	5,062,000
Adjusted shares outstanding	227,461,026	205,490,709
Common book value per share(1)	\$ 16.35	\$ 14.43
<b>Adjusted common book value per share(2)</b>	<b>\$ 15.05</b>	<b>\$ 12.84</b>
Tangible common book value per share(3)	\$ 14.40	\$ 12.29
<b>Adjusted tangible common book value per share(4)</b>	<b>\$ 13.36</b>	<b>\$ 11.05</b>

(1) Common book value per share equals common stockholders' equity divided by common shares outstanding.

(2) Adjusted common book value per share equals adjusted common stockholders' equity divided by adjusted shares outstanding.

(3) Tangible common book value per share equals tangible common stockholders' equity divided by common shares outstanding.

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

- (4) Adjusted tangible common book value per share equals adjusted tangible common stockholders' equity divided by adjusted shares outstanding.
- (5) Outstanding restricted stock units, which give the recipient the right to receive common shares at the end of a specified deferral period, are granted in connection with our share-based employee incentive plans and include both awards that contain future service requirements and awards for which the future service requirements have been met.
- (6) Unrecognized compensation relates to granted restricted stock and restricted stock units which contain future service requirements.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

- (7) On November 29, 2011, we granted 6,339,000 shares of restricted stock as part of year-end compensation. These shares of restricted stock will be issued in the first quarter of 2012 and will increase shares outstanding. On November 29, 2010, we granted 5,062,000 shares of restricted stock as part of year-end compensation. These shares of restricted stock were issued in the first quarter of 2011 and increased shares outstanding.

Tangible common stockholders' equity, adjusted common stockholders' equity, adjusted tangible common stockholders' equity, adjusted common book value per share, tangible common book value per share, and adjusted tangible common book value per share are non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with U.S. GAAP, or for which there is no specific U.S. GAAP guidance. Goodwill and other intangible assets are subtracted from common stockholders' equity in determining tangible common stockholders' equity as we believe that goodwill and other intangible assets do not constitute operating assets, which can be deployed in a liquid manner. The cost of restricted stock and restricted stock units that have been granted but for which the costs will be recognized in the future with the related service requirements is added to common stockholders' equity and tangible common stockholders' equity in determining adjusted common stockholders' equity and adjusted tangible common stockholders' equity, respectively, as we believe that this is reflective of current capital outstanding and of the capital that would be required to be paid out at the balance sheet date. We calculate adjusted common book value per share as adjusted common stockholders' equity divided by adjusted shares outstanding. We believe the adjustment to shares outstanding for outstanding restricted stock units and year-end restricted stock awards reflect potential economic claims on our net assets enabling shareholders to better assess their standing with respect to our financial condition. Valuations of financial companies are often measured as a multiple of tangible common stockholders' equity, inclusive of any dilutive effects, making these ratios, and changes in these ratios, a meaningful measurement for investors. In determining adjusted shares outstanding, adjusted common book value per share and adjusted tangible common book value per share, prior to November 30, 2011, we did not adjust shares outstanding for year-end restricted stock awards. Amount presented for prior periods have been conformed to reflect this calculation adjustment.

In April 2011, we issued 20.6 million shares of our common stock in a public offering priced at \$24.25 per share. The shares offered by us consisted entirely of treasury shares and increased shares outstanding at November 30, 2011. During the twelve months ended November 30, 2011, we repurchased 9.9 million shares at an average price of \$15.41.

At November 30, 2011, we have \$125.0 million of Series A convertible preferred stock outstanding, which is convertible into 4,110,128 shares of our common stock at an effective conversion price of approximately \$30.41 per share and \$345.0 million of convertible senior debentures outstanding, which is convertible into 9,047,660 shares of our common stock at an effective conversion price of approximately \$38.13 per share.

The following table sets for the declaration dates, record dates, payment dates and per common share amounts for the dividends declared during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per common share</b>
<b>Twelve months ended November 30, 2011:</b>			
December 17, 2010	January 27, 2011	February 15, 2011	\$0.075
March 21, 2011	April 15, 2011	May 16, 2011	\$0.075
June 20, 2011	July 15, 2011	August 15, 2011	\$0.075
September 20, 2011	October 17, 2011	November 15, 2011	\$0.075

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per common share</b>
<b>Eleven months ended November 30, 2010:</b>			
January 19, 2010	February 16, 2010	March 15, 2010	\$0.075
April 19, 2010	May 14, 2010	June 15, 2010	\$0.075
June 22, 2010	July 15, 2010	August 16, 2010	\$0.075
September 21, 2010	October 15, 2010	November 15, 2010	\$0.075

Additionally, on December 19, 2011, a quarterly dividend was declared of \$0.075 per share of common stock payable on February 15, 2012 to stockholders of record as of January 17, 2012.

**Net Capital**

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ( FINRA ), Jefferies, Jefferies Execution and Jefferies High Yield Trading are subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. Jefferies, Jefferies Execution and Jefferies High Yield Trading have elected to use the alternative method permitted by Rule 15c3-1. Additionally, Jefferies and Jefferies Bache, LLC are registered as Futures Commission Merchants and subject to Rule 1.17 of the Commodities Futures Trading Commission ( CFTC ). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

As of November 30, 2011, Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache, LLC s net capital, adjusted net capital, and excess net capital were as follows (in thousands):

	<b>Net Capital</b>	<b>Excess Net Capital</b>
Jefferies	\$ 931,336	\$ 883,528
Jefferies Execution	\$ 16,226	\$ 15,976
Jefferies High Yield Trading	\$ 519,967	\$ 519,717
	<b>Adjusted Net Capital</b>	<b>Excess Net Capital</b>
Jefferies Bache, LLC	\$ 264,392	\$ 112,350

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited (formerly Bache Commodities Limited) which are subject to the regulatory supervision and requirements of the Financial Services Authority in the United Kingdom.

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our subsidiaries.

**Risk Management**

Risk is an inherent part of our business and activities. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our activities is critical to our financial soundness, viability and profitability. Accordingly, we have a comprehensive risk management approach, with a formal governance structure and processes to identify, assess, monitor and manage risk. Principal risks involved in our business activities include market, credit, liquidity and capital, operational, legal and compliance, new business, and reputational risk.





---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

Risk management is a multifaceted process that requires communication, judgment and knowledge of financial products and markets. Accordingly, our risk management process encompasses the active involvement of executive and senior management, and also many departments independent of the revenue-producing business units, including the Risk Management, Operations, Compliance, Legal and Finance Departments. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

For discussion of liquidity and capital risk management refer to, Liquidity, Financial Condition and Capital Resources within Item 7. Management's Discussion and Analysis in this Annual Report on Form 10-K.

***Governance and Risk Management Structure***

***Our Board of Directors*** Our Board of Directors plays an important role in reviewing our risk management process and risk tolerance. Our Board of Directors is provided with data relating to risk at each of its regularly scheduled meetings. Our Chief Risk Officer meets with the Board of Directors at each of those meetings to present his views and to respond to questions.

***Risk Committees*** We make extensive use of internal committees to govern risk taking and ensure that business activities are properly identified, assessed, monitored and managed. Our Risk Management Committee meets weekly to discuss our risk, capital, and liquidity profile in detail. In addition, business or market trends and their potential impact on the risk profile are discussed. Membership is comprised of our Chief Executive Officer and Chairman, Chairman of the Executive Committee, Chief Financial Officer, Chief Risk Officer and Treasurer. The Committee approves limits for us as a whole, and across risk categories and business lines. It also reviews all limit breaches. Limits are reviewed on at least an annual basis. Other risk related committees include Market Risk Management, Credit Risk Management, New Business, Underwriting Acceptance, Margin Oversight, Executive Management and Operating Committees. These Committees govern risk taking and ensure that business activities are properly managed for their area of oversight.

***Risk Related Policies*** We make use of various policies in the risk management process:

***Market Risk Policy*** This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.

***Independent Price Verification Policy*** This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.

***Operational Risk Policy*** This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.

***Credit Risk Policy*** This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

***Risk Management Key Metrics***

We apply a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of our business activities. The size of the limit reflects our risk tolerance for a certain activity under normal business conditions. Key metrics included in our framework include inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value at Risk, sensitivities (greeks), exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis metrics.



---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**Market Risk**

The potential for changes in the value of financial instruments is referred to as market risk. Our market risk generally represents the risk of loss that may result from a change in the value of a financial instrument as a result of fluctuations in interest rates, credit spreads, equity prices, commodity prices and foreign exchange rates, along with the level of volatility. Interest rate risks result primarily from exposure to changes in the yield curve, the volatility of interest rates, and credit spreads. Equity price risks result from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices. Commodity price risks result from exposure to the changes in prices and volatilities of individual commodities, commodity baskets and commodity indices. Market risk arises from market-making, proprietary trading, underwriting, specialist and investing activities. We seek to manage our exposure to market risk by diversifying exposures, controlling position sizes, and establishing economic hedges in related securities or derivatives. Due to imperfections in correlations, gains and losses can occur even for positions that are hedged. Position limits in trading and inventory accounts are established and monitored on an ongoing basis. Each day, consolidated position and exposure reports are prepared and distributed to various levels of management, which enable management to monitor inventory levels and results of the trading groups.

**Value at Risk**

We estimate Value at Risk (VaR) using a model that simulates revenue and loss distributions on substantially all financial instruments by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss in value of our financial instruments over a specified time horizon at a given confidence level. We calculate a one-day VaR using a one year look-back period measured at a 95% confidence level. This implies that, on average, we expect to realize a loss of daily trading net revenue at least as large as the VaR amount on one out of every twenty trading days.

As with all measures of VaR, our estimate has inherent limitations due to the assumption that historical changes in market conditions are representative of the future. Furthermore, the VaR model measures the risk of a current static position over a one-day horizon and might not capture the market risk of positions that cannot be liquidated or offset with hedges in a one-day period. Published VaR results reflect past trading positions while future risk depends on future positions.

While we believe the assumptions and inputs in our risk model are reasonable, we could incur losses greater than the reported VaR because the historical market prices and rates changes may not be an accurate measure of future market events and conditions. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities. When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies and assumptions could produce significantly different results.

The VaR numbers below are shown separately for interest rate, equity, currency and commodity products, as well as for our overall trading positions, excluding corporate investments in asset management positions, using the past 365 days of historical date. The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the risk categories. Diversification benefit equals the difference between

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated. The following table illustrates the VaR for each component of market risk.

Risk Categories	Daily VaR(1) Value at Risk in trading portfolios							
	November 30,		Twelve Months			Eleven Months		
	2011	2010	Average	High	Low	Average	High	Low
	(In Millions)							
Interest Rates	\$ 6.17	\$ 4.24	\$ 8.41	\$ 13.98	\$ 3.26	\$ 6.35	\$ 11.75	\$ 2.88
Equity Prices	\$ 2.06	\$ 3.38	\$ 5.33	\$ 12.70	\$ 1.25	\$ 4.87	\$ 13.40	\$ 2.38
Currency Rates	\$ 0.32	\$ 0.39	\$ 0.77	\$ 2.07	\$ 0.04	\$ 0.50	\$ 1.52	\$ 0.09
Commodity Prices	\$ 1.25	\$ 2.20	\$ 1.36	\$ 2.90	\$ 0.53	\$ 1.46	\$ 3.27	\$ 0.60
Diversification Effect	-\$ 3.29	-\$ 2.94	-\$ 4.96			-\$ 4.56		
Firmwide	\$ 6.51	\$ 7.27	\$ 10.91	\$ 19.17	\$ 6.51	\$ 8.62	\$ 17.41	\$ 4.05

(1) VaR is the potential loss in value of our trading positions due to adverse market movements over a defined time horizon with a specific confidence level. For the VaR numbers reported above, a one-day time horizon, with a one year look-back period, and a 95% confidence level were used.

Average VaR of \$10.91 million during the twelve months ended November 30, 2011 increased from the \$8.62 million average during the eleven months ended November 30, 2010 due mainly to higher fixed income exposure. VaR of \$6.51 at November 30, 2011 reflects a decrease as we significantly reduced our balance sheet and risk at year end.

