

JEFFERIES GROUP INC /DE/  
Form 10-K  
January 29, 2013  
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**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, 2012**

**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:**

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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. \$1,864,244,506 as of May 31, 2012.

Indicate the number of shares outstanding of the registrant's class of common stock, as of the latest practicable date. 203,799,188 shares as of the close of business on January 9, 2013.

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**JEFFERIES GROUP, INC.**

**2012 FORM 10-K ANNUAL REPORT**

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**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 November 12, 2012, we agreed to merge with Leucadia National Corporation ( Leucadia ), a diversified holding company. The transaction is expected to close during the first quarter of 2013 and is subject to customary closing conditions, including approval to effect the merger by both Leucadia s shareholders and our shareholders. Upon the merger, we will continue to operate in our current form and our Chairman and Chief Executive Officer and Chairman of the Executive Committee will remain in their current roles with respect to Jefferies Group, Inc. while assuming the roles of Chief Executive Officer and President, respectively, at Leucadia.

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, 2012, we had 3,804 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;

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Current reports on Form 8-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).

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

**Business Segments**

We currently operate in two business segments, Capital Markets and Asset Management. Our Capital Markets reportable segment, which represents principally our entire business, consists of our securities and commodities trading activities (including the results of our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC), and our investment banking activities. The Capital Markets reportable segment provides the sales, trading and/or origination and execution effort for various equity, fixed income, commodities, foreign exchange 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, 2012, November 30, 2011 and November 30, 2010 is set forth in Note 23, Segment Reporting, in our consolidated financial statements 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 Research, 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 U.S. and non-U.S. bank holding companies. 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.

Our equity research, sales and trading efforts are organized across 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 research team and sales force, we maintain relationships with our clients, distribute investment research, trading ideas, market information and analyses across a range of industries and receive and execute client orders. Our research covers over 1,560 individual companies around the world.

***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

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

clients securities positions through margin loans that are collateralized by securities, cash or other acceptable 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.

Customer assets (securities and funds) held by us are segregated in accordance with regulatorily mandated 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 custodizing their assets 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.

***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, foreign exchange and over-the-counter derivative trading activities.

***Fixed Income Sales and Trading***

Our fixed income effort encompasses the sales and trading of investment grade and high yield corporate bonds, U.S. and European government and agency securities, municipal bonds, mortgage- and asset-backed securities, whole loans, leveraged loans, high yield and 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 designated in similar capacities for numerous government bond issuers in Europe, and trades a broad spectrum of other European government bonds. Additionally, through the use of repurchase agreements, we act as an intermediary between borrowers and lenders of short-term funds and provide funding for various inventory positions.

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.

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.

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

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

Our global commodities business, 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 800 investment banking professionals operate in the Americas, Europe and Asia, and are organized into industry, product and geographic coverage groups. Sector coverage groups include Aerospace and Defense, Business Services, CleanTech, Consumer and Retail, Energy, Financial Institutions, Financial Sponsors, Gaming, General Industrials, Healthcare, Maritime, Media, Mining and Metals, Public Finance, Real Estate, 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.

***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.



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

**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 CoreCommodity Management, LLC (formerly known as Jefferies Asset Management, LLC), which is registered as an investment advisor with the SEC and as a commodity trading advisor with the Commodity Futures Trading Commission and is a member of the National Futures Association.

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 advisor 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 primarily with bank holding companies, but also with firms listed in the AMEX Securities Broker/Dealer Index, other brokers and dealers, and boutique investment banking firms. Large bank holding companies 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 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. Registered advisors are subject to regulations including marketing, transactions with affiliates, disclosure to clients, and recordkeeping; and advisors that are also registered as commodity trading advisors or commodity pool operators are also subject to regulation by the CFTC and the National Futures

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Association ( NFA ). 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 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. For additional information see Item 1A. Risk Factors Recent legislation and new and pending regulation may significantly affect our business.

*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 22, 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 nor a registered Introducing Broker, and is therefore not subject to the minimum financial requirements; however, Jefferies Bache, LLC, a United States FCM subsidiary, is registered and 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) \$1,000,000 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. Further, Jefferies is a registered Introducing Broker. Under the minimum financial requirements, an Introducing Broker must maintain adjusted net capital equal to or in excess of the greater of (A) \$45,000 or (B) since Jefferies is also a registered broker-dealer, the amount of net capital required by the SEC's Net Capital Rule. An Introducing Broker'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.

*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,

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

the Hong Kong Securities and Futures Commission and the Monetary Authority of Singapore. 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, anti-money laundering and anti-bribery 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. For additional information see Item 1A. Risk Factors Extensive international regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties.

**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.

***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. These legislative and regulatory initiatives will affect not only us, but also our competitors and certain of our clients. 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 new legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial condition.

The Dodd-Frank Act was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act and the rules and regulations adopted and to be adopted by the SEC and CFTC introduce a comprehensive regulatory regime for swaps and security-based swaps (both of which are defined terms). We are required to register two of our subsidiaries as swap dealers with the CFTC by January 30, 2013 and may register one or more subsidiaries as security-based swap dealers with the SEC. The new laws and regulations will subject certain swaps and security-based swaps to clearing and exchange trading requirements, and will subject swap dealers and security-based swap dealers to significant new burdens, including (i) capital and margin requirements, (ii) reporting, recordkeeping and internal business conduct requirements, (iii) external business conduct requirements in dealings with swap counterparties (which are particularly onerous when the counterparty is a special entity such as a federal, state, or municipal entity, an ERISA plan, a government employee benefit plan or an endowment), and (iv) large trader position reporting and certain position limit requirements. The final rules under Title VII, including those rules that have already been adopted, for both cleared and uncleared swap transactions will impose increased capital and margin requirements on our registered entities and require additional operational and compliance costs and resources that will likely affect our business.

Section 619 of the Dodd-Frank Act (Volcker Rule) and section 716 of the Dodd-Frank Act (swaps push-out rule) limit proprietary trading of certain securities and swaps by banking entities such as banks, bank holding companies and similar institutions. Although we are not a banking entity and are not otherwise subject to these rules, some of our clients and many of our counterparties are affiliated with bank holding companies and will be subject to these restrictions. These sections of the Dodd-Frank Act and the regulations that are adopted to implement them could negatively affect the swaps and securities markets by reducing their depth and liquidity

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

and thereby affect pricing in these markets. Other negative effects could result from an expansive extraterritorial application of the Dodd-Frank Act in general or the Volcker Rule in particular and/or insufficient international coordination with respect to adoption of rules for derivatives in other jurisdictions. We will not know the exact impact that these changes in the markets will have on our business until after the final rules are implemented.

The Dodd-Frank Act, in addressing systemic risks to the financial system, charges the Federal Reserve with drafting enhanced regulatory requirements for systemically important bank holding companies and certain other nonbank financial companies designated as systemically important by the Financial Stability Oversight Council. The enhanced requirements proposed by the Federal Reserve include capital requirements, liquidity requirements, limits on credit exposure concentrations and risk management requirements. We do not believe that we will be deemed to be a systemically important nonbank financial company under the new legislation and therefore will not be directly impacted. However, there will be an indirect impact to us as the new regulations will most likely effect our competitors, counterparties and certain of our clients.

*Extensive international 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 regulations in every country in which we operate. Firms that engage in securities and derivatives trading, commodity futures brokerage, wealth and 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, but not limited to, sales and trading methods, trade practices, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering and anti-bribery and corruption efforts, recordkeeping and the conduct of directors, officers and employees.

Each of our regulators supervises our business activities to monitor compliance with such laws, rules and regulations in the relevant jurisdiction. In addition, if there are instances in which our regulators question our compliance with laws, rules, and regulations, they may investigate the facts and circumstances to determine whether we have complied. At any moment in time, we may be subject to one or more such investigation or similar reviews. At this time, all such investigations, and similar reviews are insignificant in scope and 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 investigations and similar reviews could result in adverse regulatory requirements, regulatory enforcement actions and/or fines.

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 business, results of operations and financial condition.

In the UK, our primary regulator, the UK Financial Services Authority ( FSA ), has adopted a "twin peaks" model with a clear internal separation of conduct of business and prudential regulation. This move mirrors the UK government's intention to transfer prudential supervision of the more systemically important institutions from the FSA to the Prudential Regulation Authority ( PRA ), a subsidiary of The Bank of England, and for the FSA (to be renamed the Financial Conduct Authority ( FCA )) to focus on consumer protection and market regulation as well as prudential supervision of all other regulated financial institutions. It is currently expected that this transfer will take place in April 2013. The Financial Services Bill, which will formally establish the PRA and FCA, is currently making its way through Parliament. Our regulated UK subsidiaries, Jefferies International Limited, Jefferies Investment Management Limited and Jefferies Bache Limited, are maintaining a close dialogue with the FSA as it implements these changes.

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

We continue to monitor the impact that the Basel Accords will have on us. The latest update issued by the Basel Committee on Banking Supervision in December 2010, known as Basel III, has recommended strengthening capital and liquidity rules. In response, the European Commission is in the process of implementing amendments to its Capital Requirements Directive known as CRD IV. Changes under CRD IV are expected to start to come into effect in late 2013 or early 2014 and we continue to monitor the potential impact on our UK subsidiaries.

The European Market Infrastructure Regulation ( EMIR ) came into force in August 2012 and will be effective in the UK in early 2013. In common with the Dodd-Frank Act in the US, these rules are intended, amongst other things, to reduce counterparty risk by requiring that all standardized over-the-counter derivatives are cleared through a central counterparty. We are reviewing EMIR and the related technical standards published by the European Securities and Markets Authority to assess the impact on us.

We are also reviewing the draft texts of the amendments to the Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation to assess the impact both pieces of legislation are likely to have on our business when they come into force in 2013 or 2014. Amongst other things, the legislation will require certain over-the-counter derivatives to be traded on exchanges and other electronic trading platforms.

***We could be adversely affected if our merger with Leucadia National Corporation is not consummated.***

On November 11, 2012, we and certain merger-related subsidiaries agreed to a series of merger transactions whereby we would become a wholly owned subsidiary of Leucadia. These transactions, which are expected to close during the first quarter of 2013, are subject to customary closing conditions, including approval by both Leucadia's and our shareholders. As part of the transactions, we will be converted from a corporation to a limited liability company organized under the laws of the State of Delaware. Leucadia will not assume or guarantee any of Jefferies' outstanding debt securities, but Jefferies' 3.875% Convertible Senior Debentures due 2029 will become convertible into common shares of Leucadia following the merger transactions. If not redeemed, Jefferies' 3.25% Series A Convertible Cumulative Preferred Stock will be exchanged for a comparable series of convertible preferred shares of Leucadia. Jefferies will retain a credit rating separate from Leucadia's.

In addition to approval by both Leucadia and our shareholders, the closing of the transactions is subject to a number of other conditions that make the completion and timing of the completion of the transactions uncertain. If the transactions are not completed on a timely basis, or at all, our businesses may be adversely affected and, without realizing any of the benefits of having completed the transactions, we will be subject to a number of risks, including the following:

We will be required to pay our costs relating to the transactions, such as legal, accounting, financial advisory and printing fees, whether or not the transactions are completed.

We may be required to pay a termination fee plus out-of-pocket fees and expenses incurred by Leucadia.

Time and resources committed by our management and employees to matters relating to the transactions could otherwise have been devoted to pursuing other beneficial opportunities.

The market price of our common stock could decline to the extent that the current market price reflects a market assumption that the transactions will be completed.

If the merger agreement is terminated and our board of directors seeks another business combination, our stockholders cannot be certain that we will be able to find a party willing to enter into a merger agreement on terms equivalent to or more attractive than the terms that Leucadia has agreed to in connection with the transactions.



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

***Our merger with Leucadia National Corporation could be affected by certain litigation.***

Seven putative class action lawsuits have been filed in New York and Delaware concerning the merger transactions whereby Jefferies Group, Inc. would become a wholly owned subsidiary of Leucadia. The class actions, filed on behalf of our shareholders, name as defendants Jefferies Group, Inc., the members of our board of directors, Leucadia and, in certain of the actions, certain merger-related subsidiaries. The actions allege that the directors breached their fiduciary duties in connection with the merger transactions by engaging in a flawed process and agreeing to sell Jefferies Group, Inc., for inadequate consideration pursuant to an agreement that contains improper deal protection terms. The actions allege that Jefferies Group, Inc. and Leucadia aided and abetted the directors' breach of fiduciary duties and seek, among other things, an injunction barring the proposed transactions. We are unable to predict the outcome of this litigation, including whether it will affect the closing of the merger with Leucadia National Corporation.

***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.***

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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



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

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.

***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, during 2011 and 2012, the possibility that certain European Union ( EU ) member states could have defaulted on their debt obligations 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 EU member states may experience similar financial troubles could 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.***

Maintaining an investment grade credit rating is important to our business and financial condition. On October 16, 2012 Moody's announced that it downgraded our credit rating from Baa2 to Baa3. We intend to access the capital markets and issue debt securities from time to time; and a decrease in our credit rating would not only increase our borrowing costs, but could also decrease demand for our debt securities and make a successful financing more difficult. In addition, in connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. Such a downgrade could also negatively impact our stock and bond prices. There can be no assurance that our credit ratings will not be further downgraded by Moody's or downgraded by other rating agencies.

***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 fluctuations, 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 adverse 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.

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

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

All aspects of our business are intensely competitive. We compete directly with a number of bank holding companies and commercial banks, other brokers and dealers, investment banking firms and other financial institutions. 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 employees we need to effectively operate our business.

***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.

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

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

Asset management revenue includes management and performance fees from funds and accounts managed by us, management and performance fees from related party managed funds and accounts and investment income (loss) from our investments in these funds, accounts and related party managed 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.

***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.

***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

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

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. However, there can be no assurances that our risk controls will be successful.

*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 additional offices throughout the world including, in the United States, Charlotte, Chicago, Houston, Los Angeles, San Francisco, Stamford, and Jersey City, and internationally, London, Zurich, Hong Kong, Frankfurt, Singapore, Tokyo and Mumbai. In addition, we 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 21, 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.

Seven putative class action lawsuits have been filed in New York and Delaware concerning the merger transactions whereby Jefferies Group, Inc. would become a wholly owned subsidiary of Leucadia. The class actions, filed on behalf of our shareholders, name as defendants Jefferies Group, Inc., the members of our board

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

of directors, Leucadia and, in certain of the actions, certain merger-related subsidiaries. The actions allege that the directors breached their fiduciary duties in connection with the merger transactions by engaging in a flawed process and agreeing to sell Jefferies Group, Inc. for inadequate consideration pursuant to an agreement that contains improper deal protection terms. The actions allege that Jefferies Group, Inc. and Leucadia aided and abetted the directors' breach of fiduciary duties and seek, among other things, an injunction barring the proposed transactions. We are unable to predict the outcome of this litigation, including whether it will affect the closing of the merger with Leucadia.

**Item 4. *Mine Safety Disclosures.***

Not applicable

**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>YEAR ENDED NOVEMBER 30, 2012</b> |          |          |
| Fourth Quarter                      | \$ 17.32 | \$ 13.50 |
| Third Quarter                       | 14.95    | 11.59    |
| Second Quarter                      | 19.82    | 12.75    |
| First Quarter                       | 17.12    | 11.04    |
| <b>YEAR 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    |

There were approximately 1,560 holders of record of our Common Stock at January 15, 2013. 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, the governing provisions of the Delaware General Corporation Law and financial covenants under our \$950.0 million senior secured revolving credit facility.

Dividends per Common Share (declared):

|      | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------|-------------|-------------|-------------|-------------|
| 2012 | \$ 0.075    | \$ 0.075    | \$ 0.075    | \$ 0.075    |
| 2011 | \$ 0.075    | \$ 0.075    | \$ 0.075    | \$ 0.075    |

On December 6, 2012, the Board of Directors declared a quarterly dividend of \$0.075 per share of common stock, payable on December 31, 2012 to stockholders of record as of December 21, 2012.

**Issuer Purchases of Equity Securities**

| Period                           | (a) Total<br>Number of<br>Shares<br>Purchased(1) | (b) Average<br>Price Paid<br>per Share | (c) Total Number of<br>Shares Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs(2) | (d) Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|----------------------------------|--|--|---|--|
| September 1 - September 30, 2012 | 103,151  | 15.81                                  |   | 11,500,000   |
| October 1 - October 31, 2012     | 204,465  | 14.51                                  |   | 11,500,000   |
| November 1 - November 30, 2012   | 294,949  | 16.15                                  |   | 11,500,000   |

Total

602,565

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

- (1) We repurchased an aggregate of 602,565 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, 2007, 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>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Jefferies Group, Inc. | 100         | 49          | 93          | 97          | 47          | 71          |
| S&P 500               | 100         | 62          | 78          | 85          | 92          | 107         |
| S&P 500 Financials    | 100         | 42          | 50          | 50          | 45          | 57          |

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

The selected data presented below as of and for the years ended November 30, 2012 and 2011, eleven months ended November 30, 2010 and each of the years in the two year period ended December 31, 2009 and 2008 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.

|  | Year Ended November 30,<br>2012          | 2011             | Eleven<br>Months Ended<br>November 30,<br>2010 | Year Ended December 31,<br>2009 | 2008             |
|--|--|------------------|--|---------------------------------|------------------|
|  | (In Thousands, Except Per Share Amounts) |                  |  |                                 |                  |
| <b>Earnings Statement Data</b>   |  |                  |  |                                 |                  |
| Revenues:  |  |                  |  |                                 |                  |
| Commissions  | \$ 485,569                               | \$ 534,726       | \$ 466,246                                     | \$ 512,293                      | \$ 611,823       |
| Principal transactions   | 1,035,974                                | 428,035          | 509,070  | 838,396                         | (80,479)         |
| Investment banking   | 1,125,883                                | 1,122,528        | 890,334  | 474,315                         | 425,887          |
| Asset management fees and investment income (loss)<br>from managed funds               | 26,966                                   | 44,125           | 16,785   | 35,887                          | (52,929)         |
| Interest   | 1,031,839                                | 1,248,132        | 852,494  | 732,250                         | 741,559          |
| Other  | 164,974                                  | 152,092          | 62,417   | 38,918                          | 28,573           |
| <b>Total revenues</b>  | <b>3,871,205</b>                         | <b>3,529,638</b> | <b>2,797,346</b>                               | <b>2,632,059</b>                | <b>1,674,434</b> |
| Interest expense   | 872,421                                  | 980,825          | 605,096  | 468,798                         | 660,448          |
| <b>Net revenues</b>  | <b>2,998,784</b>                         | <b>2,548,813</b> | <b>2,192,250</b>                               | <b>2,163,261</b>                | <b>1,013,986</b> |
| Interest on mandatorily redeemable preferred interests<br>of consolidated subsidiaries | 42,883                                   | 3,622            | 14,916   | 37,248                          | (69,077)         |
| <b>Net revenues, less mandatorily redeemable preferred<br/>interests</b>               | <b>2,955,901</b>                         | <b>2,545,191</b> | <b>2,177,334</b>                               | <b>2,126,013</b>                | <b>1,083,063</b> |
| Non-interest expenses:   |  |                  |  |                                 |                  |
| Compensation and benefits  | 1,770,798                                | 1,482,604        | 1,282,644                                      | 1,195,971                       | 1,522,157        |
| Non-compensation expenses:   |  |                  |  |                                 |                  |
| Floor brokerage and clearing fees  | 120,145                                  | 126,313          | 110,835  | 80,969                          | 64,834           |
| Technology and communications  | 244,511                                  | 215,940          | 160,987  | 141,233                         | 127,357          |
| Occupancy and equipment rental   | 97,397                                   | 84,951           | 68,085   | 72,824                          | 76,255           |
| Business development   | 95,330                                   | 93,645           | 62,015   | 37,614                          | 49,376           |
| Professional services  | 73,427                                   | 66,305           | 49,080   | 41,125                          | 46,948           |
| Other  | 62,498                                   | 56,099           | 47,017   | 48,530                          | 84,296           |
| <b>Total non-compensation expenses</b>   | <b>693,308</b>                           | <b>643,253</b>   | <b>498,019</b>                                 | <b>422,295</b>                  | <b>449,066</b>   |
| <b>Total non-interest expenses</b>   | <b>2,464,106</b>                         | <b>2,125,857</b> | <b>1,780,663</b>                               | <b>1,618,266</b>                | <b>1,971,223</b> |
| <b>Earnings (loss) before income taxes</b>   | <b>491,795</b>                           | <b>419,334</b>   | <b>396,671</b>                                 | <b>507,747</b>                  | <b>(888,160)</b> |
| Income tax expense (benefit)   | 168,646                                  | 132,966          | 156,404  | 195,928                         | (293,359)        |
| <b>Net earnings (loss)</b>   | <b>323,149</b>                           | <b>286,368</b>   | <b>240,267</b>                                 | <b>311,819</b>                  | <b>(594,801)</b> |
| Net earnings (loss) to noncontrolling interests  | 40,740                                   | 1,750            | 16,601   | 36,537                          | (53,884)         |

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|  |            |            |            |            |              |
|--|------------|------------|------------|------------|--------------|
| Net earnings (loss) to common shareholders | \$ 282,409 | \$ 284,618 | \$ 223,666 | \$ 275,282 | \$ (540,917) |
| Earnings per common share:                 |            |            |            |            |              |
| Basic earnings (loss) per common share     | \$ 1.23    | \$ 1.28    | \$ 1.10    | \$ 1.36    | \$ (3.30)    |
| Diluted earnings (loss) per common share   | \$ 1.22    | \$ 1.28    | \$ 1.09    | \$ 1.35    | \$ (3.30)    |
| Weighted average common shares:            |            |            |            |            |              |
| Basic                                      | 215,989    | 211,056    | 196,393    | 200,446    | 166,163      |
| Diluted                                    | 220,101    | 215,171    | 200,511    | 204,572    | 166,163      |
| Cash dividends per common share            | \$ 0.30    | \$ 0.30    | \$ 0.30    |            | \$ 0.25      |

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

|   | 2012                                     | November 30,<br>2011 | 2010          | December 31,<br>2009 | December 31,<br>2008 |
|---|--|----------------------|---------------|----------------------|----------------------|
|   | (In Thousands, Except Per Share Amounts) |                      |               |                      |                      |
| <b>Selected Balance Sheet Data</b>                                      |  |                      |               |                      |                      |
| Total assets  | \$ 36,293,541                            | \$ 34,971,422        | \$ 36,726,543 | \$ 28,121,023        | \$ 19,978,685        |
| Long-term debt  | \$ 4,804,607                             | \$ 4,608,926         | \$ 3,778,681  | \$ 2,729,117         | \$ 1,764,274         |
| Mandatorily redeemable convertible preferred stock                      | \$ 125,000                               | \$ 125,000           | \$ 125,000    | \$ 125,000           | \$ 125,000           |
| Mandatorily redeemable preferred interests of consolidated subsidiaries | \$ 348,051                               | \$ 310,534           | \$ 315,885    | \$ 318,047           | \$ 280,923           |
| Total common stockholders' equity                                       | \$ 3,436,015                             | \$ 3,224,312         | \$ 2,477,989  | \$ 2,298,140         | \$ 2,115,583         |
| Shares outstanding  | 203,312                                  | 197,160              | 171,694       | 165,638              | 163,216              |
| <b>Other Data (Unaudited)</b>   |  |                      |               |                      |                      |
| Common book value per share(1)  | \$ 16.90                                 | \$ 16.35             | \$ 14.43      | \$ 13.87             | \$ 12.96             |

- (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.

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**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 results, 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 and most recent previous period represents the twelve months ended November 30, 2012 and 2011, respectively, and has been reported on the basis of a fiscal year beginning as of December 1. Our prior period ended November 30, 2010 consisted of the eleven month transition period beginning January 1, 2010 through November 30, 2010.

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

The following table provides an overview of our consolidated results of operations (in thousands, except per share amounts):

|   | Year Ended<br>November 30, |              | Eleven<br>Months<br>Ended<br>November 30, |
|---|----------------------------|--------------|---|
|   | 2012                       | 2011         | 2010                                      |
| Net revenues, less mandatorily redeemable preferred interests | \$ 2,955,901               | \$ 2,545,191 | \$ 2,177,334                              |
| Non-interest expenses   | 2,464,106                  | 2,125,857    | 1,780,663                                 |
| Earnings before income taxes                                  | 491,795                    | 419,334      | 396,671                                   |
| Income tax expense  | 168,646                    | 132,966      | 156,404                                   |
| Net earnings  | 323,149                    | 286,368      | 240,267                                   |
| Net earnings to noncontrolling interests                      | 40,740                     | 1,750        | 16,601                                    |
| Net earnings to common shareholders                           | 282,409                    | 284,618      | 223,666                                   |
| Earnings per diluted common share                             | \$ 1.22                    | \$ 1.28      | \$ 1.09                                   |
| Effective tax rate  | 34.3%                      | 31.7%        | 39.4%                                     |

On November 12, 2012, we announced a definitive merger agreement with Leucadia National Corporation ( Leucadia ) (the Merger Agreement ) whereby Jefferies shareholders (other than Leucadia, which currently owns approximately 28.6% of Jefferies outstanding common shares) will receive 0.81 of a share of Leucadia common stock for each share of Jefferies common stock they hold. The merger, which is expected to close during the first quarter of 2013, is subject to customary closing conditions, including approval to effect the merger by both Leucadia and Jefferies shareholders. Upon the closing of the merger, Richard Handler, current Chief Executive Officer and Chairman of Jefferies, will remain in these positions and also become the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian Friedman, the Chairman of the Executive Committee of Jefferies, will remain in this position and will also become Leucadia s President and one of Leucadia s Directors. Upon the merger, Jefferies will continue to operate as a full-service global investment banking firm in its current form and will retain a credit rating separate from Leucadia. We intend to remain an SEC reporting company, regularly filing annual, quarterly and periodic financial reports.

**Executive Summary**

**2012 v. 2011** Net revenues, less mandatorily redeemable preferred interests, for the year ended November 30, 2012 increased \$410.7 million, or 16%, to a record \$2,955.9 million, as compared to the previous record of \$2,545.2 million for the year ended November 30, 2011. During 2012, we structured and invested in convertible preferred stock of Knight Capital, Inc. ( Knight Capital ). Net revenues for the year ended November 30, 2012 include a mark-to-market gain of \$151.9 million on our share ownership in Knight Capital and an advisory fee of \$20.0 million for services in respect of the transaction. Net revenues for the year ended November 30, 2012 include within Other revenues a bargain purchase gain of \$3.4 million on the acquisition of the corporate broking business of Hoare Govett from The Royal Bank of Scotland plc, a gain on debt extinguishment of \$9.9 million and a gain of \$23.8 million on the sale of certain mortgage servicing right assets by our Fixed Income business. Fixed income revenues for the year ended November 30, 2012 include a full twelve months of the Global Commodities Group business (also referred to as Jefferies Bache ), compared to five months in 2011 as a result of the acquisition from Prudential Financial, Inc. ( Prudential ) on July 1, 2011. The results for fiscal 2011 include a bargain purchase gain of \$52.5 million arising on the acquisition of Jefferies Bache.

Non-interest expenses of \$2,464.1 million for the year ended November 30, 2012, reflect a 16% increase over the 2011 comparable period. This net increase is primarily attributable to higher compensation expense consistent with higher net revenues, the inclusion of costs from Jefferies Bache for a longer period in fiscal 2012,

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

and higher technology and communications, occupancy and professional services costs, partially offset by lower floor brokerage and clearing fees on lower equities trading volume. Increased professional service costs are primarily associated with our announced merger with Leucadia and efforts associated with Dodd-Frank compliance. Non-interest expenses for 2012 and 2011 include donations to Hurricane Sandy relief of \$4.1 million and \$4.6 million to Japanese earthquake relief, respectively. Compensation costs as a percentage of Net revenues for the year ended November 30, 2012 were 59.1%, as compared to 58.2% for the year ended November 30, 2011.

**2011 v. 2010** Net revenues, less mandatorily redeemable preferred interests, 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. The increase was primarily driven by strong investment banking results, revenues associated with Jefferies Bache acquired on July 1, 2011 as well as the additional one month of results included in 2011 versus 2010. The results for 2011 include within Other revenues a bargain purchase gain of \$52.5 million arising on the acquisition of Jefferies Bache and a gain on debt extinguishment of \$21.1 million. Non-interest expenses of \$2,125.9 million for the twelve months ended November 30, 2011 reflect 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 58.2% of Net revenues as compared to 58.5% 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 include our \$4.6 million charitable contribution for Japanese earthquake relief and our \$6.8 million donation to various Haiti earthquake charities, respectively.

Our effective tax rate was 34.3%, 31.7% and 39.4% for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. The increase in our effective tax rate to 34.3% as compared to the prior fiscal year was primarily attributable to the fact that the 2011 effective tax rate was reduced by a bargain purchase gain of \$52.5 million arising on the acquisition of the Global Commodities Group, which was non-taxable. The effective tax rate for 2011 of 31.7% was down from 39.4% for fiscal 2010 primarily due to the non-taxable bargain purchase gain of \$52.5 million in 2011 and, to a lesser extent, a change in the mix of taxable profits by business and geographic region.

At November 30, 2012, we had 3,804 employees globally, as compared to 3,898 at November 30, 2011 and 3,084 at November 30, 2010. We added an additional 51 employees with the acquisition of Hoare Govett in February 2012 and expanded our headcount during the 2012 third quarter in our metal and energy futures business. These increases were offset by headcount reductions since the start of the fiscal year aimed at better resource allocation and improved productivity. On July 1, 2011, we added approximately 400 employees as part of Jefferies Bache.

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 IA of this Annual Report on Form 10-K for the year ended November 30, 2012.

**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 provides the sales, trading and origination and execution effort for various equity, fixed income, commodities, foreign exchange 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.

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

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.

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 years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 (amounts in thousands):

|   | Year Ended November 30, |                   | 2011         |                   | Eleven Months Ended November 30, 2010 |                   |
|---|-------------------------|-------------------|--------------|-------------------|---------------------------------------|-------------------|
|   | 2012                    | % of Net Revenues | 2011         | % of Net Revenues | 2010                                  | % of Net Revenues |
|   | Amount                  |                   | Amount       |                   | Amount                                |                   |
| Equities  | \$ 642,360              | 21%               | \$ 593,589   | 23%               | \$ 556,772                            | 25%               |
| Fixed income  | 1,190,400               | 40                | 714,956      | 28                | 728,359                               | 33                |
| Total sales and trading   | 1,832,760               | 61                | 1,308,545    | 51                | 1,285,131                             | 58                |
| Other   | 13,175                  |                   | 73,615       | 3                 |                                       |                   |
| Equity  | 193,797                 | 7                 | 187,288      | 7                 | 126,363                               | 6                 |
| Debt  | 455,790                 | 15                | 384,921      | 15                | 347,471                               | 16                |
| Capital markets   | 649,587                 | 22                | 572,209      | 22                | 473,834                               | 22                |
| Advisory  | 476,296                 | 16                | 550,319      | 22                | 416,500                               | 19                |
| Total investment banking  | 1,125,883               | 38                | 1,122,528    | 44                | 890,334                               | 41                |
| Asset management fees and investment income from managed funds:                     |                         |                   |              |                   |                                       |                   |
| Asset management fees   | 38,130                  | 1                 | 33,425       | 1                 | 16,519                                | 1                 |
| Investment (loss)/income from managed funds   | (11,164)                |                   | 10,700       |                   | 266                                   |                   |
| Total   | 26,966                  | 1                 | 44,125       | 1                 | 16,785                                | 1                 |
| Net revenues  | 2,998,784               | 100%              | 2,548,813    | 100%              | 2,192,250                             | 100%              |
| Interest on mandatorily redeemable preferred interests of consolidated subsidiaries | 42,883                  |                   | 3,622        |                   | 14,916                                |                   |
| Net revenues, less mandatorily redeemable preferred interests                       | \$ 2,955,901            |                   | \$ 2,545,191 |                   | \$ 2,177,334                          |                   |

**Net Revenues**

**2012 v. 2011** Net revenues for the year ended November 30, 2012 were \$2,998.8 million, an increase of \$450.0 million, or 18%, as compared to \$2,548.8 million for the year ended November 30, 2011. Our 2012 results include twelve months of results of Jefferies Bache, compared to five months in 2011, having been acquired from Prudential in July 2011. Our 2012 results also include Principal transaction revenues of \$151.9 million from our investment in Knight Capital. Secondary trading volume was lower contributing to a decline in Equities revenue for 2012 (excluding mark-to-market gains from our ownership of Knight Capital) compared to





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

the 2011 year. Fixed income revenue increased significantly in 2012 as compared to 2011 supported by investor demand for higher-yielding assets translating into reasonably robust trading volumes. Total investment banking revenue of \$1,125.9 million for the year ended November 30, 2012 was comparable with 2011. Asset management fees increased for the year though were offset by write-downs on certain of our investments in unconsolidated funds. Net revenues for 2012 include a bargain purchase gain of \$3.4 million recognized in connection with our acquisition of Hoare Govett in February 2012 and a gain on extinguishment of debt of \$9.9 million related to transactions in our own debt by our broker-dealer's market-making desk in December 2011 reported within Other revenues. This compares to a bargain purchase gain of \$52.5 million recognized in connection with our Jefferies Bache acquisition and a gain on debt extinguishment of \$21.1 million in 2011.

**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.

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.

***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 and alternative investment strategies. Equities revenue also includes our share of the net earnings from our joint venture investments in Jefferies Finance, LLC ( Jefferies Finance ) and Jefferies LoanCore, LLC ( LoanCore ), which are accounted for under the equity method.

**2012 v. 2011** Total equities revenue was \$642.4 million for the year ended November 30, 2012, as compared to \$593.6 million for the comparable prior year. Equities revenue includes a gain of \$151.9 million recognized on our investment in Knight Capital recognized within Principal transaction revenues. Exclusive of Knight Capital, equity revenues decreased 17%, compared with the year ended November 30, 2011. Equities revenue is heavily driven by the overall level of trading activity of our clients.

While U.S. equity markets posted gains during the year with the S&P index up over 13%, investor caution was evidenced through declining volumes. Average New York Stock Exchange and NASDAQ exchange volumes were down 26% and 14%, respectively, for the year ended November 30, 2012 as compared to the year ended November 30, 2011, which contributed to reduced commissions for the respective periods. Similarly, European equity revenues declined on lower overall volumes across the broader markets, compounded by fears over Eurozone uncertainty. Partially offsetting these lower revenues was an increase in our Asian equity commissions as our client base increased. While commission revenues were similarly disadvantaged by lower volumes, trading revenue from our equity derivatives business improved on a change in our strategy regarding client activity when compared to the prior year.

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

For the year ended November 30, 2012, equity trading revenues from block trading opportunities and performance from certain strategic investments declined as compared to the comparable prior year period. Net earnings from our Jefferies Finance and LoanCore joint ventures for the year ended November 30, 2012 were higher as compared to 2011, and include a full year of LoanCore's results.

**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%. 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.

Declines in client stock volumes negatively impacted our U.S. cash equities trading revenue, while revenue 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 included within Other revenues 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.

***Fixed Income Revenue***

Fixed income revenue 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, foreign exchange and commodities trading activities.

**2012 v. 2011** Fixed income revenue was \$1,190.4 million for the year ended November 30, 2012, a \$475.4 million or 66% increase compared to revenue of \$715.0 million for the year ended November 30, 2011. Fixed income revenue for the year ended November 30, 2012 includes a full twelve months of revenue from Jefferies Bache as compared to five months in 2011 following the acquisition from Prudential in July 2011.

With the start of the European sovereign debt crisis in the second quarter of 2011 and slowing economic growth, U.S. and European market conditions in 2011 were significantly more severe than those of 2012, as evidenced by the widening of credit spreads and thinning liquidity. In contrast, in 2012, despite occasional investor concerns surrounding the European sovereign debt crisis and global economic growth, a Greek default was avoided, and coordinated austerity measures taken by European governments and the European Central Bank proved successful in allaying fears of a Eurozone breakup and disbanding of the Euro currency. In the U.S., Treasuries benefited from their perception of safety and a third round of quantitative easing by the U.S. Federal

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

Reserve and investors continued to seek higher yields in a low interest rate environment. Narrowing credit spreads and improved credit and emerging market conditions contributed to strong performances and customer flow across a broad number of fixed income products.

Revenues from our leveraged finance sales and trading business for the year ended November 30, 2012 were significantly improved from 2011 as credit spreads tightened considerably as compared to the challenging market conditions during 2011 upon the European sovereign debt crisis. Investor confidence returned in 2012 attracted to the yield on leveraged credit products. Additionally, certain of our high yield positions generated significant gains. Similarly, mortgage revenues were significantly improved during 2012 as compared 2011, as the markets rallied on tighter interest and mortgage index spreads. Municipal trading activities also benefited from spreads tightening over the period as well as investors seeking higher yields in a low interest rate environment. Additionally, revenues from our investment grade corporates business were up significantly in 2012 as compared to 2011 on improved credit market conditions, tightening spreads and stronger trading volumes. Revenue increases across a large portion of our fixed income businesses for 2012 versus the 2011 year were partially offset by a decline in revenue for the period in our Eurorates business, which had captured significant revenue in 2011 on the extreme volatility in the European markets upon the start of the European crisis.

Jefferies Bache commodities futures and foreign exchange revenues increased significantly compared to the year ended November 30, 2011, partially as a result of the inclusion of twelve months of results in 2012 compared to five months in 2011. Despite increased revenues, counterparty activity, though improved, remained somewhat reduced from historical levels. In addition, in 2012 Jefferies Bache recognized gains on its investment in shares of the London Metal Exchange and benefited from new client activity with the global metals desk introduced in the latter part of 2012.

Fixed Income revenues for the year ended November 30, 2012 also include a gain on the sale of mortgage servicing rights assets. This is compared to results for 2011, which include losses on certain U.S. dollar denominated interest rate swap futures contracts (fully closed out in August 2011) cleared through International Derivative Clearing Group.

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.

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

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

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 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.

Of the net earnings recognized in Jefferies High Yield Holdings, LLC (our high yield and distressed securities and bank loan trading and investment business), approximately 65% and 66% of such income for the years ended November 30, 2012 and 2011, 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**

For the year ended November 30, 2012, Other revenue of \$13.2 million is comprised of gains on debt extinguishment of \$9.9 million in connection with the accounting treatment for certain purchases of our long-term debt by our secondary market making corporates desk in the three months ended February 2012 and a bargain purchase gain of \$3.4 million arising in the accounting for the acquisition of Hoare Govett on February 1, 2012. Other revenue of \$73.6 million for the year ended November 30, 2011 million represents the bargain purchase gain of \$52.5 million arising on 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 see Note 4, Acquisitions and Note 14, Long-term Debt, respectively, in our consolidated financial statements.

**Investment Banking Revenue**

We provide a full range of capital markets and financial advisory services to our clients across most industry sectors primarily in the U.S. and Europe and to a lesser extent in Asia, Latin America and Canada. Capital markets revenue includes underwriting and placement revenue related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity convertible financing services. Advisory revenue consists primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions. The following table sets forth our investment banking revenue (in thousands):

|                 | Year Ended November 30, |              | Eleven<br>Months<br>Ended<br>November 30,<br>2010 | % Change     |              |
|-----------------|-------------------------|--------------|---|--------------|--------------|
|                 | 2012                    | 2011         |   | 2012 v. 2011 | 2011 v. 2010 |
| Equity          | \$ 193,797              | \$ 187,288   | \$ 126,363  | 3%           | 48%          |
| Debt            | 455,790                 | 384,921      | 347,471   | 18%          | 11%          |
| Capital markets | 649,587                 | 572,209      | 473,834   | 14%          | 21%          |
| Advisory        | 476,296                 | 550,319      | 416,500   | -13%         | 32%          |
| Total           | \$ 1,125,883            | \$ 1,122,528 | \$ 890,334  | 0%           | 26%          |



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

2012 v. 2011 Investment banking revenue was a record \$1,125.9 million for the year ended November 30, 2012, as compared to revenue of \$1,122.5 million for the year ended November 30, 2011, with higher debt capital market revenues offset by lower advisory revenues. Capital markets revenue increased \$77.4 million, or 14%, to \$649.6 million compared to 2011 with debt capital markets revenue increasing \$70.9 million to \$455.8 million from \$384.9 million in 2011 driven by a higher number of debt capital market transactions as companies took advantage of lower borrowing costs and more favorable economic and market conditions. During 2012, we completed 482 public and private debt financings raising a total of \$175 billion, as compared to 406 transactions raising a total of \$99 billion in 2011. Equity capital markets revenue totaled \$193.8 million for the year ended November 30, 2012, as compared to \$187.3 million for 2011. During the year ended November 30, 2012, we completed 111 public equity financings raising \$21 billion in capital (96 of which we acted as sole or joint bookrunner). This compares to 81 public equity financings raising \$15 billion in capital (70 of which we acted as sole or joint bookrunner) during the year ended November 30, 2011.

For 2012, advisory revenue decreased \$74 million, or 13%, to \$476.3 million as compared with \$550.3 million for the year ended November 30, 2011. During the 2012 fiscal year, we served as financial advisor on 111 merger and acquisition and 10 restructuring transactions having an aggregate transaction value of approximately \$104 billion, as compared to 126 merger and acquisition transactions and 12 restructuring transactions with an aggregate transaction value of \$77 billion during the prior fiscal year.

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, 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 \$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.

***Asset Management Fees and Investment (Loss) Income from Managed Funds***

Asset management revenue includes management and performance fees from funds and accounts managed by us, management and performance fees from related party managed funds and accounts and investment income (loss) from our investments in these funds, accounts and related party managed funds. The key components of asset management revenue are the level of assets under management and the performance return, whether on an absolute basis or 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 the results of our Asset Management segment for the year ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 (in thousands):

|  | Year Ended<br>November 30, |           | Eleven<br>Months<br>Ended<br>November 30, |
|--|----------------------------|-----------|---|
|  | 2012                       | 2011      | 2010                                      |
| Asset management fees:                         |                            |           |   |
| Fixed income                                   | \$ 4,094                   | \$ 3,725  | \$ 3,590                                  |
| Equities                                       | 4,573                      | 5,335     | 3,708                                     |
| Convertibles                                   | 10,387                     | 13,703    | 5,429                                     |
| Commodities                                    | 19,076                     | 10,662    | 3,792                                     |
|  | 38,130                     | 33,425    | 16,519                                    |
| Investment (loss) income from managed funds(1) | (11,164)                   | 10,700    | 266                                       |
| Total  | \$ 26,966                  | \$ 44,125 | \$ 16,785                                 |

- (1) Of the total investment (loss) income from managed funds, no amounts are attributed to noncontrolling interest holders for the years ended November 30, 2012 and 2011 and \$0.2 million is attributed to noncontrolling interest holders for the eleven months ended November 30, 2010.

**2012 v. 2011** Asset management fees increased by \$4.7 million to \$38.1 million for the year ended November 30, 2012 as compared to the year ended November 30, 2011. The increase resulted from higher average assets under management in our commodity funds and managed accounts partially offset by lower management fees in our global convertible bond funds and managed accounts and lower unrealized performance fees in our global convertible bond and strategic investment programs as compared to 2011. Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to manage certain collateralized loan obligations ( CLOs ) to Babson Capital Management, LLC in January 2010. As sale consideration, we are entitled to a portion of the asset management fees earned under the contracts for their remaining lives.

For the year ended November 30, 2012, unrealized markdowns in private equity funds managed by a related party resulted in an investment loss of \$11.2 million. This compares with a gain of \$10.7 million recognized on these funds for the prior year.

**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, 2010. 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 funds. To a lesser extent, the launch of certain of our strategic investment programs 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 private equity funds managed by a related party.



**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):

|                             | November 30,    |                 |
|-----------------------------|-----------------|-----------------|
|                             | 2012            | 2011            |
| Assets under management(1): |                 |                 |
| Equities                    | \$ 75           | \$ 318          |
| Convertibles                | 1,092           | 1,532           |
| Commodities                 | 1,002           | 434             |
| <b>Total</b>                | <b>\$ 2,169</b> | <b>\$ 2,284</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**

| (in millions)                 | Year Ended November 30, |                 | %<br>Change |
|-------------------------------|-------------------------|-----------------|-------------|
|                               | 2012                    | 2011            |             |
| Balance, beginning of period  | \$ 2,284                | \$ 1,964        | 16%         |
| Net cash flow (out) in        | (110)                   | 525             |             |
| Net market depreciation       | (5)                     | (205)           |             |
|                               | (115)                   | 320             |             |
| <b>Balance, end of period</b> | <b>\$ 2,169</b>         | <b>\$ 2,284</b> | <b>-5%</b>  |

For the year ended November 30, 2012, the net decrease in assets under management of \$115 million resulted from outflows from our global convertible bond and equity funds partially offset by inflows into our commodity funds. Net market depreciation of \$5 million reflects the decline in value of the underlying assets of our convertible bond funds. For the year ended November 30, 2011, the net increase of \$0.3 billion in assets under management to \$2.3 billion resulted primarily from cash inflows into our commodity funds and strategic investment programs, net of fund outflows from our global convertible bond funds and managed accounts.

**Managed Accounts**

We manage certain portfolios as mandated by client arrangements whereby 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 these measures by predominant asset strategy were as follows (in millions):

(notional account value)

November 30,

|                   | 2012     | 2011     |
|-------------------|----------|----------|
| Managed Accounts: |          |          |
| Commodities       | \$ 3,321 | \$ 1,612 |
|                   | \$ 3,321 | \$ 1,612 |

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

| (notional account value)<br>(in millions) | Year Ended November 30, |          |
|---|-------------------------|----------|
|   | 2012                    | 2011     |
| Balance, beginning of period              | \$ 1,612                | \$ 949   |
| Net account additions                     | 1,702                   | 629      |
| Net account appreciation                  | 7                       | 34       |
| Balance, end of period                    | \$ 3,321                | \$ 1,612 |

During the year ended November 30, 2012, new customer accounts and additional inflows from existing customers in our commodity managed accounts resulted in an increase in the notional value of our managed accounts.

*Invested Capital in Managed Funds*

The following table presents our invested capital in managed funds at November 30, 2012 and 2011 (in thousands):

|                         | November 30, |           |
|-------------------------|--------------|-----------|
|                         | 2012         | 2011      |
| Unconsolidated funds(1) | \$ 57,763    | \$ 70,224 |
| Consolidated funds(2)   | 30,561       | 10,076    |
| Total                   | \$ 88,324    | \$ 80,300 |

- (1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statements of Financial Condition. The decrease in our invested capital in unconsolidated funds results primarily from a \$9 million distribution from Jefferies Capital Partners IV L.P.
- (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. The increase in invested capital as of November 30, 2012 from November 30, 2011 is due to our increase in investment in the Structured Alpha program by \$20.0 million.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Non-interest Expenses**

Non-interest expenses for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, were as follows (in thousands):

|  | Year Ended November 30, |                     | Eleven Months<br>Ended<br>November 30, |
|--|-------------------------|---------------------|--|
|  | 2012                    | 2011                | 2010                                   |
| Compensation and benefits              | \$ 1,770,798            | \$ 1,482,604        | \$ 1,282,644                           |
| Non-compensation expenses:             |                         |                     |  |
| Floor brokerage and clearing fees      | 120,145                 | 126,313             | 110,835                                |
| Technology and communications          | 244,511                 | 215,940             | 160,987                                |
| Occupancy and equipment rental         | 97,397                  | 84,951              | 68,085                                 |
| Business development                   | 95,330                  | 93,645              | 62,015                                 |
| Professional services                  | 73,427                  | 66,305              | 49,080                                 |
| Other                                  | 62,498                  | 56,099              | 47,017                                 |
| <b>Total non-compensation expenses</b> | <b>\$ 693,308</b>       | <b>\$ 643,253</b>   | <b>\$ 498,019</b>                      |
| <b>Total non-interest expenses</b>     | <b>\$ 2,464,106</b>     | <b>\$ 2,125,857</b> | <b>\$ 1,780,663</b>                    |

**Compensation and Benefits**

Compensation and benefits expense consists of salaries, benefits, cash bonuses, commissions, annual share-based compensation awards and the amortization of certain nonannual share-based and cash compensation to employees. Annual cash- and share-based awards granted to employees as 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 (primarily non-compete clauses) of those awards. Accordingly, the compensation expense for a substantial portion of awards granted at year end as part of annual compensation is fully recorded in the year of the award. Included within compensation and benefits expense are share-based amortization expense for senior executive awards granted in January 2010 and September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of \$288.8 million and \$170.6 million for the years ended November 30, 2012 and 2011, respectively.

2012 v. 2011 Compensation and benefits as a percentage of Net revenues was 59.1% and the ratio for the year ended November 30, 2011 was 58.2%. Compensation and benefits expense increased \$288.2 million, or 19%, to \$1,770.8 million for the year ended November 30, 2012, compared to \$1,482.6 million for the prior fiscal year. The increase was primarily a result of higher net revenues and a full year of compensation expenses related to Jefferies Bache as compared to only five months in the year ended November 30, 2011 having completed the acquisition on July 1, 2011. In addition, compensation costs for 2012 reflect our investments to build our firm over the past few years and further investments in 2012 in our Jefferies Bache business. Employee headcount of 3,804 employees globally at November 30, 2012 decreased from 3,898 employees at November 30, 2011.

For the year ended November 30, 2012, Compensation and benefits expense includes \$22.9 million relating to the acquisition of the Global Commodities Group on July 1, 2011 and Hoare Govett on February 1, 2012, comprised of the amortization of retention and stock replacement awards granted to Jefferies Bache employees as replacement awards for previous Prudential stock awards that were forfeited at acquisition and amortization of



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

retention awards granted to Hoare Govett employees and bonus costs for employees as a result of the completion of the acquisition of Hoare Govett. When excluding these costs, together with the gain on debt extinguishment of \$9.9 million relating to trading activities in our own debt, amortization of discounts recognized on our long-term debt purchased and re-issued in December 2011 and January 2012 and recognized in Interest expense of \$4.8 million and the bargain purchase gain of \$3.4 million on our Hoare Govett acquisition, our ratio of Compensation and benefits expense to Net revenues for the year ended November 30, 2012 was 58.4%. Compensation and benefits expense for the year ended November 30, 2012 also includes severance costs of approximately \$30.6 million, approximately 1% of Net revenues, and an increase of approximately \$10 million over the prior year.

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 58.5%. For the twelve months ended November 30, 2011, compensation and benefits expense includes costs 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 months 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. 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.

***Non-Compensation Expenses***

2012 v. 2011 Non-compensation expenses were \$693.3 million for the year ended November 30, 2012, a 8% or \$50.1 million increase, as compared to expenses of \$643.3 million for the year ended November 30, 2011. A portion of the overall increase relates to the inclusion of twelve months of operating costs of Jefferies Bache in the year ended November 30, 2012 compared to five months in the prior fiscal year. Non-compensation expenses as a percentage of Net revenues were 23% for the year ended November 30, 2012 as compared to 25% for the year ended November 30, 2011 on the strength of higher revenues in fiscal 2012.

Floor brokerage and clearing expense decreased 5% to \$120.1 million for the year ended November 30, 2012 commensurate with lower equity trading volumes, partially offset by costs associated with the additional seven months of Jefferies Bache futures activity in 2012. Technology and communications expense increased 13%, or \$28.6 million, to \$244.5 million for the year ended November 30, 2012 compared to an expense of \$215.9 million for the year ended November 30, 2011. Exclusive of the effect of the additional months of expenses attributable to Jefferies Bache, technology and communications expense was comparable to fiscal 2011 due to the conclusion of various projects associated with corporate support infrastructure in fiscal 2012, offsetting increased costs associated with the continued build out of our Asian businesses. Occupancy and

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

equipment expense was \$97.4 million for 2012, an increase of 15% compared to 2011, primarily due to the inclusion of a full years costs for Jefferies Bache, our office growth in Asia and Europe and additional space at our global head office in New York. Professional services expense of \$73.4 million for the year ended November 30, 2012 reflects an increase of 11% over expenses of \$66.3 million for the prior year, which is primarily attributable to legal and consulting fees related to the announced merger with Leucadia and efforts associated with Dodd-Frank compliance. The increase in business development of \$1.7 million, or 2%, to \$95.3 million for the year ended November 30, 2012, as compared to \$93.6 million for the comparable period in the prior year, is primarily driven by our continued efforts to build market share, specifically our futures business. Other expenses of \$62.5 million for the 2012 year increased 11%, or \$6.4 million, as compared to the 2011 year as a result of inclusion of a full year s operating costs of the Bache entities, a \$2.9 million impairment charge recognized in the second quarter of 2012 on certain indefinite-lived intangible assets, donations to Hurricane Sandy relief of \$4.1 million and fees associated with the announced merger with Leucadia. Other expenses for 2011 included a \$4.6 million charitable donation for Japan earthquake relief.

**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.

**Income Taxes**

For the year ended November 30, 2012, the provision for income taxes was an expense of \$168.6 million, equating to an effective tax rate of 34.3%, compared with tax expense of \$133.0 million and \$156.4 million, equating to an effective tax rate of 31.7% and 39.4%, for the year ended November 30, 2011 and the eleven months ended November 30, 2010, respectively. The increase in the effective tax rate to 34.3% for the year ended November 30, 2012 as compared with 2011 is primarily attributable to the fact that the 2011 effective tax rate was reduced by a bargain purchase gain of \$52.5 million arising on the acquisition of the Global Commodities Group from Prudential, which was non-taxable. The effective tax rate for 2011 of 31.7% was down from 39.4% for fiscal 2010 primarily due to the non-taxable gain of \$52.5 million recorded in fiscal 2011 and, to a lesser extent, a change in the mix of taxable profits by business and geographic region.

**Earnings per Common Share**

Diluted net earnings per common share was \$1.22 for the year ended November 30, 2012 on 220,101,000 shares, compared to diluted net earnings per common share of \$1.28 for the year ended November 30, 2011 on 215,171,000 shares and compared to diluted net earnings per common share of \$1.09 for the eleven months ended November 30, 2010 on 200,511,000 shares. See Note 19, Earnings per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

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**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Accounting Developments****Accounting Standards to be Adopted in Future Periods**

*Indefinite-Lived Intangible Asset Impairment.* In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The update does not revise the requirement to test indefinite-lived intangible assets annually for impairment, or more frequently if deemed appropriate. The new guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted (fiscal year ended November 30, 2013). The adoption of this guidance will not affect our financial condition, results of operations or cash flows as it does not affect how impairment is calculated.

*Balance Sheet Offsetting Disclosures.* In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures regarding 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 for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal year ended November 30, 2014), and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance will not affect our financial condition, results of operation or cash flows.

*Goodwill Testing.* In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. 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 as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. The update is effective for annual and interim goodwill tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted (fiscal year ended November 2013). The adoption of this guidance will not affect our financial condition, results of operation or cash flows as it does not change how goodwill is calculated nor assigned to reporting units.

**Adopted Accounting Standards**

*Comprehensive Income.* In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The update requires entities to report comprehensive income either (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements. We adopted the guidance on March 1, 2012, and elected the two separate but consecutive statements approach. Accordingly, we now present our Consolidated Statements of Comprehensive Income immediately following our Consolidated Statements of Earnings within our consolidated financial statements.

*Fair Value Measurements and Disclosures.* In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. 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. We adopted this guidance on March 1, 2012 and have reflected the new disclosures in our consolidated financial statements. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.



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

*Reconsideration of Effective Control for Repurchase Agreements.* In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. In assessing whether to account for repurchase and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financing, this guidance removes from the assessment of effective control 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and 2) the collateral maintenance implementation guidance related to that criterion. The guidance is effective prospectively for transactions beginning on or after January 1, 2012. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

**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.

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, 2012 and 2011 (in thousands):

|  | November 30, 2012           |                         | November 30, 2011           |                         |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
|  | Financial Instruments       |                         | Financial Instruments       |                         |
|  | Financial Instruments Owned | Sold, Not Yet Purchased | Financial Instruments Owned | Sold, Not Yet Purchased |
| Corporate equity securities                                | \$ 1,762,775                | 1,539,332               | \$ 1,235,079                | \$ 1,330,096            |
| Corporate debt securities                                  | 3,038,146                   | 1,389,312               | 2,868,304                   | 1,614,493               |
| Government, federal agency and other sovereign obligations | 5,153,750                   | 3,666,112               | 7,471,563                   | 3,209,713               |
| Mortgage- and asset-backed securities                      | 5,468,284                   | 241,211                 | 3,923,303                   | 50,517                  |
| Loans and other receivables                                | 678,311                     | 207,227                 | 376,146                     | 151,117                 |
| Derivatives  | 298,086                     | 229,127                 | 525,893                     | 249,037                 |
| Investments  | 127,023                     |                         | 105,585                     |                         |
| Physical commodities                                       | 144,016                     | 183,142                 | 172,668                     |                         |
|  | \$ 16,670,391               | \$ 7,455,463            | \$ 16,678,541               | \$ 6,604,973            |



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

At November 30, 2012 and 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.

**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 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 6, Fair Value Disclosures, in our consolidated financial statements.

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

**Level 3 Assets and Liabilities** The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class at November 30, 2012 and 2011 (in thousands):

|  | Financial Instruments Owned |                      | Financial Instruments Sold,<br>Not Yet Purchased |                      |
|--|-----------------------------|----------------------|--|----------------------|
|  | November 30,<br>2012        | November 30,<br>2011 | November 30,<br>2012                             | November 30,<br>2011 |
| Loans and other receivables  | \$ 180,393                  | \$ 97,291            | \$ 1,711   | \$ 10,157            |
| Residential mortgage-backed securities   | 156,069                     | 149,965              |  |                      |
| Investments at fair value  | 83,897                      | 78,326               |  |                      |
| Collateralized debt obligations  | 31,255                      | 47,988               |  |                      |
| Commercial mortgage-backed securities  | 30,202                      | 52,407               |  |                      |
| Corporate equity securities  | 16,815                      | 13,489               | 38   |                      |
| Corporate debt securities  | 3,631                       | 48,140               |  | 74                   |
| Derivatives  | 328                         | 124                  | 9,516  | 9,409                |
| Other asset-backed securities  | 1,114                       | 3,284                |  |                      |
| Municipal securities   |                             | 6,904                |  |                      |
| Sovereign obligations  |                             | 140                  |  |                      |
| <b>Total Level 3 financial instruments</b>   | <b>503,704</b>              | <b>498,058</b>       | <b>11,265</b>                                    | <b>19,640</b>        |
| Level 3 financial instruments for which the firm bears no economic exposure(1)     | (53,289)                    | (45,901)             |  |                      |
| Level 3 financial instruments for which the firm bears economic exposure           | 450,415                     | 452,157              |  |                      |
| Investments in managed funds   | 57,763                      | 70,740               |  |                      |
| <b>Level 3 assets for which the firm bears economic exposure</b>                   | <b>\$ 508,178</b>           | <b>\$ 522,897</b>    |  |                      |
| <b>Total Level 3 assets</b>  | <b>\$ 561,467</b>           | <b>\$ 568,798</b>    |  |                      |
| Total Level 3 financial instruments as a percentage of total financial instruments | 3%                          | 3%                   | 0.2%   | 0.3%                 |

(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 Statements 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 \$2.3 million and \$3.8 million at November 30, 2012 and 2011, respectively.

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

| Year Ended<br>November 30, | Eleven<br>Months |
|----------------------------|------------------|
|----------------------------|------------------|

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|                                   | 2012    | 2011     | Ended<br>November 30,<br>2010 |
|-----------------------------------|---------|----------|-------------------------------|
| <b>Assets:</b>                    |         |          |                               |
| Transfers from Level 3 to Level 2 | \$ 81.8 | \$ 105.5 | \$ 163.9                      |
| Transfers from Level 2 to Level 3 | 180.6   | 63.6     | 18.0                          |
| Net gains (losses)                | 28.8    | (14.3)   | 108.5                         |
| <b>Liabilities:</b>               |         |          |                               |
| Transfers from Level 3 to Level 2 | \$ 2.2  | \$ 0.04  | \$ 93.3                       |
| Transfers from Level 2 to Level 3 |         |          | 0.04                          |
| Net (losses) gains                | (2.5)   | (6.6)    | 2.3                           |

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

See Note 6, Fair Value Disclosures, 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 Independent Price Verification Group, 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 12, 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.

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

***Liquidity, Financial Condition and Capital Resources***

Our Chief Financial Officer and Global 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.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)***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 sizable 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, |             | %      |
|---|--------------|-------------|--------|
|   | 2012         | 2011        | Change |
| Total assets  | \$ 36,293.5  | \$ 34,971.4 | 4%     |
| Cash and cash equivalents   | 2,692.6      | 2,393.8     | 12%    |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | 4,082.6      | 3,345.0     | 22%    |
| Financial instruments owned   | 16,670.4     | 16,678.5    | 0%     |
| Financial instruments sold, not yet purchased   | 7,455.5      | 6,605.0     | 13%    |
| Total Level 3 assets  | 561.5        | 568.8       | -1%    |
| Level 3 financial instruments for which we have economic exposure   | 450.4        | 452.2       | 0%     |
| Securities borrowed   | \$ 5,094.7   | \$ 5,169.7  | -1%    |
| Securities purchased under agreements to resell   | 3,357.6      | 2,893.0     | 16%    |
| Total securities borrowed and securities purchased under agreements to resell   | \$ 8,452.3   | \$ 8,062.7  | 5%     |
| Securities loaned   | \$ 1,934.4   | \$ 1,706.3  | 13%    |
| Securities sold under agreements to repurchase  | 8,181.3      | 9,620.7     | -15%   |
| Total securities loaned and securities sold under agreements to repurchase  | \$ 10,115.7  | \$ 11,327.0 | -11%   |

Total assets at November 30, 2012 were relatively consistent from November 30, 2011 as management determined these balances as of these dates to be appropriate levels of risk and leverage while maintaining sufficient liquidity for the firm and balancing our clients' trading needs. During the year ended November 30, 2012, average total assets were approximately 19% higher than total assets at November 30, 2011.

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 increased at November 30, 2011 from prior years and remains

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

consistent with levels expected for this business activity. 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.

Our total Financial instruments owned inventory at November 30, 2012 was \$16.7 billion, consistent with inventory at November 30, 2011. Financial instruments owned at November 30, 2012 reflects increases in long inventory positions of sovereign obligations of \$1.5 billion, mortgage- and asset-backed securities of \$1.5 billion and corporate equity securities of \$0.5 billion offset by a decrease in the holdings of U.S. government and agency securities of \$4.4 billion as compared to Financial instruments owned at November 30, 2011. This is reflective of positioning to take advantage of widening credit spreads and reflective of more normal inventory levels in comparison to the significant liquidation of sovereign inventory exposures at the end of fiscal 2011. Our Financial instruments sold, not yet purchased inventory increased to \$7.5 billion from \$6.6 billion at November 30, 2011, primarily due to a \$0.9 billion increase in sovereign obligations, increases in corporate equity and mortgage- and asset-backed securities and physical commodities, partially offset by a \$0.4 billion decrease in U.S. government and agency securities. Inventory held of sovereign obligations fluctuated from an overall net long position of \$4.1 million at November 30, 2011 to an overall net long position of \$710.9 million at November 30, 2012, primarily driven by an increase in net long exposure to sovereign positions of Germany, Spain, France and the United Kingdom.

Our overall net inventory positions decreased by \$0.9 billion to \$9.2 billion as of November 30, 2012 from \$10.1 billion as of November 30, 2011 with U.S. government and agency securities and other sovereign obligations accounting for \$1.9 billion of the decrease offset by an increase in net mortgage-and asset backed securities inventory. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. As a Primary Dealer in the U.S. and with 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. For further detail on our outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain as of November 30, 2012, 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.

Of our total Financial instruments owned, approximately 78% 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, 2012 and 2011, our Level 3 financial instruments owned for which we have economic exposure was 3% of our total financial instruments owned.



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

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 aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 5% from November 30, 2011 to November 30, 2012 primarily to facilitate our international fixed income business where short inventory increased. The outstanding balance of our securities loaned and securities sold under agreement to repurchase decreased by 11% from November 30, 2011 to November 30, 2012 due to a reduction in usage as our domestic fixed income businesses operated at levels that utilized less secured financing. Additionally, during fiscal 2012, and consistent with fiscal 2011, our utilization of repurchase agreements to finance liquid inventory was predominantly 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 and which partially offset the increase in matchbook secured financing activity. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the year ended November 30, 2012, were 25% and 33% higher, respectively, than the November 30, 2012 balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the year ended November 30, 2011, were 67% and 37% higher, respectively, than the November 30, 2011 balances.

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):

|  | Year Ended<br>November 30, |          | Eleven Months<br>Ended<br>November 30, |
|--|----------------------------|----------|--|
|  | 2012                       | 2011     | 2010                                   |
| <b>Securities Purchased Under Agreements to Resell</b> |                            |          |  |
| Period end   | \$ 3,358                   | \$ 2,893 | \$ 3,252                               |
| Month end average                                      | 4,890                      | 4,780    | 3,769                                  |
| Maximum month end                                      | 6,638                      | 6,956    | 4,983                                  |
| <b>Securities Sold Under Agreements to Repurchase</b>  |                            |          |  |
| Period end   | \$ 8,181                   | \$ 9,621 | \$ 10,684                              |
| Month end average                                      | 11,380                     | 13,024   | 11,464                                 |
| Maximum month end                                      | 15,035                     | 18,231   | 14,447                                 |

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented are 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, 2012 and 2011 (in thousands):

|   | November 30,  |               |
|---|---------------|---------------|
|   | 2012          | 2011          |
| Total assets  | \$ 36,293,541 | \$ 34,971,422 |
| Deduct: Securities borrowed   | (5,094,679)   | (5,169,689)   |
| Securities purchased under agreements to resell   | (3,357,602)   | (2,893,043)   |
| Add: Financial instruments sold, not yet purchased  | 7,455,463     | 6,604,973     |
| Less derivative liabilities   | (229,127)     | (249,037)     |
| Subtotal  | 7,226,336     | 6,355,936     |
| Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | (4,082,595)   | (3,344,960)   |
| Goodwill and intangible assets  | (380,929)     | (385,589)     |
| Adjusted assets   | \$ 30,604,072 | \$ 29,534,077 |
| Total stockholders' equity  | \$ 3,782,753  | \$ 3,536,975  |
| Deduct: Goodwill and intangible assets  | (380,929)     | (385,589)     |
| Tangible stockholders' equity   | \$ 3,401,824  | \$ 3,151,386  |
| Leverage ratio(1)   | 9.6           | 9.9           |
| Adjusted leverage ratio(2)  | 9.0           | 9.4           |

(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. The decrease in our leverage ratio and adjusted leverage ratio from November 30, 2011 to November 30, 2012 is commensurate with the increase in stockholders' equity and management's decision to maintain significant liquidity on hand.