The chart below reflects our daily VaR over the last four quarters:

The comparison of actual daily net revenue fluctuations with the daily VaR estimate is the primary method used to test the efficacy of the VaR model. This is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. At a 95% confidence one day VaR model, net trading losses would not be expected to exceed VaR estimates more than twelve times (1 out of 20 days) on an annual basis. Trading related revenue is defined as principal transaction revenue, trading related commissions and net interest income. Results of the process at the aggregate level demonstrated two days when the net trading loss exceeded the 95% one day VaR in the twelve months ended November 30, 2011. The VaR excesses were realized on August 4, 2011 and August 8, 2011, as previously disclosed in our Quarterly Report on Form 10-Q for the three months ended August 31, 2011.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**Daily Net Trading Revenue**

(\$ in millions)

The chart below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the twelve months ended November 30, 2011.

There were 44 days with trading losses out of a total of 253 trading days in the twelve months ended November 30, 2011, of which 26 days with trading losses occurred in the third quarter of fiscal 2011 as a result of the exceptionally difficult trading conditions in the major markets during that period.

**Scenario Analysis and Stress Tests**

We use stress testing to analyze the impact of specific market moves on our current portfolio both firmwide and within business segments. We employ a range of scenarios to estimate the potential loss from extreme market moves or stressful market environments. The scenarios comprise both historical market moves and hypothetical market environments, and they generally involve simultaneous moves of many risk factors. Indicative market moves in our scenarios include, but are not limited to, a large widening of credit spreads, a substantial decline in equities markets, significant moves in selected emerging markets, large moves in interest rates, changes in the shape of the yield curve and large moves in European markets. Because our stress scenarios are meant to reflect market moves that occur over a period of time, our estimates of potential loss assume some level of position reduction for liquid positions. Unlike our VaR, which measures potential losses within a given confidence interval, stress scenarios do not have an associated implied probability; rather, stress testing is used to estimate the potential loss from market moves that tend to be larger than those embedded in the VaR calculation.

Stress testing is performed and reported regularly as part of the risk management process. In addition, we also perform ad hoc stress tests and add new scenarios as market conditions dictate. Stress testing is used to assess our aggregate risk position as well as for limit setting and risk/reward analysis.

***Counterparty Credit Risk and Issuer Country Exposure***

***Counterparty Credit Risk***

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

We are exposed to credit risk as trading counterparty to other broker-dealers and customers, as a direct lender and through extending loan commitments, as a holder of securities and as a member of exchanges and clearing organizations.

It is critical to our financial soundness and profitability that we properly and effectively identify, assess, monitor, and manage the various credit and counterparty risks inherent in our businesses. Credit is extended to counterparties in a controlled manner in order to generate acceptable returns, whether such credit is granted directly or is incidental to a transaction. All extensions of credit are monitored and managed on an enterprise level in order to limit exposure to loss related to credit risk.

Our Credit Risk Framework is responsible for identifying credit risks throughout the operating businesses, establishing counterparty limits and managing and monitoring those credit limits. Our framework includes:

defining credit limit guidelines and credit limit approval processes;

providing a consistent and integrated credit risk framework across the enterprise;

approving counterparties and counterparty limits with parameters set by the Risk Management Committee;

negotiating, approving and monitoring credit terms in legal and master documentation;

delivering credit limits to all relevant sales and trading desks;

maintaining credit reviews for all active and new counterparties;

operating a control function for exposure analytics and exception management and reporting;

determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;

actively managing daily exposure, exceptions, and breaches;

monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and

setting the minimum global requirements for systems, reports, and technology.

*Credit Exposures*

Credit exposure exists across a wide-range of products including cash and cash equivalents, loans, securities finance transactions and over-the-counter derivative contracts.

Loans and lending arise in connection with our capital markets activities and represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding at November 30, 2011.

Securities and margin finance includes credit exposure arising on securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements) to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

Derivatives represent over-the-counter ( OTC ) derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement. Derivatives are accounted for at fair value net of cash collateral received or posted under credit support agreements. In addition, credit exposures on forward settling trades are included within our derivative credit exposures.

Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks.

Current counterparty credit exposures at November 30, 2011 and November 30, 2010 are summarized in the table below and provided by industry, credit quality and region. Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposures at November 30, 2011, 82% are investment grade counterparties, compared to 88% at November 30, 2010, and is mainly concentrated in North America. Of the credit exposure in Europe, approximately 86% are investment grade counterparties, with the largest exposures arising from securities and margin financing products. The increase in credit exposure from November 30, 2010 to November 30, 2011 and the reduction in the proportion of investment grade counterparties are primarily due to the additional exposures related to Jefferies Bache since its acquisition by us in July 2011. When comparing our credit exposure at November 30, 2011 with credit exposure at November 30, 2010, excluding Jefferies Bache, current credit exposure has declined 11% to approximately \$385 million of which 87% is related to investment grade counterparties. The increase in OTC derivatives net fair values from 2010 to 2011 is primarily driven by the addition of Jefferies Bache, which executes foreign currency and metals derivative contracts.

**Counterparty Credit Exposure by Credit Rating**

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total		Cash and Cash Equivalents		Total with Cash and Cash Equivalents	
	As of November 30, 2011	As of November 30, 2010	As of November 30, 2011	As of November 30, 2010	As of November 30, 2011	As of November 30, 2010	As of November 30, 2011	As of November 30, 2010	As of November 30, 2011	As of November 30, 2010	As of November 30, 2011	As of November 30, 2010
	(in millions)											
AAA Range			0.4	41.9	3.6	0.4	45.5	1,546.3	1,863.8	1,546.6	1,909.2	
AA Range			80.9	57.5	116.7	3.4	197.6	60.9	211.8	82.4	409.4	143.3
A Range			227.6	219.9	149.5	44.8	377.1	264.7	634.6	241.9	1,011.7	506.6
BBB Range			41.5	9.4	20.3	1.0	61.8	10.4	1.7	0.9	63.5	11.3
BB or Lower	7.7		81.4	5.4	19.6	3.8	108.7	9.2			108.7	9.2
Unrated	21.8	21.4		1.0	6.0	21.1	27.7	43.5			27.7	43.5
<b>Total</b>	<b>29.4</b>	<b>21.4</b>	<b>431.8</b>	<b>335.0</b>	<b>312.1</b>	<b>77.7</b>	<b>773.3</b>	<b>434.1</b>	<b>2,394.3</b>	<b>2,189.0</b>	<b>3,167.6</b>	<b>2,623.1</b>

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Counterparty Credit Exposure by Region**

	Loans and Lending As of		Securities and Margin Finance As of		OTC Derivatives As of		Total As of		Cash and Cash Equivalents As of		Total with Cash and Cash Equivalents As of	
	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010
	(in millions)											
Asia/Latin America/Other			75.7	11.4	30.2	0.3	105.9	11.7	14.1	6.3	120.0	18.0
Europe			194.3	115.2	117.2	11.5	311.5	126.8	509.2	222.1	820.7	348.8
North America	29.4	21.4	161.9	208.4	164.6	65.9	355.9	295.7	1,871.0	1,960.6	2,226.9	2,256.3
Total	29.4	21.4	431.8	335.0	312.1	77.7	773.3	434.1	2,394.3	2,189.0	3,167.6	2,623.1

**Counterparty Credit Exposure by Industry**

	Loans and Lending As of		Securities and Margin Finance As of		OTC Derivatives As of		Total As of		Cash and Cash Equivalents As of		Total with Cash and Cash Equivalents As of	
	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010	November 30, 2011	2010
	(in millions)											
Asset Managers			64.2	123.3	3.3	0.9	67.5	124.2	1,546.3	1,863.8	1,613.8	1,988.0
Banks,												
Broker-dealers			255.7	208.5	214.1	49.9	469.7	258.4	848.0	325.2	1,317.8	583.6
Commodities			41.5		34.2		75.8				75.8	
Other	29.4	21.4	70.4	3.2	60.4	27.0	160.3	51.6			160.3	51.6
Total	29.4	21.4	431.8	335.0	312.1	77.7	773.3	434.1	2,394.3	2,189.0	3,167.6	2,623.1

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 6, Derivative Financial Instruments, in our consolidated financial statements included within this Annual Report on Form 10-K.

**Country Risk Exposure**

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk at the country of legal jurisdiction or domicile of the obligor's ultimate group parent. The following table reflects our top exposure at November 30, 2011 to the

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

sovereign governments, corporations, and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (the second table reflects our exposure to those same countries at November 30, 2010 year end):

	As of November 30, 2011							
	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
	(in millions)							
Great Britain	\$ 475.8	\$ (306.2)	\$ (36.7)	\$ 32.7	\$ 40.3	\$ 232.2	\$ 205.9	\$ 438.1
Netherlands	294.5	(119.5)	(34.3)	52.9	4.9	0.1	198.5	198.6
Germany	288.9	(160.9)	(27.6)	48.1	9.1	57.9	157.6	215.5
France	154.5	(109.0)	13.9	31.6	23.7	46.5	114.7	161.2
Spain	240.2	(137.0)	(18.7)	2.9		33.6	87.4	121.0
Canada	66.5	(40.6)	10.0	30.6	1.4	50.0	67.9	117.9
Japan	16.0	(7.0)	0.2	16.0	7.4	8.7	32.6	41.3
Ireland	127.4	(80.9)	(14.2)				32.3	32.3
Switzerland	52.4	(62.4)	(7.7)	17.7	31.0	33.4	31.0	64.4
Brazil	116.2	(89.5)	0.7				27.4	27.4
<b>Total</b>	<b>\$ 1,832.4</b>	<b>\$ (1,113.0)</b>	<b>\$ (114.4)</b>	<b>\$ 232.5</b>	<b>\$ 117.8</b>	<b>\$ 462.4</b>	<b>\$ 955.3</b>	<b>\$ 1,417.7</b>

	As of November 30, 2010							
	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
	(in millions)							
Great Britain	\$ 751.9	\$ (916.7)	\$ 233.7	\$ 12.8	\$ 3.1	\$ 69.4	\$ 84.9	\$ 154.3
Netherlands	141.9	(285.4)	(3.8)	38.3		0.1	(109.1)	(109.0)
Germany	432.3	(453.9)	(7.9)	6.8		8.8	(22.7)	(13.9)
France	302.1	(411.9)	8.1	50.5	5.1	100.1	(46.1)	54.0
Spain	202.9	(219.9)	3.3			10.8	(13.7)	(3.0)
Canada	73.7	(90.9)	15.4	41.3	1.3		40.8	40.8
Japan	92.2	(76.1)		11.4	0.3	4.4	27.7	32.2
Ireland	123.9	(90.7)	(10.5)				22.7	22.7
Switzerland	59.3	(44.5)	(1.4)	4.2	3.2	10.0	20.9	30.9
Brazil	77.7	(77.6)	0.6				0.7	0.7
<b>Total</b>	<b>\$ 2,257.9</b>	<b>\$ (2,667.6)</b>	<b>\$ 237.5</b>	<b>\$ 165.3</b>	<b>\$ 13.0</b>	<b>\$ 203.6</b>	<b>\$ 6.1</b>	<b>\$ 209.7</b>

**Exposure to the Sovereign Debt, Corporate, and Financial Securities of Portugal, Ireland, Italy, Greece and Spain**

At November 30, 2011 we had no meaningful exposure to the sovereign debt of Portugal, Ireland, Italy, Greece and Spain. As detailed below, our net exposure to that sovereign debt was short \$122.9 million, which is approximately 3.5% of stockholders' equity. Moreover, our sovereign debt positions in the countries of Portugal, Ireland, Italy, Greece and Spain continue to be generally offset by country and maturity.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

The table below reflects not only our exposure to the sovereign debt of Portugal, Ireland, Italy, Greece and Spain at November 30, 2011 but also includes our exposure to the securities of corporations and financial institutions domiciled in these countries. This table is presented in a manner consistent with how management views and monitors these exposures as part of our risk management framework. Our issuer exposure to these European countries arises primarily in the context of our market making activities and our role as a major dealer in the debt securities of these countries. Accordingly, our issuer risk arises due to holding securities as long and short inventory, which does not carry counterparty credit exposure. While the economic derivative hedges are presented on a notional basis, we believe this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of the hedges. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities. Additional information relating to the derivative contracts, including the fair value of the derivative positions, is included in the following pages.