**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.

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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, 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

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

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 and loan 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 \$8.7 billion as of November 30, 2012 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.

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.

No diversification benefit across liquidity risks. We assume that liquidity risks are additive.

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

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, 2012, 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**

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):

|  | November 30,<br>2012 | Average balance<br>Quarter ended<br>November 30, 2012 (1) | November 30,<br>2011 |
|--|----------------------|---|----------------------|
| <b>Cash and cash equivalents:</b>                                  |                      |   |                      |
| Cash in banks  | \$ 1,038,664         | \$ 643,462  | \$ 846,990           |
| Money market investments   | 1,653,931            | 1,137,032   | 1,546,807            |
| <b>Total cash and cash equivalents</b>                             | <b>2,692,595</b>     | <b>1,780,494</b>  | <b>2,393,797</b>     |
| <b>Other sources of liquidity:</b>                                 |                      |   |                      |
| Securities purchased under agreements to resell(2)                 | 900,000              | 1,032,289   | 233,887              |
| U.K. liquidity pool(2)   | 407,378              | 327,763   | 303,416              |
| Other(3)   | 423,735              | 485,958   | 509,491              |
| <b>Total other sources</b>   | <b>1,731,113</b>     | <b>1,846,010</b>  | <b>1,046,794</b>     |
| <b>Total cash and cash equivalents and other liquidity sources</b> | <b>\$ 4,423,708</b>  | <b>\$ 3,626,504</b>                                       | <b>\$ 3,440,591</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.

**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 78% 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, 2012 and 2011 (in thousands):

|  | November 30, 2012            |  | November 30, 2011            |  |
|--|------------------------------|--|------------------------------|--|
|  | Liquid Financial Instruments | Unencumbered Liquid Financial Instruments(2) | Liquid Financial Instruments | Unencumbered Liquid Financial Instruments(2) |
| Corporate equity securities                      | \$ 1,745,960                 | \$ 426,401                                   | \$ 1,105,271                 | \$ 297,408                                   |
| Corporate debt securities                        | 2,292,823                    | 61,303                                       | 2,193,821                    | 48,503                                       |
| U.S. Government, agency and municipal securities | 2,114,768                    | 57,681                                       | 6,109,749                    | 19,003                                       |
| Other sovereign obligations                      | 2,681,457                    | 269,475                                      | 1,166,577                    | 336,453                                      |
| Agency mortgage- and asset-backed securities(1)  | 4,052,289                    |  | 3,249,366                    |  |
| Physical commodities                             | 144,016                      |  | 172,668                      | 88,307                                       |
|  | \$ 13,031,313                | \$ 814,860                                   | \$ 13,997,452                | \$ 789,674                                   |

(1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. 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, 2012 and 2011 were approximately \$16.9 billion and \$18.6 billion, respectively.

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 finance a portion of our long inventory





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

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 89% 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 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 2011 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 11% 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, 2012 (in millions):

| Contract Type      | Total Contract Amount | Repo Profile by Instrument Type |            |              |            |
|--------------------|-----------------------|---------------------------------|------------|--------------|------------|
|                    |                       | Clearing Organization Eligible  | % of Total | Non-Eligible | % of Total |
| Treasury           | \$ 8,117              | \$ 8,117                        | 100%       | \$           | 0%         |
| Sovereign          | 2,101                 | 2,101                           | 100%       |              | 0%         |
| Agency Debt        | 1,078                 | 1,078                           | 100%       |              | 0%         |
| Agency MBS         | 6,837                 | 5,949                           | 87%        | 887          | 13%        |
| Non-Agency MBS/ABS | 682                   |                                 | 0%         | 682          | 100%       |
| Corporate Debt     | 648                   | 125                             | 19%        | 523          | 81%        |
| Municipal          | 96                    |                                 | 0%         | 96           | 100%       |
| Other              | 1                     |                                 | 0%         | 1            | 100%       |
|                    | \$ 19,560             | \$ 17,370                       | 89%        | \$ 2,189     | 11%        |

In addition to the above financing arrangements, in November 2012, we entered into a structured issuance program whereby we issue structured repurchase agreement notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory. At November 30, 2012, the outstanding amount of the notes issued under the program was \$60 million with a maturity date in November 2014 bearing interest at a spread over one month LIBOR. As the financing program is considered other secured financing, the balance of the financing is classified within Accrued expenses and other liabilities on the consolidated statement of financial condition. For additional discussion on the arrangement, refer to Note 10, Variable Interest Entities, in our consolidated financial statements.

Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our \$514.8 million of uncommitted secured and unsecured bank lines, comprised of \$475.0 million of bank lines and \$39.8 million of letters of credit. Of the \$475.0 million uncommitted bank lines, \$375.0 million is secured. As of November 30, 2012, short-term borrowings under the uncommitted bank lines totaled \$150.0 million, of which \$100.0 million is secured. Secured amounts are collateralized by a combination of customer and firm securities. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are

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

used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily bank loans for the years ended November 30, 2012 and 2011 were \$66.4 million and \$12.0 million, respectively.

**Total Capital**

We had total long-term capital of \$8.7 billion and \$8.2 billion resulting in a long-term debt to equity capital ratio of 1.30:1 and 1.33:1 at November 30, 2012 and 2011, respectively. Our total capital base as of November 30, 2012 and 2011 was as follows (in thousands):

|  | <b>November 30,</b> |                     |
|--|---------------------|---------------------|
|  | <b>2012</b>         | <b>2011</b>         |
| Long-Term Debt(1)  | \$ 4,454,600        | \$ 4,254,000        |
| Mandatorily Redeemable Convertible Preferred Stock                     | 125,000             | 125,000             |
| Mandatorily Redeemable Preferred Interest of Consolidated Subsidiaries | 348,051             | 310,534             |
| Total Stockholders' Equity   | 3,782,753           | 3,536,975           |
| <b>Total Capital</b>   | <b>\$ 8,710,404</b> | <b>\$ 8,226,509</b> |

- (1) Long-term debt for purposes of evaluating long-term capital at November 30, 2012 and 2011 excludes \$350.0 million and \$100.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility and excludes \$254.9 million of our 7.75% Senior Notes as of November 30, 2011 as the notes matured in less than one year from November 30, 2011 balance sheet date.

On November 12, 2012, we agreed to merge with Leucadia and the transaction is expected to close during the first quarter of 2013. As a result of the merger provisions, our outstanding mandatorily redeemable convertible preferred stock will either be redeemed or exchanged for a newly created series of preferred shares of Leucadia upon the merger consummation.

Subsequent to November 30, 2012, we issued \$1.0 billion in new senior unsecured long-term debt, including 5.125% Senior Notes, due 2023 and 6.5% Senior Notes, due 2043. The 5.125% Senior Notes were issued with a par amount of \$600.0 million and we received proceeds of \$595.6 million. The 6.5% Senior Notes were issued with a par amount of \$400.0 million and we received proceeds of \$391.7 million.

At November 30, 2012, Stockholders' equity includes noncontrolling interests in our high yield joint venture of \$338 million, which we intend to redeem during the first quarter of 2013. We do not anticipate that this redemption will have a significant impact on our liquidity as we have sufficient cash on hand to affect the redemption and believe we have sufficient access to the capital markets for potential long-term funding to maintain an adequate total capital base. Further, while the redemptions would have the impact of reducing stockholders' equity, it is also contemplated that the terms of the mandatorily redeemable preferred interests of consolidated subsidiaries, which are scheduled to terminate in April 2013, will be amended and ultimately be contributed as equity of Jefferies Group, Inc.

**Long-Term Debt**

On July 13, 2012, under our Euro Medium Term Note Program we issued senior unsecured notes with a principal amount of 4.0 million which bear interest at 2.25% per annum and mature on July 13, 2022. Proceeds net of original issue discount amounted to 2.8 million. In addition, on April 19, 2012, we issued an additional \$200.0 million aggregate principal amount of our 6.875% Senior Notes due April 15, 2021. Proceeds before underwriting discount and expenses amounted to \$197.7 million. The total aggregate principal amount issued under this series of notes including the add-on is \$750.0 million.

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

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 seven 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, 2012 and 2011, we had borrowings outstanding under the Credit Facility amounting to \$350.0 million and \$100.0 million, respectively. These long-term capital raises and the Credit Facility exceed the needs of Jefferies Bache and provide 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. 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 we provide a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At November 30, 2012 and 2011, the minimum tangible net worth requirement was \$2,200.0 million and \$2,058.8 million, respectively and the minimum liquidity requirement was \$400.8 million and \$411.0 million, respectively for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred and 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.

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 and December 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 and sales of our debt were treated as debt extinguishment and debt reissuance, respectively. We recognized a \$9.9 million gain on debt extinguishment which is reported in Other revenues for the year ended November 30, 2012. The balance of Long-term debt has been reduced by \$37.1 million as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011, which is being amortized over the remaining life of the debt using the effective yield method.

As of November 30, 2012, our long-term debt has an average maturity exceeding 8 years, excluding the Credit Facility. We have no other scheduled debt maturities until the \$250.0 million 5.875% Senior Notes mature in 2014.

Our long-term debt ratings are as follows as of November 30, 2012:

|                           | <b>Rating</b> | <b>Outlook</b> |
|---------------------------|---------------|----------------|
| Moody's Investors Service | Baa3          | Stable         |
| Standard and Poor's       | BBB           | Negative       |
| Fitch Ratings             | BBB           | Negative       |

On October 16, 2012, Moody's Investor Services, Inc. (Moody's), downgraded our senior unsecured debt rating one notch to Baa3 and assigned us a Stable outlook, thus concluding their credit review that commenced on September 10, 2012. Following the announcement on November 11, 2012 that Jefferies Group, Inc. had

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

entered into a merger agreement with Leucadia, Moody's affirmed the Baa3 debt rating. Standard and Poor's affirmed the BBB rating and Negative outlook but commented that it anticipates revising the outlook to Stable if the merger with Leucadia is concluded as currently proposed. Fitch Ratings placed our credit rating on Ratings Watch Negative with a possible one-notch downgrade to BBB- following completion of the proposed merger with Leucadia in the first quarter of 2013. The above mentioned rating actions have not had any material adverse impact on our cost of funds or our ability to fund our operations.

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. While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact on our business and trading results in future periods is inherently uncertain and depends on a number of factors, including the magnitude of the downgrade, the behavior of individual clients and future mitigating action taken by us.

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. At November 30, 2012, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade by a single rating agency was \$50.3 million and \$102.0 million could be called in the event of a downgrade of our long-term credit rating below investment grade by a second rating agency. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

**Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries**

Mandatorily redeemable preferred interests of \$348.1 million and \$310.5 million at November 30, 2012 and 2011, respectively, represent interests held in JHYH, which are entitled to a pro rata share of the profits and losses of JHYH. The term of these interests are scheduled to terminate in April 2013, with an option to extend up to three additional one-year periods. Under the proposed merger, it is contemplated that the interests will be amended and contributed as an increase to the stockholders' equity of Jefferies Group, Inc.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES (Continued)****Contractual Obligations and Commitments**

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of November 30, 2012. The table presents principal cash flows with expected maturity dates (in millions):

|   | 2013        | 2014        | Expected Maturity Date |                     |                      | Total        |
|---|-------------|-------------|------------------------|---------------------|----------------------|--------------|
|   |             |             | 2015<br>and<br>2016    | 2017<br>and<br>2018 | 2019<br>and<br>Later |              |
| <b>Debt obligations:</b>  |             |             |                        |                     |                      |              |
| Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) | \$          | \$ 249.6    | \$ 848.6               | \$ 771.4            | \$ 2,585.0           | \$ 4,454.6   |
| Senior secured revolving credit facility  |             | 350.0       |                        |                     |                      | 350.0        |
| Interest payment obligations on senior notes  | 272.7       | 265.7       | 481.9                  | 398.4               | 887.6                | 2,306.3      |
| Mandatorily redeemable convertible preferred stock  | 125.0       |             |                        |                     |                      | 125.0        |
| Mandatorily redeemable preferred interests of consolidated subsidiaries(1)                          | 348.1       |             |                        |                     |                      | 348.1        |
|   | 745.8       | 865.3       | 1,330.5                | 1,169.8             | 3,472.6              | 7,584.0      |
| <b>Commitments and guarantees:</b>  |             |             |                        |                     |                      |              |
| Equity commitments  | 0.4         | 4.1         | 1.2                    |                     | 633.0                | 638.7        |
| Loan commitments  | 129.8       | 387.6       | 111.3                  | 16.4                | 2.3                  | 647.4        |
| Mortgage-related commitments  | 1,056.4     | 465.8       | 577.8                  |                     |                      | 2,100.0      |
| Forward starting reverse repos and repos  | 342.7       |             |                        |                     |                      | 342.7        |
| <b>Derivative contracts:</b>  |             |             |                        |                     |                      |              |
| Derivative contracts non credit related   | 52,712.3    | 45,703.9    | 1.3                    |                     |                      | 98,417.5     |
| Derivative contracts credit related   |             |             |                        | 67.5                |                      | 67.5         |
|   | 54,241.6    | 46,561.4    | 691.6                  | 83.9                | 635.3                | 102,213.8    |
|   | \$ 54,987.4 | \$ 47,426.7 | \$ 2,022.1             | \$ 1,253.7          | \$ 4,107.9           | \$ 109,797.8 |

- (1) These mandatorily redeemable financial instruments represent interests held in JHYH and are scheduled to terminate in April 2013, with an option to extend up to three additional one-year periods. Refer also to discussion in Note 16, Noncontrolling Interest and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries, in our consolidated financial statements.

**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 2023 which are operating leases. Future minimum lease payments for all noncancelable operating leases at November 30, 2012 are as follows for the fiscal years through 2023 (in thousands):

|            | Gross      | Subleases | Net        |
|------------|------------|-----------|------------|
| 2013       | \$ 65,602  | \$ 5,440  | \$ 60,162  |
| 2014       | 58,341     | 5,013     | 53,328     |
| 2015       | 33,090     | 2,344     | 30,746     |
| 2016       | 30,050     | 2,221     | 27,829     |
| 2017       | 28,566     | 300       | 28,266     |
| Thereafter | 88,216     |           | 88,216     |
|            | \$ 303,865 | \$ 15,318 | \$ 288,547 |

During 2012, we entered into a master sale and leaseback agreement under which we sold and have leased back existing and additional new equipment supplied by the lessor. The transaction resulted in a gain of \$2.0 million, which is being amortized into earnings in proportion to and is reflected net against the leased equipment. The lease may be terminated on September 30, 2017 for a termination cost of the present value of the remaining lease payments plus a residual value. If not terminated early, the lease term is approximately five years from the start of the supply of new and additional equipment, which commences on various dates in 2013 and 2014. Minimum future lease payments are as follows (in thousands):

|   |           |
|---|-----------|
| Fiscal Year                                 |           |
| 2013  | \$ 3,887  |
| 2014  | 3,887     |
| 2015  | 3,887     |
| 2016  | 3,887     |
| 2017  | 3,887     |
| Thereafter                                  | 1,750     |
| Net minimum lease payments                  | 21,185    |
| Less amount representing interest           | 2,219     |
| Present value of net minimum lease payments | \$ 18,966 |

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 21, 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 6, Fair Value Disclosures, and Note 7, 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



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

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, 2012, we did not have any commitments to purchase assets from our securitization vehicles. At November 30, 2012, we held \$364.1 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 9, Securitization Activities and Note 10, 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 20, Income Taxes, in our consolidated financial statements for further information.

**Equity Capital**

Common stockholders' equity increased to \$3,436.0 million at November 30, 2012 from \$3,224.3 million at November 30, 2011. The increase in our common stockholders' equity during the year ended November 30, 2012 is principally attributed to 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 dividends paid during the year ended November 30, 2012 and repurchases of approximately 7.7 million shares of our common stock during the period for \$113.6 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 amounts):

|  | November 30, |              |
|--|--------------|--------------|
|  | 2012         | 2011         |
| Common stockholders' equity                      | \$ 3,436,015 | \$ 3,224,312 |
| Less: Goodwill and intangible assets             | (380,929)    | (385,589)    |
| Tangible common stockholders' equity             | \$ 3,055,086 | \$ 2,838,723 |
| Shares outstanding                               | 203,312      | 197,160      |
| Unearned restricted stock(5)                     | (8,058)      | (9,032)      |
| Earned restricted stock units(6)                 | 16,656       | 18,994       |
| Other issuable shares(7)                         | 2,706        | 11,284       |
| Adjusted shares outstanding                      | 214,616      | 218,406      |
| Common book value per share(1)                   | \$ 16.90     | \$ 16.35     |
| Adjusted common book value per share(2)          | \$ 16.01     | \$ 14.76     |
| Tangible common book value per share(3)          | \$ 15.03     | \$ 14.40     |
| Adjusted tangible common book value per share(4) | \$ 14.24     | \$ 13.00     |



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

- (1) Common book value per share equals common stockholders' equity divided by common shares outstanding.
- (2) Adjusted common book value per share equals 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.
- (4) Adjusted tangible common book value per share equals tangible common stockholders' equity divided by adjusted shares outstanding.
- (5) Unearned restricted stock represent shares that contain future service requirements and have either previously been issued and are included in shares outstanding or have previously been granted and are expected to be issued in the near-term and included in other issuable shares.
- (6) Earned 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 includes awards for which the future service requirements have been met.
- (7) Other issuable shares primarily includes shares issuable to settle previously granted restricted stock awards and shares issuable under the deferred compensation plan. As of November 30 2011, other shares issuable included restricted stock granted as part of year-end compensation, which were issued in the first quarter of 2012.

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. We calculate adjusted common book value per share as common stockholders' equity divided by adjusted shares outstanding. We believe the adjustments to shares outstanding for unearned restricted stock, earned restricted stock units and other issuable shares 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. At November 30, 2012, we have modified the calculation of adjusted common book value per share and adjusted tangible common book value per share from that utilized in prior periods and the prior period presented has been conformed to the new calculation method. We made this revision as we believe the new calculation presents a more straightforward presentation of the historical impact of earned restricted stock and restricted stock units on our net assets.

At November 30, 2012, 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 9,236,409 shares of our common stock at an effective conversion price of approximately \$37.35 per share.

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

The following table sets for the declaration dates, record dates, payment dates and per common share amounts for the dividends declared during the years ended November 30, 2012 and 2011:

| <b>Declaration Date</b>              | <b>Record Date</b> | <b>Payment Date</b> | <b>Dividend per common share</b> |
|--------------------------------------|--------------------|---------------------|----------------------------------|
| <b>Year ended November 30, 2012:</b> |                    |                     |                                  |
| December 19, 2011                    | January 17, 2012   | February 15, 2012   | \$0.075                          |
| March 19, 2012                       | April 16, 2012     | May 15, 2012        | \$0.075                          |
| June 18, 2012                        | July 16, 2012      | August 15, 2012     | \$0.075                          |
| September 19, 2012                   | October 15, 2012   | November 15, 2012   | \$0.075                          |
| <b>Year ended November 30, 2011:</b> |                    |                     |                                  |
| December 17, 2010                    | January 17, 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                          |

Additionally, on December 6, 2012, a quarterly dividend was declared of \$0.075 per share of common stock payable on December 31, 2012 to stockholders of record as of December 21, 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 calculate minimum capital requirements using the alternative method permitted by Rule 15c3-1 in calculating net capital. Additionally, Jefferies Bache, LLC is registered as a Futures Commission Merchant and is 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, 2012, 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                    | \$ 841,263         | \$ 794,419                |
| Jefferies Execution          | 12,749             | 12,499                    |
| Jefferies High Yield Trading | 566,040            | 565,790                   |
|                              | <b>Adjusted</b>    |                           |
|                              | <b>Net Capital</b> | <b>Excess Net Capital</b> |
| Jefferies Bache, LLC         | \$ 252,281         | \$ 85,241                 |

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 which are subject to the regulatory supervision and requirements of the Financial Services Authority in the United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require



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

the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. While entities that register under these provisions will be subject to regulatory capital requirements, these regulatory capital requirements have not yet been finalized. We expect that these provisions will result in modifications to the regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products, Inc. and Jefferies Bache Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013.

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.

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 and the Audit Committee of the Board play an important role in reviewing our risk management process and risk tolerance. Our Board of Directors and Audit Committee are provided with data relating to risk at each of its regularly scheduled meetings. Our Chief Risk Officer and Global Treasurer meet with the Board of Directors on not less than a quarterly basis to present our risk profile and liquidity profile 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 Global 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.

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

*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.

**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.

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

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 data. 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 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 (in millions).

| Risk Categories           | Daily VaR(1) Value-at-Risk In Trading Portfolios |         |          |   |         |          |              |         |
|---------------------------|--|---------|----------|---|---------|----------|--------------|---------|
|                           | VaR as of November 30,                           |         |          | Daily VaR for the Year Ended November 30, |         |          |              |         |
|                           | 2012   | 2011    | Average  | 2012<br>High                              | Low     | Average  | 2011<br>High | Low     |
| Interest Rates            | \$ 5.37  | \$ 6.17 | \$ 6.74  | \$ 13.40                                  | \$ 4.40 | \$ 8.41  | \$ 13.98     | \$ 3.26 |
| Equity Prices             | 8.02   | 2.06    | 4.99     | 13.81                                     | 1.15    | 5.33     | 12.70        | 1.25    |
| Currency Rates            | 0.37   | 0.32    | 0.66     | 1.94                                      | 0.18    | 0.77     | 2.07         | 0.04    |
| Commodity Prices          | 0.77   | 1.25    | 1.26     | 2.55                                      | 0.45    | 1.36     | 2.90         | 0.53    |
| Diversification Effect(2) | (3.12)   | (3.29)  | (2.99)   | N/A                                       | N/A     | (4.96)   | N/A          | N/A     |
| Firmwide                  | \$ 11.41   | \$ 6.51 | \$ 10.66 | \$ 17.96                                  | \$ 5.38 | \$ 10.91 | \$ 19.17     | \$ 6.51 |

(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.

(2) The diversification effect is not applicable for the maximum and minimum VaR values as the firmwide VaR and the VaR values for the four risk categories might have occurred on different days during the period.

Our average daily VaR decreased to \$10.66 million for the year ended November 30, 2012 from \$10.91 million for the year ended November 30, 2011. The decrease is primarily due to decreased interest rates risk resulting from reduced interest rate positioning in U.S. and European interest rate products and lower volatility in interest rate asset classes. Decreases across all the risk categories was partially offset by a decrease in the diversification benefit. Excluding our investment in Knight Capital, average VaR for the year ended November 30, 2012 was \$8.75 million.



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

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

Our average VaR for the three months ended November 30, 2012 increased from the third fiscal quarter primarily from maintaining our holding in Knight Capital. Excluding Knight Capital, the decrease in our VaR over the three months ended November 30, 2012 resulted primarily from lower interest rate exposure due to lower volatility and interest rate spreads.

The primary method used to test the efficacy of the VaR model is to compare actual daily net revenue with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. (Prior to the second quarter of 2012, trading related revenue had excluded revenue from securitization activities for purposes of this analysis.) For a 95% confidence one day VaR model (i.e. no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e. once in every 20 days). During the three months ended and year ended November 30, 2012, results of the evaluation at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR.

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

**Daily Net Trading Revenue**

The chart below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the year ended November, 2012 (in millions).

There were four days with trading losses out of a total of 253 trading days in the year ended November 30, 2012.

**Scenario Analysis and Stress Tests**

While VaR measures potential losses due to adverse changes in historical market prices and rates, we use stress testing to analyze the potential impact of specific events or moderate or extreme market moves on our current portfolio both firm wide and within business segments. Stress scenarios comprise both historical market price and rate changes and hypothetical market environments, and generally involve simultaneous changes of many risk factors. Indicative market changes 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. In addition, we also perform ad hoc stress tests and add new scenarios as market conditions dictate. 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. 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. 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.

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

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.

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Loans and lending arise in connection with our capital markets activities and represents the notional value of loans that have been drawn by the borrower and lending commitments that were outstanding at November 30, 2012.

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.

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.

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

Current counterparty credit exposures at November 30, 2012 and November 30, 2011 are summarized in the table below and provided by credit quality, region and industry. Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. 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 exposure at November 30, 2012, excluding cash and cash equivalents, 59% are investment grade counterparties, compared to 69% at November 30, 2011, and are mainly concentrated in North America. Of the credit exposure in Europe, approximately 85% are investment grade counterparties, with the largest exposures arising from securities and margin financing products. When comparing our credit exposure at November 30, 2012 with credit exposure at November 30, 2011, excluding cash and cash equivalents, current exposure has increased 14% to approximately \$1.1 billion from \$925.6 million. The increase is primarily due to an increase in loan and repo balances.

**Counterparty Credit Exposure by Credit Rating**

| <i>(in millions)</i> | Loans and Lending       |                         | Securities and Margin Finance |                         | OTC Derivatives         |                         | Total                   |                         | Cash and Cash Equivalents |                         | Total with Cash and Cash Equivalents |                         |
|----------------------|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|--------------------------------------|-------------------------|
|                      | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012       | As of November 30, 2011 | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012   | As of November 30, 2011 | As of November 30, 2012              | As of November 30, 2011 |
| AAA Range            |                         |                         | 0.9                           | 0.4                     |                         |                         | 0.9                     | 0.4                     | 1,322.7                   | 1,546.3                 | 1,323.6                              | 1,546.6                 |
| AA Range             |                         |                         | 178.3                         | 80.9                    | 18.9                    | 116.7                   | 197.2                   | 197.6                   | 149.7                     | 211.8                   | 346.9                                | 409.4                   |
| A Range              |                         |                         | 157.8                         | 227.6                   | 71.7                    | 149.5                   | 229.5                   | 377.1                   | 1,134.0                   | 634.6                   | 1,363.5                              | 1,011.7                 |
| BBB Range            | 50.0                    |                         | 120.2                         | 41.5                    | 20.7                    | 20.3                    | 190.9                   | 61.8                    | 86.2                      | 1.7                     | 277.1                                | 63.5                    |
| BB or Lower          | 255.0                   | 147.0                   | 109.6                         | 81.4                    | 13.0                    | 19.6                    | 377.6                   | 248.0                   |                           |                         | 377.6                                | 248.0                   |
| Unrated              | 57.5                    | 35.0                    |                               |                         | 1.7                     | 6.0                     | 59.2                    | 41.0                    |                           |                         | 59.2                                 | 41.0                    |
| <b>Total</b>         | <b>362.5</b>            | <b>182.0</b>            | <b>566.8</b>                  | <b>431.8</b>            | <b>126.0</b>            | <b>312.1</b>            | <b>1,055.3</b>          | <b>925.9</b>            | <b>2,692.6</b>            | <b>2,394.3</b>          | <b>3,747.9</b>                       | <b>3,320.2</b>          |

**Counterparty Credit Exposure by Region**

| <i>(in millions)</i>     | Loans and Lending       |                         | Securities and Margin Finance |                         | OTC Derivatives         |                         | Total                   |                         | Cash and Cash Equivalents |                         | Total with Cash and Cash Equivalents |                         |
|--------------------------|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|--------------------------------------|-------------------------|
|                          | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012       | As of November 30, 2011 | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012 | As of November 30, 2011 | As of November 30, 2012   | As of November 30, 2011 | As of November 30, 2012              | As of November 30, 2011 |
| Asia/Latin America/Other | 12.5                    |                         | 75.2                          | 75.7                    | 5.9                     | 30.2                    | 93.6                    | 105.9                   | 4.8                       | 14.1                    | 98.4                                 | 120.0                   |
| Europe                   |                         |                         | 131.3                         | 194.3                   | 39.8                    | 117.2                   | 171.1                   | 311.5                   | 713.5                     | 509.2                   | 884.6                                | 820.7                   |
| North America            | 350.0                   | 182.0                   | 360.3                         | 161.9                   | 80.3                    | 164.6                   | 790.6                   | 508.5                   | 1,974.3                   | 1,871.0                 | 2,764.9                              | 2,379.5                 |
| <b>Total</b>             | <b>362.5</b>            | <b>182.0</b>            | <b>566.8</b>                  | <b>431.8</b>            | <b>126.0</b>            | <b>312.1</b>            | <b>1,055.3</b>          | <b>925.9</b>            | <b>2,692.6</b>            | <b>2,394.3</b>          | <b>3,747.9</b>                       | <b>3,320.2</b>          |

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

| <i>(in millions)</i> | Loans and Lending  |              | Securities and Margin Finance |              | OTC Derivatives    |              | Total As of    |              | Cash and Cash Equivalents As of |                | Total with Cash and Cash Equivalents As of |                |
|----------------------|--------------------|--------------|-------------------------------|--------------|--------------------|--------------|----------------|--------------|---------------------------------|----------------|--|----------------|
|                      | As of November 30, |              | As of November 30,            |              | As of November 30, |              | November 30,   |              | November 30,                    |                | November 30,                               |                |
|                      | 2012               | 2011         | 2012                          | 2011         | 2012               | 2011         | 2012           | 2011         | 2012                            | 2011           | 2012                                       | 2011           |
| Asset Managers       |                    |              | 57.0                          | 64.2         | 0.2                | 3.3          | 57.2           | 67.5         | 1,322.7                         | 1,546.3        | 1,379.9                                    | 1,613.8        |
| Banks,               |                    |              |                               |              |                    |              |                |              |                                 |                |  |                |
| Broker-dealers       |                    |              | 389.8                         | 255.7        | 66.9               | 214.1        | 456.7          | 469.7        | 1,369.9                         | 848.0          | 1,826.6                                    | 1,317.8        |
| Commodities          |                    |              | 21.7                          | 41.5         | 33.2               | 34.2         | 54.9           | 75.8         |                                 |                | 54.9                                       | 75.8           |
| Other                | 362.5              | 182.0        | 98.3                          | 70.4         | 25.7               | 60.4         | 486.5          | 312.8        |                                 |                | 486.5                                      | 312.8          |
| <b>Total</b>         | <b>362.5</b>       | <b>182.0</b> | <b>566.8</b>                  | <b>431.8</b> | <b>126.0</b>       | <b>312.1</b> | <b>1,055.3</b> | <b>925.9</b> | <b>2,692.6</b>                  | <b>2,394.3</b> | <b>3,747.9</b>                             | <b>3,320.2</b> |

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 7, 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 as the country of jurisdiction or domicile of the obligor's ultimate group parent. The following tables reflect our top exposure at November 30, 2012 and November 30, 2011 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

|               | As of November 30, 2012            |                                     |                                  |                               |                 |                           |                                     |                                     |
|---------------|------------------------------------|-------------------------------------|----------------------------------|-------------------------------|-----------------|---------------------------|-------------------------------------|-------------------------------------|
|               | 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 |
|               |                                    |                                     |                                  |                               |                 |                           |                                     |                                     |
| Great Britain | \$ 679.2                           | \$ (458.5)                          | \$ (64.3)                        | \$ 13.0                       | \$ 8.3          | \$ 409.9                  | \$ 177.7                            | \$ 587.6                            |
| Germany       | 516.8                              | (326.5)                             | (94.8)                           | 62.4                          | 5.1             | 122.2                     | 163.0                               | 285.2                               |
| Canada        | 149.0                              | (64.2)                              | (24.6)                           | 103.9                         | 13.0            |                           | 177.1                               | 177.1                               |
| Spain         | 283.3                              | (95.6)                              | (26.0)                           | 4.6                           |                 | 0.2                       | 166.3                               | 166.5                               |
| Switzerland   | 46.6                               | (17.6)                              | (1.5)                            | 16.2                          | 22.2            | 84.4                      | 65.9                                | 150.3                               |
| Netherlands   | 247.5                              | (131.6)                             | (9.2)                            | 11.6                          | 0.2             | 0.4                       | 118.5                               | 118.9                               |
| Sweden        | 72.5                               | (16.0)                              | (0.6)                            | 0.4                           | 3.2             | 31.4                      | 59.5                                | 90.9                                |
| France        | 410.1                              | (342.5)                             | (69.0)                           | 18.9                          | 0.3             | 64.9                      | 17.8                                | 82.7                                |
| Japan         | 43.4                               | (23.1)                              |                                  | 46.0                          | 3.7             | 3.6                       | 70.0                                | 73.6                                |
| Luxembourg    | 66.8                               | (20.2)                              | 1.1                              | 2.3                           |                 |                           | 50.0                                | 50.0                                |
| <b>Total</b>  | <b>\$ 2,515.2</b>                  | <b>\$ (1,495.8)</b>                 | <b>\$ (288.9)</b>                | <b>\$ 279.3</b>               | <b>\$ 56.0</b>  | <b>\$ 717.0</b>           | <b>\$ 1,065.8</b>                   | <b>\$ 1,782.8</b>                   |



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

|               | As of November 30, 2011                     |  |  |   |                    |                              |  |   |
|---------------|---|--|--|---|--------------------|------------------------------|--|---|
|               | Fair Value of<br>Long<br>Debt<br>Securities | Issuer Risk<br>Fair Value of<br>Short Debt<br>Securities | Net Derivative<br>Notional<br>Exposure | Counterparty Risk<br>Securities and<br>Margin Finance | OTC<br>Derivatives | Cash and Cash<br>Equivalents | Issuer and Counterparty Risk<br>Excluding Cash<br>and<br>Cash<br>Equivalents | Including Cash<br>and Cash<br>Equivalents |
| Great Britain | \$ 475.8                                    | \$ (306.2)   | \$ (36.7)                              | \$ 32.7   | \$ 40.3            | \$ 232.2                     | \$ 205.9   | \$ 438.1                                  |
| Germany       | 288.9                                       | (160.9)  | (27.6)                                 | 48.1  | 9.1                | 57.9                         | 157.6  | 215.5                                     |
| Netherlands   | 294.5                                       | (119.5)  | (34.3)                                 | 52.9  | 4.9                | 0.1                          | 198.5  | 198.6                                     |
| 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                                     |
| Belgium       | 52.8  | (36.6)   | (3.3)                                  | 1.0   |                    | 54.2                         | 13.9   | 68.1                                      |
| Switzerland   | 52.4  | (62.4)   | (7.7)                                  | 17.7  | 31.0               | 33.4                         | 31.0   | 64.4                                      |
| Japan         | 16.0  | (7.0)  | 0.2                                    | 16.0  | 7.4                | 8.7                          | 32.6   | 41.3                                      |
| Sweden        | 34.0  | (22.9)   | (27.1)                                 | 2.8   | 4.0                | 50.0                         | (9.2)  | 40.8                                      |
| <b>Total</b>  | <b>\$ 1,675.6</b>                           | <b>\$ (1,002.1)</b>                                      | <b>\$ (131.3)</b>                      | <b>\$ 236.3</b>                                       | <b>\$ 121.8</b>    | <b>\$ 566.6</b>              | <b>\$ 900.3</b>  | <b>\$ 1,466.9</b>                         |

As of November 30, 2012, the largest components of our exposure to Spain are a net exposure of \$96 million to Spanish sovereign debt and a net exposure of \$63 million to structured products issued by Spanish entities. The sovereign debt is concentrated in maturities of one year or less, with no material positioning beyond that. The structured products positions are backed by a variety of collateral types with 98% of the products classified within Level 2 of the fair value hierarchy.

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

As detailed below, our net exposure to sovereign debt of Greece, Ireland, Italy, Portugal, and Spain (before economic derivative hedges) was net long \$233.9 million at November 30, 2012, which is approximately 6.2% of stockholders' equity.



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

The table below reflects not only our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal, and Spain at November 30, 2012 but also includes our exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets 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.

| (in millions)                                |                         | As of November 30, 2012 |              |                        |                     |         |
|--|-------------------------|-------------------------|--------------|------------------------|---------------------|---------|
|  |                         | Sovereigns              | Corporations | Financial Institutions | Structured Products | Total   |
| Financial instruments owned                  | Debt securities         |                         |              |                        |                     |         |
| Greece                                       |                         | \$ 2.2(4)               | \$ 0.1       | \$ 0.5(4)              | \$ 2.0              | \$ 4.8  |
| Ireland                                      |                         | 42.8(4)                 | 4.9          | 12.8(4)                |                     | 60.5    |
| Italy  |                         | 731.0(4)                | 6.7          | 6.0(4)                 | 33.0                | 776.7   |
| Portugal                                     |                         | 5.4(4)                  | 0.4          | 6.6(4)                 | 18.0                | 30.4    |
| Spain  |                         | 125.5(4)                | 7.5          | 87.3(4)                | 63.0                | 283.3   |
| Total fair value of long debt securities(1)  |                         | 906.9(4)                | 19.6         | 113.2(4)               | 116.0               | 1,155.7 |
| Financial instruments sold                   | Debt securities         |                         |              |                        |                     |         |
| Greece                                       |                         | 0.7                     |              | 0.1                    |                     | 0.8     |
| Ireland                                      |                         | 18.4                    | 7.1          | 1.0                    |                     | 26.5    |
| Italy  |                         | 622.8                   | 14.0         | 4.2                    |                     | 641.0   |
| Portugal                                     |                         | 1.8                     | 1.1          | 9.0                    |                     | 11.9    |
| Spain  |                         | 29.3                    | 2.6          | 63.7                   |                     | 95.6    |
| Total fair value of short debt securities(2) |                         | 673.0                   | 24.8         | 78.0                   |                     | 775.8   |
| Total net fair value of debt securities      |                         | 233.9                   | (5.2)        | 35.2                   | 116.0               | 379.9   |
| Derivative contracts                         | long notional exposure  |                         |              |                        |                     |         |
| Greece                                       |                         |                         |              |                        |                     |         |
| Ireland                                      |                         |                         | 11.0         |                        |                     | 11.0    |
| Italy  |                         | 50.4(5)                 |              |                        |                     | 50.4    |
| Portugal                                     |                         |                         |              |                        |                     |         |
| Spain  |                         |                         |              |                        |                     |         |
| Total notional amount long(6)                |                         | 50.4                    | 11.0         |                        |                     | 61.4    |
| Derivative contracts                         | short notional exposure |                         |              |                        |                     |         |
| Greece                                       |                         |                         |              |                        |                     |         |
| Ireland                                      |                         |                         | 3.8          |                        |                     | 3.8     |
| Italy  |                         | 224.6(5)                | 0.8          | 39.0                   |                     | 264.4   |
| Portugal                                     |                         |                         |              |                        |                     |         |

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|   |         |        |           |          |          |
|---|---------|--------|-----------|----------|----------|
| Spain   |         |        | 26.0      |          | 26.0     |
| Total notional amount short(6)                  | 224.6   | 4.6    | 65.0      |          | 294.2    |
| Total net derivative notional exposure(3)       | (174.2) | 6.4    | (65.0)    |          | (232.8)  |
| Total net exposure to select European countries | \$ 59.7 | \$ 1.2 | \$ (29.8) | \$ 116.0 | \$ 147.1 |

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

- (1) 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 and mortgage- and asset-backed securities on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (2) 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 Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.
- (4) Classification of securities by country and by issuer type is 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.
- (5) These positions are comprised of bond futures executed on exchanges outside Italy.
- (6) See further information regarding derivatives on the tables following.

| <i>(in millions)</i>                                  | As of November 30, 2012 |         |           |          |          |          |
|---|-------------------------|---------|-----------|----------|----------|----------|
|   | Greece                  | Ireland | Italy     | Portugal | Spain    | Total    |
| <b>Financial instruments owned:</b>                   |                         |         |           |          |          |          |
| Long sovereign debt securities(1)                     | \$ 2.2                  | \$ 42.8 | \$ 731.0  | \$ 5.4   | \$ 125.5 | \$ 906.9 |
| Long non-sovereign debt securities(1)                 | 2.6                     | 17.7    | 45.7      | 25.0     | 157.8    | 248.8    |
| Total long debt securities                            | 4.8                     | 60.5    | 776.7     | 30.4     | 283.3    | 1,155.7  |
| <b>Financial instruments sold, not yet purchased:</b> |                         |         |           |          |          |          |
| Short sovereign debt securities                       | 0.7                     | 18.4    | 622.8     | 1.8      | 29.3     | 673.0    |
| Short non-sovereign debt securities                   | 0.1                     | 8.1     | 18.2      | 10.1     | 66.3     | 102.8    |
| Total short debt securities                           | 0.8                     | 26.5    | 641.0     | 11.9     | 95.6     | 775.8    |
| Net fair value debt securities                        | 4.0                     | 34.0    | 135.7     | 18.5     | 187.7    | 379.9    |
| Net derivatives notional amount                       |                         | 7.2     | (214.0)   |          | (26.0)   | (232.8)  |
| Total net exposure to select European countries       | \$ 4.0                  | \$ 41.2 | \$ (78.3) | \$ 18.5  | \$ 161.7 | \$ 147.1 |

- (1) Classification of securities by country and by issuer type is 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.

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

For the quarter ended November 30, 2012, our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain calculated on an average daily basis was as follows (in millions):

|  | Remaining Maturity<br>Less Than One Year | Remaining Maturity<br>Greater Than or<br>Equal to One<br>Year | Total<br>Average<br>Balance |
|--|--|---|-----------------------------|
| <b>Financial instruments owned Debt securities</b>             |  |   |                             |
| Greece   | \$                                       | \$ 1.2  | \$ 1.2                      |
| Ireland  | 39.6                                     | 2.3   | 41.9                        |
| Italy  | 1,549.5                                  | 332.9   | 1,882.4                     |
| Portugal   | 2.9                                      | 4.5   | 7.4                         |
| Spain  | 34.9                                     | 105.6   | 140.5                       |
| <b>Total average fair value of long debt securities(1)</b>     | <b>1,626.9</b>                           | <b>446.5</b>  | <b>2,073.4</b>              |
| <b>Financial instruments sold Debt securities</b>              |  |   |                             |
| Greece   |  | 0.4   | 0.4                         |
| Ireland  | 17.6                                     | 1.3   | 18.9                        |
| Italy  | 684.9                                    | 625.4   | 1,310.3                     |
| Portugal   |  | 5.3   | 5.3                         |
| Spain  | 0.3                                      | 139.9   | 140.2                       |
| <b>Total average fair value of short debt securities</b>       | <b>702.8</b>                             | <b>772.3</b>  | <b>1,475.1</b>              |
| <b>Total average net fair value of debt securities</b>         | <b>924.1</b>                             | <b>(325.8)</b>  | <b>598.3</b>                |
| <b>Derivative contracts long notional exposure</b>             |  |   |                             |
| Greece   |  |   |                             |
| Ireland  |  |   |                             |
| Italy  |  | 24.0(2)   | 24.0(2)                     |
| Portugal   |  |   |                             |
| Spain  |  |   |                             |
| <b>Total average notional amount long</b>                      |  | <b>24.0</b>   | <b>24.0</b>                 |
| <b>Derivative contracts short notional exposure</b>            |  |   |                             |
| Greece   |  |   |                             |
| Ireland  |  | 8.0   | 8.0                         |
| Italy  |  | 221.5   | 221.5                       |
| Portugal   |  |   |                             |
| Spain  |  |   |                             |
| <b>Total average notional amount short</b>                     |  | <b>229.5</b>  | <b>229.5</b>                |
| <b>Total average net derivative notional exposure(3)</b>       |  | <b>(205.5)</b>  | <b>(205.5)</b>              |
| <b>Total average net exposure to select European countries</b> | <b>\$ 924.1</b>                          | <b>\$ (531.3)</b>   | <b>\$ 392.8</b>             |

- (1) Classification of securities by country and by issuer type is 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.

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

(2) These positions are comprised of bond futures executed on exchanges outside Italy.

(3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps and bond futures. The table below provides further information regarding the type of derivative contracts executed as economic hedges of issuer exposure to the countries of Greece, Ireland, Italy, Portugal, and Spain as of November 30, 2012. 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 Greece, Ireland, Italy, Portugal and Spain.

| <i>(in millions)</i>            |                         | As of November 30, 2012 |         |            |          |           | Total      |
|---------------------------------|-------------------------|-------------------------|---------|------------|----------|-----------|------------|
|                                 |                         | Greece                  | Ireland | Italy      | Portugal | Spain     |            |
| Derivative contracts            | long notional exposure  |                         |         |            |          |           |            |
|                                 | Credit default swaps    | \$                      | \$      | \$         | \$       | \$        | \$         |
|                                 | Bond future contracts   |                         |         | 50.4       |          |           | 50.4       |
|                                 | Listed equity options   |                         | 11.0    |            |          |           | 11.0       |
| Total notional amount           | long                    |                         | 11.0    | 50.4       |          |           | 61.4       |
| Derivative contracts            | short notional exposure |                         |         |            |          |           |            |
|                                 | Credit default swaps    |                         |         | 39.0       |          | 25.9      | 64.9       |
|                                 | Bond future contracts   |                         |         | 224.6      |          |           | 224.6      |
|                                 | Listed equity options   |                         | 3.8     | 0.8        |          | 0.1       | 4.7        |
| Total notional amount           | short                   |                         | 3.8     | 264.4      |          | 26.0      | 294.2      |
| Net derivatives notional amount |                         | \$                      | \$ 7.2  | \$ (214.0) | \$       | \$ (26.0) | \$ (232.8) |

The following table provides the fair value of the above derivative contracts at November 30, 2012 (in millions):

|                            |                       | As of November 30, 2012 |          |        |          |        | Total  |
|----------------------------|-----------------------|-------------------------|----------|--------|----------|--------|--------|
|                            |                       | Greece                  | Ireland  | Italy  | Portugal | Spain  |        |
| Derivative contracts       | long fair value       |                         |          |        |          |        |        |
|                            | Credit default swaps  | \$                      | \$       | \$     | \$       | \$     | \$     |
|                            | Bond future contracts |                         |          |        |          |        |        |
|                            | Listed equity options |                         | (0.5)    |        |          |        | (0.5)  |
| Total fair value           | long                  |                         | (0.5)    |        |          |        | (0.5)  |
| Derivative contracts       | short fair value      |                         |          |        |          |        |        |
|                            | Credit default swaps  |                         |          | (2.1)  |          | (1.1)  | (3.2)  |
|                            | Bond future contracts |                         |          |        |          |        |        |
|                            | Listed equity options |                         |          |        |          | 0.1    | 0.1    |
| Total fair value           | short                 |                         |          | (2.1)  |          | (1.0)  | (3.1)  |
| Net derivatives fair value |                       | \$                      | \$ (0.5) | \$ 2.1 | \$       | \$ 1.0 | \$ 2.6 |





**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, 2012, repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Greece, Ireland, Italy, Portugal and Spain as follows (in millions):

|          | As of November 30, 2012          |                          | Net       |
|----------|----------------------------------|--------------------------|-----------|
|          | Reverse Repurchase Agreements(1) | Repurchase Agreements(1) |           |
| Greece   | \$ 1.3                           | \$ 0.4                   | \$ 0.9    |
| Ireland  | 24.0                             | 60.2                     | (36.2)    |
| Italy    | 776.4                            | 744.2                    | 32.2      |
| Portugal | 9.6                              | 1.1                      | 8.5       |
| Spain    | 79.1                             | 175.4                    | (96.3)    |
| Total    | \$ 890.4                         | \$ 981.3                 | \$ (90.9) |

(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,

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**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 firm wide.

***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.

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**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.

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

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

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**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, 2012 which included the internal control over financial reporting for the Global Commodities Group (now operating as Jefferies Bache) acquired from Prudential Financial, Inc. on July 1, 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, 2012, our internal control over financial reporting was effective.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited and issued a report on our internal control over financial reporting, which appears on page 76.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the internal control over financial reporting of Jefferies Group, Inc., and subsidiaries (the Company) as of November 30, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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, 2012, 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, 2012 of the Company and our report dated January 28, 2013 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

New York, New York

January 28, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated statements of financial condition of Jefferies Group, Inc. and subsidiaries (the Company) as of November 30, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the years ended November 30, 2012 and 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 these 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 as of November 30, 2012 and 2011, and the results of their operations and their cash flows for the years ended November 30, 2012 and 2011, and for 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.

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, 2012, 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 28, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York

January 28, 2013

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(In thousands)**

|  | November 30,  |               |
|--|---------------|---------------|
|  | 2012          | 2011          |
| <b>ASSETS</b>  |               |               |
| Cash and cash equivalents  | \$ 2,692,595  | \$ 2,393,797  |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations                          | 4,082,595     | 3,344,960     |
| Financial instruments owned, at fair value, including securities pledged of \$12,334,745 and \$12,452,970 at November 30, 2012 and 2011, respectively: |               |               |
| Corporate equity securities  | 1,762,775     | 1,235,079     |
| Corporate debt securities  | 3,038,146     | 2,868,304     |
| Government, federal agency and other sovereign obligations   | 5,153,750     | 7,471,563     |
| Mortgage- and asset-backed securities  | 5,468,284     | 3,923,303     |
| Loans and other receivables  | 678,311       | 376,146       |
| Derivatives  | 298,086       | 525,893       |
| Investments, at fair value   | 127,023       | 105,585       |
| Physical commodities   | 144,016       | 172,668       |
| Total financial instruments owned, at fair value   | 16,670,391    | 16,678,541    |
| Investments in managed funds   | 57,763        | 70,740        |
| Loans to and investments in related parties  | 586,420       | 594,538       |
| Securities borrowed  | 5,094,679     | 5,169,689     |
| Securities purchased under agreements to resell  | 3,357,602     | 2,893,043     |
| Securities received as collateral  |               | 21,862        |
| Receivables:   |               |               |
| Brokers, dealers and clearing organizations  | 1,424,027     | 1,235,393     |
| Customers  | 916,284       | 1,116,982     |
| Fees, interest and other   | 196,811       | 163,092       |
| Premises and equipment   | 185,991       | 175,139       |
| Goodwill   | 365,670       | 365,574       |
| Other assets   | 662,713       | 748,072       |
| Total assets   | \$ 36,293,541 | \$ 34,971,422 |

Continued on next page.



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

(In thousands, except share amounts)

|  | November 30,  |               |
|--|---------------|---------------|
|  | 2012          | 2011          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |               |               |
| Short-term borrowing   | \$ 150,000    | \$ 52,721     |
| Financial instruments sold, not yet purchased, at fair value:  |               |               |
| Corporate equity securities  | 1,539,332     | 1,330,096     |
| Corporate debt securities  | 1,389,312     | 1,614,493     |
| Government, federal agency and other sovereign obligations   | 3,666,112     | 3,209,713     |
| Mortgage- and asset-backed securities  | 241,211       | 50,517        |
| Loans  | 207,227       | 151,117       |
| Derivatives  | 229,127       | 249,037       |
| Physical commodities   | 183,142       |               |
| Total financial instruments sold, not yet purchased, at fair value   | 7,455,463     | 6,604,973     |
| Securities loaned  | 1,934,355     | 1,706,308     |
| Securities sold under agreements to repurchase   | 8,181,250     | 9,620,663     |
| Obligation to return securities received as collateral   |               | 21,862        |
| Payables:  |               |               |
| Brokers, dealers and clearing organizations  | 2,819,677     | 2,816,877     |
| Customers  | 5,568,017     | 4,763,364     |
| Accrued expenses and other liabilities   | 1,124,368     | 803,219       |
| Long-term debt   | 4,804,607     | 4,608,926     |
| Mandatorily redeemable convertible preferred stock   | 125,000       | 125,000       |
| Mandatorily redeemable preferred interests of consolidated subsidiaries  | 348,051       | 310,534       |
| Total liabilities  | 32,510,788    | 31,434,447    |
| <b>STOCKHOLDERS EQUITY</b>   |               |               |
| Common stock, \$.0001 par value. Authorized 500,000,000 shares; issued 204,147,007 shares at November 30, 2012 and 197,197,848 shares at November 30, 2011 | 20            | 20            |
| Additional paid-in capital   | 2,219,959     | 2,207,410     |
| Retained earnings  | 1,281,855     | 1,067,858     |
| Treasury stock, at cost, 835,033 shares at November 30, 2012 and 37,842 shares at November 30, 2011  | (12,682)      | (486)         |
| Accumulated other comprehensive loss:  |               |               |
| Currency translation adjustments   | (38,009)      | (39,520)      |
| Additional minimum pension liability   | (15,128)      | (10,970)      |
| Total accumulated other comprehensive loss   | (53,137)      | (50,490)      |
| Total common stockholders equity   | 3,436,015     | 3,224,312     |
| Noncontrolling interests   | 346,738       | 312,663       |
| Total stockholders equity  | 3,782,753     | 3,536,975     |
| Total liabilities and stockholders equity  | \$ 36,293,541 | \$ 34,971,422 |

Continued on next page.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION CONTINUED****(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, |            |
|---|--------------|------------|
|   | 2012         | 2011       |
| <b>Assets</b>   |              |            |
| Cash and cash equivalents   | \$ 388,279   | \$ 345,959 |
| Financial instruments owned, at fair value                              |              |            |
| Corporate equity securities   | 105,271      | 61,670     |
| Corporate debt securities   | 394,043      | 326,549    |
| Mortgage- and asset-backed securities                                   | 15,589       | 41,004     |
| Loans and other receivables   | 383,667      | 281,416    |
| Derivatives   |              | 569        |
| Investments, at fair value  | 5,836        | 1,570      |
| Total financial instruments owned, at fair value                        | 904,406      | 712,778    |
| Receivables:  |              |            |
| Brokers, dealers and clearing organizations                             | 236,594      | 150,592    |
| Fees, interest and other  | 10,931       | 7,396      |
| Other assets  | 348          | 385        |
| Total assets  | 1,540,558    | 1,217,110  |
| <b>Liabilities</b>  |              |            |
| Financial instruments sold, not yet purchased, at fair value:           |              |            |
| Corporate equity securities   |              | 7,122      |
| Corporate debt securities   | 325,979      | 200,223    |
| Loans   | 199,610      | 117,958    |
| Derivatives   | 505          | 935        |
| Total financial instruments sold, not yet purchased, at fair value      | 526,094      | 326,238    |
| Payables:   |              |            |
| Brokers, dealers and clearing organizations                             | 201,237      | 105,165    |
| Accrued expenses and other liabilities                                  | 72,956       | 9,740      |
| Mandatorily redeemable preferred interests of consolidated subsidiaries | 348,051      | 310,534    |
| Total liabilities   | \$ 1,148,338 | \$ 751,677 |

See accompanying notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

(In thousands, except per share amounts)

|   | Year Ended           |                      | Eleven<br>Months<br>Ended |
|---|----------------------|----------------------|---------------------------|
|   | November 30,<br>2012 | November 30,<br>2011 | November 30,<br>2010      |
| <b>Revenues:</b>  |                      |                      |                           |
| Commissions   | \$ 485,569           | \$ 534,726           | \$ 466,246                |
| Principal transactions  | 1,035,974            | 428,035              | 509,070                   |
| Investment banking  | 1,125,883            | 1,122,528            | 890,334                   |
| Asset management fees and investment income from managed funds                      | 26,966               | 44,125               | 16,785                    |
| Interest  | 1,031,839            | 1,248,132            | 852,494                   |
| Other   | 164,974              | 152,092              | 62,417                    |
| Total revenues  | 3,871,205            | 3,529,638            | 2,797,346                 |
| Interest expense  | 872,421              | 980,825              | 605,096                   |
| Net revenues  | 2,998,784            | 2,548,813            | 2,192,250                 |
| Interest on mandatorily redeemable preferred interests of consolidated subsidiaries | 42,883               | 3,622                | 14,916                    |
| Net revenues, less mandatorily redeemable preferred interests                       | 2,955,901            | 2,545,191            | 2,177,334                 |
| <b>Non-interest expenses:</b>   |                      |                      |                           |
| Compensation and benefits   | 1,770,798            | 1,482,604            | 1,282,644                 |
| Non-compensation expenses:  |                      |                      |                           |
| Floor brokerage and clearing fees   | 120,145              | 126,313              | 110,835                   |
| Technology and communications   | 244,511              | 215,940              | 160,987                   |
| Occupancy and equipment rental  | 97,397               | 84,951               | 68,085                    |
| Business development  | 95,330               | 93,645               | 62,015                    |
| Professional services   | 73,427               | 66,305               | 49,080                    |
| Other   | 62,498               | 56,099               | 47,017                    |
| Total non-compensation expenses   | 693,308              | 643,253              | 498,019                   |
| Total non-interest expenses   | 2,464,106            | 2,125,857            | 1,780,663                 |
| Earnings before income taxes  | 491,795              | 419,334              | 396,671                   |
| Income tax expense  | 168,646              | 132,966              | 156,404                   |
| Net earnings  | 323,149              | 286,368              | 240,267                   |
| Net earnings to noncontrolling interests  | 40,740               | 1,750                | 16,601                    |
| Net earnings to common shareholders   | \$ 282,409           | \$ 284,618           | \$ 223,666                |
| <b>Earnings per common share:</b>   |                      |                      |                           |
| Basic   | \$ 1.23              | \$ 1.28              | \$ 1.10                   |
| Diluted   | \$ 1.22              | \$ 1.28              | \$ 1.09                   |
| Dividends declared per common share   | \$ 0.30              | \$ 0.30              | \$ 0.30                   |

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|                                 |         |         |         |
|---------------------------------|---------|---------|---------|
| Weighted average common shares: |         |         |         |
| Basic                           | 215,989 | 211,056 | 196,393 |
| Diluted                         | 220,101 | 215,171 | 200,511 |

See accompanying notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

|  | Year Ended           |                      | Eleven                                     |
|--|----------------------|----------------------|--|
|  | November 30,<br>2012 | November 30,<br>2011 | Months<br>Ended<br>November<br>30,<br>2010 |
| Net earnings   | \$ 323,149           | \$ 286,368           | \$ 240,267                                 |
| Other comprehensive income, net of tax:                |                      |                      |  |
| Currency translation adjustments                       | 1,511                | 3,339                | (8,490)                                    |
| Minimum pension liability adjustments, net of tax(1)   | (4,158)              | (2,551)              | (1,162)                                    |
| Total other comprehensive (loss) income, net of tax(2) | (2,647)              | 788                  | (9,652)                                    |
| Comprehensive income                                   | 320,502              | 287,156              | 230,615                                    |
| Net earnings attributable to noncontrolling interests  | 40,740               | 1,750                | 16,601                                     |
| Comprehensive income to common shareholders            | \$ 279,762           | \$ 285,406           | \$ 214,014                                 |

(1) Includes income tax benefit of \$0.2 million, \$1.8 million and \$0.8 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively.

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

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share amounts)

|   | Year Ended           |                      | Eleven<br>Months<br>Ended<br>November 30,<br>2010 |
|---|----------------------|----------------------|---|
|   | November 30,<br>2012 | November 30,<br>2011 |   |
| <b>Common stock, par value \$0.0001 per share</b>     |                      |                      |   |
| Balance, beginning of period                          | \$ 20                | \$ 20                | \$ 19   |
| Issued  | 1                    | 2                    | 1   |
| Retired   | (1)                  | (2)                  |   |
| Balance, end of period                                | 20                   | 20                   | 20  |
| <b>Additional paid-in capital</b>                     |                      |                      |   |
| Balance, beginning of period                          | 2,207,410            | 2,218,123            | 2,036,087   |
| Benefit plan share activity(1)                        | 12,076               | 31,176               | 19,230  |
| Share-based expense, net of forfeitures and clawbacks | 83,769               | 134,076              | 149,799   |
| Proceeds from exercise of stock options               | 104                  | 95                   | 108   |
| Acquisitions and contingent consideration             |                      | 419                  | 419   |
| Tax benefit for issuance of share-based awards        | 19,789               | 32,200               | 2,965   |
| Equity component of convertible debt, net of tax      | (427)                | (217)                |   |
| Dividend equivalents on share-based plans             | 6,531                | 8,883                | 9,515   |
| Issuance of treasury stock                            |                      | 97,770               |   |
| Retirement of treasury stock                          | (109,293)            | (315,115)            |   |
| Balance, end of period                                | 2,219,959            | 2,207,410            | 2,218,123   |
| <b>Retained earnings</b>                              |                      |                      |   |
| Balance, beginning of period                          | 1,067,858            | 850,654              | 688,039   |
| Net earnings to common shareholders                   | 282,409              | 284,618              | 223,666   |
| Dividends   | (68,412)             | (67,414)             | (61,051)  |
| Balance, end of period                                | 1,281,855            | 1,067,858            | 850,654   |
| <b>Treasury stock, at cost</b>                        |                      |                      |   |
| Balance, beginning of period                          | (486)                | (539,530)            | (384,379)   |
| Purchases   | (113,562)            | (152,827)            | (140,071)   |
| Returns / forfeitures                                 | (7,928)              | (20,368)             | (15,080)  |
| Issued  |                      | 397,122              |   |
| Retirement of treasury stock                          | 109,294              | 315,117              |   |
| Balance, end of period                                | (12,682)             | (486)                | (539,530)   |
| <b>Accumulated other comprehensive loss</b>           |                      |                      |   |
| Balance, beginning of period                          | (50,490)             | (51,278)             | (41,626)  |
| Currency adjustment                                   | 1,511                | 3,339                | (8,490)   |
| Pension adjustment, net of tax                        | (4,158)              | (2,551)              | (1,162)   |

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|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Balance, end of period                                     | (53,137)            | (50,490)            | (51,278)            |
| <b>Total common stockholders equity</b>                    | <b>3,436,015</b>    | <b>3,224,312</b>    | <b>2,477,989</b>    |
| <b>Noncontrolling interests</b>                            |                     |                     |                     |
| Balance, beginning of period                               | 312,663             | 332,976             | 321,538             |
| Net earnings attributable to noncontrolling interests      | 40,740              | 1,750               | 16,601              |
| Contributions  |                     | 1,713               | 12,433              |
| Distributions  | (13,570)            | (22,056)            | (15,177)            |
| Consolidation (deconsolidation) of asset management entity | 6,905               | (1,720)             | (5,477)             |
| Adoption of accounting changes to ASC 810                  |                     |                     | 3,058               |
| Balance, end of period                                     | 346,738             | 312,663             | 332,976             |
| <b>Total stockholders equity</b>                           | <b>\$ 3,782,753</b> | <b>\$ 3,536,975</b> | <b>\$ 2,810,965</b> |

(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 STATEMENTS OF CASH FLOWS**

(In thousands)

|  | Year Ended           |                      | Eleven<br>Months<br>Ended |
|--|----------------------|----------------------|---------------------------|
|  | November 30,<br>2012 | November 30,<br>2011 | November 30,<br>2010      |
| Cash flows from operating activities:  |                      |                      |                           |
| Net earnings   | \$ 323,149           | \$ 286,368           | \$ 240,267                |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:  |                      |                      |                           |
| Depreciation and amortization  | 72,692               | 68,522               | 42,087                    |
| Bargain purchase gain  | (3,368)              | (52,509)             |                           |
| Gain on repurchase of long-term debt   | (9,898)              | (21,107)             |                           |
| Gain on sale of mortgage servicing rights  | (23,826)             |                      |                           |
| Fees related to assigned management agreements   | (4,094)              | (3,724)              | (3,590)                   |
| Interest on mandatorily redeemable preferred interests of consolidated subsidiaries  | 42,883               | 3,622                | 14,916                    |
| Accruals related to various benefit plans and stock issuances, net of forfeitures  | 87,918               | 144,886              | 153,950                   |
| Deferred income taxes  | 84,643               | 30,177               | 4,389                     |
| (Increase) decrease in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | (738,117)            | 1,417,107            | (546,793)                 |
| (Increase) decrease in receivables:  |                      |                      |                           |
| Brokers, dealers and clearing organizations  | (101,903)            | 1,652,426            | (1,062,106)               |
| Customers  | 200,679              | 385,686              | (321,008)                 |
| Fees, interest and other   | (33,694)             | 3,856                | (57,482)                  |
| Decrease in securities borrowed  | 75,379               | 3,014,442            | 52,634                    |
| Decrease (increase) in financial instruments owned   | 52,737               | 299,558              | (6,434,698)               |
| Decrease (increase) in loans to and investments in related parties   | 7,302                | (375,031)            | (27,443)                  |
| Decrease (increase) in investments in managed funds  | 12,977               | 60,855               | (9,833)                   |
| (Increase) decrease in securities purchased under agreements to resell   | (463,829)            | 372,470              | 266,132                   |
| Increase in other assets   | (22,178)             | (122,568)            | (123,933)                 |
| (Decrease) increase in payables:   |                      |                      |                           |
| Brokers, dealers and clearing organizations  | (82,031)             | 880,998              | 1,001,155                 |
| Customers  | 804,539              | (2,324,839)          | 467,164                   |
| Increase (decrease) in securities loaned   | 227,737              | (1,428,852)          | (455,750)                 |
| Increase (decrease) in financial instruments sold, not yet purchased   | 801,971              | (2,892,462)          | 3,685,421                 |
| (Decrease) increase in securities sold under agreements to repurchase  | (1,439,130)          | (1,083,191)          | 2,444,802                 |
| Increase (decrease) in accrued expenses and other liabilities  | 316,367              | (599,677)            | 218,255                   |
| Net cash provided by (used in) operating activities  | 188,905              | (282,987)            | (451,464)                 |
| Cash flows from investing activities:  |                      |                      |                           |
| Net payments on premises and equipment   | (63,236)             | (77,330)             | (38,426)                  |
| Consolidation (deconsolidation) of asset management entity   | 9,711                |                      | (407)                     |
| Cash received (paid) in connection with acquisition during the period, net of cash acquired  | 2,257                | (320,697)            |                           |
| Cash received from sales of mortgage servicing rights  | 30,851               |                      |                           |
| Cash received from contingent consideration  | 4,104                | 3,733                | 2,930                     |
| Cash paid from contingent consideration  | (1,172)              | (754)                | (8,332)                   |

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|                                       |          |           |          |
|---------------------------------------|----------|-----------|----------|
| Net cash used in investing activities | (17,485) | (395,048) | (44,235) |
|---------------------------------------|----------|-----------|----------|

Continued on next page.