	Sovereigns	Corporations	Financial Institutions	Total
	(in millions)			
<b>Financial instruments owned Debt securities</b>				
Portugal	\$ 7.7(5)	\$	\$ 4.8(5)	\$ 12.5
Ireland	103.0(5)	11.4(1)	13.0(5)	127.4
Italy	358.6(5)	15.0(1)	8.7(5)	382.3
Greece	(5)	0.5	0.4(5)	0.9
Spain	23.0(5)	21.7	195.5(5)	240.2
Total fair value of long debt securities(2)	492.3(5)	48.6	222.4(5)	763.3
<b>Financial instruments sold Debt securities</b>				
Portugal	4.7		5.2	9.9
Ireland	74.8	5.7	0.4	80.9
Italy	424.9	10.3	23.8	459.0
Greece		0.6	0.3	0.9
Spain	39.7	18.4	78.9	137.0
Total fair value of short debt securities(3)	544.1	35.0	108.6	687.7
Total net fair value of debt securities	(51.8)	13.6	113.8	75.6
<b>Derivative contracts long notional exposure</b>				
Portugal				
Ireland		1.8		1.8
Italy	16.5(7)	8.8	7.7	33.0
Greece	5.0(6)			5.0
Spain		13.5		13.5
Total notional amount long	21.5	24.1	7.7	53.3
<b>Derivative contracts short notional exposure</b>				
Portugal				
Ireland	10.0(8)	6.0		16.0
Italy	77.6(7)	20.2	74.0	171.8
Greece	5.0(6)			5.0

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Spain		5.3	26.9	32.2
Total notional amount short	92.6	31.5	100.9	225.0
Total net derivative notional exposure(4)	(71.1)	(7.4)	(93.2)	(171.7)
Total net exposure to select European countries	\$ (122.9)	\$ 6.2	\$ 20.6	\$ (96.1)

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

- (1) Includes long mortgage backed security exposure of \$0.1 million and \$2.6 million to Ireland and Italy, respectively.
- (2) Long securities represent the fair value of debt securities and are presented within Financial instruments owned corporate debt securities and government, federal agency and other sovereign obligations on the face of the balance sheet and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (3) Short securities represent the fair value of debt securities sold short and are presented within Financial instruments sold, not yet purchased corporate debt securities and government, federal agency and other sovereign obligations on the face of the balance sheet and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (4) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.
- (5) Classification of securities by country and by issuer type are presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.
- (6) These offsetting positions contain no material net market risk.
- (7) These positions are comprised of bond futures executed on exchanges outside Italy.
- (8) This position represents purchased protection executed with an investment grade multi-national bank.

	Portugal	Ireland(1)	Italy(2)	Greece	Spain	Total
	(in millions)					
<b>Financial instruments owned:</b>						
Long sovereign debt securities(3)	\$ 7.7	\$ 103.0	\$ 358.6	\$	\$ 23.0	\$ 492.3
Long non-sovereign debt securities(3)	4.8	24.4	23.7	0.9	217.2	271.0
Total long debt securities	12.5	127.4	382.3	0.9	240.2	763.3
<b>Financial instruments sold, not yet purchased:</b>						
Short sovereign debt securities	4.7	74.8	424.9		39.7	544.1
Short non-sovereign debt securities	5.2	6.1	34.1	0.9	97.3	143.6

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Total short debt securities	9.9	80.9	459.0	0.9	137.0	687.7
Net fair value debt securities	2.6	46.5	(76.7)		103.2	75.6
Net derivatives (notional amount)		(14.2)	(138.8)		(18.7)	(171.7)
Total net exposure to select European countries	\$ 2.6	\$ 32.3	\$ (215.5)	\$	\$ 84.5	\$ (96.1)

(1) Includes long mortgage backed security exposure of \$0.1 million.

(2) Includes long mortgage backed security exposure of \$2.6 million.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

- (3) Classification of securities by country and by issuer type are presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.

The table below provides further information regarding the type of derivative contracts executed as economic hedges of issuer exposure to the countries of Portugal, Ireland, Italy, Greece and Spain as of November 30, 2011. The information is presented based on the notional amount of the contracts and the credit to either the sovereign or non-sovereign domiciled in the respective European counterparty rather than by the domicile of the derivative counterparty. For credit default swaps, we have immaterial issuer risk to counterparties domiciled in Portugal, Ireland, Italy, Greece and Spain.

	Portugal	Ireland	Italy	Greece	Spain	Total
	(in millions)					
Derivative contracts long notional exposure						
Credit default swaps	\$	\$	\$	\$ 5.0	\$	\$ 5.0
Bond future contracts			16.5			16.5
Listed equity options		1.8	16.5		13.5	31.8
Total notional amount long		1.8	33.0	5.0	13.5	53.3
Derivative contracts short notional exposure						
Credit default swaps		10.0	74.0	5.0	26.9	115.9
Bond future contracts			77.6			77.6
Listed equity options		6.0	20.2		5.3	31.5
Total notional amount short		16.0	171.8	5.0	32.2	225.0
Net derivatives (notional amount)	\$	\$ (14.2)	\$ (138.8)	\$	\$ (18.7)	\$ (171.7)

The following table provides the fair value of the above derivative contracts at November 30, 2011 (in millions):

	Portugal	Ireland	Italy	Greece	Spain	Total
Derivative contracts long assets						
Credit default swaps	\$	\$	\$	\$ 2.7	\$	\$ 2.7
Futures						
Equity		0.4	5.3		0.9	6.6
Total long		0.4	5.3	2.7	0.9	9.3
Derivatives contracts short liabilities						
Credit default swaps		1.2	6.9	2.5	0.6	11.2
Futures						
Equity		0.5	2.6		3.0	6.1
Total short		1.7	9.4	2.5	3.6	17.3



Net derivative asset (liability)	\$	\$ (1.3)	\$ (4.1)	\$ 0.2	\$ (2.7)	\$ (8.0)
----------------------------------	----	----------	----------	--------	----------	----------

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

In addition, our non-U.S. sovereign obligations recorded in financial instruments owned and financial instruments sold, not yet purchased are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion are executed with central clearing organizations. Accordingly, we utilize foreign sovereign obligations as underlying collateral for our repurchase financing arrangements. At November 30, 2011, repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of foreign sovereign obligations from Portugal, Ireland, Italy, Greece and Spain as follows (in millions):

	<b>Reverse Repurchase Agreements(1)</b>	<b>Repurchase Agreements(1)</b>	<b>Net</b>
Portugal	\$ 12.6	\$ 5.1	\$ 7.5
Ireland	18.5	92.6	(74.1)
Italy	419.1	377.1	42.0
Greece			
Spain	110.4	99.7	10.7
Total	\$ 560.6	\$ 574.5	\$ (13.9)

(1) Amounts represent the contract amount of the repurchase financing arrangements.

Our collateral management of the risk due to exposure from these sovereign obligations is subject to our overall collateral and cash management risk framework. For further discussion regarding our cash and liquidity management framework and processes, see *Liquidity, Financial Condition and Capital Resources* within Item 7. Management's Discussion and Analysis in this Annual Report on Form 10-K.

**Operational Risk**

Operational risk refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, the transactions we process have become increasingly complex. If our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access,



**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Our Operational Risk framework includes governance, collection of operational risk incidents, proactive operational risk management, and periodic review and analysis of business metrics to identify and recommend controls and process-related enhancements.

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the Operational Risk policy and processes within the department. Operational Risk policy, framework, infrastructure, methodology, processes, guidance and oversight of the implementation of operational risk processes are centralized and consistent firmwide.

***Legal and Compliance Risk***

Legal and compliance risk includes the risk of noncompliance with applicable legal and regulatory requirements. We are subject to extensive regulation in the different jurisdictions in which we conduct our business. We have various procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, credit granting, collection activities, anti-money laundering and record keeping. These risks also reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we continuously review new and pending regulations and legislation and participate in various industry interest groups. We also maintain an anonymous hotline for employees or others to report suspected inappropriate actions by us or by our employees or agents.

***New Business Risk***

New business risk refers to the risks of entering into a new line of business or offering a new product. By entering a new line of business or offering a new product, we may face risks that we are unaccustomed to dealing with and may increase the magnitude of the risks we currently face. The New Business Committee reviews proposals for new businesses and new products to determine if we are prepared to handle the additional or increased risks associated with entering into such activities.

***Reputational Risk***

We recognize that maintaining our reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risks. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards. Our reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. We actively monitor public comment concerning us and are vigilant in seeking to assure accurate information and perception prevails.

**Table of Contents**

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

Quantitative and qualitative disclosures about market risk are set forth under Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management in Part II, Item 7 of this Form 10-K.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)**

**Item 8. *Financial Statements and Supplementary Data.***

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>Management's Report on Internal Control over Financial Reporting</u>	70
<u>Report of Independent Registered Public Accounting Firm</u>	71
<u>Report of Independent Registered Public Accounting Firm</u>	72
<u>Report of Independent Registered Public Accounting Firm</u>	73
<u>Consolidated Statements of Financial Condition as of November 30, 2011 and 2010</u>	74
<u>Consolidated Statements of Earnings for the Twelve Months Ended November 30, 2011, Eleven Months Ended November 30, 2010 and for the Twelve Months Ended December 31, 2009</u>	77
<u>Consolidated Statements of Changes in Stockholders' Equity for the Twelve Months Ended November 30, 2011, Eleven Months Ended November 30, 2010 and for the Twelve Months Ended December 31, 2009</u>	78
<u>Consolidated Statements of Comprehensive Income for the Twelve Months Ended November 30, 2011, Eleven Months Ended November 30, 2010 and for the Twelve Months Ended December 31, 2009</u>	79
<u>Consolidated Statements of Cash Flows for the Twelve Months Ended November 30, 2011, Eleven Months Ended November 30, 2010 and for the Twelve Months Ended December 31, 2009</u>	80
<u>Notes to Consolidated Financial Statements</u>	82

**Table of Contents**

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated our internal control over financial reporting as of November 30, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. As a result of this assessment and based on the criteria in this framework, management has concluded that, as of November 30, 2011, our internal control over financial reporting was effective.

Management's assessment of our internal control over financial reporting did not include the internal controls of the Global Commodities Group acquired from Prudential Financial, Inc. on July 1, 2011. In accordance with SEC guidance regarding the reporting of internal control over financial reporting in connection with an acquisition, management may omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year from the date of acquisition. Management's assessment of our internal control over financial reporting as of November 30, 2012 will include the internal controls of the Global Commodities Group. The Global Commodities Group is included in our consolidated financial statements and represented approximately 12.9% of our total assets, 4.5% of our total revenues and 6.3% of our net revenues as of and for the year ended November 30, 2011.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited the financial statements included in this annual report on Form 10-K and has issued a report on our internal control over financial reporting, which appears on page 71.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Jefferies Group, Inc.:

New York, NY

We have audited the internal control over financial reporting of Jefferies Group, Inc., and subsidiaries (the Company) as of November 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting of the Global Commodities Group, which was acquired on July 1, 2011 from Prudential Financial, Inc. and whose financial statements constitute 12.9% of total assets, 4.5% of revenues, and 6.3% of net revenue of the consolidated financial statement amounts as of and for the year ended November 30, 2011. Accordingly, our audit did not include the internal control over financial reporting of the Global Commodities Group. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended November 30, 2011 of the Company and our report dated January 27, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

New York, New York

January 27, 2012





**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Jefferies Group, Inc.:

We have audited the accompanying consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended December 31, 2009 of Jefferies Group, Inc. and subsidiaries (the Company). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Jefferies Group, Inc. and subsidiaries for the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York

February 26, 2010

(February 2, 2011 as to Note 1 of the consolidated financial statements included in the Company's 2010 Transition Report on Form 10-K which describes the effects of correcting the 2009 consolidated financial statements)

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Jefferies Group, Inc.:

We have audited the accompanying consolidated statement of financial condition of Jefferies Group, Inc. and subsidiaries (the Company) as of November 30, 2011 and 2010, and the related consolidated statement of earnings, stockholders' equity, comprehensive income, and cash flows for the year ended November 30, 2011 and for the eleven month period ended November 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Jefferies Group, Inc. and subsidiaries at November 30, 2011 and 2010, and the results of their operations and their cash flows for the year ended November 30, 2011 and the eleven month period ended November 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its fiscal year end from December 31 to November 30.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2010, the Company adopted Financial Accounting Standards Board accounting guidance that addresses the consolidation of variable interest entities.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 27, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

January 27, 2012

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

(Dollars in thousands, except per share amounts)

	November 30,	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,393,797	\$ 2,188,998
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,344,960	1,636,755
Financial instruments owned, at fair value, including securities pledged of \$12,452,970 and \$12,338,728 in 2011 and 2010, respectively:		
Corporate equity securities	1,235,079	1,565,793
Corporate debt securities	2,868,304	3,630,616
Government, federal agency and other sovereign obligations	7,471,563	5,191,973
Mortgage- and asset-backed securities	3,923,303	4,921,565
Loans and other receivables	376,146	434,573
Derivatives	525,893	119,268
Investments, at fair value	105,585	77,784
Physical commodities	172,668	
Total financial instruments owned, at fair value	16,678,541	15,941,572
Investments in managed funds	70,740	131,585
Loans to and investments in related parties	594,538	220,323
Securities borrowed	5,169,689	8,152,678
Securities purchased under agreements to resell	2,893,043	3,252,322
Securities received as collateral	21,862	48,616
Receivables:		
Brokers, dealers and clearing organizations	1,235,393	2,550,234
Customers	1,116,982	1,328,365
Fees, interest and other	163,092	165,603
Premises and equipment	175,139	142,729
Goodwill	365,574	364,964
Other assets	748,072	601,799
Total assets	\$ 34,971,422	\$ 36,726,543

Continued on next page.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL CONDITION CONTINUED**

(Dollars in thousands, except per share amounts)

	November 30,	
	2011	2010
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Short-term borrowing	\$ 52,721	\$
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	1,330,096	1,638,372
Corporate debt securities	1,614,493	2,375,925
Government, federal agency and other sovereign obligations	3,209,713	4,735,288
Mortgage- and asset-backed securities	50,517	129,384
Loans	151,117	171,278
Derivatives	249,037	59,552
Total financial instruments sold, not yet purchased, at fair value	6,604,973	9,109,799
Securities loaned	1,706,308	3,108,977
Securities sold under agreements to repurchase	9,620,663	10,684,056
Obligation to return securities received as collateral	21,862	48,616
Payables:		
Brokers, dealers and clearing organizations	2,816,877	1,885,357
Customers	4,763,364	3,716,357
Accrued expenses and other liabilities	803,219	1,142,850
Long-term debt	4,608,926	3,778,681
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries	310,534	315,885
Total liabilities	31,434,447	33,915,578
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.0001 par value. Authorized 500,000,000 shares; issued 197,197,848 shares in 2011 and 200,301,656 shares in 2010	20	20
Additional paid-in capital	2,207,410	2,218,123
Retained earnings	1,067,858	850,654
Less:		
Treasury stock, at cost, 37,842 shares in 2011 and 28,607,510 shares in 2010	(486)	(539,530)
Accumulated other comprehensive loss:		
Currency translation adjustments	(39,520)	(42,859)
Additional minimum pension liability	(10,970)	(8,419)
Total accumulated other comprehensive loss	(50,490)	(51,278)
Total common stockholders equity	3,224,312	2,477,989
Noncontrolling interests	312,663	332,976
Total stockholders equity	3,536,975	2,810,965
Total liabilities and stockholders equity	\$ 34,971,422	\$ 36,726,543

Continued on next page.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF FINANCIAL CONDITION CONTINUED**

(Dollars in thousands)

The table below presents the carrying amount and classification of assets of consolidated variable interest entities ( VIEs ) that can be used only to settle obligations of the consolidated VIEs and the liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to our general credit. The assets and liabilities of these consolidated VIEs are included in the Consolidated Statements of Financial Condition and are presented net of intercompany eliminations.

	November 30,	
	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 345,959	\$ 202,565
Financial instruments owned, at fair value		
Corporate equity securities	61,670	120,606
Corporate debt securities	326,549	462,462
Mortgage- and asset-backed securities	41,004	43,355
Loans and other receivables	281,416	362,465
Derivatives	569	7,579
Investments, at fair value	1,570	15,612
Total financial instruments owned, at fair value	712,778	1,012,079
Receivables:		
Brokers, dealers and clearing organizations	150,592	195,485
Fees, interest and other	7,396	127
Other assets	385	370
Total assets	1,217,110	1,410,626
<b>Liabilities</b>		
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	7,122	2,708
Corporate debt securities	200,223	443,100
Loans	117,958	150,100
Derivatives	935	136
Total financial instruments sold, not yet purchased, at fair value	326,238	596,044
Payables:		
Brokers, dealers and clearing organizations	105,165	157,134
Accrued expenses and other liabilities	9,740	94,402
Mandatorily redeemable preferred interest of consolidated subsidiaries	310,534	315,885
Total liabilities	\$ 751,677	\$ 1,163,465

See accompanying notes to consolidated financial statements.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF EARNINGS**

(In thousands, except per share amounts)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
<b>Revenues:</b>			
Commissions	\$ 534,726	\$ 466,246	\$ 512,293
Principal transactions	428,035	509,070	838,396
Investment banking	1,122,528	890,334	474,315
Asset management fees and investment income from managed funds	44,125	16,785	35,887
Interest	1,248,132	852,494	732,250
Other	152,092	62,417	38,918
<b>Total revenues</b>	<b>3,529,638</b>	<b>2,797,346</b>	<b>2,632,059</b>
Interest expense	980,825	605,096	468,798
<b>Net revenues</b>	<b>2,548,813</b>	<b>2,192,250</b>	<b>2,163,261</b>
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	3,622	14,916	37,248
<b>Net revenues, less mandatorily redeemable preferred interest</b>	<b>2,545,191</b>	<b>2,177,334</b>	<b>2,126,013</b>
<b>Non-interest expenses:</b>			
Compensation and benefits	1,482,604	1,282,644	1,195,971
Floor brokerage and clearing fees	126,313	110,835	80,969
Technology and communications	215,940	160,987	141,233
Occupancy and equipment rental	84,951	68,085	72,824
Business development	93,645	62,015	37,614
Professional services	66,305	49,080	41,125
Other	56,099	47,017	48,530
<b>Total non-interest expenses</b>	<b>2,125,857</b>	<b>1,780,663</b>	<b>1,618,266</b>
<b>Earnings before income taxes</b>	<b>419,334</b>	<b>396,671</b>	<b>507,747</b>
Income tax expense	132,966	156,404	195,928
<b>Net earnings</b>	<b>286,368</b>	<b>240,267</b>	<b>311,819</b>
Net earnings to noncontrolling interests	1,750	16,601	36,537
<b>Net earnings to common shareholders</b>	<b>\$ 284,618</b>	<b>\$ 223,666</b>	<b>\$ 275,282</b>
<b>Earnings per common share:</b>			
Basic	\$ 1.28	\$ 1.10	\$ 1.36
Diluted	\$ 1.28	\$ 1.09	\$ 1.35
<b>Weighted average common shares:</b>			
Basic	211,056	196,393	200,446
Diluted	215,171	200,511	204,572

See accompanying notes to consolidated financial statements.





**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(Dollars in thousands, except per share amounts)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
<b>Common stock, par value \$0.0001 per share</b>			
Balance, beginning of period	\$ 20	\$ 19	\$ 17
Issued	2	1	2
Retired	(2)		
Balance, end of period	20	20	19
<b>Additional paid-in capital</b>			
Balance, beginning of period	2,218,123	2,036,087	1,870,120
Benefit plan share activity(1)	31,176	19,230	16,499
Share-based expense, net of forfeitures and clawbacks	134,076	149,799	125,127
Proceeds from exercise of stock options	95	108	69
Acquisitions and contingent consideration	419	419	(2,710)
Tax benefit (deficiency) for issuance of share-based awards	32,200	2,965	(14,606)
Equity component of convertible debt, net of tax	(217)		41,588
Dividend equivalents on share-based plans	8,883	9,515	
Issuance of treasury stock	97,770		
Retirement of treasury stock	(315,115)		
Balance, end of period	2,207,410	2,218,123	2,036,087
<b>Retained earnings</b>			
Balance, beginning of period	850,654	688,039	412,757
Net earnings to common shareholders	284,618	223,666	275,282
Dividends	(67,414)	(61,051)	
Balance, end of period	1,067,858	850,654	688,039
<b>Treasury stock, at cost</b>			
Balance, beginning of period	(539,530)	(384,379)	(115,190)
Purchases	(152,827)	(140,071)	(263,794)
Returns / forfeitures	(20,368)	(15,080)	(8,105)
Issued	397,122		2,710
Retirement of treasury stock	315,117		
Balance, end of period	(486)	(539,530)	(384,379)
<b>Accumulated other comprehensive (loss) income</b>			
Balance, beginning of period	(51,278)	(41,626)	(52,121)
Currency adjustment	3,339	(8,490)	9,306
Pension adjustment, net of tax	(2,551)	(1,162)	1,189
Balance, end of period	(50,490)	(51,278)	(41,626)

<b>Total common stockholders equity</b>	3,224,312	2,477,989	2,298,140
<b>Noncontrolling interests</b>			
Balance, beginning of period	332,976	321,538	287,805
Net earnings to noncontrolling interests	1,750	16,601	36,537
Contributions	1,713	12,433	2,860
Distributions	(22,056)	(15,177)	(5,664)
Deconsolidation of asset management entity	(1,720)	(5,477)	
Adoption of accounting changes to ASC 810		3,058	
Balance, end of period	312,663	332,976	321,538
<b>Total stockholders equity</b>	3,536,975	\$ 2,810,965	\$ 2,619,678

(1) Includes grants related to the Incentive Plan, Deferred Compensation Plan, and Directors Plan.  
See accompanying notes to consolidated financial statements.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(Dollars in thousands)**

	<b>Twelve Months Ended November 30, 2011</b>	<b>Eleven Months Ended November 30, 2010</b>	<b>Twelve Months Ended December 31, 2009</b>
Net earnings to common shareholders	\$ 284,618	\$ 223,666	\$ 275,282
Other comprehensive income (loss):			
Currency translation adjustments	3,339	(8,490)	9,306
Minimum pension liability adjustments, net of tax(1)	(2,551)	(1,162)	1,189
Total other comprehensive income (loss), net of tax(2)	788	(9,652)	10,495
Comprehensive income	\$ 285,406	\$ 214,014	\$ 285,777

(1) Includes income tax (benefit) expense of \$(1.8) million, \$(0.8) million and \$0.8 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively.

(2) Total other comprehensive income (loss), net of tax, is attributable to common shareholders. No other comprehensive income (loss) is attributable to noncontrolling interests.