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

(In thousands)

|  | Year Ended           |                      | Eleven                                  |
|--|----------------------|----------------------|---|
|  | November 30,<br>2012 | November 30,<br>2011 | Months<br>Ended<br>November 30,<br>2010 |
| Cash flows from financing activities:  |                      |                      |   |
| Excess tax benefits from the issuance of share-based awards                        | \$ 31,413            | \$ 34,552            | \$ 2,397                                |
| Proceeds from short-term borrowings  | 12,912,063           | 3,032,010            | 2,446,000                               |
| Payments on short-term borrowings  | (12,819,557)         | (3,283,231)          | (2,446,000)                             |
| Proceeds from secured credit facility  | 1,325,000            | 260,000              |   |
| Payments on secured credit facility  | (1,075,000)          | (160,000)            |   |
| Repayment of long-term debt  | (253,232)            |                      |   |
| Payments on repurchase of long-term debt   | (1,435)              | (49,692)             |   |
| Payments on mandatorily redeemable preferred interest of consolidated subsidiaries | (5,366)              | (8,973)              | (17,078)                                |
| Payments on repurchase of common stock   | (113,562)            | (152,827)            | (140,071)                               |
| Payments on dividends  | (61,881)             | (58,531)             | (51,536)                                |
| Proceeds from exercise of stock options, not including tax benefits                | 104                  | 95                   | 108                                     |
| Net proceeds from (payments on):   |                      |                      |   |
| Issuance of common shares  |                      | 494,892              |   |
| Issuance of senior notes, net of issuance costs                                    | 201,010              | 794,587              | 1,041,353                               |
| Noncontrolling interest  | (13,570)             | (20,343)             | (2,744)                                 |
| Net cash provided by financing activities  | 125,987              | 882,539              | 832,429                                 |
| Effect of foreign currency translation on cash and cash equivalents                | 1,391                | 295                  | (899)                                   |
| Net increase in cash and cash equivalents  | 298,798              | 204,799              | 335,831                                 |
| Cash and cash equivalents at beginning of period                                   | 2,393,797            | 2,188,998            | 1,853,167                               |
| Cash and cash equivalents at end of period   | \$ 2,692,595         | \$ 2,393,797         | \$ 2,188,998                            |
| Supplemental disclosures of cash flow information:                                 |                      |                      |   |
| Cash paid during the period for:   |                      |                      |   |
| Interest   | \$ 869,354           | \$ 943,031           | \$ 579,915                              |
| Income taxes, net of refunds   | 43,113               | 153,416              | 182,633                                 |
| Acquisitions:  |                      |                      |   |
| Fair value of assets acquired  |                      | \$ 4,703,560         |   |
| Liabilities assumed  |                      | (4,229,011)          |   |
| Bargain purchase gain  |                      | (52,509)             |   |
| Total purchase price   |                      | 422,040              |   |
| Cash acquired  |                      | (101,343)            |   |
| Cash paid for acquisition, net of cash acquired                                    |                      | \$ 320,697           |   |

In 2012, the additional minimum pension liability included in stockholders' equity of \$15.1 million resulted from an increase of \$4.2 million to accrued expenses and other liabilities and an offsetting decrease in stockholders' equity.

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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.

In 2010, the additional minimum pension liability included in stockholders' equity of \$8.5 million resulted from an increase of \$1.2 million to accrued expenses and other liabilities and an offsetting decrease in stockholders' equity.

See accompanying notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**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, CoreCommodity Management, LLC (formerly 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 ). The Global Commodities Group provided 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. The acquisition allowed 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. On February 1, 2012, we acquired the corporate broking business of Hoare Govett from The Royal Bank of Scotland Group plc ( RBS ). The acquired business represented the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprised corporate broking advice and services. The acquisition of Hoare Govett provided us with the opportunity to continue our growth in corporate broking and significantly expand the capabilities and reach of our established European Investment Banking and Equities businesses. See Note 4, Acquisitions for further details.

On November 12, 2012, we announced a definitive merger agreement with Leucadia National Corporation ( Leucadia ) (the Merger Agreement ) whereby Jefferies shareholders (other than Leucadia, which currently owns approximately 28.6% of Jefferies outstanding common shares) will receive 0.81 of a share of Leucadia common stock for each share of Jefferies common stock they hold. The merger, which is expected to close during the first quarter of 2013, is subject to customary closing conditions, including approval to effect the merger by both Leucadia and Jefferies shareholders. Upon the closing of the merger, Richard Handler, current Chief Executive Officer and Chairman of Jefferies, will remain in these positions and also become the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian Friedman, the Chairman of the Executive Committee of Jefferies, will remain in this position and will also become Leucadia's President and one of Leucadia's Directors. Upon the merger, Jefferies will continue to operate as a full-service global investment banking firm in its current form and will retain a credit rating that is separate from Leucadia. We intend to remain an SEC reporting company, regularly filing annual, quarterly and periodic financial reports.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***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. Accordingly, financial information presented in this report are as of and for the twelve months ended November 30, 2012 and 2011 and as of and for the eleven month transition period beginning January 1, 2010 through November 30, 2010.

***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, goodwill, the ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

***Consolidation***

Our policy is to consolidate all entities in which we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity 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. For consolidated entities that are less than wholly owned, the third-party's holding of equity interest is presented as Noncontrolling interests in the Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Stockholders' Equity. The portion of net earnings attributable to the noncontrolling interests are presented as Net earnings to noncontrolling interests in the Consolidated Statements of Earnings.

In situations where we have significant influence, but not control, of an entity that does not qualify as a variable interest entity, we apply either the equity method of accounting or fair value accounting pursuant to the fair value option election under U.S. GAAP, with our portion of net earnings or gains and losses recorded within Other revenues or Principal transaction revenues. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies and are carried at fair value. 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.

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Soft dollar expenses amounted to \$31.9 million, \$47.9 million and \$37.0 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. These arrangements are accounted for on an accrual basis and, as we are not the primary obligor for these arrangements, netted against commission revenues in the Consolidated Statements of Earnings. The commissions and related expenses on client transactions executed by Jefferies Bache, LLC, a futures commission merchant, are recorded on a half-turn basis.

Pursuant to clearing agreements, we clear trades for unaffiliated correspondent brokers and retain a portion of commissions as a fee for our services which are recorded 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. Proceeds amounted to \$11.0 million, of which \$9.1 million was recognized in 2011 and the balance in 2012, and is included within Other revenues in the Consolidated Statement of Earnings.

*Principal Transactions.* Financial instruments owned 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. Fees received on loans carried at fair value are also recorded within Principal transactions.

*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. Expenses are recorded net of client reimbursements and netted against revenues. Unreimbursed 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 and accounts 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 and recognized in Principal transactions in the Consolidated Statements of Earnings rather than as a component of interest revenue or expense. We account for our short-term borrowings, long-term borrowings and our mandatorily redeemable convertible preferred stock on an accrual basis with related interest recorded as



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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. Certain other entities are also obligated by rules mandated by their primary regulators to segregate or set aside cash or equivalent securities to satisfy regulations, promulgated to protect customer assets.

***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.

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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.

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, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current as of the measurement date. 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 of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, features of the financial instrument such as its complexity, the market in which the financial instrument is traded and risk uncertainties about market conditions require that an adjustment be made to the value derived from the models. 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. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

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. 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. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

***Valuation Process for Financial Instruments***

The Independent Price Verification (IPV) Group, which is part of Finance, in partnership with Market Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Market Risk Management, which are independent of our business functions, play an important role and serve as a control function 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. The IPV Group reports to the Global Controller and is subject to the oversight of the IPV Committee, which is comprised of the Chief Financial Officer, Global Controller, Global Head of Product Control, Chief Risk Officer and the Principal Accounting Officer, among other personnel. Our independent price verification policies and procedures are reviewed, at a minimum, annually and changes to the policies require the approval of the IPV Committee.

***Price Testing Process.*** The business units are responsible for determining the fair value of our financial instruments using approved valuation models and methodologies. In order to ensure that the business unit valuations represent a fair value exit price, the IPV Group tests and validates the fair value of our financial instruments inventory. In the testing process, the IPV Group obtains prices and valuation inputs from sources

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independent of Jefferies, consistently adheres to established procedures set forth in our valuation policies for sourcing prices and valuation inputs and utilizing valuation methodologies. Sources used to validate fair value prices and inputs include, but are not limited to, exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and prepares a monthly summary of its valuation results. This process also forms the basis for our classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Market Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists the Chief Financial Officer in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Audit Committee.

Judgment exercised in determining Level 3 fair value measurements is supplemented by daily analysis of profit and loss performed by the Product Control functions. Gains and losses, which result from changes in fair value, are evaluated and corroborated daily based on an understanding of each of the trading desks' overall risk positions and developments in a particular market on the given day. Valuation techniques generally rely on recent transactions of suitably comparable financial instruments and use the observable inputs from those comparable transactions as a validation basis for Level 3 inputs. Level 3 fair value measurements are further validated through subsequent sales testing and market comparable sales, if such information is available. Level 3 fair value measurements require documentation of the valuation rationale applied, which is reviewed for consistency in application from period to period; and the documentation includes benchmarking the assumptions underlying the valuation rationale against relevant analytic data.

*Third Party Pricing Information.* Pricing information obtained from external data providers and pricing services 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 process whereby we challenge the appropriateness of pricing information obtained from external 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, and loans, to the extent independent 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

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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.

*Model Review Process.* Where a pricing model is to be used to determine fair value, the pricing model is reviewed for theoretical soundness and appropriateness by Market Risk Management, independent from the trading desks, and then approved to be used in the valuation process. Review and approval of a model for use includes benchmarking the model against relevant third party valuations, testing sample trades in the model, backtesting the results of the model against actual trades and stress-testing the sensitivity of the valuation model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated annually or more frequently if market conditions or use of the valuation model changes.

***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 with gains or losses 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 include investments in private equity and other operating entities made in connection with our capital markets activities in which we exercise significant influence over operating and capital decisions 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 revenues in the Consolidated Statements of Earnings. See Note 11, Investments, and Note 24, Related Party Transactions, 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 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

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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 resale or repurchase amount plus accrued interest. We earn and incur interest over the term of the repo, which is reflected in Interest income and Interest expense on our Consolidated Statements of Earnings on an accrual basis. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis-by counterparty, where permitted by generally accepted accounting principles. 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.

***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, 2012 and November 30, 2011, furniture, fixtures and equipment amounted to \$266.2 million and \$246.5 million, respectively, and leasehold improvements amounted to \$133.1 million and \$122.9 million, respectively. Accumulated depreciation and amortization was \$213.3 million and \$194.3 million as of November 30, 2012 and November 30, 2011, respectively. Included within furniture, fixtures and equipment is equipment recorded under capital leases with a cost of \$19.5 million, which is being amortized over the lease term.

Depreciation and amortization expense amounted to \$50.5 million, \$43.7 million and \$35.3 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively.

***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. The methodologies we utilize in estimating the fair value of reporting units include market capitalization,

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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 estimates and assumptions that 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 12, 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 indicating an assessment for impairment is necessary. 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. Our annual indefinite-lived intangible asset impairment testing date is June 1.

***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 of a change in tax rates on deferred tax assets and liabilities 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, 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 Statements of Changes in Stockholders' Equity.

***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.

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We recognize a liability for a contingency in Accrued expenses and other liabilities when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. 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.

***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 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.

***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 ( RSUs ) 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 RSUs 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 RSUs meet the definition of a participating security. As such, we calculate Basic and Diluted earnings per share under the two-class method.

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***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 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 Statements 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 Statements of Earnings.

When a transfer of assets does not meet the criteria of a sale, we account for the transfer as a secured borrowing and 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.

**Note 3. Accounting Developments**

***Accounting Standards to be Adopted in Future Periods***

***Indefinite-Lived Intangible Asset Impairment.*** In July 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The update does not revise the requirement to test indefinite-lived intangible assets annually for impairment, or more frequently if deemed appropriate. The new guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted (fiscal year ended November 30, 2013). The adoption of this guidance will not affect our financial condition, results of operations or cash flows as it does not affect how impairment is calculated.

***Balance Sheet Offsetting Disclosures.*** In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures regarding 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 for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal year ended November 30, 2014), and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance will not affect our financial condition, results of operation or cash flows.

***Goodwill Testing.*** In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. 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 as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. The update is effective for annual and interim goodwill tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted (fiscal year ended November 2013). The adoption of this guidance will not affect our financial condition, results of operation or cash flows as it does not change how goodwill is calculated nor assigned to reporting units.



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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

***Adopted Accounting Standards***

*Comprehensive Income.* In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The update requires entities to report comprehensive income either (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements. We adopted the guidance on March 1, 2012, and elected the two separate but consecutive statements approach. Accordingly, we now present our Consolidated Statements of Comprehensive Income immediately following our Consolidated Statements of Earnings within our consolidated financial statements.

*Fair Value Measurements and Disclosures.* In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. 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. We adopted this guidance on March 1, 2012 and have reflected the new disclosures in our consolidated financial statements. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

*Reconsideration of Effective Control for Repurchase Agreements.* In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. In assessing whether to account for repurchase and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financing, this guidance removes from the assessment of effective control 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and 2) the collateral maintenance implementation guidance related to that criterion. The guidance is effective prospectively for transactions beginning on or after January 1, 2012. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

**Note 4. Acquisitions**  
***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. The acquisition included 100% of the equity interests in Prudential Bache Commodities LLC, a U.S.-based full-service futures commission merchant; Prudential Bache Securities LLC, a US-based registered broker-dealer, which has since merged with Jefferies; Bache Commodities Limited, a UK-based global commodities and financial derivatives broker; 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 contracts used by the Global Commodities Group. We refer to this business collectively as Jefferies Bache. The business of Jefferies Bache is included within the Capital Markets business segment.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

We accounted for the acquisition under the acquisition 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. A statement of the fair value of assets acquired and liabilities assumed on July 1, 2011, the purchase price and the resulting bargain purchase gain of approximately \$52.5 million is presented below (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(1)  | 13,611              |
| Indefinite-lived intangible exchange memberships and licenses(2) | 11,219              |
| Finite-lived intangible customer relationships(2)(3)             | 5,800               |
| Trade names(2)(4)  | 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(5)</b>                                  | <b>\$ 52,509</b>    |

- (1) We recognized in the acquisition approximately \$6.3 million of internally developed software that is recorded within Premises and equipment on the Consolidated Statement of Financial Condition.

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- (2) Intangible assets are recorded within Other assets on the Consolidated Statements of Financial Condition. See Note 12, Goodwill and Other Intangible Assets for further details.
- (3) 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.
- (4) The fair value of the Bache trade name is amortized on a straight line basis over a useful life of 1.5 years.
- (5) The bargain purchase gain is included in Other revenues in the Consolidated Statement of Earnings for the year ended November 30, 2011, is not taxable and is reported within the Capital Markets business segment.

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The following unaudited pro forma combined financial information presents the 2011 and 2010 results as they may have appeared if the acquisition of Jefferies Bache had been completed on December 1, 2010 and January 1, 2010.

| <b>(in millions, except per share data)</b>    | <b>Twelve months ended<br/>November 30,<br/>2011</b> | <b>Eleven months ended<br/>November 30,<br/>2010</b> |
|--|--|--|
| 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 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 fair 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 \$1.6 million in aggregate for the twelve months ended November 30, 2011 and \$1.9 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 ended November 30, 2011 and eleven months ended November 30, 2010, respectively.

*Hoare Govett*

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On February 1, 2012, we acquired the corporate broking business of Hoare Govett from RBS. Total cash consideration paid by us to RBS for the acquisition was £1. In addition, under the terms of the purchase agreement RBS agreed to pay us approximately £1.9 million towards retention payments made to certain employees, which constituted a reduction of the final purchase price. The business acquired represents the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprised corporate broking advice and services, as well as certain equity sales and trading activities. The acquisition included the Hoare Govett trade name, domain name, client agreements and the exclusive right to carry on the business in succession to RBS.

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We accounted for the acquisition under the acquisition 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, specifically the Hoare Govett trademark/trade name, was approximately \$0.3 million, which exceeded the negative purchase price of \$3.1 million (cash consideration paid of £1 less remittance from RBS of £1.9 million), resulting in a bargain purchase gain of approximately \$3.4 million. The bargain purchase gain is included within Other revenues in the Consolidated Statement of Earnings for the year ended November 30, 2012 and is reported within the Capital Markets business segment. Approximately \$0.4 million was recognized at the date of acquisition as the fair value of the Hoare Govett trade name. See Note 12, Goodwill and Other Intangible Assets for further details. The fair value of the intangible asset is amortized on a straight line basis over a useful life of 5 years. Additionally, on February 1, 2012, we recognized a deferred tax liability of approximately \$0.1 million, recorded within Accrued expenses and other liabilities on the Consolidated Statement of Financial Condition.

Our results of operations for the year ended November 30, 2012 include the results of operations of Hoare Govett for the period from February 1, 2012 to November 30, 2012. The acquisition closed on February 29, 2012.

**Note 5. 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 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, 2012 and 2011 (in thousands):

|                                   | November 30, |              |
|-----------------------------------|--------------|--------------|
|                                   | 2012         | 2011         |
| Cash and cash equivalents:        |              |              |
| Cash in banks                     | \$ 1,038,664 | \$ 846,990   |
| Money market investments          | 1,653,931    | 1,546,807    |
| Total cash and cash equivalents   | \$ 2,692,595 | \$ 2,393,797 |
| Cash and securities segregated(1) | \$ 4,082,595 | \$ 3,344,960 |

- (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.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****Note 6. Fair Value Disclosures**

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, 2012 and 2011 by level within the fair value hierarchy (in thousands):

|   | November 30, 2012   |                      |                   |  | Total                |
|---|---------------------|----------------------|-------------------|--|----------------------|
|   | Level 1(1)          | Level 2(1)           | Level 3           | Counterparty<br>and Cash<br>Collateral<br>Netting(2) |                      |
| <b>Assets:</b>  |                     |                      |                   |  |                      |
| Financial instruments owned:  |                     |                      |                   |  |                      |
| Corporate equity securities   | \$ 1,608,715        | \$ 137,245           | \$ 16,815         | \$   | \$ 1,762,775         |
| Corporate debt securities   |                     | 3,034,515            | 3,631             |  | 3,038,146            |
| Collateralized debt obligations   |                     | 87,239               | 31,255            |  | 118,494              |
| U.S. government and federal agency securities                                       | 1,720,617           | 115,310              |                   |  | 1,835,927            |
| Municipal securities  |                     | 619,969              |                   |  | 619,969              |
| Sovereign obligations   | 1,722,044           | 975,810              |                   |  | 2,697,854            |
| Residential mortgage-backed securities  |                     | 4,008,844            | 156,069           |  | 4,164,913            |
| Commercial mortgage-backed securities   |                     | 1,060,333            | 30,202            |  | 1,090,535            |
| Other asset-backed securities   |                     | 93,228               | 1,114             |  | 94,342               |
| Loans and other receivables   |                     | 497,918              | 180,393           |  | 678,311              |
| Derivatives   | 615,024             | 1,547,984            | 328               | (1,865,250)  | 298,086              |
| Investments at fair value   |                     | 43,126               | 83,897            |  | 127,023              |
| Physical commodities  |                     | 144,016              |                   |  | 144,016              |
| <b>Total financial instruments owned</b>  | <b>\$ 5,666,400</b> | <b>\$ 12,365,537</b> | <b>\$ 503,704</b> | <b>\$ (1,865,250)</b>                                | <b>\$ 16,670,391</b> |
| Level 3 financial instruments for which the firm does not bear economic exposure(3) |                     |                      | (53,289)          |  |                      |
| Level 3 financial instruments for which the firm bears economic exposure            |                     |                      | \$ 450,415        |  |                      |
| Cash and cash equivalents   | \$ 2,692,595        | \$                   | \$                | \$   | \$ 2,692,595         |
| Investments in managed funds  | \$                  | \$                   | \$ 57,763         | \$   | \$ 57,763            |
| Cash and securities segregated and on deposit for regulatory purposes(4)            | \$ 4,082,595        | \$                   | \$                | \$   | \$ 4,082,595         |
| <b>Total Level 3 assets for which the firm bears economic exposure</b>              |                     |                      | <b>\$ 508,178</b> |  |                      |
| <b>Liabilities:</b>   |                     |                      |                   |  |                      |
| Financial instruments sold, not yet purchased:                                      |                     |                      |                   |  |                      |
| Corporate equity securities   | \$ 1,442,347        | \$ 96,947            | \$ 38             | \$   | \$ 1,539,332         |
| Corporate debt securities   |                     | 1,389,312            |                   |  | 1,389,312            |
| U.S. government and federal agency securities                                       | 1,428,746           | 250,387              |                   |  | 1,679,133            |

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|   |              |              |           |                |              |
|---|--------------|--------------|-----------|----------------|--------------|
| Sovereign obligations                               | 1,395,355    | 591,624      |           |                | 1,986,979    |
| Residential mortgage-backed securities              |              | 239,063      |           |                | 239,063      |
| Commercial mortgage-backed securities               |              | 2,148        |           |                | 2,148        |
| Loans   |              | 205,516      | 1,711     |                | 207,227      |
| Derivatives   | 547,605      | 1,684,884    | 9,516     | (2,012,878)    | 229,127      |
| Physical commodities                                |              | 183,142      |           |                | 183,142      |
| Total financial instruments sold, not yet purchased | \$ 4,814,053 | \$ 4,643,023 | \$ 11,265 | \$ (2,012,878) | \$ 7,455,463 |

(1) There were no transfers between Level 1 and Level 2 for the year ended November 30, 2012.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

- (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 attributable to third party or employee noncontrolling interests in certain consolidated entities.
- (4) Includes U.S. government securities segregated for regulatory purposes with a fair value of \$404.3 million.

|   | As of November 30, 2011 |                      |                   |  |                      |
|---|-------------------------|----------------------|-------------------|--|----------------------|
|   | Level 1(1)              | Level 2(1)           | Level 3           | Counterparty<br>and Cash<br>Collateral<br>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(3) |                         |                      | \$ (45,901)       |  |                      |
| Level 3 financial instruments for which the firm bears economic exposure            |                         |                      | \$ 452,157        |  |                      |
| Cash and cash equivalents   | \$ 2,393,797            | \$                   | \$                | \$   | \$ 2,393,797         |
| Investments in managed funds  | \$                      | \$                   | \$ 70,740         | \$   | \$ 70,740            |
| Cash and securities segregated and on deposit for regulatory purposes(4)            | \$ 3,344,960            | \$                   | \$                | \$   | \$ 3,344,960         |
| 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> |  |                      |

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**Liabilities:**

| 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           |
| 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> |
| <b>Obligation to return securities received as collateral</b> | <b>\$ 21,862</b>    | <b>\$</b>           | <b>\$</b>        | <b>\$</b>             | <b>\$ 21,862</b>    |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

- (1) There were no transfers between Level 1 and Level 2 for the year 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 Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.
- (4) Includes U.S. government securities segregated for regulatory purposes with a fair value of \$115.0 million.  
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 external pricing services, and are categorized within Level 1 of the fair value hierarchy.

**Non-exchange Traded Equity Securities:** Non-exchange traded equity securities are measured primarily using broker quotations, pricing data from external pricing services 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 within Level 3 of the fair value hierarchy 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 categorized 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 data from external pricing services 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 and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**High Yield Corporate and Convertible Bonds:** A significant portion of our high yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing data from external pricing services, where available, and prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are categorized within 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.

***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 categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance 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 within 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 categorized within Level 1 and callable U.S. agency securities are categorized within Level 2 of the fair value hierarchy.

***Municipal Securities***

Municipal securities are measured based on quoted prices obtained from external pricing services and are generally categorized within Level 2 of the fair value hierarchy.

***Sovereign Obligations***

Foreign sovereign government obligations are measured based on quoted market prices obtained from external pricing services, where available, or recently executed independent transactions of comparable size. To the extent external price quotations are not available or recent transactions have not been observed, valuation techniques incorporating interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value of sovereign bonds or obligations. Foreign sovereign government obligations are classified in Level 1, 2 or Level 3 of the fair value hierarchy, primarily based on the country of issuance.

***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 pricing services and categorized within Level 2 of the fair value hierarchy.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**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 the 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 our 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 and significance 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 Delegated Underwriting and Servicing ( 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 external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

***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 within Level 2 and Level 3 of the fair value hierarchy. Valuations are determined using pricing data obtained from external pricing 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 where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy, are measured based on market price quotations that are considered to be less transparent,

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

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, which in turn 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 categorized 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 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

***Derivatives***

**Listed Derivative Contracts:** Listed derivative contracts are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of 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 of the fair value hierarchy.

**OTC Derivative Contracts:** Over-the-counter ( 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 within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

OTC options include OTC equity, foreign exchange and commodity options measured using various valuation models, such as the Black-Scholes, 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



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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

valuations of our commodity swaps, which incorporate observable inputs related to commodity spot prices and forward curves. Credit default 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 external pricing services.

***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 within Level 2 of the fair value hierarchy. To facilitate its trading in precious metals the Company undertakes leasing of such precious metals. The fee earned or paid for such leases are recorded as Principal transactions revenues on the consolidated statements of earnings.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****November 30, 2012 and 2011****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 at fair value based on the net asset value of the funds provided by the fund managers and are 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 at fair value 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 defined benefit plan in Germany and shares in non-U.S. exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy. Fair value for the shares in non-U.S. exchanges and clearing houses is determined based on recent transactions or third party model valuations and is categorized within Level 2 or Level 3 of the fair value hierarchy. The following tables present information about our investments in entities that have the characteristics of an investment company at November 30, 2012 and 2011 (in thousands):

|                                  | Fair<br>Value<br>(7) | November 30, 2012       |  |
|----------------------------------|----------------------|-------------------------|--|
|                                  |                      | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>currently eligible) |
| Equity Long/Short Hedge Funds(1) | \$ 19,554            | \$                      | Monthly,<br>Quarterly                              |
| High Yield Hedge Funds(2)        | 612                  |                         |  |
| Fund of Funds(3)                 | 604                  | 106                     |  |
| Equity Funds(4)                  | 69,223               | 59,272                  |  |
| Convertible Bond Funds(5)        | 3,002                |                         | At Will  |
| Other Investments(6)             | 19                   |                         | Bi-Monthly   |
| <b>Total(8)</b>                  | <b>\$ 93,014</b>     | <b>\$ 59,378</b>        |  |

|                                  | Fair<br>Value<br>(7) | November 30, 2011       |  |
|----------------------------------|----------------------|-------------------------|--|
|                                  |                      | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>currently eligible) |
| Equity Long/Short Hedge Funds(1) | \$ 27,604            | \$                      | Monthly,<br>Quarterly                              |
| High Yield Hedge Funds(2)        | 938                  |                         |  |
| Fund of Funds(3)                 | 772                  | 126                     |  |
| Equity Funds(4)                  | 88,294               | 74,283                  |  |
| Convertible Bond Funds(5)        | 2,827                |                         | At Will  |
| Other Investments(6)             | 19                   |                         | Bi-Monthly   |
| <b>Total(8)</b>                  | <b>\$ 120,454</b>    | <b>\$ 74,409</b>        |  |

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- (1) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At November 30, 2012 and 2011, investments representing approximately 96% and 98%, respectively, of the fair value of investments in this category are redeemable with 30 - 65 days prior written notice, and includes investments in private asset

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

management funds managed by us with an aggregate fair value of \$0.5 million and \$10.7 million, respectively. The remaining investments in this category 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.

- (2) 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. The underlying assets of the funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.
- (3) Includes investments in fund of funds that invest in various private equity funds. At November 30, 2012 and 2011, approximately 94% and 95%, respectively of the fair value of investments in this category is managed by us and has no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to two years. As of November 30, 2012 and 2011, we have requested redemption for investments representing approximately 6% and 5%, respectively, of the fair value of investments in this category; however, we are unable to estimate when these funds will be received.
- (4) At November 30, 2012 and 2011, investments representing approximately 98% and 96% of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years. At November 30, 2012, investments representing approximately 2% of the fair value of investments in equity funds are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated. At November 30, 2012 and 2011, this category includes investments in equity funds managed by us with a fair value of \$55.6 million and \$69.1 million and unfunded commitments of \$56.9 million and \$70.7 million, respectively.
- (5) Investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The investment is redeemable with 5 days prior written notice.
- (6) Other investments at November 30, 2012 and 2011 included investments in funds that invest in commodity futures and options contracts.
- (7) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.
- (8) Investments at fair value in the Consolidated Statements of Financial Condition at November 30, 2012 and 2011 include \$91.8 million and \$55.9 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****November 30, 2012 and 2011****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED*****Pricing Information***

At November 30, 2012 and 2011, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:

|                                      | <b>November 30, 2012</b>                   |  | <b>November 30, 2011</b>                   |  |
|--------------------------------------|--|--|--|--|
|                                      | <b>Financial<br/>Instruments<br/>Owned</b> | <b>Financial<br/>Instruments Sold,<br/>Not Yet<br/>Purchased</b> | <b>Financial<br/>Instruments<br/>Owned</b> | <b>Financial<br/>Instruments Sold,<br/>Not Yet<br/>Purchased</b> |
| Exchange closing prices              | 11%  | 19%  | 7%   | 19%  |
| Recently observed transaction prices | 5%   | 6%   | 2%   | 1%   |
| External pricing services            | 70%  | 71%  | 77%  | 75%  |
| Broker quotes                        | 1%   | 0%   | 1%   | 0%   |
| Valuation techniques                 | 13%  | 4%   | 13%  | 5%   |
|                                      | 100%                                       | 100%   | 100%                                       | 100%   |

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November 30, 2012 and 2011

**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 categorized within Level 3 of the fair value hierarchy for the year ended November 30, 2012 (in thousands):

|  | Year Ended November 30, 2012     |  |           |            |             |  | Balance,<br>November 30,<br>2012 | Change in<br>unrealized gains/<br>(losses) relating to<br>instruments<br>still held at<br>November<br>30,<br>2012<br>(1) |
|--|----------------------------------|--|-----------|------------|-------------|--|----------------------------------|--|
|  | Balance,<br>November 30,<br>2011 | Total gains/<br>losses (realized<br>and unrealized)<br>(1) | Purchases | Sales      | Settlements | Net<br>transfers<br>into/<br>(out of)<br>Level 3 |                                  |  |
| <b>Assets:</b>                                 |                                  |  |           |            |             |  |                                  |  |
| Financial instruments owned:                   |                                  |  |           |            |             |  |                                  |  |
| Corporate equity securities                    | \$ 13,489                        | \$ (4,167)   | \$ 14,760 | \$ (7,878) | \$          | \$ 611   | \$ 16,815                        | \$ (6,199)   |
| Corporate debt securities                      | 48,140                           | (1,651)  | 34,814    | (69,969)   | (1,276)     | (6,427)  | 3,631                            | (1,286)  |
| Collateralized debt obligations                | 47,988                           | 4,882  | 4,369     | (64,915)   | (3,892)     | 42,823   | 31,255                           | (1,524)  |
| Municipal securities                           | 6,904                            | (74)   |           | (1,449)    |             | (5,381)  |                                  |  |
| Sovereign obligations                          | 140                              |  |           |            |             | (140)  |                                  |  |
| Residential mortgage-backed securities         | 149,965                          | 36,183   | 266,692   | (278,068)  | (58,005)    | 39,302   | 156,069                          | (6,445)  |
| Commercial mortgage-backed securities          | 52,407                           | (7,715)  | 14,058    | (23,797)   | (1,241)     | (3,510)  | 30,202                           | (6,042)  |
| Other asset-backed securities                  | 3,284                            | (20)   | 8,749     | (8,627)    | (52)        | (2,220)  | 1,114                            | (32)   |
| Loans and other receivables                    | 97,291                           | (2,475)  | 299,929   | (104,155)  | (143,960)   | 33,763   | 180,393                          | (4,335)  |
| Investments, at fair value                     | 78,326                           | 14,965   | 4,060     | (6)        | (13,448)    |  | 83,897                           | 13,642   |
| Investments in managed funds                   | 70,740                           | (11,102)   | 12,683    |            | (14,558)    |  | 57,763                           | (11,101)   |
| <b>Liabilities:</b>                            |                                  |  |           |            |             |  |                                  |  |
| Financial instruments sold, not yet purchased: |                                  |  |           |            |             |  |                                  |  |
| Corporate equity securities                    | \$                               | \$ 38  | \$        | \$         | \$          | \$   | \$ 38                            | \$ 38  |
| Corporate debt securities                      | 74                               | (15)   | (59)      |            |             |  |                                  |  |
| Net derivatives(2)                             | 9,285                            | 2,505  | (389)     |            |             | (2,213)  | 9,188                            | 3,728  |
| Loans  | 10,157                           |  | (10,157)  | 1,711      |             |  | 1,711                            |  |

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

*Analysis of Level 3 Assets and Liabilities for the Year Ended November 30, 2012*

During the year ended November 30, 2012, transfers of assets of \$180.6 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$53.4 million and Commercial mortgage-backed securities of \$11.7 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$62.2 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2 as less market interest likely existed for the specific loans during the period;

Collateralized debt obligations of \$51.0 million which have little to no transparency in trade activity; and

Corporate debt securities of \$1.3 million and Corporate equity securities of \$0.9 million due to lack of observable market transactions. During the year ended November 30, 2012, transfers of assets of \$81.8 million from Level 3 to Level 2 are attributed to:

Loans and other receivables of \$28.4 million and Collateralized debt obligations of \$8.2 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Commercial mortgage-backed securities of \$15.2 million, Non-agency residential mortgage-backed securities of \$14.1 million and \$2.4 million of Other asset-backed securities for which market trades were observed in the period for either identical or similar securities or for which vendor prices were corroborated to actual market transactions; and

Corporate debt securities of \$7.8 million and Municipal securities of \$5.4 million due to increased observability of trades in certain debt and municipal securities.