See accompanying notes to consolidated financial statements.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Cash flows from operating activities:			
Net earnings	\$ 286,368	\$ 240,267	\$ 311,819
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	68,522	42,087	40,662
Bargain purchase gain	(52,509)		
Gain on repurchase of long-term debt	(21,107)		(7,673)
Fees related to assigned management agreements	(3,724)	(3,590)	
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	3,622	14,916	37,248
Accruals related to various benefit plans and stock issuances, net of estimated forfeitures	144,886	153,950	133,523
Deferred income taxes	30,177	4,389	10,147
Decrease (increase) in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	1,417,107	(546,793)	61,620
Decrease (increase) in receivables:			
Brokers, dealers and clearing organizations	1,652,426	(1,062,106)	(752,108)
Customers	385,686	(321,008)	(474,181)
Fees, interest and other	3,856	(57,482)	(21,566)
Decrease in securities borrowed	3,014,442	52,634	764,577
Decrease (increase) in financial instruments owned	299,558	(6,434,698)	(4,781,858)
Increase in loans to and investments in related parties	(375,031)	(27,443)	(53,616)
Decrease (increase) in investments in managed funds	60,855	(9,833)	(15,529)
Decrease (increase) in securities purchased under agreements to resell	372,470	266,132	(2,268,338)
(Increase) decrease in other assets	(122,568)	(123,933)	22,516
Increase (decrease) in payables:			
Brokers, dealers and clearing organizations	880,998	1,001,155	506,073
Customers	(2,324,839)	467,164	1,476,096
(Decrease) increase in securities loaned	(1,428,852)	(455,750)	333,261
(Decrease) increase in financial instruments sold, not yet purchased	(2,892,462)	3,685,421	2,664,934
(Decrease) increase in securities sold under agreements to repurchase	(1,083,191)	2,444,802	1,511,871
(Decrease) increase in accrued expenses and other liabilities	(599,677)	218,255	373,602
Net cash used in operating activities	(282,987)	(451,464)	(126,920)
Cash flows from investing activities:			
Net payments on premises and equipment	(77,330)	(38,426)	(37,483)
Deconsolidation of asset management entity		(407)	
Cash paid for acquisition, net of cash acquired	(320,697)		(38,760)
Purchase of mortgage servicing rights			(8,628)
Cash received from contingent consideration	3,733	2,930	
Cash paid for contingent consideration	(754)	(8,332)	(28,653)

Net cash used in investing activities	(395,048)	(44,235)	(113,524)
---------------------------------------	-----------	----------	-----------

Continued on next page.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED**

(Dollars in thousands)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
<b>Cash flows from financing activities:</b>			
Excess tax benefits from the issuance of share-based awards	\$ 34,552	\$ 2,397	\$ 12,408
Gross proceeds from short-term borrowings	3,032,010	2,446,000	5,781,738
Gross payments on short-term borrowings	(3,283,231)	(2,446,000)	(5,781,738)
Gross proceeds from secured credit facility	260,000		
Gross payments on secured credit facility	(160,000)		
Payments on repurchase of long-term debt	(49,692)		(12,796)
Payments on mandatorily redeemable preferred interest of consolidated subsidiaries	(8,973)	(17,078)	(124)
Payments on repurchase of common stock	(152,827)	(140,071)	(263,794)
Payments on dividends	(58,531)	(51,536)	
Proceeds from exercise of stock options, not including tax benefits	95	108	69
<b>Net proceeds from (payments on):</b>			
Issuance of common shares	494,892		
Issuance of senior notes, net of issuance costs	794,587	1,041,353	1,053,092
Noncontrolling interest	(20,343)	(2,744)	(2,804)
<b>Net cash provided by financing activities</b>	<b>882,539</b>	<b>832,429</b>	<b>786,051</b>
<b>Effect of foreign currency translation on cash and cash equivalents</b>	<b>295</b>	<b>(899)</b>	<b>13,231</b>
<b>Net increase in cash and cash equivalents</b>	<b>204,799</b>	<b>335,831</b>	<b>558,838</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,188,998</b>	<b>1,853,167</b>	<b>1,294,329</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,393,797</b>	<b>\$ 2,188,998</b>	<b>\$ 1,853,167</b>
<b>Supplemental disclosures of cash flow information:</b>			
<b>Cash paid (received) during the year for:</b>			
Interest	\$ 943,031	\$ 579,915	\$ 434,163
Income taxes, net	153,416	182,633	(27,106)
<b>Acquisitions:</b>			
Fair value of assets acquired, including goodwill	\$ 4,703,560		\$ 53,104
Liabilities assumed	(4,229,011)		(14,344)
Bargain purchase gain	(52,509)		
<b>Total purchase price</b>	<b>422,040</b>		<b>38,760</b>
Cash acquired	(101,343)		
<b>Cash paid for acquisition, net of cash acquired</b>	<b>\$ 320,697</b>		<b>\$ 38,760</b>

In 2011, the additional minimum pension liability included in stockholders' equity of \$11.0 million resulted from an increase of \$2.6 million to accrued expenses and other liabilities and an offsetting decrease in stockholders' equity.

## Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

In 2010, the additional minimum pension liability included in stockholders' equity of \$8.4 million resulted from an increase of \$1.2 million to accrued expenses and other liabilities and an offsetting decrease in stockholders' equity.

In 2009, the additional minimum pension liability included in stockholders' equity of \$7.3 million resulted from a decrease of \$1.2 million to accrued expenses and other liabilities and an offsetting increase in stockholders' equity.

See accompanying notes to consolidated financial statements.



**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Index**

<b>Note</b>		<b>Page</b>
(1)	<u>Organization and Basis of Presentation</u>	83
(2)	<u>Summary of Significant Accounting Policies</u>	84
(3)	<u>Acquisition of the Global Commodities Group</u>	92
(4)	<u>Cash, Cash Equivalents and Short-Term Investments</u>	95
(5)	<u>Financial Instruments</u>	97
(6)	<u>Derivative Financial Instruments</u>	111
(7)	<u>Collateralized Transactions</u>	115
(8)	<u>Securitization Activities</u>	117
(9)	<u>Variable Interest Entities</u>	118
(10)	<u>Equity Method Investments</u>	124
(11)	<u>Goodwill and Other Intangible Assets</u>	127
(12)	<u>Short-Term Borrowings</u>	129
(13)	<u>Long-Term Debt</u>	130
(14)	<u>Mandatorily Redeemable Convertible Preferred Stock</u>	131
(15)	<u>Noncontrolling Interest and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries</u>	132
(16)	<u>Benefit Plans</u>	133
(17)	<u>Compensation Plans</u>	138
(18)	<u>Earnings per Share</u>	144
(19)	<u>Income Taxes</u>	145
(20)	<u>Commitments, Contingencies and Guarantees</u>	148
(21)	<u>Net Capital Requirements</u>	152
(22)	<u>Segment Reporting</u>	153
(23)	<u>Related Party Transactions</u>	154
(24)	<u>Selected Quarterly Financial Data (Unaudited)</u>	155

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Basis of Presentation**

***Organization***

The accompanying audited Consolidated Financial Statements include the accounts of Jefferies Group, Inc. and all our subsidiaries (together, we or us), including Jefferies & Company, Inc. ( Jefferies ), Jefferies Execution Services, Inc., ( Jefferies Execution ), Jefferies Bache, LLC, Jefferies International Limited, Jefferies Bache, Limited, Jefferies Hong Kong Limited, Jefferies Asset Management, LLC, Jefferies Bache Financial Services, Inc. and all other entities in which we have a controlling financial interest or are the primary beneficiary, including Jefferies High Yield Holdings, LLC ( JHYH ), Jefferies Special Opportunities Partners, LLC ( JSOP ) and Jefferies Employees Special Opportunities Partners, LLC ( JESOP ).

We operate in two business segments, Capital Markets and Asset Management. Capital Markets includes our securities, commodities, futures and foreign exchange trading (including the results of our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC) and investment banking activities, which provides the research, sales, trading and origination effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds, separate accounts and mutual funds.

On July 1, 2011, we acquired Prudential Bache's Global Commodities Group ( Global Commodities Group or Jefferies Bache ) from Prudential Financial Inc. ( Prudential ). Total cash payments made as consideration for the acquisition were \$422.0 million. The Global Commodities Group provides execution and clearing services (including sales and trading activities) covering a wide variety of commodity, financial and foreign exchange futures, swaps and forward contracts to an institutional client base. See Note 3, Acquisition of the Global Commodities Group.

***Change in Year End***

On April 19, 2010, our Board of Directors approved a change to our fiscal year end from a calendar year basis to a fiscal year ending November 30. As such, the current period represents the twelve months ended November 30, 2011 and has been reported on the basis of the new fiscal year beginning as of December 1, 2010. Our prior period consisted of the eleven month transition period beginning January 1, 2010 through November 30, 2010. Financial statements for 2009 continue to be presented on the basis of our previous calendar year end.

***Basis of Presentation***

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) for financial information and with the instructions to Form 10-K. We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, legal reserves, goodwill and the realizability of deferred tax assets. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Consolidation***

Our policy is to consolidate all entities in which we own more than 50% of the outstanding voting stock and have control. In addition, we consolidate entities which lack characteristics of an operating entity or business for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. In situations where we have significant influence but not control of an entity that does not qualify as a variable interest entity, we apply the equity method of accounting or fair value accounting. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies. We act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or "kick-out" rights.

Intercompany accounts and transactions are eliminated in consolidation.

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

***Revenue Recognition Policies***

***Commissions.*** All customer securities transactions are reported on the Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Soft dollar expenses amounted to \$47.9 million, \$37.0 million and \$32.5 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. We account for the cost of these arrangements on an accrual basis. As we are not the primary obligor for these arrangements, expenses relating to soft dollars are netted against commission revenues. The commissions and related expenses on client transactions executed by Jefferies Bache, LLC, a futures commission merchant, are recorded on a half-turn basis.

Under clearing agreements, we clear trades for unaffiliated correspondent brokers and retain a portion of commissions as a fee for our services. Correspondent clearing revenues are included in Other revenue. In November 2010, we entered into an agreement to sell certain correspondent broker accounts and assign the related clearing arrangements. The purchase price was dependent on the number and amount of client accounts that convert to the purchaser's platform and revenue was recognized upon the completed transfer of client accounts. During fiscal 2011, proceeds amounted to \$11.0 million were received, of which revenues of \$9.1 million was recognized and included within Other income on the Consolidated Statement of Earnings

***Principal Transactions.*** Financial instruments owned, securities pledged and Financial instruments sold, but not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in Principal transactions in the Consolidated Statements of Earnings on a trade date basis.

***Investment Banking.*** Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is otherwise concluded. Out-of-pocket expenses are recorded net of client reimbursements.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Revenues are presented net of related out-of-pocket unreimbursed expenses. Unreimbursed out-of-pocket expenses with no related revenues are included in Business development and Professional services expenses in the Consolidated Statements of Earnings.

*Asset Management Fees and Investment Income From Managed Funds.* Asset management fees and investment income from managed funds include revenues we earn from management, administrative and performance fees from funds managed by us, revenues from management and performance fees we earn from related-party managed funds and investment income from our investments in these funds. We earn fees in connection with management and investment advisory services performed for various funds and managed accounts. These fees are based on assets under management or an agreed upon notional amount and may include performance fees based upon the performance of the funds. Management and administrative fees are generally recognized over the period that the related service is provided. Generally, performance fees are earned when the return on assets under management exceeds certain benchmark returns, high-water marks or other performance targets. Performance fees are accrued (or reversed) on a monthly basis based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Performance fees are not subject to adjustment once the measurement period ends (generally annual periods) and the performance fees have been realized.

*Interest Revenue and Expense.* We recognize contractual interest on Financial instruments owned and Financial instruments sold, but not yet purchased, on an accrual basis as a component of interest revenue and expense. Interest flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts in Principal transactions in the Consolidated Statements of Earnings and are not recognized as a component of interest revenue or expense. We account for our short-term, long-term borrowings and our mandatorily redeemable convertible preferred stock on an accrual basis with related interest recorded as interest expense. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

***Cash Equivalents***

Cash equivalents include highly liquid investments, including money market funds, not held for resale with original maturities of three months or less.

***Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited With Clearing and Depository Organizations***

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In addition, certain financial instruments used for initial and variation margin purposes with clearing and depository organizations are recorded in this caption. Jefferies Bache, LLC, as a futures commission merchant, is obligated by rules mandated by the Commodities Futures Trading Commission under the Commodities Exchange Act, to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets.