During the year ended November 30, 2012, there were no transfers of liabilities from Level 2 to Level 3 and there were \$2.2 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable significant inputs used in valuing the derivative contracts.

Net gains on Level 3 assets were \$28.8 million and net losses on Level 3 liabilities were \$2.5 million for the year ended November 30, 2012. Net gains on Level 3 assets were primarily due to increased valuations of certain residential mortgage-backed securities, investments at fair value and collateralized debt obligations, partially offset by a decrease in valuation of certain investments in managed funds, commercial mortgage backed securities, corporate equity securities, loans and other receivables, and corporate debt securities. Net losses on Level 3 liabilities were primarily due to decreased valuations of certain derivative instruments.





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November 30, 2012 and 2011

**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 categorized within Level 3 of the fair value hierarchy for the year ended November 30, 2011 (in thousands):

|  | Year Ended November 30, 2011     |  |  |                              |                                | Balance,<br>November 30,<br>2011 | Change in<br>unrealized gains/<br>(losses) relating to<br>instruments<br>still held at<br>November 30,<br>2011 |
|--|----------------------------------|--|--|------------------------------|--------------------------------|----------------------------------|--|
|  | Balance,<br>November 30,<br>2010 | Total gains/<br>losses (realized<br>and unrealized)<br>(1) | Purchases,<br>sales,<br>settlements,<br>and<br>issuances | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>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                              | (10,133)   | 11,182   | 5,383                        |                                | 6,904                            | (8,931)  |
| Sovereign obligations                          |                                  | 12   | 128  |                              |                                | 140                              | 12   |
| Residential mortgage-backed securities         | 132,359                          | (16,727)   | 45,845   | 35,726                       | (47,238)                       | 149,965                          | (31,846)   |
| Commercial mortgage-backed securities          | 6,004                            | (9,910)  | 46,685   | 9,628                        |                                | 52,407                           | (11,583)   |
| Other asset-backed securities                  | 567                              | (715)  | 2,947  | 1,052                        | (567)                          | 3,284                            | (691)  |
| Loans and other receivables                    | 227,596                          | (356)  | (120,544)  | 3,875                        | (13,280)                       | 97,291                           | (3,478)  |
| Investments at fair value                      | 77,784                           | 6,283  | (2,627)  |                              | (3,114)                        | 78,326                           | 1,036  |
| Investments in managed funds                   | 131,585                          | 12,030   | (72,875)   |                              |                                | 70,740                           | 12,030   |
| <b>Liabilities:</b>                            |                                  |  |  |                              |                                |                                  |  |
| Financial instruments sold, not yet purchased: |                                  |  |  |                              |                                |                                  |  |
| Corporate equity securities                    | \$ 38                            | \$   | \$   | \$                           | \$ (38)                        | \$                               | \$   |
| Corporate debt securities                      |                                  |  | 74   |                              |                                | 74                               |  |
| Net derivatives(2)                             | 2,346                            | 6,550  | 389  |                              |                                | 9,285                            | 6,645  |
| Loans  | 47,228                           |  | (37,071)   |                              |                                | 10,157                           |  |

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.  
*Analysis of Level 3 Assets and Liabilities for the Year Ended November 30, 2011*

During the year ended November 30, 2011, transfers of assets of \$63.6 million from Level 2 to Level 3 are primarily attributed to:

Non-agency residential mortgage-backed securities and commercial mortgage-backed securities due to tightening in the historical trading period used for corroborating market data and greater scrutiny of vendor prices;

Corporate debt securities due to lack of observable market transactions;

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Municipal securities due to lack of recent market transactions for certain bonds; and

Loans and other receivables due to a lower number of contributors comprising vendor quotes to support classification in Level 2 as less market interest likely existed for the specific loans during the period.

During the year months ended November 30, 2011, transfers of assets of \$105.5 million from Level 3 to Level 2 are primarily attributed to:

Non-agency residential mortgage-backed securities for which market trades were observed in the period for either identical or similar securities or for which vendor prices were corroborated to actual market transactions;

Collateralized debt obligations and Loans and other receivables due to a greater number of contributors for certain vendor quotes supporting classification into Level 2 as greater market interest existed for the specific loans during the period; and

Corporate equity securities due to announced market transactions or more observable market data on comparable securities used as a benchmark.

During the year ended November 30, 2011 there were no transfers of liabilities from Level 2 to Level 3 and there were \$.04 million transfers of liabilities from Level 3 to Level 2.

Net losses on Level 3 assets were \$14.3 million and net losses on Level 3 liabilities were \$6.6 million for the year ended November 30, 2011. Net losses on Level 3 assets were primarily due to decreased valuations of certain residential mortgage-backed securities, commercial mortgage-backed securities and municipal securities due to widening credit spreads in the period, offset by increased valuations of certain investments in managed funds and sales or settlements of various residential mortgage-backed securities, corporate debt securities, investments at fair value, loans and other receivables and corporate equity securities. Net losses on Level 3 liabilities were primarily due to decreased valuations of certain derivative instruments.

Components or portions of interest rate and credit risk related to mortgage-backed securities categorized within Level 3 of the fair value hierarchy are frequently economically hedged with U.S. Treasury and Eurodollar futures and short U.S. Treasury securities, which are categorized within Level 1 liabilities, and with interest rate swaps and, to a lesser extent, index credit default swaps categorized within Level 2 assets or liabilities. Accordingly, a portion of the gains and losses on mortgage-backed securities reported in Level 3 are offset by gains and losses from the economic hedges attributed to instruments categorized within Level 1 and Level 2. Economic hedging is often executed on a macro-basis for a given asset class rather than an instrument-specific basis. Valuation inputs and prices for hedging instruments categorized within Level 1 and Level 2 provide a level of observability used in valuing Level 3 mortgage-backed securities; however, other inputs, such as prepayment, default rates and other credit specific factors are significant to the valuation and are not derived from the prices of the hedging instruments. Basis risk differences may also arise between the Level 3 mortgage-backed securities and the Level 1 and Level 2 hedging instruments due to the underlying interest rates and the underlying credits comprising the referenced credit index. Hedge effectiveness is limited by factors that include idiosyncratic collateral performance and basis risk as well as the sizing of the macro-hedge.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED*****Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at November 30, 2012***

The tables below present information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument; i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class. Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of our financial instruments.

| <b>Financial Instruments Owned</b>            | <b>Fair Value<br/>(in thousands)</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Range</b>        |
|---|--------------------------------------|----------------------------|--|---------------------|
| <b>Corporate equity securities</b>            | \$ 16,815                            |                            |  |                     |
| Non-exchange traded securities                |                                      | Market approach            | EBITDA (a) multiple                      | 4.0 to 16.3         |
|   |                                      | Scenario analysis          | Estimated recovery percentage            | 35%                 |
| Warrants                                      |                                      | Option model               | Volatility                               | 38.55               |
| <b>Collateralized debt obligations</b>        | \$ 26,705                            |                            |  |                     |
|   |                                      | Discounted cash flows      | Constant prepayment rate                 | 0% to 5%            |
|   |                                      |                            | Constant default rate                    | 0% to 10%           |
|   |                                      |                            | Loss severity                            | 13% to 75%          |
|   |                                      |                            | Yield                                    | 10% to 35%          |
| <b>Residential mortgage-backed securities</b> | \$ 156,069                           |                            |  |                     |
|   |                                      | Discounted cash flows      | Constant prepayment rate                 | 0% to 25%           |
|   |                                      |                            | Constant default rate                    | 0% to 50%           |
|   |                                      |                            | Loss severity                            | 0% to 80%           |
|   |                                      |                            | Yield                                    | 1% to 50%           |
| <b>Commercial mortgage-backed securities</b>  | \$ 30,202                            |                            |  |                     |
|   |                                      | Discounted cash flows      | Yield                                    | 22% to 57%          |
|   |                                      |                            | Cumulative loss rate                     | 2% to 20%           |
| <b>Loans and other receivables</b>            | \$ 153,365                           |                            |  |                     |
|   |                                      | Comparable pricing         | Comparable bond or loan price            | \$81.88 to \$101.25 |
|   |                                      | Discounted cash flows      | Yield                                    | 19%                 |
|   |                                      |                            | Cumulative loss rate                     | 0%                  |
|   |                                      | Market approach            | Yield                                    | 5% to 54%           |
|   |                                      |                            | EBITDA (a) multiple                      | 8.3                 |
|   |                                      | Scenario analysis          | Estimated recovery percentage            | 15%                 |
| <b>Investments at fair value</b>              | \$ 32,751                            |                            |  |                     |
| Private equity securities                     |                                      | Market approach            | EBITDA (a) multiple                      | 6.6                 |
|   |                                      | Comparable pricing         | Comparable share price                   | \$400.00            |
|   |                                      | Scenario analysis          | Estimated recovery percentage            | 50%                 |



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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

| <b>Financial Instruments Sold, Not Yet Purchased</b> | <b>Fair Value<br/>(in thousands)</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Range</b> |
|--|--------------------------------------|----------------------------|--|--------------|
| <b>Derivatives</b>                                   | \$ (9,516)                           |                            |  |              |
| Equity options                                       |                                      | Option model               | Volatility                               | 39.19        |
| Loan commitments                                     |                                      | Comparable pricing         | Comparable bond or loan price            | \$ 101.13    |

(a) Earnings before interest, taxes, depreciation and amortization ( EBITDA ).

The fair values of certain Level 3 assets that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above table. At November 30, 2012, the exclusions consisted of \$82.7 million primarily comprised of investments in private equity and hedge funds, investments in reinsurance contracts, certain collateralized debt obligations and corporate loans. The provisions of ASU No. 2011-04 were adopted on a prospective basis during the second quarter of fiscal 2012 and accordingly, disclosures for prior periods are not presented.

***Sensitivity of Fair Values to Changes in Significant Unobservable Inputs***

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs (if any) are described below:

Private equity securities, loans and other receivables and loan commitments using comparable pricing valuation techniques. A significant increase (decrease) in the comparable share, bond or loan price in isolation would result in a significant higher (lower) fair value measurement.

Non-exchange traded securities, private equity securities and loans and other receivables using a market approach valuation technique. A significant increase (decrease) in the EBITDA or other multiples in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the yield of a loan and other receivable would result in a significantly lower (higher) fair value measurement.

Non-exchange traded securities, private equity securities and loans and other receivables using scenario analysis. A significant increase (decrease) in the possible recovery rates of the cash flow outcomes underlying the investment would result in a significantly higher (lower) fair value measurement for the financial instrument. A significant increase (decrease) in the bond yield would result in a significantly lower (higher) fair value measurement.

Loans and other receivables, collateralized debt obligations, residential and commercial mortgage-backed securities using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, loss severities or cumulative loss rate and discount rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate would have differing impacts depending on the capital structure of the security. A significant increase (decrease) in the loan or bond yield would result in a significant lower (higher) fair value measurement.

Short derivative equity options and long equity warrants using an option model. A significant increase (decrease) in volatility would result in a significant higher (lower) fair value measurement.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED*****Fair Value Option Election***

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our investment banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned-derivatives and Financial instruments sold, not yet purchased derivatives on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included within Loans to and investments in related parties on the Consolidated Statements of Financial Condition and are accounted for on an amortized cost basis. We have elected the fair value option for our investment in Knight Capital Group, Inc., which is included in Financial Instruments owned Corporate equity securities on the Consolidated Statement of Financial Condition. See Note 11, Investments for further details regarding our investment in Knight Capital Group, Inc. We have also elected the fair value option for certain financial instruments held by subsidiaries that are not registered broker-dealers as the investments are risk managed by us on a fair value basis. The fair value option has also been elected for secured financings that arise in connection with our securitization activities. Receivables Brokers, dealers and clearing organizations, Receivables Customers, Receivables Fees, interest and other, Payables Brokers, dealers and clearing organizations and Payables Customers, are not accounted for at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

The following is a summary of gains (losses) due to changes in instrument specific credit risk on loans and other receivables and loan commitments measured at fair value under the fair value option (in thousands):

|                                     | Year Ended November 30, |             |
|-------------------------------------|-------------------------|-------------|
|                                     | 2012                    | 2011        |
| <b>Financial Instruments Owned:</b> |                         |             |
| Loans and other receivables         | \$ 24,547               | \$ (19,400) |
| <b>Financial Instruments Sold:</b>  |                         |             |
| Loans                               | \$ (55)                 | \$ (1,463)  |
| Loan commitments                    | (7,155)                 | (4,329)     |

The following is a summary of the amount by which contractual principal exceeds fair value for loans and other receivables measured at fair value under the fair value option (in thousands):

|   | November 30, |            |
|---|--------------|------------|
|   | 2012         | 2011       |
| <b>Financial Instruments Owned:</b>       |              |            |
| Loans and other receivables(2)            | \$ (256,271) | \$ 277,336 |
| Loans greater than 90 days past due(1)(2) | \$ 10,433    | \$ 2,253   |

(1) The aggregate fair value of loans that were 90 or more days past due was \$34.7 million and \$5.5 million at November 30, 2012 and 2011.

(2)



Interest income is recognized separately from other changes in fair value and is included within Interest revenues on the Consolidated Statements of Earnings.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

There were no loans or other receivables on nonaccrual status at November 30, 2012 and 2011.

**Note 7. Derivative Financial Instruments**  
***Off-Balance Sheet Risk***

We have contractual commitments arising in the ordinary course of business for securities loaned or purchased under agreements to resell, repurchase agreements, future purchases and sales of foreign currencies, securities transactions on a when-issued basis and underwriting. Each of these financial instruments and activities contains varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount. The settlement of these transactions is not expected to have a material effect upon our consolidated financial statements.

***Derivative Financial Instruments***

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Financial instruments owned derivatives and Financial instruments sold, not yet purchased derivatives net of cash paid or received under credit support agreements and on a net counterparty basis when a legal right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in Principal transactions in the Consolidated Statements of Earnings on a trade date basis and as a component of cash flows from operating activities in the Consolidated Statements of Cash Flows. Acting in a trading capacity, we may enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. (See Note 6, Fair Value Disclosures and Note 21, Commitments, Contingencies and Guarantees for additional disclosures about derivative instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with our other trading-related activities. We manage the risks associated with derivatives on an aggregate basis along with the risks associated with proprietary trading as part of our firm wide risk management policies. In connection with our derivative activities, we may enter into master netting agreements and collateral arrangements with counterparties. These agreements provide us with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

The following table presents the fair value and related number of derivative contracts at November 30, 2012 and 2011 categorized by predominant risk exposure. The fair value of assets/liabilities related to derivative contracts represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged (in thousands, except contract amounts):

|   | November 30, 2012 |                     |              |                     |
|---|-------------------|---------------------|--------------|---------------------|
|   | Assets            |                     | Liabilities  |                     |
|   | Fair Value        | Number of Contracts | Fair Value   | Number of Contracts |
| Interest rate contracts                                 | \$ 927,896        | 67,410              | \$ 1,065,788 | 90,831              |
| Foreign exchange contracts                              | 387,325           | 118,958             | 357,277      | 116,758             |
| Equity contracts  | 577,964           | 1,526,127           | 528,979      | 1,396,213           |
| Commodity contracts                                     | 265,703           | 754,987             | 278,660      | 728,696             |
| Credit contracts  | 4,448             | 13                  | 11,301       | 40                  |
| Total   | 2,163,336         |                     | 2,242,005    |                     |
| Counterparty/cash-collateral netting                    | (1,865,250)       |                     | (2,012,878)  |                     |
| Total per Consolidated Statement of Financial Condition | \$ 298,086        |                     | \$ 229,127   |                     |

|   | November 30, 2011 |                     |             |                     |
|---|-------------------|---------------------|-------------|---------------------|
|   | Assets            |                     | Liabilities |                     |
|   | Fair Value        | Number of Contracts | Fair Value  | Number of Contracts |
| Interest rate contracts                                 | \$ 542,221        | 63,751              | \$ 636,692  | 66,027              |
| Foreign exchange contracts                              | 1,009,765         | 102,578             | 1,015,900   | 119,780             |
| Equity contracts  | 638,228           | 2,364,390           | 548,195     | 2,119,165           |
| Commodity contracts                                     | 725,927           | 434,428             | 598,166     | 421,330             |
| Credit contracts  | 60,756            | 59                  | 35,718      | 39                  |
| Total   | 2,976,897         |                     | 2,834,671   |                     |
| Counterparty/cash-collateral netting                    | (2,451,004)       |                     | (2,585,634) |                     |
| Total per Consolidated Statement of Financial Condition | \$ 525,893        |                     | \$ 249,037  |                     |

The following table presents unrealized and realized gains (losses) on derivative contracts for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 (in thousands):

| <i>Gains (Losses)</i>   | Year Ended November 30, |              | Eleven Months Ended |
|-------------------------|-------------------------|--------------|---------------------|
|                         | 2012                    | 2011         | November 30, 2010   |
| Interest rate contracts | \$ (35,524)             | \$ (204,403) | \$ (122,898)        |

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|                            |             |              |              |
|----------------------------|-------------|--------------|--------------|
| Foreign exchange contracts | 9,076       | 2,243        | 1,194        |
| Equity contracts           | (83,817)    | (279,488)    | (87,084)     |
| Commodity contracts        | 77,285      | 74,282       | 15,454       |
| Credit contracts           | (20,059)    | 17,621       | (52,049)     |
| Total                      | \$ (53,039) | \$ (389,745) | \$ (245,383) |

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**OTC Derivatives.** The following tables set forth the remaining contract maturity of the fair value of OTC derivative assets and liabilities as of November 30, 2012 (in thousands):

|   | OTC Derivative Assets(1)(2)(4) |           |                         |                              | Total      |
|---|--------------------------------|-----------|-------------------------|------------------------------|------------|
|   | 0-12 Months                    | 1-5 Years | Greater Than<br>5 Years | Cross-Maturity<br>Netting(3) |            |
| Commodity swaps, options and forwards                               | \$ 54,491                      | \$ 8      | \$                      | \$ (1,114)                   | \$ 53,385  |
| Credit default swaps  |                                | 3,300     |                         |                              | 3,300      |
| Equity swaps and options  | 6                              |           |                         |                              | 6          |
| Total return swaps  | 60                             |           |                         |                              | 60         |
| Foreign currency forwards, swaps and options                        | 83,674                         | 15,561    |                         | (5,252)                      | 93,983     |
| Fixed income forwards   | 484                            |           |                         |                              | 484        |
| Interest rate swaps and options                                     | 20,242                         | 53,443    | 219,061                 | (90,656)                     | 202,090    |
| Total   | \$ 158,957                     | \$ 72,312 | \$ 219,061              | \$ (97,022)                  | 353,308    |
| Cross product counterparty netting                                  |                                |           |                         |                              | (4,970)    |
| Total OTC derivative assets included in Financial instruments owned |                                |           |                         |                              | \$ 348,338 |

- (1) At November 30, 2012, we held exchange traded derivative assets and other credit enhancements with a fair value of \$72.0 million, which are not included in this table.
- (2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received on the Consolidated Statements of Financial Condition. At November 30, 2012, cash collateral received was \$122.2 million.
- (3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.

|                                       | OTC Derivative Liabilities(1)(2)(4) |           |                         |                              | Total     |
|---------------------------------------|-------------------------------------|-----------|-------------------------|------------------------------|-----------|
|                                       | 0-12 Months                         | 1-5 Years | Greater Than<br>5 Years | Cross-Maturity<br>Netting(3) |           |
| Commodity swaps, options and forwards | \$ 65,803                           | \$ 84     | \$                      | \$ (1,114)                   | \$ 64,773 |
| Credit default swaps                  | 328                                 | 2,794     |                         |                              | 3,122     |
| Equity swaps and options              | 2,313                               |           |                         |                              | 2,313     |

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|   |                   |                   |                   |                    |                   |
|---|-------------------|-------------------|-------------------|--------------------|-------------------|
| Total return swaps  | 14,082            |                   |                   |                    | 14,082            |
| Foreign currency forwards, swaps and options  | 57,542            | 13,956            |                   | (5,252)            | 66,246            |
| Interest rate swaps and options   | 19,530            | 152,198           | 261,787           | (90,656)           | 342,859           |
| <b>Total</b>  | <b>\$ 159,598</b> | <b>\$ 169,032</b> | <b>\$ 261,787</b> | <b>\$ (97,022)</b> | <b>493,395</b>    |
| Cross product counterparty netting  |                   |                   |                   |                    | (4,970)           |
| <b>Total OTC derivative liabilities included in Financial instruments sold, not yet purchased</b> |                   |                   |                   |                    | <b>\$ 488,425</b> |

- (1) At November 30, 2012, we held exchange traded derivative liabilities and other credit enhancements with a fair value of \$10.5 million, which are not included in this table.
- (2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged on the Consolidated Statements of Financial Condition. At November 30, 2012, cash collateral pledged was \$269.8 million.

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(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

(4) Derivative fair values include counterparty netting within product category.

At November 30, 2012, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

|                                 |            |
|---------------------------------|------------|
| Counterparty credit quality(1): |            |
| A- or higher                    | \$ 188,800 |
| BBB- to BBB+                    | 100,615    |
| BB+ or lower                    | 44,752     |
| Unrated                         | 14,171     |
| Total                           | \$ 348,338 |

(1) We utilize the credit ratings of external rating agencies when available. When external credit ratings are not available, we utilize internal credit ratings determined by our Credit Risk Management. Credit ratings determined by Credit Risk Management use methodologies that produce ratings generally consistent with those produced by external rating agencies.

**Contingent Features**

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at November 30, 2012 and 2011 is \$164.8 million and \$141.2 million, respectively, for which we have posted collateral of \$129.2 million and \$129.8 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on November 30, 2012 and 2011, we would have been required to post an additional \$38.1 million and \$19.5 million, respectively, of collateral to our counterparties.

**Note 8. Collateralized Transactions**

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We manage our exposure to credit risk associated with these transactions by entering into master netting agreements. We also monitor the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and request additional collateral or return excess collateral, as appropriate. We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged securities owned that can be sold or repledged by the counterparty are included within Financial instruments owned and noted parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. We also receive securities as collateral in connection with certain securities for securities transactions in which we are the lender of securities. In many instances, we are permitted by contract or custom



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to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending or derivative transactions or cover short positions. At November 30, 2012 and 2011, the approximate fair value of securities received as collateral by us that may be sold or replighted was \$21.1 billion and \$17.9 billion, respectively. The fair value of securities received as collateral at November 30, 2012 and 2011 that pertains to our securities financing activities at November 30, 2012 and 2011 are as follows (in thousands):

|   | November 30,  |               |
|---|---------------|---------------|
|   | 2012          | 2011          |
| Carrying amount:  |               |               |
| Securities purchased under agreements to resell                   | \$ 3,357,602  | \$ 2,893,043  |
| Securities borrowed   | 5,094,679     | 5,169,689     |
| Securities received as collateral                                 |               | 21,862        |
| Total assets on Consolidated Statement of Financial Condition     | 8,452,281     | 8,084,594     |
| Netting of securities purchased under agreements to resell(1)     | 9,982,752     | 7,498,439     |
|   | 18,435,033    | 15,583,033    |
| Fair value of collateral received in excess of contract amount(2) | 2,683,767     | 2,386,921     |
| Fair value of securities received as collateral                   | \$ 21,118,800 | \$ 17,969,954 |

(1) Represents the netting of securities purchased under agreements to resell with securities sold under agreements to repurchase balances for the same counterparty under legally enforceable netting agreements.

(2) Includes collateral received from customers for margin balances unrelated to arrangements for securities purchased under agreements to resell or securities borrowed with a fair value of \$1,252.6 million and \$1,578.3 million at November 30, 2012 and 2011, respectively, of which \$727.7 million and \$780.5 million had been rehypothecated and collateral received on securities for securities transactions of \$1,378.8 million.

At November 30, 2012 and 2011, a substantial portion of the securities received by us had been sold or replighted.

In instances where we are permitted to sell or replight the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At November 30, 2012 and 2011, \$0-million and \$21.9 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

**Note 9. Securitization Activities**

We engage in securitization activities related to commercial mortgage loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities ( SPEs ) and act as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of our securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. Our securitization vehicles generally meet the criteria of variable interest entities; however we generally do not consolidate our securitization vehicles as we are not considered the primary beneficiary for these vehicles. See Note 10,

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Variable Interest Entities for further discussion on variable interest entities and our determination of the primary beneficiary.

We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal

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transactions revenues in the Consolidated Statement of Earnings prior to the identification and isolation for securitization. Revenues subsequent to such identification and isolation, including revenues recognized from the sales of the beneficial interests to investors, are reflected as net underwriting revenues. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other liabilities.

We generally receive cash proceeds in connection with the transfer of assets to the securitization vehicle. We may, however, have continuing involvement with the transferred assets, which is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities), which are included within Financial instruments owned and retaining servicing rights for military housing loan securitizations, which are included within Other assets. We apply fair value accounting to the securities. The servicing rights, when they are retained by us, are amortized over the period of the estimated future net servicing income.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement (in millions):

|   | <b>Year Ended November 30,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2012</b>                    | <b>2011</b> |
| Transferred assets                        | \$ 10,869.8                    | \$ 12,539.6 |
| Proceeds on new securitizations           | 10,910.8                       | 12,611.0    |
| Net revenues                              | 35.4                           | 82.7        |
| Cash flows received on retained interests | \$ 64.3                        | \$ 103.6    |

Assets received as proceeds in the form of mortgage-backed-securities issued by the securitization vehicles have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies and Note 6, Fair Value Disclosures. We have no explicit or implicit arrangements to provide additional financial support to these securitization vehicles and have no liabilities related to these securitization vehicles at November 30, 2012 and November 30, 2011. Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these securitization vehicles. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these vehicles, although the securities are included in Financial instruments owned Mortgage- and asset-backed securities. To the extent the securities purchased through these market-marking activities meet specific thresholds and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities table presented in Note 10, Variable Interest Entities.

The following tables summarize our retained interests in SPEs where we transferred assets and have continuing involvement and received sale accounting treatment (in millions):

|   | <b>As of November 30,</b> |                           |
|---|---------------------------|---------------------------|
|   | <b>2012</b>               |                           |
| <b>Securitization Type</b>                                    | <b>Total Assets</b>       | <b>Retained Interests</b> |
| U.S. government agency residential mortgage-backed securities | \$ 3,791.5                | \$ 335.2(1)               |
| U.S. government agency commercial mortgage-backed securities  | 2,193.4                   | 28.9(1)                   |

(1)

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A portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of January 11, 2013, we continue to hold approximately \$168.9 million and \$26.3 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

| Securitization Type   | As of November 30, |                    |
|---|--------------------|--------------------|
|   | Total Assets       | Retained Interests |
| U.S. government agency residential mortgage-backed securities | \$ 7,968.0         | \$ 517.9(1)        |
| U.S. government agency commercial mortgage-backed securities  | 2,574.3            | 49.9(1)            |
| Military housing loans  | 127.4              | 0.3(2)             |

(1) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of January 11, 2013, we continue to hold approximately \$28.6 million and \$11.6 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

(2) Amount represents initial fair value of servicing rights received on transferred project loans.

We do not have any derivative contracts executed in connection with these securitization activities. Total assets represent the unpaid principal amount of assets in the securitization vehicles in which we have continuing involvement and are presented solely to provide information regarding the size of the securitization and the size of the underlying assets supporting our retained interests, and are not considered representative of the risk of potential loss associated with the securitizations. Assets retained in connection with securitization represent the fair value of the securities of one or more tranches of the securitization, including senior and subordinated tranches. Our risk of loss to these securitization vehicles is limited to this fair value amount which is included within total Financial instruments owned Mortgage- and asset-backed securities on our Consolidated Statements of Financial Condition.

**Note 10. Variable Interest Entities**

Variable interest entities ( 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.

We initially determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE. We reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. In determining whether we are the party with the power to direct the VIE's most significant activities, we first identify the activities of the VIE that most significantly impact its economic performance. Our considerations in determining the VIE's most significant activities primarily include, but are not limited to, the VIE's purpose and design and the risks passed through to investors. We then assess whether we have the power to direct those significant activities. Our considerations in determining whether we have the power to direct the VIE's most significant activities include, but are not limited to, voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over the VIE's most significant activities is shared, we assess whether we are the party with the power over the majority of the significant activities. If we are the party with the power over the majority of the significant activities, we meet the power criteria of the primary beneficiary. If we do not have the power over a majority of the significant activities or we determine that decisions require consent of each sharing party, we do not meet the power criteria of the primary beneficiary.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests. Our variable interests in VIEs include debt and equity interests, commitments and certain fees. Our involvement with VIEs arises primarily from:

Purchases of mortgage-backed securities in connection with our trading and secondary market making activities,

Retained interests held as a result of securitization activities as part of primary market making activities, including the rescureitizations of mortgage-backed securities,

Servicing of military housing mortgage loans held by VIEs,

Ownership of debt, equity and partnership interests in Jefferies High Yield Holdings, LLC and related entities,

Management and performance fees in the Jefferies Umbrella Fund, and

Loans to and investments in investment fund vehicles.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**Consolidated VIEs

The following tables present information about the assets and liabilities of our consolidated VIEs, which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of November 30, 2012 and 2011. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. We have aggregated our consolidated VIEs based upon principal business activity.

| (in millions)                                     | November 30, 2012 |   |        | November 30, 2011 |   |        |
|---|-------------------|---|--------|-------------------|---|--------|
|   | High Yield        | Mortgage- and<br>Asset-backed<br>Vehicles | Other  | High Yield        | Mortgage- and<br>Asset-backed<br>Vehicles | Other  |
| Cash  | \$ 388.1          | \$  | \$ 0.2 | \$ 345.7          | \$  | \$ 0.3 |
| Financial instruments owned                       | 894.2             | 10.0                                      | 0.5    | 693.3             | 12.2                                      | 7.2    |
| Securities borrowed                               | 372.1             |   |        | 195.3             |   |        |
| Securities purchased under agreement to resell(4) |                   | 60.0                                      |        |                   |   |        |
| Receivable from brokers and dealers               | 264.5             |   |        | 150.6             |   |        |
| Other   | 11.4              |   |        | 8.5               |   |        |
|   | \$ 1,930.3        | \$ 70.0                                   | \$ 0.7 | \$ 1,393.4        | \$ 12.2                                   | \$ 7.5 |
| Financial instruments sold, not yet purchased     | \$ 526.1          | \$  | \$     | \$ 326.2          | \$  | \$     |
| Securities loaned                                 | 112.0             |   |        |                   |   |        |
| Payable to brokers and dealers                    | 201.2             |   |        | 105.2             |   |        |
| Mandatorily redeemable interests(1)               | 1,076.0           |   |        | 943.4             |   |        |
| Promissory note(2)                                |                   |   |        |                   |   | 4.2    |
| Secured financing(3)                              |                   | 70.0                                      |        |                   | 12.2                                      |        |
| Other   | 15.0              |   | 0.2    | 20.7              |   | 0.2    |
|   | \$ 1,930.3        | \$ 70.0                                   | \$ 0.2 | \$ 1,395.5        | \$ 12.2                                   | \$ 4.4 |

(1) After consolidation, which eliminates our interests and the interests of our consolidated subsidiaries, JSOP and JESOP, the carrying amount of the mandatorily redeemable financial interests pertaining to the above VIEs included within Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately \$348.1 million and \$310.5 million at November 30, 2012 and November 30, 2011, respectively. These amounts represent the portion of the mandatorily redeemable preferred interests held by our joint venture partner.

(2) The promissory note at November 30, 2011 represents an amount due to us and is eliminated in consolidation.

(3) Secured financing is included within Accrued expenses and other liabilities. Approximately \$7.7 million and \$8.4 million of the secured financing represents an amount held by us in inventory and are eliminated in consolidation at November 30, 2012 and November 30, 2011, respectively.

- (4) Securities purchased under agreement to resell represent an amount due from a related consolidated entity in a collateralized transaction, which is eliminated in consolidation.

*High Yield.* We conduct our high yield secondary market trading activities through Jefferies High Yield Trading, LLC ( JHYT ), Jefferies High Yield Finance, LLC ( JHYF ), and Jefferies Leveraged Credit Products,



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LLC ( JLCP ). JHYT is a registered broker-dealer engaged in the secondary sales and trading of high yield and special situation securities, including bank debt, post-reorganization equity, public and private equity, equity derivatives and other financial instruments. JHYT makes markets in high yield and distressed securities and provides research coverage on these types of securities. JHYF is engaged in the trading of total return swaps. JLCP is engaged in the trading of bank debt, credit default swaps and trade claims. JHYT, JHYF and JLCP are wholly owned subsidiaries of JHYH.