***Foreign Currency Translation***

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, if any, are included in Other comprehensive income. Gains or losses resulting from foreign currency transactions are included in Principal transactions in the Consolidated Statements of Earnings.

***Financial Instruments***

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. These instruments primarily represent our trading activities and include both cash and derivative products. Gains and losses are recognized in Principal transactions in our Consolidated Statements of Earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

***Fair Value Hierarchy***

In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs as follows:

*Level 1:* Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

*Level 2:* Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

*Level 3:* Instruments that have little to no pricing observability as of the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. To the extent that valuation is based on models or input that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

We use prices and inputs that are current as of the measurement date. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

*Valuation Process for Financial Instruments*

Financial instruments are valued at quoted market prices, if available. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, we allow for mid-market pricing and adjust to the point within the bid-ask range that meets our best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments. The valuation process for financial instruments may include the use of valuation models and other techniques. Adjustments to valuations (such as counterparty, credit, concentration or liquidity) derived from valuation models may be made when, in management's judgment, either the size of the position in the financial instrument in a nonactive market or other features of the financial instrument such as its complexity, or the market in which the financial instrument is traded require that an adjustment be made to the value derived from the models. An adjustment may be made if a financial instrument is subject to sales restrictions that would result in a price less than the quoted market price. Adjustments from the price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument and are adjusted for assumptions about risk uncertainties and market conditions. Results from valuation models and valuation techniques in one period may not be indicative of future period fair value measurements.

See Note 5, Financial Instruments, for a description of valuation techniques applied to the classes of financial instruments at fair value.

*Investments in Managed Funds*

Investments in managed funds include our investments in funds managed by us and our investments in related-party managed funds in which we are entitled to a portion of the management and/or performance fees. Investments in nonconsolidated managed funds are accounted for at fair value. Gains or losses on our investments in managed funds are included in Asset management fees and investment income from managed funds in the Consolidated Statements of Earnings.

*Loans to and Investments in Related Parties*

Loans to and investments in related parties includes investments entered into where we exercise significant influence over operating and capital decisions in private equity and other operating entities in connection with our capital market activities and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other income in the Consolidated Statement of Earnings. For the year ended December 31, 2009, revenues related to our equity method investment in Jefferies Finance, LLC are included within Principal transactions revenue (see Note 10, Equity Method Investments, for additional information regarding certain of these investments).

*Receivable from, and Payable to, Customers*

Receivable from and payable to customers includes amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

accompanying consolidated financial statements. Receivable from officers and directors included within this financial statement line item represents balances arising from their individual security transactions. These transactions are subject to the same regulations as customer transactions and are provided on substantially the same terms.

***Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, we borrow securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. We have an active securities borrowed and lending matched book business in which we borrow securities from one party and lend them to another party. When we borrow securities, we generally provide cash to the lender as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities borrowed. We earn interest revenues on this cash collateral. Similarly, when we lend securities to another party, that party provides cash to us as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase***

Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively *repos*) are accounted for as collateralized financing transactions and are recorded at their contracted repurchase amount. We earn and incur interest from this activity which is reflected in our Consolidated Statements of Earnings. We monitor the fair value of the underlying securities daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate. We carry repos on a net basis by counterparty when appropriate.

***Premises and Equipment***

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the assets, whichever is shorter. As of November 30, 2011 and November 30, 2010, furniture, fixtures and equipment amounted to \$246.5 million and \$190.6 million, respectively, and leasehold improvements amounted to \$122.9 million and \$104.3 million, respectively. Accumulated depreciation and amortization was \$194.3 million and \$152.2 million as of November 30, 2011 and November 30, 2010, respectively.

Depreciation and amortization expense amounted to \$43.7 million, \$35.3 million and \$39.8 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and the twelve months ended December 31, 2009, respectively.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Goodwill and Intangible Assets***

*Goodwill.* At least annually, and more frequently if warranted, we assess whether goodwill has been impaired by comparing the estimated fair value of each reporting unit with its carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any. In estimating the fair value of reporting units we utilize methodologies that include market capitalization, price-to-book multiples of comparable exchange traded companies and multiples of merger and acquisitions of similar businesses. Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Our annual goodwill impairment testing date is June 1. Refer to Note 11, Goodwill and Other Intangible Assets, for further details on our assessment of goodwill.

*Intangible Assets.* Intangible assets deemed to have finite lives are amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed annually, or more frequently when certain events or circumstances exist, for impairment. Impairment exists when the carrying amount exceeds its fair value. To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset. Subsequent reversal of impairment losses is not permitted.

***Income Taxes***

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, share-based compensation, deferred compensation, long-term debt and tax amortization of intangible assets. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized.

The tax benefit related to dividends and dividend equivalents paid on nonvested share based payment awards and outstanding equity options is recognized as an increase to Additional paid in capital. These amounts are included in tax benefits for issuance of share-based awards on the Consolidated Statement of Changes in Stockholders' Equity.



**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Legal Reserves***

In the normal course of business, we have been named, from time to time, as a defendant in legal and regulatory proceedings. We are also involved, from time to time, in other exams, investigations and similar reviews (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions.

We recognize a liability for a contingency in Accrued expenses and other liabilities when it is probable that a liability has been incurred and when the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum of the range of probable loss. The determination of the outcome and loss estimates requires significant judgment on the part of management.

In many instances, it is not possible to determine whether any loss is probable or even possible or to estimate the amount of any loss or the size of any range of loss. We believe that, in the aggregate, the pending legal actions or regulatory proceedings and any other exams, investigations or similar reviews (both formal and informal) should not have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount that could be reasonably estimated of potential loss or range of potential loss in excess of what has been provided in the consolidated financial statements is not material.

***Share-based Compensation***

Share-based awards are measured based on the grant-date fair value of the award and recognized over the period from the service inception date through the date the employee is no longer required to provide service to earn the award. Expected forfeitures are included in determining share-based compensation expense.

***Earnings per Common Share***

Basic earnings per share ( EPS ) is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued. Net earnings available to common shareholders represent net earnings to common shareholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Common shares outstanding and certain other shares committed to be, but not yet issued, include restricted stock and restricted stock units for which no future service is required. Diluted EPS is computed by dividing net earnings available to common shareholders plus dividends on dilutive mandatorily redeemable convertible preferred stock by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued, plus all dilutive common stock equivalents outstanding during the period.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, are included in the earnings allocation in computing earnings per share under the two-class method of earning per share. We grant restricted stock and restricted stock units as part of our share-based compensation that contain nonforfeitable rights to dividends and dividend equivalents, respectively, and therefore, prior to the requisite service being rendered for the right to retain the award, restricted stock and restricted stock units meet the definition of a participating security. As such, we calculate Basic and Diluted earnings per share under the two-class method. All prior-period earnings per share data presented have been adjusted to include participating securities in the earnings per share computation using the two-class method.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Securitization Activities***

We engage in securitization activities related to commercial mortgage loans and mortgage-backed and other asset-backed securities. Such transfers of financial assets are generally accounted for as sales when we have relinquished control over the transferred assets. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer allocated between the assets sold and the retained interests, if any, based upon their respective fair values at the date of sale. We may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included within Financial instruments owned in the Consolidated Statement of Financial Condition at fair value. Any changes in the fair value of such retained interests are recognized within Principal transactions revenues in the Consolidated Statement of Earnings.

When a transfer of assets does not meet the criteria of a sale, that transfer is treated as a secured borrowing. We continue to recognize the assets of a secured borrowing in Financial instruments owned and recognize the associated financing in Other liabilities in the Consolidated Statements of Financial Condition.

***Accounting Developments***

***Balance Sheet Offsetting Disclosures.*** In December 2011, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standards Update ( ASU ), Disclosures about Offsetting Assets and Liabilities ( ASU 2011-11 ) to Topic 210, Balance Sheet. The update requires new disclosures about balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective December 1, 2013 and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, we do not expect this guidance to affect our financial condition, results of operation or cash flows.

***Goodwill Testing.*** In September 2011, the FASB issued an ASU, Testing Goodwill for Impairment ( ASU 2011-08 ) to Topic 350, Intangibles Goodwill and Other. The update outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The update is effective for annual and interim goodwill tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance will not affect our financial condition, results of operation or cash flows.

***Fair Value Measurements and Disclosures.*** In May 2011, the FASB issued accounting updates to ASC 820, Fair Value Measurements Topic Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provide clarifying guidance on how to measure fair value and additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2; and for Level 3 fair value measurements, a description of our valuation processes and additional information about unobservable inputs impacting Level 3 measurements. The updates are effective March 1, 2012 and will be applied prospectively. The adoption of this guidance will not have an impact on our financial condition, results of operations or cash flows.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

*Reconsideration of Effective Control for Repurchase Agreements.* In April 2011, the FASB issued accounting guidance that removes the requirement to consider whether sufficient collateral is held when determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. The guidance is effective prospectively for transactions beginning on January 1, 2012. The adoption of this guidance will not have an impact on our financial condition, results of operations or cash flows.

*Consolidation.* We adopted accounting changes described in ASC 810, Consolidation Topic, as of January 1, 2010, which require that the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity consolidate the variable interest entity. The changes to ASC 810, effective as of January 1, 2010, eliminate the quantitative approach previously applied to assessing whether to consolidate a variable interest entity and require ongoing reassessments for consolidation. Upon adoption of these accounting changes on January 1, 2010, we consolidated certain CLOs and other investment vehicles. The consolidation of these entities resulted in an increase in total assets of \$1,606.9 million, an increase in total liabilities of \$1,603.8 million and an increase to total stockholders equity of \$3.1 million on January 1, 2010. Subsequently, we sold and assigned our management agreements for the CLOs to a third party; thus we no longer have the power to direct the most significant activities of the CLOs. Upon the assignment of the management agreements in January 2010, we deconsolidated the CLOs and accounted for our remaining interests in the CLOs at fair value.

**Note 3. Acquisition of the Global Commodities Group**

On July 1, 2011, we acquired Prudential Bache's Global Commodities Group from Prudential. Total cash payments made as consideration for the acquisition were \$422.0 million (a cash payment of \$419.5 million was made on July 1, 2011 and an additional payment of \$2.5 million was made on October 21, 2011). The acquisition included 100% of the equity interests in Prudential Bache Commodities LLC, a US-based full-service futures commission merchant; Prudential Bache Securities LLC, a US-based registered broker dealer; Bache Commodities Limited, a UK-based global commodities and financial derivatives broker; Prudential Bache Asset Management, Inc., a US-based registered investment advisor and commodity trading advisor, Prudential Bache Financial Services, Inc., a global over-the-counter commodities dealer; and Bache Commodities (Hong Kong) Ltd., a Hong Kong-based licensed futures dealer. In addition, we acquired related information technology assets and related contracts used by the Global Commodities Group.

The Global Commodities Group provides sales, trading, clearing and execution services covering a wide variety of commodity, financial and foreign exchange futures, swaps and forward contracts to an institutional client base. The acquisition of the Global Commodities Group allows us to offer clients globally an increased range of products, including exchange-traded futures and over-the-counter trading in energy, metals and agricultural markets.

In connection with the acquisition of the Global Commodities Group on July 1, 2011, certain acquired entities entered into a \$1.0 billion credit facility agreement with Prudential that was terminated by us on September 16, 2011. For further details, see Note 12, Short-Term Borrowings. On August 26, 2011, Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, as borrowers, entered into a senior secured revolving credit facility in aggregate totaling \$950.0 million with a group of commercial banks. See Note 13, Long-Term Borrowings for further information.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

We accounted for the acquisition under the purchase method of accounting. Accordingly, the assets acquired, including identifiable intangible assets, and liabilities assumed were recorded at their respective fair values as of the date of acquisition.

The fair values of the net assets acquired, including identifiable intangible assets, was approximately \$474.5 million, which exceeded the purchase price of \$422.0 million, resulting in a bargain purchase gain of approximately \$52.5 million. The bargain purchase gain is included within Other Income in the Consolidated Statements of Earnings, is not taxable and is presented within the Capital Market Business Segment. The business of the Global Commodities Group are included within the Capital Market Business Segment.

We believe we were able to acquire the Global Commodities Group for less than the fair value of its assets as the business activities of the Global Commodities Group were not a core business for Prudential and therefore Prudential was willing to exit the commodities trading business at such a price.

Approximately \$18.3 million was recognized at the date of acquisition as the fair value of intangible assets. Of this amount, \$5.8 million represents the fair value of customer relationships, \$11.2 million represents the fair value of exchange and clearing organization membership interests and registrations and \$1.3 million represents the fair value of the Bache trade name. See Note 11, Goodwill and Other Intangible Assets for further details. Additionally, we recognized in the acquisition approximately \$6.3 million of internally developed software that is recorded within Premises and equipment on the Consolidated Statements of Financial Condition.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED***Condensed statement of net assets acquired*

The following reflects the fair value of assets acquired and liabilities assumed, by major class, on July 1, 2011 (in thousands):

<b>Assets acquired:</b>	
Cash and cash equivalents	\$ 101,343
Cash and securities segregated	3,130,586
Financial instruments owned, at fair value	918,598
Securities purchased under agreements to resell	1,489
Receivables:	
Brokers, dealers and clearing organizations	313,939
Customers	173,477
Fees, interest and other	122
Premises and equipment	13,611
Indefinite-lived intangible exchange memberships and licences(1)	11,219
Finite-lived intangible customer relationships(1)(2)	5,800
Trade names(1)(3)	1,300
Other assets	32,076
<b>Total assets</b>	<b>\$ 4,703,560</b>
<b>Liabilities assumed:</b>	
Short-term borrowings	\$ 301,027
Financial instruments sold, not yet purchased, at fair value	267,200
Payables:	
Brokers, dealers and clearing organizations	43,588
Customers	3,384,263
Accrued expenses and other liabilities	232,933
<b>Total liabilities</b>	<b>\$ 4,229,011</b>
<b>Fair value of net assets acquired</b>	<b>\$ 474,549</b>
<b>Purchase price:</b>	
Cash	\$ 422,040
<b>Total purchase price</b>	<b>\$ 422,040</b>
<b>Bargain purchase gain</b>	<b>\$ 52,509</b>

(1) Intangible assets are recorded within Other assets on the Consolidated Statements of Financial Condition.

(2)

## Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

The fair value of the finite-lived customer relationships will be amortized on a straight line basis over a weighted-average useful life of approximately 9.6 years.

(3) The fair value of the Bache trade name will be amortized on a straight line basis over a useful life of 1.5 years.

*Unaudited pro forma condensed combined financial information*

Our results of operation for the twelve months ended November 30, 2011 include the operations of the acquired entities for the period from July 1, 2011 to November 30, 2011. The Consolidated Statement of Earnings for the twelve months ended November 30, 2011, include \$96.7 million of Net revenues and \$31.8 million of Net earnings contributed by Jefferies Bache.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****November 30, 2011 and 2010****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Set forth below are unaudited pro forma combined financial information as they may have appeared if the acquisition had been completed on December 1, 2010 and January 1, 2010 taking into account certain adjustments described below. The unaudited pro forma combined financial information includes the Global Commodities Group's actual results from January 1, 2010 to November 30, 2010 and December 1, 2010 to November 30, 2011.

(in millions, except per share data)	Twelve months ended November 30, 2011	Eleven months ended November 30, 2010
Total net revenues	\$ 2,686.2	\$ 2,447.3
Net earnings to common shareholders	\$ 303.7	\$ 288.2
Earnings per common share:		
Basic	\$ 1.37	\$ 1.41
Diluted	\$ 1.36	\$ 1.40
Weighted average common shares (in thousands):		
Basic	211,056	196,393
Diluted	215,171	200,511

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not purport to be indicative of the financial results we would have achieved had the acquisition been completed as of December 1, 2010 and as of January 1, 2010, nor is it indicative of the results of operations in future periods.

The pro forma information was derived from historical financial information for 2011 and 2010 adjusted to give effect for events directly attributable to the acquisition and factually supportable and expected to have a continuing impact on the combined results. The adjustments include:

- a) the bargain purchase gain of \$52.5 million has been included in Net revenues and Net earnings for the eleven months ended November 30, 2010;
- b) an adjustment to reflect Global Commodities Group's physical commodities at market value;
- c) acquisition costs totaling \$4.4 million recognized in Professional services has been included in the eleven months ended November 30, 2010;
- d) additional amortization expense on the acquired intangible assets and internally developed software of \$0.8 million and \$0.8 million for the twelve months ended November 30, 2011 and \$0.9 million and \$1.0 million for the eleven months ended November 30, 2010;
- e) the recording of income tax expense resulting from the pro forma adjustments before tax at an effective rate of 32.1% and 35.0% for the twelve months and eleven months ended November 30, 2011 and 2010.

**Note 4. Cash, Cash Equivalents and Short-Term Investments**

We generally invest our excess cash in money market funds and in other short-term instruments. Cash equivalents include highly liquid investments not held for resale and with original maturities of three months or



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****November 30, 2011 and 2010****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

less. The following are financial instruments, classified as cash and cash equivalents, that are deemed by us to be generally readily convertible into cash as of November 30, 2011 and 2010 (in thousands):

	November 30,	
	2011	2010
Cash and cash equivalents:		
Cash in banks	\$ 846,990	\$ 325,227
Money market investments	1,546,807	1,863,771
Total cash and cash equivalents	\$ 2,393,797	\$ 2,188,998
Cash and securities segregated(1)	\$ 3,344,960	\$ 1,636,755

- (1) Consists of deposits at exchanges and clearing organizations, as well as deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker dealer carrying client accounts to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients, and Jefferies Bache, LLC which, as a futures commission merchant, is subject to the segregation requirements pursuant to the Commodity Exchange Act.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****Note 5. Financial Instruments**

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis as of November 30, 2011 and November 30, 2010 by level within the fair value hierarchy (in thousands):

	As of November 30, 2011				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,088,358	\$ 133,232	\$ 13,489	\$	\$ 1,235,079
Corporate debt securities	1,521	2,818,643	48,140		2,868,304
Collateralized debt obligations		102,209	47,988		150,197
U.S. government and federal agency securities	5,443,721	266,460			5,710,181
Municipal securities		582,497	6,904		589,401
Sovereign obligations	737,082	434,759	140		1,171,981
Residential mortgage-backed securities		2,961,682	149,965		3,111,647
Commercial mortgage-backed securities		582,974	52,407		635,381
Other asset-backed securities		22,794	3,284		26,078
Loans and other receivables		278,855	97,291		376,146
Derivatives	632,148	2,344,625	124	(2,451,004)	525,893
Investments at fair value		27,259	78,326		105,585
Physical commodities		172,668			172,668
<b>Total financial instruments owned</b>	<b>\$ 7,902,830</b>	<b>\$ 10,728,657</b>	<b>\$ 498,058</b>	<b>\$ (2,451,004)</b>	<b>\$ 16,678,541</b>
Level 3 financial instruments for which the firm does not bear economic exposure(4)			\$ (45,901)		
Level 3 financial instruments for which the firm bears economic exposure			\$ 452,157		
Investments in Managed Funds	\$	\$	\$ 70,740	\$	\$ 70,740
Cash and securities segregated and on deposit for regulatory purposes(3)	\$ 115,000	\$	\$	\$	\$ 115,000
Securities received as collateral	\$ 21,862	\$	\$	\$	\$ 21,862
<b>Total Level 3 assets for which the firm bears economic exposure</b>			<b>\$ 522,897</b>		
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,266,096	\$ 64,000	\$	\$	\$ 1,330,096
Corporate debt securities		1,614,419	74		1,614,493
U.S. government and federal agency securities	2,032,091	9,685			2,041,776

Edgar Filing: JEFFERIES GROUP INC /DE/ - Form 10-K

Municipal securities		90			90
Sovereign obligations	790,568	377,279			1,167,847
Residential mortgage-backed securities		50,517			50,517
Loans		140,960	10,157		151,117
Derivatives	535,503	2,289,759	9,409	(2,585,634)	249,037
<b>Total financial instruments sold, not yet purchased</b>	<b>\$ 4,624,258</b>	<b>\$ 4,546,709</b>	<b>\$ 19,640</b>	<b>\$ (2,585,634)</b>	<b>\$ 6,604,973</b>
Obligation to return securities received as collateral	\$ 21,862	\$	\$	\$	\$ 21,862

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

- (1) There were no significant transfers between Level 1 and Level 2 for the twelve-months ended November 30, 2011.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Consists of U.S. government securities segregated for regulatory purposes and measured at fair value.
- (4) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

	As of November 30, 2010				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,453,744	\$ 89,430	\$ 22,619	\$	\$ 1,565,793
Corporate debt securities	25	3,557,183	73,408		3,630,616
Collateralized debt obligations		27,863	31,121		58,984
U.S. government and federal agency securities	2,322,204	210,422			2,532,626
Municipal securities		477,462	472		477,934
Sovereign obligations	1,600,762	580,651			2,181,413
Residential mortgage-backed securities		3,912,708	132,359		4,045,067
Commercial mortgage-backed securities		524,614	6,004		530,618
Other asset-backed securities		286,329	567		286,896
Loans and other receivables		206,977	227,596		434,573
Derivatives	279,811	176,069		(336,612)	119,268
Investments at fair value			77,784		77,784
<b>Total financial instruments owned</b>	<b>\$ 5,656,546</b>	<b>\$ 10,049,708</b>	<b>\$ 571,930</b>	<b>\$ (336,612)</b>	<b>\$ 15,941,572</b>
Level 3 financial instruments for which the firm does not bear economic exposure(3)				\$ (204,139)	
Level 3 financial instruments for which the firm bears economic exposure				\$ 367,791	
Investments in managed funds	\$	\$	\$ 131,585	\$	\$ 131,585
Securities received as collateral	\$ 48,616	\$	\$	\$	\$ 48,616
Total Level 3 assets for which the firm bears economic exposure				\$ 499,376	

**Liabilities:**

Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,554,489	\$ 83,845	\$ 38	\$	\$ 1,638,372
Corporate debt securities		2,375,925			2,375,925
U.S. government and federal agency securities	1,688,684	51,604			1,740,288
Municipal securities		170			170
Sovereign obligations	2,180,667	814,163			2,994,830
Residential mortgage-backed securities		127,547			127,547
Commercial mortgage-backed securities		1,837			1,837
Loans		124,050	47,228		171,278
Derivatives	241,860	240,866	2,346	(425,520)	59,552
Total financial instruments sold, not yet purchased	\$ 5,665,700	\$ 3,820,007	\$ 49,612	\$ (425,520)	\$ 9,109,799
Obligation to return securities received as collateral	\$ 48,616	\$	\$	\$	\$ 48,616

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

- (1) There were no significant transfers between Level 1 and Level 2 for the eleven-months ended November 30, 2010.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Consists of Level 3 assets which are either financed by nonrecourse secured financings or attributable to third party or employee noncontrolling interests in certain consolidated entities.  
At November 30, 2011 and November 30, 2010, \$-0- million and \$85.7 million, respectively, in secured financings, are included within Other liabilities on the Consolidated Statement of Financial Position, are accounted for at fair value and are classified as Level 3 liabilities.

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

***Corporate Equity Securities***

Exchange Traded Equity Securities: Exchange-traded equity securities are measured based on quoted exchange prices, which are generally obtained from pricing services, and are categorized as Level 1 in the fair value hierarchy.