We own voting and non-voting interests in JHYH and have entered into management, clearing, and other services agreements with JHYH. We and Leucadia each have the right to nominate two of a total of four directors to JHYH's board of directors. Two funds managed by us, JSOP and JESOP, are also investors in JHYH. We have determined that JHYH, JSOP and JESOP meet the definition of a variable interest entity. We are the primary beneficiary of JHYH, JSOP and JESOP and accordingly consolidate JHYH (and the assets, liabilities and results of operations of its wholly owned subsidiaries JHYT, JHYF and JLCP), JSOP and JESOP.

At November 30, 2012 and November 30, 2011, the carrying amount of our variable interests was \$389.4 million and \$322.0 million, respectively, which consist of our debt, equity and partnership interests in JHYH, JSOP and JESOP, which are eliminated in consolidation. In addition, the secondary market trading activity conducted through JHYT, JHYF and JLCP is a significant component of our overall brokerage platform, and while not contractually obligated, could require us to provide additional financial support and/or expose us to further losses of JHYH, JSOP and JESOP. The assets of these VIEs are available for the benefit of the mandatorily redeemable interest holders and equity holders. The creditors of these VIEs do not have recourse to our general credit.

There have been no changes in our conclusion to consolidate JHYH, JSOP and JESOP since formation. See Note 16, Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries for further discussion of JSOP, JESOP and the mandatorily redeemable interests in JHYH.

*Mortgage-and asset-backed vehicles.* We are the primary beneficiary of a mortgage-backed securitization vehicle to which we transferred a project loan and retained servicing rights over the loan as well as retained a portion of the securities issued by the securitization vehicle. Our variable interests in this vehicle consist of the securities and a contractual servicing fee. The asset of this VIE consists of a project loan, which is available for the benefit of the vehicles' beneficial interest holders. The creditors of this VIE do not have recourse to our general credit.

We are also the primary beneficiary of a mortgage-backed financing vehicle to which we sell agency and non-agency residential and commercial mortgage-backed securities pursuant to the terms of a master repurchase agreement. We manage the assets within this vehicle. Our variable interests in this vehicle consist of our collateral margin maintenance obligations under the master repurchase agreement. The asset of this VIE consists of a reverse repurchase agreement, which is available for the benefit of the vehicle's debt holders. The creditors of this VIE do not have recourse to our general credit.

*Other.* We are the primary beneficiary of certain investment vehicles set up for the benefit of our employees. We manage and invest alongside our employees in these vehicles. The assets of these VIEs consist of private equity securities, and are available for the benefit of the entities' equity holders. Our variable interests in these vehicles consist of equity securities. The creditors of these VIEs do not have recourse to our general credit.

During the year ended November 30, 2012, we were repaid a promissory note due to us by an investment vehicle set up for the benefit of a client for which we were previously the primary beneficiary. The assets of this

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VIE consisted of debt securities. Upon repayment of the promissory note from this vehicle, we determined that we are no longer the primary beneficiary of this vehicle as we do not have an obligation to absorb losses or a right to receive benefits that could potentially be significant to this vehicle. As such, we deconsolidated the investment vehicle during the period.

Nonconsolidated VIEs

We also hold variable interests in VIEs in which we are not the primary beneficiary and do not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. We have not provided financial or other support to these VIEs during the years ended November 30, 2012 and 2011 and we have no explicit or implicit arrangements to provide additional financial support to these VIEs and have no liabilities related to these VIEs at November 30, 2012 and 2011.

The following tables present information about nonconsolidated VIEs in which we had variable interests aggregated by principal business activity. The tables include VIEs where we have determined that the maximum exposure to loss is greater than specific thresholds or meets certain other criteria.

| (in millions)  | November 30, 2012                         |                             |             |
|--|---|-----------------------------|-------------|
|  | Variable Interests                        |                             |             |
|  | Financial Statement<br>Carrying<br>Amount | Maximum<br>exposure to loss | VIE Assets  |
| Collateralized loan obligations                          | \$ 5.3(2)                                 | \$ 5.3(4)                   | \$ 499.7    |
| Agency mortgage- and asset-backed securitizations(1)     | 1,579.1(2)                                | 1,579.1(4)                  | 6,396.6     |
| Non-agency mortgage- and asset-backed securitizations(1) | 814.1(2)                                  | 814.1(4)                    | 54,436.2    |
| Asset management vehicle                                 | 3.0(3)                                    | 3.0(4)                      | 505.3       |
| Private equity vehicles                                  | 55.0(3)                                   | 107.7                       | 82.1        |
| Total  | \$ 2,456.5                                | \$ 2,509.2                  | \$ 61,919.9 |

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2012 and represent the underlying assets that provide the cash flows supporting our variable interests.

(2) Consists of debt securities accounted for at fair value, which are included within Financial instruments owned.

(3) Consists of equity interests and loans, which are included within Investments in managed funds and Loans to and investments in related parties.

(4) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

November 30, 2011

| (in millions)  | Variable Interests                        |                             |             |
|--|---|-----------------------------|-------------|
|  | Financial Statement<br>Carrying<br>Amount | Maximum<br>exposure to loss | VIE Assets  |
| Collateralized loan obligations                          | \$ 48.2(2)                                | \$ 48.2(4)                  | \$ 1,768.4  |
| Agency mortgage- and asset-backed securitizations(1)     | 1,410.9(2)                                | 1,410.9(4)                  | 6,523.0     |
| Non-agency mortgage- and asset-backed securitizations(1) | 583.9(2)                                  | 583.9(4)                    | 41,939.4    |
| Asset management vehicle                                 | 2.8(3)                                    | 2.8(4)                      | 903.9       |
| Private equity vehicles                                  | 64.5(3)                                   | 131.3                       | 84.2        |
| Total  | \$ 2,110.3                                | \$ 2,177.1                  | \$ 51,218.9 |

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- (1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2011 and represent the underlying assets that provide the cash flows supporting our variable interests.
- (2) Consists of debt securities accounted for at fair value, which are included within Financial instruments owned.
- (3) Consists of equity interests and loans, which are classified within Investments in managed funds and Loans to and investments in related parties.
- (4) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

*Collateralized Loan Obligations.* We own variable interests in collateralized loan obligations ( CLOs ) previously managed by us. These CLOs have assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Our variable interests in the CLOs consist of debt securities and a right to a portion of the CLOs' management and incentive fees. The carrying amount of the debt securities was \$5.3 million and \$14.1 million at November 30, 2012 and 2011, respectively. Management and incentives fees are accrued as the amounts become realizable. Our exposure to loss in these CLOs is limited to our investments in the debt securities.

During the year ended November 30, 2012, we sold our variable interests in Babson Loan Opportunity CLO, Ltd., a third party managed CLO, with assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Prior to the sale our variable interests in this VIE consisted of a direct interest and an indirect interest via Jefferies Finance, LLC in the debt securities of this CLO. Our exposure to loss was limited to our investments in the debt securities. We had no exposure to loss related to this VIE as of November 30, 2012.

*Mortgage- and Asset-Backed Vehicles.* In connection with our trading and market making activities, we buy and sell mortgage- and asset backed securities. Mortgage- and asset backed securities issued by securitization entities are generally considered variable interests in VIEs. A substantial portion of our variable interests in mortgage- and asset-backed VIEs are sponsored by unrelated third parties. The variable interests consist entirely of mortgage- and asset-backed securities and are accounted for at fair value and included in Financial instruments owned on our Consolidated Statements of Financial Condition. In addition to the agency mortgage- and asset backed securities of \$1,579.1 million, non-agency mortgage- and asset-backed securities of \$814.1 million and collateralized loan obligations of \$5.3 million at November 30, 2012 presented in the above table, we owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with our secondary market making activities and our securitization activities. Total securities issued by securitization SPEs at November 30, 2012 consist of the following (in millions):

|  | Nonagency | Agency  | Total   |
|--|-----------|---------|---------|
| Variable interests in collateralized loan obligations                          | \$ 5.3    | \$      | \$ 5.3  |
| Variable interests in agency mortgage- and asset backed securitizations        |           | 1,579.1 | 1,579.1 |
| Variable interests in nonagency mortgage- and asset backed securitizations     | 814.1     |         | 814.1   |
| Additional securities in connection with trading and market making activities: |           |         |         |
| Residential mortgage-backed securities   | 36.2      | 2,190.4 | 2,226.6 |
| Commercial mortgage-backed securities  | 89.4      | 721.0   | 810.4   |
| Collateralized debt obligations  | 20.3      |         | 20.3    |
| Other asset-backed securities  | 12.5      |         | 12.5    |

|  |          |            |            |
|--|----------|------------|------------|
| Total mortgage- and asset-backed securities on the Consolidated Statement of Financial Condition | \$ 977.8 | \$ 4,490.5 | \$ 5,468.3 |
|--|----------|------------|------------|

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*Asset Management Vehicle.* We manage the Jefferies Umbrella Fund, an umbrella structure company that enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. The assets of the Jefferies Umbrella Fund primarily consist of convertible bonds. Accounting changes to consolidation standards under generally accepted accounting principles have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and we are not the primary beneficiary as of November 30, 2012 and 2011 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees.

*Private Equity Vehicles.* On July 26, 2010, we committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the SBI USA Fund). As of November 30, 2012 and 2011, we funded approximately \$27.1 million and \$17.9 million, respectively, of our commitment. The carrying amount of our equity investment was \$20.8 million and \$17.4 million at November 30, 2012 and 2011, respectively. Our exposure to loss is limited to our equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

We have variable interests in Jefferies Employees Partners IV, LLC ( JEP IV ) consisting of an equity investment and a loan commitment up to an aggregate principal amount of \$37.5 million. The carrying amount of our equity investment was \$1.5 million and \$2.8 million at November 30, 2012 and 2011, respectively. As of November 30, 2012 and 2011, we funded approximately \$32.7 million and \$44.3 million, respectively, of the aggregate principal balance, which is included in Loans to and investments in related parties. Our exposure to loss is limited to our equity investment and the aggregate amount of our loan commitment. JEP IV has assets consisting primarily of private equity and equity related investments.

**Note 11. Investments**

We have investments in Jefferies Finance, LLC ( Jefferies Finance ), Jefferies LoanCore LLC ( Jefferies LoanCore ) and Knight Capital Group, Inc. ( Knight Capital ). Our investment in Knight Capital is accounted for at fair value by electing the fair value option available under U.S. GAAP and is included in Financial instruments owned, at fair value Corporate equity securities on the Consolidated Statement of Financial Condition with changes in fair value recognized in Principal transaction revenues on the Consolidated Statement of Earnings. Our investments in Jefferies Finance and Jefferies LoanCore are accounted for under the equity method and are included in Loans to and investments in related parties on the Consolidated Statements of Financial Condition with our share of the investees earnings recognized in Other revenues in the Consolidated Statements of Earnings.

***Jefferies Finance***

On October 7, 2004, we entered into an agreement with Babson Capital Management LLC ( Babson Capital ) and Massachusetts Mutual Life Insurance Company ( MassMutual ) to form Jefferies Finance, a joint venture entity created for the purpose of offering senior loans to middle market and growth companies. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt in the form of term and revolving loans. Loans are originated primarily through the investment banking efforts of Jefferies, with Babson Capital providing primary credit analytics and portfolio management services. Jefferies Finance can also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market, including loans that are performing, stressed and distressed loan obligations.

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On March 1, 2011, we and MassMutual increased our equity commitments to Jefferies Finance, with an incremental \$250.0 million committed by each partner. Including the incremental \$250.0 million from each partner, the total committed equity capital of Jefferies Finance is \$1.0 billion. As of November 30, 2012, we have funded \$107.5 million of our aggregate \$500.0 million commitment, leaving \$392.5 million unfunded.

In addition, on March 1, 2011, we and MassMutual entered into a \$1.0 billion Secured Revolving Credit Facility, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The facility is scheduled to mature on March 1, 2014 with automatic one year extensions subject to a 60 day termination notice by either party. At November 30, 2012, we have funded \$125.0 million of our \$500.0 million commitment. During the year ended November 30, 2012, \$8.4 million of interest income and unfunded commitment fees of \$1.8 million are included in the Consolidated Statement of Earnings related to the Secured Revolving Credit Facility.

The following is a summary of selected financial information for Jefferies Finance as of November 30, 2012, 2011 and 2010 (in millions):

|                          | 2012       | November 30,<br>2011 | 2010     |
|--------------------------|------------|----------------------|----------|
| Total assets             | \$ 1,643.5 | \$ 1,457.8           | \$ 890.4 |
| Total liabilities        | 1,102.1    | 1,044.3              | 566.4    |
| Total equity             | 541.4      | 413.5                | 324.0    |
| Our total equity balance | 270.7      | 206.8                | 162.0    |

The net earnings of Jefferies Finance were \$127.8 million, \$88.3 million and \$71.7 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned fees of \$123.1 million and \$60.8 million during the years ended November 30, 2012 and 2011, respectively, recognized within Investment banking on the Consolidated Statements of Earnings. In addition, in relation to these transactions, we paid fees to Jefferies Finance of \$8.7 million and \$21.5 million during the years ended November 30, 2012 and 2011, respectively, recognized within Business development expenses on the Consolidated Statements of Earnings.

During the years ended November 30, 2012 and 2011, we purchased participation certificates in loans originated by Jefferies Finance of \$900.0 million and \$477.2 million, respectively, which were redeemed in full during the same periods.

Under a service agreement, we charged Jefferies Finance \$26.8 million and \$20.9 million for certain administrative services for the years ended November 30, 2012 and 2011, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$32.1 million and \$16.6 million at November 30, 2012 and 2011, respectively.

***Jefferies LoanCore***

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance

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company. Jefferies LoanCore originates and purchases commercial real estate loans throughout the United States with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore is currently capitalized solely with equity and has aggregate equity commitments of \$600.0 million. As of November 30, 2012 and 2011, we have funded \$110.0 million and \$163.3 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

The following is a summary of selected financial information for Jefferies LoanCore as of November 30, 2012 and 2011 (in millions):

|                          | <b>November 30,</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2012</b>         | <b>2011</b> |
| Total assets             | \$ 353.6            | \$ 761.4    |
| Total liabilities        | 81.8                | 427.4       |
| Total equity             | 271.8               | 334.0       |
| Our total equity balance | 131.8               | 162.0       |

The net earnings of Jefferies LoanCore were \$82.4 million and a loss of \$2.1 million for the year ended November 30, 2012 and for the period from February 23, 2011 through November 30, 2011, respectively.

Under a service agreement, we charged Jefferies LoanCore \$0.5 million and \$0.3 million for administrative services for the year ended November 30, 2012 and the period from February 23, 2011 through November 30, 2011, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$37,000 and \$0.3 million, at November 30, 2012 and 2011, respectively.

Jefferies LoanCore enters into derivative transactions with us to hedge its loan portfolio. As of November 30, 2012, the aggregate fair value of derivative transactions outstanding with Jefferies LoanCore was \$0.7 million and is included within Financial instruments owned on the Consolidated Statement of Financial Condition. During the year ended November 30, 2012, we recognized gains of \$25.6 million on such transactions with Jefferies LoanCore which are included in Principal transactions revenue on the Consolidated Statements of Earnings.

***Knight Capital***

On August 6, 2012, we entered into a Securities Purchase Agreement with Knight Capital, a publicly-traded global financial services firm, ( the Agreement ). Under the Agreement, we purchased preferred stock in exchange for cash consideration of \$125.0 million. The preferred stock consisted of 24,876 shares of Series A-1 Cumulative Perpetual Convertible Preferred Stock ( Series A-1 Shares ) and 100,124 shares of Series A-2 Non-voting Cumulative Perpetual Convertible Preferred Stock ( Series A-2 Shares ) (collectively the Series A Securities ). Each Series A-1 Share is convertible into shares of common stock at the conversion rate of 666.667 shares of common stock. Each Series A-2 Share is convertible into one Series A-1 Share.

On August 29, 2012, we exercised our conversion options and converted our holding of Series A Securities to common stock of Knight Capital. As of November 30, 2012, we own approximately 44% of the outstanding common stock of Knight Capital which constitutes, assuming conversion of Knight Capital s issued and outstanding Series A-2 Shares, approximately 22% of the voting rights over the company.



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We elected to record our investment in Knight Capital at fair value under the fair value option as the investment was acquired as part of our capital markets activities. The valuation of our investment at November 30, 2012 is based on the closing exchange price of Knight Capital's common stock and included within Level 1 of the fair value hierarchy. Changes in the fair value of our investment of \$151.9 million for the year ended November 30, 2012 are recognized in Revenues - Principal transactions on the Consolidated Statement of Earnings.

The following is a summary of selected financial information for Knight Capital as of December 31, 2012, the most recently available public financial information for the company (in millions):

|  | <b>December 31,<br/>2012</b> |
|--|------------------------------|
| Total assets                                 | \$ 9,778.4                   |
| Total liabilities                            | 8,295.9                      |
| Total equity and convertible preferred stock | 1,482.5                      |

Knight Capital's net loss was \$347.1 million for the year ended December 31, 2012.

We have separately entered into securities lending transactions with Knight Capital in the normal course of our capital markets activities. At November 30, 2012, the balances of securities borrowed and securities loaned were \$9.3 million and \$20.9 million, respectively. In connection with Knight Capital's capital raising transaction in the third quarter of fiscal 2012, we recognized an advisory fee of \$20.0 million which is included within Investment banking revenues on the Consolidated Statement of Earnings.

**Note 12. Goodwill and Other Intangible Assets****Goodwill**

The following table is a summary of the changes to goodwill for the years ended November 30, 2012 and 2011 (in thousands):

|                               | <b>Year Ended November 30,</b> |             |
|-------------------------------|--------------------------------|-------------|
|                               | <b>2012</b>                    | <b>2011</b> |
| Balance, at beginning of year | \$ 365,574                     | \$ 364,964  |
| Add: Contingent consideration |                                | 825         |
| Add: Translation adjustments  | 96                             | (215)       |
| Balance, at end of year       | \$ 365,670                     | \$ 365,574  |

During the years ended November 30, 2012 and 2011, payments of \$1.2 million and \$754,000, respectively, for contingent consideration were made to the selling owners of LongAcre Partners, which were accrued to goodwill in previous fiscal years. Contingent consideration recorded during the year ended November 30, 2011 relates to the lapse of certain conditions as specified in the purchase agreements associated with the acquisition of LongAcre Partners in 2007.

At least annually, and more frequently if warranted, we assess goodwill for impairment. We completed our annual test of goodwill as of June 1, 2012 and concluded goodwill was not impaired. Periodically estimating the



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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. Further, adverse market or economic events in the future could result in impairment charges in future periods.

All goodwill is assigned to our Capital Markets segment and is deductible for tax purposes.

**Intangible Assets**

The following table presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets and weighted average amortization period as of November 30, 2012 and 2011 (in thousands):

|   | November 30, 2012 |                   |                          |                     | Weighted average remaining lives (years) |
|---|-------------------|-------------------|--------------------------|---------------------|--|
|   | Gross cost        | Impairment losses | Accumulated amortization | Net carrying amount |  |
| Exchange and clearing organization membership interests and registrations | \$ 11,219         | \$ (2,873)        | \$                       | \$ 8,346            | N/A                                      |
| Customer relationships  | 10,542            |                   | (4,107)                  | 6,435               | 6.0                                      |
| Trade name  | 1,680             |                   | (1,287)                  | 393                 | 1.0                                      |
| Other   | 100               |                   | (15)                     | 85                  | 12.8                                     |
|   | \$ 23,541         | \$ (2,873)        | \$ (5,409)               | \$ 15,259           |  |

  

|   | November 30, 2011 |                          |                     | Weighted average remaining lives (years) |
|---|-------------------|--------------------------|---------------------|--|
|   | Gross cost        | Accumulated amortization | Net carrying amount |  |
| Exchange and clearing organization membership interests and registrations | \$ 11,219         | \$                       | \$ 11,219           | N/A                                      |
| Customer relationships  | 10,542            | (2,776)                  | 7,766               | 6.9                                      |
| Trade name  | 1,300             | (361)                    | 939                 | 1.1                                      |
| Other   | 100               | (8)                      | 92                  | 13.8                                     |
|   | \$ 23,161         | \$ (3,145)               | \$ 20,016           |  |

Intangible assets with an indefinite useful life are not amortized but assessed annually for impairment, or more frequently when certain events or circumstances exist. During 2012, as a result of a significant decline in the fair value of our exchange and clearing organization membership interests and registrations we recognized an impairment loss of \$2.9 million. Fair values were based on prices of public sales which had declined over the past year. The impairment loss of \$2.9 million is included within Other expenses in the Consolidated Statement of Income and within our Capital Markets business segment.

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Regarding intangible assets with a finite life, aggregate amortization expense for the years ended November 30, 2012 and 2011 was \$2.3 million and \$1.4 million, respectively, which is included in Other expenses on the Consolidated Statements of Earnings.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Estimated future amortization expense for the next five fiscal years are as follows (in thousands):

| Fiscal year | Estimated future<br>amortization<br>expense |
|-------------|---|
| 2013        | \$ 1,319                                    |
| 2014        | 929   |
| 2015        | 771   |
| 2016        | 771   |
| 2017        | 707   |

***Mortgage Servicing Rights***

In the normal course of business we originate military housing mortgage loans and sell such loans to investors. In connection with these activities we may retain the mortgage servicing rights that entitle us to a future stream of cash flows based on contractual servicing fees. Mortgage servicing rights to military housing mortgage loans are accounted for as an intangible asset and included within Other assets in the Consolidated Statements of Financial Condition. The mortgage servicing rights are amortized over the period of the estimated net servicing income, which is reported in Other revenues in the Consolidated Statements of Earnings. We provide no credit support in connection with the servicing of these loans and are not required to make servicing advances on the loans in the underlying portfolios. We determined that the servicing rights represent one class of servicing rights based on the availability of market inputs to measure the fair value of the asset and our treatment of the asset as one aggregate pool for risk management purposes. We earned fees related to these servicing rights of \$3.7 million, \$4.1 million and \$3.5 million during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively.

The following presents the activity in the balance of these servicing rights for the years ended November 30, 2012 and 2011 (in thousands):

|                            | Year Ended November 30, |          |
|----------------------------|-------------------------|----------|
|                            | 2012                    | 2011     |
| Balance, beginning of year | \$ 8,202                | \$ 8,263 |
| Add: Acquisition           | 162                     | 347      |
| Less: Sales, net           | (6,959)                 |          |
| Less: Pay down             | (211)                   |          |
| Less: Amortization         | (389)                   | (408)    |
| Balance, end of year       | \$ 805                  | \$ 8,202 |

On November 30, 2012, we sold mortgage servicing rights for approximately \$30.9 million. The gain on sale of \$23.8 million is included in Other revenue on the Consolidated Statement of Earnings. In addition, the Company granted the investor an option to purchase the remaining servicing rights for the remaining military housing projects for \$2.0 million, the estimated fair value.

**Note 13. Short-Term Borrowings**

Bank loans represent short-term borrowings that are payable on demand and generally bear interest at a spread over the federal funds rate. Unsecured bank loans are typically overnight loans used to finance financial



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instruments owned or clearing related balances. Bank loans at November 30, 2012 totaled \$150.0 million of which \$100.0 million is secured. We had no bank loans as of November 30, 2011. Average daily bank loans for the years ended November 30, 2012 and 2011 were \$66.4 million and \$12.0 million, respectively.

On February 3, 2012, Jefferies Group, Inc. entered into a one year, \$100.0 million term-loan agreement with Prudential Financial, Inc. The loan was set to expire on February 2, 2013 and bore an annual interest rate of one-month LIBOR minus 0.11%. Borrowings under this loan were used to provide working capital as needed for Jefferies Bache. The average daily borrowing under this term loan during the period from February 3, 2012 to September 4, 2012, when the loan was repaid and the agreement terminated, was \$100.0 million.

At November 30, 2011, an obligation to deliver long-term debt securities of \$52.7 million was reported as Short-term borrowings on the Consolidated Statement of Financial Condition for debt securities sold as part of our U.S. broker-dealer's market making in our long-term debt securities. This obligation was satisfied as of February 29, 2012. Refer to Note 14, Long-Term Debt for further details on market making in our long-term debt.

**Note 14. Long-Term Debt**

Our long-term debt is accounted for on an amortized cost basis. The following summarizes our long-term debt carrying values (including unamortized discounts and premiums) at November 30, 2012 and 2011 (in thousands):

|   | <b>November 30,</b> |                     |
|---|---------------------|---------------------|
|   | <b>2012</b>         | <b>2011</b>         |
| <b>Unsecured Long-Term Debt</b>   |                     |                     |
| 7.75% Senior Notes, matured March 15, 2012  | \$                  | \$ 254,926          |
| 5.875% Senior Notes, due June 8, 2014 (effective interest rate of 6.00%)                      | 249,564             | 249,298             |
| 3.875% Senior Notes, due November 9, 2015 (effective interest rate of 3.92%)                  | 499,382             | 499,187             |
| 5.5% Senior Notes, due March 15, 2016 (effective interest rate of 5.57%)                      | 349,248             | 349,045             |
| 5.125% Senior Notes, due April 13, 2018 (effective interest rate of 5.90%)                    | 771,450             | 782,598             |
| 8.5% Senior Notes, due July 15, 2019 (effective interest rate of 8.31%)                       | 706,990             | 707,787             |
| 6.875% Senior Notes, due April 15, 2021 (effective interest rate of 7.00%)                    | 743,945             | 545,816             |
| 2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 6.22%)                     | 3,708               |                     |
| 6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 6.55%)                  | 346,792             | 346,664             |
| 3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 7.74%) | 290,617             | 280,832             |
| 6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.37%)              | 492,904             | 492,773             |
|   | <b>\$ 4,454,600</b> | <b>\$ 4,508,926</b> |
| <b>Secured Long-Term Debt</b>   |                     |                     |
| Credit facility, due August 26, 2014  | 350,007             | 100,000             |
|   | <b>\$ 4,804,607</b> | <b>\$ 4,608,926</b> |

On July 13, 2012, under our Euro Medium Term Note Program ( EMTN Program ) we issued senior unsecured notes with a principal amount of 4.0 million which bear interest at 2.25% per annum and mature on July 13, 2022. Proceeds net of original issue discount amounted to 2.8 million.





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On April 19, 2012, we issued an additional \$200.0 million aggregate principal amount of our 6.875% Senior Notes due April 15, 2021. Proceeds before underwriting discount and expenses amounted to \$197.7 million. The total aggregate principal amount issued under this series of notes is \$750.0 million.

Additionally, on April 8, 2011 we issued 5.125% Senior Notes due April 13, 2018 with a principal amount of \$800.0 million and received proceeds of \$794.6 million.

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 and December 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 and sales of our Senior Notes due 2018 and Convertible Senior Debentures due 2029 were treated as debt extinguishments and reissuances of debt, respectively. We recognized a gain of \$9.9 million and \$20.2 million on debt extinguishment which is reported in Other revenues for the year ended November 30, 2012 and 2011, respectively. Discounts arose as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011. The unamortized balance at November 30, 2012 and 2011 amounted to \$32.2 million and \$37.1 million respectively, and is being amortized over the remaining life of the debt using the effective yield method.

In October 2009 we issued 3.875% convertible senior debentures due 2029 (the debentures) with an aggregate principal amount of \$345.0 million. Each \$1,000 debenture is currently convertible into 26.7722 shares of our common stock (equivalent to a conversion price of approximately \$37.35 per share of common stock). In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceeds \$1,200 per \$1,000 debenture. The debentures are convertible at the holders' option any time beginning on August 1, 2029 and convertible at any time if: 1) our common stock price is greater than 130% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days; 2) if the trading price per debenture is less than 95% of the price of our common stock times the conversion ratio for any 10 consecutive trading days; 3) if the debentures are called for redemption; or 4) upon the occurrence of specific corporate actions. We may redeem the debentures for par, plus accrued interest, on or after November 1, 2012 if the price of our common stock is greater than 130% of the conversion price for at least 20 days in a period of 30 consecutive trading days and we may redeem the debentures for par, plus accrued interest, at our election any time on or after November 1, 2017. Holders may require us to repurchase the debentures for par, plus accrued interest, on November 1, 2017, 2019 and 2024.

**Secured Long-Term Debt** 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. Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants, including, but not limited to, 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. 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. At November 30, 2012, U.S. dollar denominated borrowings outstanding under the Credit Facility amounted to \$350.0 million and are secured by assets included in the borrowing base amount, as defined in the Credit Facility agreement. There were no non-U.S. dollar borrowings at November 30, 2012. We were in compliance with debt covenants under the Credit Facility at November 30, 2012.

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Subsequent to November 30, 2012, we issued \$1.0 billion in new senior unsecured long-term debt, including 5.125% Senior Notes, due 2023 and 6.5% Senior Notes, due 2043. The 5.125% Senior Notes were issued with a par amount of \$600.0 million and we received proceeds of \$595.6 million. The 6.5% Senior Notes were issued with a par amount of \$400.0 million and we received proceeds of \$391.7 million.

**Note 15. Mandatorily Redeemable Convertible Preferred Stock**

In February 2006, MassMutual purchased 125,000 shares of our Series A Cumulative Convertible Preferred Stock at a price of \$1,000 per share, or \$125.0 million in the aggregate, in a private placement. Our Series A Cumulative Convertible Preferred stock has a 3.25% annual, cumulative cash dividend and is currently convertible into 4,110,128 shares of our common stock at an effective conversion price of approximately \$30.41 per share. The preferred stock is callable beginning in 2016 at a price of \$1,000 per share plus accrued interest and will mature in 2036. As of November 30, 2012, 10,000,000 shares of preferred stock were authorized and 125,000 shares of preferred stock were issued and outstanding. The dividend is recorded as a component of Interest expense as the Series A Cumulative Convertible Preferred Stock is treated as debt for accounting purposes. The dividend is not deductible for tax purposes because the Series A Cumulative Convertible preferred stock is considered equity for tax purposes.

As a result of the Merger Agreement, mandatorily redeemable convertible preferred stock will either be redeemed or exchanged for a newly created series of preferred shares of Leucadia, with terms, as practical, mirroring our existing Series A Cumulative Convertible Preferred Stock, which will cease to exist upon conversion into Leucadia preferred shares.

**Note 16. Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries*****Noncontrolling Interests***

Noncontrolling interests represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to us (i.e., minority interests). Noncontrolling interests includes the minority equity holders' proportionate share of the equity of JSOP, JESOP and other consolidated entities. The following table presents noncontrolling interests at November 30, 2012 and 2011 (in thousands):

|                          | <b>November 30,</b> |             |
|--------------------------|---------------------|-------------|
|                          | <b>2012</b>         | <b>2011</b> |
| JSOP                     | \$ 303,178          | \$ 276,800  |
| JESOP                    | 35,239              | 31,979      |
| Other(1)                 | 8,321               | 3,884       |
| Noncontrolling interests | \$ 346,738          | \$ 312,663  |

(1) Other includes consolidated asset management entities and investment vehicles set up for the benefit of our employees or clients. Ownership interests in subsidiaries held by parties other than our common shareholders are presented as noncontrolling interests within Stockholders' equity, separately from our own equity on the Consolidated Statements of Financial Condition. Revenues, expenses, net earnings or loss, and other comprehensive income or loss are reported in the consolidated financial statements at the consolidated amounts, which includes amounts



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attributable to both owners of the parent and noncontrolling interests. Net earnings or loss and other comprehensive income or loss is then attributed to the parent and noncontrolling interests. Net earnings to noncontrolling interests is deducted from Net earnings in the Consolidated Statements of Earnings to determine Net earnings to common shareholders. There has been no other comprehensive income or loss attributed to noncontrolling interests for the years ended November 30, 2012 and 2011 because all other comprehensive income or loss is attributed to us. We intend to redeem the ownership interests of JSOP and JESOP in the first quarter of 2013.

***Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries***

Certain interests in consolidated subsidiaries meet the definition of mandatorily redeemable financial instruments and require liability classification and remeasurement at the estimated amount of cash that would be due and payable to settle such interests under the applicable entity's organization agreement. These mandatorily redeemable financial instruments represent interests held in Jefferies High Yield Holdings, LLC ( JHYH ), which are entitled to a pro rata share of the profits and losses of JHYH and are scheduled to terminate in April 2013, with an option to extend up to three additional one-year periods. Financial instruments issued by a subsidiary that are classified as equity in the subsidiary's financial statements are treated as noncontrolling interests in the consolidated financial statements. Therefore, these mandatorily redeemable financial instruments are reported within liabilities as Mandatorily redeemable preferred interests of consolidated subsidiaries on our Consolidated Statements of Financial Condition. In addition, changes to these mandatorily redeemable financial instruments of JHYH are reported in Net revenues and are reflected as Interest on mandatorily redeemable preferred interests of consolidated subsidiaries on our Consolidated Statements of Earnings. The carrying amount of the Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately \$348.1 million and \$310.5 million at November 30, 2012 and 2011, respectively.

Under the proposed merger, it is contemplated that the mandatorily redeemable preferred interests will be amended and be contributed as stockholders' equity of Jefferies Group, Inc.