Non-exchange Traded Equity Securities: Non-exchange traded equity securities are measured primarily using broker quotations, pricing service data from external providers and prices observed for recently executed market transactions and are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange traded equity securities are categorized as Level 3 financial instruments and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

Equity warrants: Non-exchange traded equity warrants are generally classified within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

***Corporate Debt Securities***

Corporate Bonds: Corporate bonds are measured primarily using pricing service data from external providers and broker quotations, where available, prices observed for recently executed market transactions of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index

credit default swap curves for comparable issuers

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are classified within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

**High Yield Corporate and Convertible Bonds:** A significant portion of our high yield corporate and convertible bonds are classified within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing service data from external providers, where available, and prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are classified in Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer's subsequent financings or recapitalizations, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

**Auction Rate Securities:** Auction rate securities ( ARS ) included within corporate debt securities include ARS backed by pools of student loans and auction rate preferred securities issued by closed end mutual funds. ARS are measured using market data provided by external service providers, as available. The fair value of ARS is also determined by benchmarking to independent market data and adjusting for projected cash flows, level of seniority in the capital structure, leverage, liquidity and credit rating, as appropriate. ARS are classified within Level 3 of the fair value hierarchy based on our assessment of the transparency of the external market data received.

***Collateralized Debt Obligations***

Collateralized debt obligations are measured based on prices observed for recently executed market transactions or based on valuations received from third party brokers and are classified within Level 2 or Level 3 of the fair value hierarchy depending on the observability of the pricing inputs.

***U.S. Government and Federal Agency Securities***

**U.S. Treasury Securities:** U.S. Treasury securities are measured based on quoted market prices and categorized in Level 1 of the fair value hierarchy.

**U.S. Agency Issued Debt Securities:** Callable and non-callable U.S. agency issued debt securities are measured primarily based on quoted market prices obtained from external pricing services. Non-callable U.S. agency securities are generally classified within Level 1 of the fair value hierarchy and callable U.S. agency securities are classified within Level 2.

***Municipal Securities***

Municipal securities are measured based on quoted prices obtained from external data providers and are generally classified within Level 2 of the fair value hierarchy.

***Sovereign Obligations***

**G-7 Government and non-G-7 Government Bonds:** G-7 government and non-G-7 government bonds are measured based on quoted market prices obtained from external pricing services. G-7 government bonds are categorized within Level 1 of the fair value hierarchy



and non-G-7 government bonds are generally categorized within Level 2.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**Emerging Market Sovereign Debt Securities:** Valuations are primarily based on market price quotations from external data providers, where available, or recently executed independent transactions of comparable size. To the extent market price quotations are not available or recent transactions have not been observed, valuation techniques incorporating foreign currency curves, interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value. Emerging market sovereign debt securities are generally classified within Level 2 of the fair value hierarchy.

***Residential Mortgage-Backed Securities***

**Agency Residential Mortgage-Backed Securities:** Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations, interest-only and principal-only securities and to-be-announced securities and are generally measured using market price quotations from external data providers and categorized within Level 2 of the fair value hierarchy.

**Agency Residential Inverse Interest-Only Securities ( Agency Inverse IOs ):** The fair value of agency inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency inverse IOs are categorized within Level 2 of the fair value hierarchy. We also use vendor data in developing assumptions, as appropriate.

**Non-Agency Residential Mortgage-Backed Securities:** Fair values are determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses. Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields.

***Commercial Mortgage-Backed Securities***

**Agency Commercial Mortgage-Backed Securities:** GNMA project loan bonds and FNMA DUS mortgage-backed securities are generally measured by using prices observed for recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.

**Non-Agency Commercial Mortgage-Backed Securities:** Non-agency commercial mortgage-backed securities are measured using pricing data obtained from third party services and prices observed for recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

---

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Other Asset-Backed Securities***

Other asset-backed securities include, but are not limited to, securities backed by auto loans, credit card receivables and student loans and are categorized primarily within Level 2 of the fair value hierarchy. Valuations are determined using pricing data obtained from third party services and prices observed for recently executed market transactions.

***Loans and Other Receivables***

**Corporate Loans:** Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations from external data providers where sufficient observability exists as to the extent of market transaction data supporting the pricing data. Corporate loans categorized within Level 3 are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.

**Participation Certificates in GNMA Project and Construction Loans:** Valuations of participation certificates in GNMA project and construction loans are based on observed market prices of recently executed purchases of similar loans which are then used to derive a market implied spread. The market implied spread is used as the primary input in estimating the fair value of loans at the measurement date. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

**Project Loans:** Valuation of project loans are based on benchmarks of prices for recently executed transactions of related realized collateralized securities and are classified within Level 2 of the fair value hierarchy.

**Escrow and Trade Claim Receivables:** Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 where fair value is based on recent trade activity in the same security.

***Derivatives***

**Listed Derivative Contracts:** Listed derivative contracts measured based on quoted exchange prices, which are generally obtained from pricing services, are categorized as Level 1 in the fair value hierarchy. Listed derivatives for which there is limited trading activity are measured based on incorporating the closing auction price of the underlying equity security and are categorized within Level 2.

**OTC Derivative Contracts:** OTC derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are

primarily categorized in Level 2 of the fair value hierarchy given the observability of the inputs to the valuation models.

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

OTC options include OTC equity, foreign exchange and commodity options measured using Black-Scholes models with key inputs impacting the valuation including the underlying security, foreign exchange spot rate or commodity price, implied volatility, dividend yield, interest rate curve, strike price and maturity date. Discounted cash flow models are utilized to measure certain OTC derivative contracts including the valuations of our interest rate swaps, which incorporate observable inputs related to interest rate curves, valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates and forward curves and valuations of our commodity swaps, which incorporate observable inputs related to commodity spot prices and forward curves. Credit defaults swaps include both index and single-name credit default swaps. External prices are available as inputs in measuring index credit default swaps and single-name credit default swaps. For commodity and equity total return swaps, market prices are observable for the underlying asset and used as the basis for measuring the fair value of the derivative contracts. Total return swaps executed on other underlyings are measured based on valuations received from third parties.

***Physical Commodities***

Physical commodities include base and precious metals and are measured using observable inputs including spot prices and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED*****Investments at Fair Value and Investments in Managed Funds***

Investments at fair value and Investments in managed funds include investments in hedge funds, fund of funds, private equity funds, convertible bond funds and commodity funds, which are measured based on the net asset value of the funds provided by the fund managers and categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our German defined benefits pension plan and shares in non-US exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and are categorized in Level 3 of the fair value hierarchy. Fair value for the shares in non-US exchanges and clearing houses is determined based on recent transactions or third party model valuations and are categorized in Level 2 or Level 3 of the fair value hierarchy. The following tables provide further information about our investments in entities that have the characteristics of an investment company at November 30, 2011 and November 30, 2010 (in thousands):

	November 30, 2011		
	Fair Value (h)	Unfunded Commitments	Redemption Frequency (if currently eligible)
			Monthly, Quarterly
Equity Long/Short Hedge Funds(a)	\$ 27,604	\$	
High Yield Hedge Funds(b)	938		
Fund of Funds(c)	772	126	
Equity Funds(d)	88,294	74,283	
Convertible Bond Funds(e)	2,827		At Will
Other Investments(g)	19		Bi-Monthly
<b>Total(i)</b>	<b>\$ 120,454</b>	<b>\$ 74,409</b>	

	November 30, 2010		
	Fair Value (h)	Unfunded Commitments	Redemption Frequency (if currently eligible)
			Quarterly, Semiannually
Equity Long/Short Hedge Funds(a)	\$ 80,837	\$	
High Yield Hedge Funds(b)	1,561		
Fund of Funds(c)	2,622	131	Annually
Equity Funds(d)	73,162	87,791	
Convertible Bond Funds(e)	18,070		At Will
Commodity Funds(f)	5,948		At Will
Other Investments(g)	287		At Will
<b>Total(i)</b>	<b>\$ 182,487</b>	<b>\$ 87,922</b>	

- (a) This category includes investments in hedge funds that invest in both long and short equity securities in domestic and international markets in both public and private sectors. At November 30, 2011 and

**Table of Contents**

**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2011 and 2010**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

November 30, 2010, investments representing approximately 98% and 92%, respectively, of the fair value in this category are redeemable with 30 to 65 days prior written notice. At November 30, 2010, investments representing approximately 7% of fair value could not be redeemed until the lock-up period expired on December 31, 2010. At November 30, 2011 and November 30, 2010, investments representing approximately 2% and 1%, respectively, of fair value cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. We are unable to estimate when the underlying assets will be liquidated. At November 30, 2011 and November 30, 2010, an investment representing less than 1% of fair value has no redemption provisions; distributions are received through the liquidation of the underlying assets of the fund which is estimated to be within one to two years.

- (b) This category includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. At November 30, 2011 and November 30, 2010, these investments are currently in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.
- (c) This category includes investments in fund of funds that invest in various private equity funds. At November 30, 2011 and November 30, 2010, approximately 95% and 41%, respectively, of the fair value of investments in this category is managed by us and has no redemption provisions. Distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to three years. At November 30, 2011 we requested redemption for investments representing approximately 5% of fair value at November 30, 2011, however we are unable to estimate when these funds will be returned. At November 30, 2010, investments representing approximately 59% of the fair value were approved for redemption and the funds' net asset values were received in the first quarter of 2011.
- (d) At November 30, 2011 and November 30, 2010, investments representing approximately 96% and 91% respectively, include investments in equity funds that invest in the equity of various private companies in the energy, technology, internet service and telecommunication service industries including acquired or restructured companies. These investments cannot be redeemed; distributions are received through the liquidation of the underlying assets of the funds and are expected to liquidate in one to ten years. At November 30, 2011, a fund that invests in Croatian companies represents approximately 4% of the total investment in equity funds. At November 30, 2010, funds that invest in Croatian and Vietnamese companies represent approximately 9% of the total investment in equity funds.
- (e) This category includes an investment in an open-ended investment company that invests primarily in convertible bonds. This investment is redeemable with 5 days prior written notice.
- (f) This category includes an investment in an open-ended investment company that invests in commodity-related equity securities and commodity futures-linked derivative instruments. This investment is redeemable with 7 days prior notice.
- (g) Other investments at November 30, 2011 included investments in funds that invest in commodities futures and options contracts. Other Investments at November 30, 2010 included investments in closed-ended funds that invested in Vietnamese equity and debt instruments.
- (h) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.



- (i) Investments at fair value in the Consolidated Statements of Financial Condition at November 30, 2011 and November 30, 2010 include \$55.9 million and \$26.9 million, respectively, of direct investments which are not investment companies and therefore are not part of this disclosure table.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****November 30, 2011 and 2010****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

At November 30, 2011 and November 30, 2010, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation basis as follows:

	November 30, 2011		November 30, 2010	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	7%	19%	9%	17%
Recently observed transaction prices	2%	1%	5%	2%
Data providers/pricing services	77%	75%	65%	60%
Broker quotes	1%	0%	12%	19%
Valuation techniques	13%	5%	9%	2%
	100%	100%	100%	100%

Pricing information obtained from external data providers may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. We have a formalized process whereby we challenge the appropriateness of pricing information obtained from data providers and pricing services in order to validate the data for consistency with the definition of a fair value exit price. Our process includes understanding and evaluating the service providers' valuation methodologies. For corporate, U.S. government and agency, and municipal debt securities (excluding auction rate securities), and loans, to the extent pricing services or broker quotes are utilized in our valuation process, the vendor services are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing information received from the independent pricing service is not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, our independent pricing service uses a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, we consider pricing data from multiple service providers as available as well as compare pricing data to prices we have observed for recent transactions, if any, in order to corroborate our valuation inputs.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES**

November 30, 2011 and 2010

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

The following is a summary of changes in fair value of our financial assets and liabilities that have been classified as Level 3 for the twelve months ended November 30, 2011 (in thousands):

	Twelve Months Ended November 30, 2011					Balance, November 30, 2011	Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2011 (1)
	Balance, November 30, 2010	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances, net	Transfers into Level 3	Transfers out of Level 3		
<b>Assets:</b>							
Financial instruments owned:							
Corporate equity securities	\$ 22,619	\$ 4,132	\$ (2,271)	\$ 816	\$ (11,807)	\$ 13,489	\$ 439
Corporate debt securities	73,408	1,048	(31,158)	6,304	(1,462)	48,140	(4,478)
Collateralized debt obligations	31,121	70	44,009	779	(27,991)	47,988	(270)
Municipal securities	472						