**Note 17. Benefit Plans**

***U.S. Pension Plan***

We sponsor a defined benefit pension plan, Jefferies Group, Inc. Employees' Pension Plan (the U.S. Pension Plan ), which is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and covers certain of our employees. Under the U.S. Pension Plan, benefits to participants are based on years of service and the employee's career average pay. As a minimum, amortization of unrecognized net gain or loss included in Accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. Effective December 31, 2005, benefits under the U.S. Pension Plan were frozen with no further benefit accruing to participants for future service after December 31, 2005.

***Employer Contributions*** Our funding policy is to contribute to the U.S. Pension Plan at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. We expect to contribute \$3.0 million to the plan in the year ended November 30, 2013.

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The following tables summarize the changes in the projected benefit obligation, the fair value of the assets and the funded status of the plan (in thousands):

|   | <b>Year Ended November 30,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2012</b>                    | <b>2011</b> |
| Change in projected benefit obligation          |                                |             |
| Projected benefit obligation, beginning of year | \$ 50,487                      | \$ 45,535   |
| Service cost                                    | 175                            | 175         |
| Interest cost                                   | 2,342                          | 2,366       |
| Actuarial losses                                | 4,424                          | 4,630       |
| Administrative expenses paid                    | (236)                          | (201)       |
| Benefits paid                                   | (596)                          | (2,018)     |
| Settlements                                     | (3,163)                        |             |
| Projected benefit obligation, end of year       | \$ 53,433                      | \$ 50,487   |
| Change in plan assets                           |                                |             |
| Fair value of assets, beginning of year         | \$ 36,457                      | \$ 35,086   |
| Employer contributions                          | 2,000                          | 2,000       |
| Benefit payments made                           | (596)                          | (2,018)     |
| Administrative expenses paid                    | (236)                          | (201)       |
| Actual return on plan assets                    | 5,440                          | 1,590       |
| Settlements                                     | (3,163)                        |             |
| Fair value of assets, end of year               | \$ 39,902                      | \$ 36,457   |
| Deficit at end of year                          | \$ (13,531)                    | \$ (14,030) |

The amounts recognized in our Consolidated Statements of Financial Condition are as follows (in thousands):

|   | <b>November 30,</b> |             |
|---|---------------------|-------------|
|   | <b>2012</b>         | <b>2011</b> |
| Accumulated benefit obligation                            | \$ 53,433           | \$ 50,487   |
| Projected benefit obligation for service rendered to date | 53,433              | 50,487      |
| Plan assets, at fair value                                | 39,902              | 36,457      |
| Deficit   | (13,531)            | (14,030)    |
| Unrecognized net loss                                     | 17,761              | 18,649      |
| Prepaid benefit cost                                      | 4,230               | 4,619       |
| Accumulated other comprehensive loss, before taxes        | (17,761)            | (18,649)    |
| Pension liability   | \$ (13,531)         | \$ (14,030) |



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The following table summarizes the components of net periodic pension cost and other amounts recognized in other comprehensive income excluding taxes (in thousands):

|   | Year Ended<br>November 30, |               | Eleven Months<br>Ended |
|---|----------------------------|---------------|------------------------|
|   | 2012                       | 2011          | November 30,<br>2010   |
| Components of net periodic pension cost       |                            |               |                        |
| Service cost                                  | \$ 175                     | \$ 175        | \$ 183                 |
| Interest cost on projected benefit obligation | 2,342                      | 2,366         | 2,233                  |
| Expected return on plan assets                | (2,513)                    | (2,578)       | (2,382)                |
| Net amortization                              | 1,334                      | 894           | 635                    |
| Settlement losses(1)                          | 1,051                      |               |                        |
| <b>Net periodic pension cost</b>              | <b>\$ 2,389</b>            | <b>\$ 857</b> | <b>\$ 669</b>          |

- (1) Of the \$2.4 million in net periodic pension cost for the year ended November 30, 2012, \$1.1 million is due to previously unrecognized losses associated with the projected pension obligation as the cost of all settlements in fiscal 2012 for terminated employees exceeded current year interest and service costs.

|  | Year Ended<br>November 30, |                 | Eleven Months<br>Ended |
|--|----------------------------|-----------------|------------------------|
|  | 2012                       | 2011            | November 30,<br>2010   |
| Amounts recognized in other comprehensive income                                     |                            |                 |                        |
| Net loss arising during the period   | \$ 1,498                   | \$ 5,618        | \$ 2,556               |
| Settlements during the period  | (1,051)                    |                 |                        |
| Amortization of net loss   | (1,334)                    | (894)           | (635)                  |
| <b>Total recognized in Other comprehensive income</b>                                | <b>\$ (887)</b>            | <b>\$ 4,724</b> | <b>\$ 1,921</b>        |
| <br>   |                            |                 |                        |
| Net amount recognized in net periodic benefit cost and<br>Other comprehensive income | \$ 1,502                   | \$ 5,581        | \$ 2,590               |

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost include \$17.8 million, \$18.6 million and \$13.9 million as of November 30, 2012, 2011 and 2010, respectively. During 2013, we expect to recognize an amortization of net loss of \$1.2 million as a component of net periodic benefit cost.

On a weighted average basis, the following are assumptions used to determine the actuarial present value of the projected benefit obligation and net periodic pension benefit cost:

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|  | Year Ended<br>November 30, |       | Eleven Months<br>Ended<br>November 30, |
|--|----------------------------|-------|--|
|  | 2012                       | 2011  | 2010                                   |
| Discount rate                                    | 4.00%                      | 4.75% | 5.25%                                  |
| Expected long-term rate of return on plan assets | 6.75%                      | 7.00% | 7.50%                                  |



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*Expected Benefit Payments* Expected benefit payments for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows (in thousands):

|                   |          |
|-------------------|----------|
| 2013              | \$ 1,045 |
| 2014              | 1,244    |
| 2015              | 1,708    |
| 2016              | 3,621    |
| 2017              | 2,414    |
| 2018 through 2022 | 13,322   |

*Plan Assets* The following table presents the fair value of plan assets as of November 30, 2012 and 2011 by level within the fair value hierarchy (in thousands):

|                                       | As of November 30, 2012 |           |           |
|---------------------------------------|-------------------------|-----------|-----------|
|                                       | Level 1                 | Level 2   | Total     |
| Plan assets(1):                       |                         |           |           |
| Cash and cash equivalents             | \$ 849                  | \$        | \$ 849    |
| Listed equity securities(2)           | 20,321                  |           | 20,321    |
| Fixed income securities:              |                         |           |           |
| Corporate debt securities             |                         | 8,037     | 8,037     |
| Foreign corporate debt securities     |                         | 345       | 345       |
| U.S. government securities            | 4,618                   |           | 4,618     |
| Agency mortgage-backed securities     |                         | 3,774     | 3,774     |
| Commercial mortgage-backed securities |                         | 1,419     | 1,419     |
| Asset-backed securities               |                         | 524       | 524       |
| Other                                 |                         | 15        | 15        |
|                                       | \$ 25,788               | \$ 14,114 | \$ 39,902 |

- (1) There are no plan assets classified within Level 3 of the fair value hierarchy.
- (2) Listed equity securities are diversified across a spectrum of primarily U.S. large-cap companies.

|                             | As of November 30, 2011 |         |        |
|-----------------------------|-------------------------|---------|--------|
|                             | Level 1                 | Level 2 | Total  |
| Plan assets(1):             |                         |         |        |
| Cash and cash equivalents   | \$ 795                  | \$      | \$ 795 |
| Listed equity securities(2) | 17,974                  |         | 17,974 |
| Fixed income securities:    |                         |         |        |
| Corporate debt securities   |                         | 5,969   | 5,969  |

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|                                       |           |           |           |
|---------------------------------------|-----------|-----------|-----------|
| Foreign corporate debt securities     |           | 927       | 927       |
| U.S. government securities            | 4,325     |           | 4,325     |
| Agency mortgage-backed securities     |           | 3,809     | 3,809     |
| Commercial mortgage-backed securities |           | 2,093     | 2,093     |
| Asset-backed securities               |           | 547       | 547       |
| Other                                 |           | 18        | 18        |
|                                       | \$ 23,094 | \$ 13,363 | \$ 36,457 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

(1) There are no plan assets classified within Level 3 of the fair value hierarchy.

(2) Listed equity securities are diversified across a spectrum of primarily U.S. large-cap companies.

*Valuation technique and inputs* The following is a description of the valuation techniques and inputs used in measuring plan assets accounted for at fair value on a recurring basis:

Cash equivalents are valued at cost, which approximates fair value and are categorized in Level 1 of the fair value hierarchy;

Listed equity securities are valued using the quoted prices in active markets for identical assets;

Fixed income securities:

Corporate debt, mortgage- and asset-backed securities and other securities valuations use data readily available to all market participants and use inputs available for substantially the full term of the security. Valuation inputs include benchmark yields, reported trades, broker dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers, reference data, and industry and economic events;

U.S. government and agency securities valuations generally include quoted bid prices in active markets for identical or similar assets. *Investment Policies and Strategies* Assets in the plan are invested under guidelines adopted by the Administrative Committee of the Plan. Because the Plan exists to provide a vehicle for funding future benefit obligations, the investment objectives of the portfolio take into account the nature and timing of future plan liabilities. The policy recognizes that the portfolio's long-term investment performance and its ability to meet the plan's overall objectives are dependent on the strategic asset allocation which includes adequate diversification among assets classes.

The target allocation of plan assets for 2013 is approximately 50% equities and 50% fixed income securities. The target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve the plan's investment objective and to minimize any concentration of investment risk. The Administrative Committee evaluates the asset allocation strategy and adjusts the allocation if warranted based upon market conditions and the impact of the investment strategy on future contribution requirements. The expected long-term rate of return assumption is based on an analysis of historical experience of the portfolio and the summation of prospective returns for each asset class in proportion to the fund's current asset allocation.

The equity portfolio may invest up to 5% of the market value of the portfolio in any one company and may invest up to 10% of the market value of the portfolio in any one sector or up to two times the percentage weighting of any one sector as defined by the S&P 500 or the Russell 1000 Value indices, whichever is higher. Permissible investments specified under the equity portfolio of the plan include equity securities of U.S. and non-U.S. incorporated entities and private placement securities issued pursuant to Rule 144A. At least 75% of the market value of the fixed income portfolio must be invested in investment grade securities rated BBB-/Baa3, including cash and cash equivalents. Permissible investments specified under the fixed income portfolio of the plan include: public or private debt obligations issued or guaranteed by U.S. or foreign issuers; preferred, hybrid, mortgage or asset-backed securities; senior loans; and derivatives and foreign currency exchange contracts.



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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED*****German Pension Plan***

In connection with the acquisition of the Jefferies Bache from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the German Pension Plan) for the benefit of eligible employees of Bache in that territory. As part of purchase accounting, a liability of \$21.8 million was recognized on July 1, 2011 as a pension obligation within Accrued expenses and other liabilities. The German Pension Plan has no plan assets and is therefore unfunded; however, the plan is funded by insurance contracts with multi-national insurers held in the name of Jefferies Bache Limited. The investments in these insurance contracts are included in Financial Instruments owned Investments at fair value in the Consolidated Statement of Financial Condition and have a fair value of \$18.6 million at November 30, 2012. We expect to pay the pension liability from the cash flows available to us under the insurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

The provisions and assumptions used in the German Pension Plan are based on local conditions in Germany. We did not contribute to the plan during the year ended November 30, 2012 and five months ended November 30, 2011.

The following tables summarize the changes in the projected benefit obligation and the components of net periodic pension cost for the year ended November 30, 2012 and five months ended November 30, 2011 (in thousands):

|   | Year Ended<br>November 30,<br>2012 | Five Months Ended<br>November 30,<br>2011 |
|---|------------------------------------|---|
| Change in projected benefit obligation            |                                    |   |
| Projected benefit obligation, beginning of period | \$ 19,799                          | \$ 21,840                                 |
| Service cost                                      | 36                                 | 15  |
| Interest cost                                     | 1,027                              | 434                                       |
| Actuarial losses (gain)                           | 5,413                              | (414)                                     |
| Benefits paid                                     | (1,121)                            | (471)                                     |
| Currency adjustment                               | (645)                              | (1,605)                                   |
| Projected benefit obligation, end of period       | \$ 24,509                          | \$ 19,799                                 |

|   | Year Ended<br>November 30,<br>2012 | Five Months Ended<br>November 30,<br>2011 |
|---|------------------------------------|---|
| Components of net periodic pension cost       |                                    |   |
| Service cost                                  | \$ 36                              | \$ 15                                     |
| Interest cost on projected benefit obligation | 1,027                              | 434                                       |
| Net periodic pension cost                     | \$ 1,063                           | \$ 449                                    |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

The accumulated benefit obligation at November 30, 2012 and 2011 is \$24.5 million and \$19.8 million, respectively. The amount in accumulated Other comprehensive income at November 30, 2012 and 2011 is a debit of \$4.4 million and a credit of \$287,000, respectively. The following are assumptions used to determine the actuarial present value of the projected benefit obligation and net periodic pension benefit cost for the year ended November 30, 2012 and five month period ended November 30, 2011:

|                                   | Year Ended<br>November 30,<br>2012 | Five Months Ended<br>November 30,<br>2011 |
|-----------------------------------|------------------------------------|---|
| Projected benefit obligation      |                                    |   |
| Discount rate                     | 3.60%                              | 5.60%                                     |
| Rate of compensation increase     | 3.00%                              | 3.00%                                     |
| Net periodic pension benefit cost |                                    |   |
| Discount rate                     | 5.60%                              | 5.30%                                     |
| Rate of compensation increase     | 3.00%                              | 3.00%                                     |

*Expected Benefit Payments* Expected benefit payments for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows (in thousands):

|                   |       |
|-------------------|-------|
| 2013              | 1,194 |
| 2014              | 1,265 |
| 2015              | 1,290 |
| 2016              | 1,327 |
| 2017              | 1,308 |
| 2018 through 2022 | 6,666 |

**Note 18. Compensation Plans**

We sponsor the following share-based compensation plans: incentive compensation plan, director plan, employee stock purchase plan and the deferred compensation plan. The fair value of share-based awards is estimated on the date of grant based on the market price of our common stock less the impact of selling restrictions subsequent to vesting, if any, and is amortized as compensation expense over the related requisite service periods.

Total compensation cost related to share-based compensation plans was \$85.2 million, \$136.0 million and \$151.1 million for the years ended November 30, 2012 and 2011 and eleven months November 30, 2010, respectively. The net tax benefit related to share-based compensation plans recognized in additional paid-in capital was \$19.8 million, \$32.2 million and \$3.0 million during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Cash flows resulting from tax deductions in excess of the grant date fair value of share-based awards are included in cash flows from financing activities; accordingly, we reflected the excess tax benefit of \$31.4 million, \$34.6 million and \$2.4 million related to share-based compensation in cash flows from financing activities for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Due to our tax year end coinciding with our fiscal year end November 30, the timing of certain deductions related to share-based compensation are impacted such that tax benefits resulting from the vesting of awards are realized in the following fiscal year. Consequently, approximately \$21.3 million of the net tax benefit recognized in additional paid-in capital during the three months ended February 29, 2012 relates to share-based compensation awards that vested during January through November 2011, and approximately \$19.7 million of the net tax benefit recognized in additional paid-in capital



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

during the three months ended February 28, 2011 relates to share-based compensation awards that vested during the eleven months ended November 30, 2010. Additionally, we expect to recognize a net tax deficiency of \$18.2 million related to share-based compensation awards that vested during January through November 2012 in additional paid-in capital during the three month period ending February 28, 2013.

As of November 30, 2012, we had \$202.9 million of total unrecognized compensation cost related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 3.0 years. We have historically and generally expect to issue new shares of common stock when satisfying our issuance obligations pursuant to share-based awards, as opposed to reissuing shares from our treasury stock.

In addition, we sponsor nonshare-based compensation plans. Nonshare-based compensation plans sponsored by us include an employee stock ownership plan, a profit sharing plan and other forms of restricted cash awards.

The following are descriptions of the compensation plans sponsored by us and the activity of such plans for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010:

**Incentive Compensation Plan.** We have an Incentive Compensation Plan ( Incentive Plan ) which allows awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, RSUs, dividend equivalents or other share-based awards. The plan imposes a limit on the number of shares of our common stock that may be subject to awards. An award relating to shares may be granted if the aggregate number of shares subject to then outstanding awards (as defined in the Incentive Plan) plus the number of shares subject to the award being granted do not exceed 30% of the number of shares issued and outstanding immediately prior to the grant.

***Restricted Stock and Restricted Stock Units***

The Incentive Plan allows for grants of restricted stock awards, whereby employees are granted restricted shares of common stock subject to forfeiture. The Incentive Plan also allows for grants of restricted stock units. RSUs give a participant the right to receive fully vested shares at the end of a specified deferral period allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, RSUs carry no voting or dividend rights associated with the stock ownership, but dividend equivalents are accrued to the extent there are dividends declared on our common stock.

During the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010, we granted restricted stock and RSUs as part of year-end compensation. We generally did not grant restricted stock and RSUs as part of year-end compensation during the twelve months ended November 30, 2012. Restricted stock and RSUs granted as part of year-end compensation are not subject to service requirements that employees must fulfill in exchange for the right to those awards. As such, employees who terminate their employment or are terminated without cause may continue to vest in year-end compensation awards, so long as the awards are not forfeited as a result of the other forfeiture provisions of those awards (e.g. competition). We determined that the service inception date preceded the grant date for restricted stock and RSUs granted as part of year-end compensation, and, as such, the compensation expense associated with these awards is accrued over the one-year period prior to the grant date. For the year ended November 30, 2011, we recognized compensation expense of \$64.0 million related to restricted stock and restricted stock units of approximately 6,339,000 and 16,000, respectively, granted as part of our 2011 year end compensation. For the eleven months ended November 30,



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2010, we recognized compensation expense of \$114.7 million related to restricted stock and restricted stock units of approximately 5,062,000 and 127,000, respectively, granted as part of our 2010 year end compensation.

In 2011, we offered our employees the option to receive the stock portion of their year-end compensation in the form of either shares or cash, with the cash amount being equal to 75% of the grant-date amount of the stock that an employee would otherwise receive. The election resulted in a decrease to share-based compensation expense of approximately \$23.3 million, as certain employees elected to receive reduced cash awards in lieu of the full grant-date amount of the shares. This offset increased cash compensation expense by approximately \$17.5 million. The net effect of this election on total compensation and benefits expense was a reduction of approximately \$5.8 million. While these cash awards were fully expensed in 2011, they will legally vest in future periods.

In addition to year end compensation awards, we grant restricted stock and RSUs to new employees as sign-on awards, to existing employees as retention awards and to certain executive officers as awards for multiple years. Sign-on and retention awards are generally subject to annual ratable vesting upon a four year service requirement and are amortized as compensation expense on a straight line basis over the related four years. Restricted stock and RSUs are granted to certain senior executives with both performance and service conditions. We amortize these awards granted to senior executives over the service period as we have determined it is probable that the performance condition will be achieved.

The total compensation cost associated with restricted stock and RSUs amounted to \$83.8 million, \$134.1 million and \$149.8 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Total compensation cost includes year-end compensation and the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

The following table details the activity of restricted stock (in thousands, except per share amounts):

|                                       | <b>Year Ended<br/>November 30, 2012</b> | <b>Weighted<br/>Average Grant<br/>Date Fair Value</b> |
|---------------------------------------|---|---|
| <b>Restricted stock</b>               |   |   |
| Balance, beginning of period          | 9,032                                   | \$ 19.05  |
| Grants(1)                             | 2,253                                   | \$ 14.76  |
| Forfeited                             | (118)                                   | \$ 24.32  |
| Fulfillment of service requirement(1) | (3,109)                                 | \$ 19.53  |
| Balance, end of period(2)             | 8,058                                   | \$ 17.59  |

(1) Includes approximately 617,000 shares of restricted stock granted with no future service requirements during the year ended November 30, 2012. These shares are shown as granted and vested during the period. The weighted average grant date fair value of these shares was approximately \$14.74 per share.

(2) Represents restricted stock with a future service requirement.

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The following table details the activity of restricted stock units (in thousands, except per share amounts):

|                                    | Year Ended<br>November 30, 2012 |                                  | Weighted Average<br>Grant Date Fair Value |                                  |
|------------------------------------|---------------------------------|----------------------------------|---|----------------------------------|
|                                    | Future<br>Service<br>Required   | No Future<br>Service<br>Required | Future<br>Service<br>Required             | No Future<br>Service<br>Required |
| Restricted stock units             |                                 |                                  |   |                                  |
| Balance, beginning of period       | 4,968                           | 18,994                           | \$ 23.53                                  | \$ 14.17                         |
| Grants                             | 4,994                           | 485(1)                           | \$ 14.18                                  | \$ 13.50                         |
| Distribution of underlying shares  |                                 | (3,370)                          | \$  | \$ 21.93                         |
| Forfeited                          | (140)                           | (59)                             | \$ 23.25                                  | \$ 18.68                         |
| Fulfillment of service requirement | (606)                           | 606                              | \$ 20.31                                  | \$ 20.31                         |
| Balance, end of period             | 9,216                           | 16,656                           | \$ 18.67                                  | \$ 12.79                         |

(1) Includes approximately 450,000 dividend equivalents declared on RSUs during the year ended November 30, 2012. The weighted average grant date fair value of these dividend equivalents was approximately \$13.36.

The aggregate fair value of restricted stock and RSUs granted with a service requirement that vested during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 was \$48.4 million, \$32.7 million, and \$11.4 million, respectively. In addition, we granted restricted stock and restricted stock units with no future service requirements (excluding dividend equivalents) with an aggregate fair value of \$9.6 million, \$79.7 million and \$120.2 million during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively.

*Directors Plan.* We have a Directors Stock Compensation Plan ( Directors Plan ) which provides for an annual grant to each nonemployee director of \$100,000 of restricted stock or deferred shares (which are similar to restricted stock units). These grants are made automatically on the date directors are elected or reelected at our annual shareholders meeting. These grants legally vest three years after the date of grant and are expensed in the year of grant.

Additionally, the Directors Plan permits each nonemployee director to elect to be paid annual retainer fees, meeting fees and fees for service as chairman of a Board committee in the form of cash, deferred cash or deferred shares. If deferred cash is elected, interest is credited to such deferred cash at the prime interest rate in effect at the date of each annual meeting of stockholders. If deferred shares are elected, dividend equivalents equal to dividends declared and paid on our common stock are credited to a director s account and reinvested as additional deferred shares. The cost related to this plan, included within Other expenses on the Consolidated Statements of Earnings, was \$1.2 million, \$1.6 million and \$1.2 million for the years ended November 30, 2012 and 2011, and eleven months ended November 30, 2010, respectively.

*Employee Stock Purchase Plan.* We also have an Employee Stock Purchase Plan ( ESPP ) which we consider noncompensatory effective January 1, 2007. The ESPP permits all regular full time employees and employees who work part time over 20 hours per week to purchase shares of our common stock at a discount. Annual employee contributions are limited to \$21,250, are voluntary and made through payroll deduction. The stock purchase price is equal to 95% of the closing price of our common stock on the last day of the applicable session (monthly).



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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

*Deferred Compensation Plan.* We also have a Deferred Compensation Plan, which was established in 2001. Eligible employees are able to defer compensation on a pre-tax basis by investing in our common stock at a discount ( DCP shares ), or by allocating among any combination of the investment funds available under the Deferred Compensation Plan. We often invest directly, as a principal, in such investment alternatives related to our obligations to perform under the Deferred Compensation Plan. The compensation deferred by our employees is expensed in the period earned. The change in fair value of the specified other alternative investments are recognized in Principal transactions and changes in the corresponding deferral compensation liability are reflected as Compensation and benefits expense in our Consolidated Statements of Earnings.

Additionally, we recognize compensation cost related to the discount provided to employees in electing to defer compensation in DCP shares. This compensation cost was approximately \$0.2 million, \$0.3 million and \$0.1 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. As of November 30, 2012, there were approximately 1,866,000 shares issuable under the DCP Plan.

*Employee Stock Ownership Plan.* We have an Employee Stock Ownership Plan ( ESOP ) which was established in 1988. We made no contributions to the ESOP and no compensation cost related to the ESOP were incurred during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010.

*Profit Sharing Plan.* We have a profit sharing plan, covering substantially all employees, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code. The compensation cost related to this plan was \$5.7 million, \$6.0 million and \$5.0 million for the years ended November 30, 2012 and 2011, and eleven months ended November 30, 2010, respectively.

*Restricted Cash Awards.* We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements ranging from one to ten years, with an approximate average term of two years. We amortize these awards to compensation expense over the relevant service period. The compensation cost associated with these awards amounted to \$194.4 million, \$119.2 million and \$49.2 million for the years ended November 30, 2012 and 2011 and the eleven months ended November 30, 2010, respectively. At November 30, 2012 and 2011, the remaining unamortized amount of these awards was \$198.9 million and \$211.4 million, respectively and is included within Other assets on the Consolidated Statements of Financial Condition.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****Note 19. Earnings per Share**

The following is a reconciliation of the numerators and denominators of the Basic and Diluted earnings per common share computations for the years ended November 30, 2012 and 2011 and eleven months November 30, 2010 (in thousands, except per share amounts):

|   | Year Ended<br>November 30, |            | Eleven Months<br>Ended |
|---|----------------------------|------------|------------------------|
|   | 2012                       | 2011       | November 30,<br>2010   |
| <b>Earnings for basic earnings per common share:</b>        |                            |            |                        |
| Net earnings  | \$ 323,149                 | \$ 286,368 | \$ 240,267             |
| Net earnings to noncontrolling interests                    | 40,740                     | 1,750      | 16,601                 |
| Net earnings to common shareholders                         | 282,409                    | 284,618    | 223,666                |
| Less: Allocation of earnings to participating securities(1) | 17,392                     | 13,822     | 8,069                  |
| Net earnings available to common shareholders               | \$ 265,017                 | \$ 270,796 | \$ 215,597             |
| <b>Earnings for diluted earnings per common share:</b>      |                            |            |                        |
| Net earnings  | \$ 323,149                 | \$ 286,368 | \$ 240,267             |
| Net earnings to noncontrolling interests                    | 40,740                     | 1,750      | 16,601                 |
| Net earnings to common shareholders                         | 282,409                    | 284,618    | 223,666                |
| Add: Convertible preferred stock dividends                  | 4,063                      | 4,063      | 3,724                  |
| Less: Allocation of earnings to participating securities(1) | 17,407                     | 13,823     | 8,084                  |
| Net earnings available to common shareholders               | \$ 269,065                 | \$ 274,858 | \$ 219,306             |
| <b>Shares:</b>  |                            |            |                        |
| Average common shares used in basic computation             | 215,989                    | 211,056    | 196,393                |
| Stock options   | 2                          | 7          | 13                     |
| Mandatorily redeemable convertible preferred stock          | 4,110                      | 4,108      | 4,105                  |
| Convertible debt  |                            |            |                        |
| Average common shares used in diluted computation           | 220,101                    | 215,171    | 200,511                |
| <b>Earnings per common share:</b>                           |                            |            |                        |
| Basic   | \$ 1.23                    | \$ 1.28    | \$ 1.10                |
| Diluted   | \$ 1.22                    | \$ 1.28    | \$ 1.09                |

- (1) Represents dividends declared during the period on participating securities plus an allocation of undistributed earnings to participating securities. Net losses are not allocated to participating securities. Participating securities represent restricted stock and restricted stock units for which requisite service has not yet been rendered and amounted to weighted average shares of 14,123,000, 10,667,000 and 7,285,000 for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Dividends declared on participating securities during the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 amounted to

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approximately \$4.3 million, \$3.4 million and \$2.3 million, respectively. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Restrictions on our present ability to pay dividends on our common stock are the dividend preference terms of our Series A convertible preferred stock, certain financial covenants associated with the \$950.0 million Credit Facility as described in Note 14, Long-Term Debt and the governing provisions of the Delaware General Corporation Law.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Dividends per share of common stock declared during the quarter are reflected below:

|      | 1 <sup>st</sup><br>Quarter | 2 <sup>nd</sup><br>Quarter | 3 <sup>rd</sup><br>Quarter | 4 <sup>th</sup><br>Quarter |
|------|----------------------------|----------------------------|----------------------------|----------------------------|
| 2012 | \$ 0.075                   | \$ 0.075                   | \$ 0.075                   | \$ 0.075                   |
| 2011 | \$ 0.075                   | \$ 0.075                   | \$ 0.075                   | \$ 0.075                   |

On December 6, 2012, a quarterly dividend was declared of \$0.075 per share of common stock payable on December 31, 2012 to stockholders of record as of December 21, 2012.

**Note 20. Income Taxes**

Total income taxes for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 were allocated as follows (in thousands):

|  | Year Ended<br>November 30, |            | Eleven Months<br>Ended<br>November 30,<br>2010 |
|--|----------------------------|------------|--|
|  | 2012                       | 2011       |  |
| Income tax expense   | \$ 168,646                 | \$ 132,966 | \$ 156,404                                     |
| Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes | (19,789)                   | (32,200)   | (2,965)  |
|  | \$ 148,857                 | \$ 100,766 | \$ 153,439                                     |

Income tax expense for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 consists of the following components (in thousands):

|                 | Year Ended<br>November 30, |           | Eleven Months<br>Ended<br>November 30,<br>2010 |
|-----------------|----------------------------|-----------|--|
|                 | 2012                       | 2011      |  |
| Current:        |                            |           |  |
| Federal         | \$ 62,710                  | \$ 65,702 | \$ 123,352                                     |
| State and local | 18,520                     | 28,644    | 36,379   |
| Foreign         | 2,773                      | 8,443     | (7,716)  |
|                 | 84,003                     | 102,789   | 152,015  |

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|                 |            |            |            |
|-----------------|------------|------------|------------|
| Federal         | 79,224     | 7,637      | (15,275)   |
| State and local | 13,006     | (694)      | 388        |
| Foreign         | (7,587)    | 23,234     | 19,276     |
|                 | 84,643     | 30,177     | 4,389      |
|                 | \$ 168,646 | \$ 132,966 | \$ 156,404 |



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Income tax expense differed from the amounts computed by applying the Federal statutory income tax rate of 35% to earnings before income taxes for 2012, 2011 and 2010 as a result of the following (in thousands):

|  | Year Ended November 30, |         |            |         | Eleven Months Ended |         |
|--|-------------------------|---------|------------|---------|---------------------|---------|
|  | 2012                    |         | 2011       |         | November 30, 2010   |         |
|  | Amount                  | Percent | Amount     | Percent | Amount              | Percent |
| Computed expected income taxes   | \$ 172,128              | 35.0%   | \$ 146,767 | 35.0%   | \$ 138,835          | 35.0%   |
| Increase (decrease) in income taxes resulting from:                      |                         |         |            |         |                     |         |
| State and city income taxes, net of Federal income tax benefit           | 20,492                  | 4.2     | 18,168     | 4.3     | 23,899              | 6.0     |
| Bargain purchase gain on the acquisition of the Global Commodities Group |                         |         | (18,363)   | (4.4)   |                     |         |
| Noncontrolling interest, not subject to tax                              | (14,161)                | (2.9)   | (613)      | (0.1)   | (5,810)             | (1.5)   |
| Foreign income   | (7,528)                 | (1.5)   | (11,736)   | (2.8)   | 525                 | 0.1     |
| Other, net   | (2,285)                 | (0.5)   | (1,257)    | (0.3)   | (1,045)             | (0.2)   |
| Total income taxes   | \$ 168,646              | 34.3%   | \$ 132,966 | 31.7%   | \$ 156,404          | 39.4%   |

The following table presents a reconciliation of gross unrecognized tax benefits for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 (in thousands):

|   | Year Ended November 30, |           | Eleven Months Ended |
|---|-------------------------|-----------|---------------------|
|   | 2012                    | 2011      | November 30, 2010   |
| Balance at beginning of period                                    | \$ 79,779               | \$ 52,852 | \$ 24,153           |
| Increases based on tax positions related to the current period    | 30,671                  | 14,159    | 22,198              |
| Increases based on tax positions related to prior periods         | 7,549                   | 14,696    | 6,753               |
| Decreases based on tax positions related to prior periods         | (5,893)                 | (1,808)   | (252)               |
| Decreases related to settlements with taxing authorities          | (487)                   | (120)     |                     |
| Decreases related to a lapse of applicable statutes of limitation |                         | (1,080)   |                     |
| Balance at end of period  | \$ 110,539              | \$ 79,779 | \$ 52,852           |

The total amount of unrecognized benefits that, if recognized, would affect the effective tax rate was \$72.4 million, \$52.3 million and \$34.3 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Interest related to income tax liabilities is recognized in Interest expense. Penalties, if any, are recognized in Other expenses. Net interest expense related to income tax liabilities was \$4.5 million, \$4.4 million and \$2.0 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. In addition to the liability for unrecognized tax benefits, we had interest accrued of approximately \$15.3 million, \$10.8 million and \$6.4 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued.



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The cumulative tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at November 30, 2012 and 2011 are presented below (in thousands):

|   | <b>November 30,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2012</b>         | <b>2011</b>       |
| Deferred tax assets:                                    |                     |                   |
| Compensation  | \$ 333,318          | \$ 390,831        |
| Net operating loss                                      | 22,447              | 12,384            |
| Other   | 30,932              | 31,732            |
| <b>Sub-total</b>  | <b>386,697</b>      | <b>434,947</b>    |
| Valuation allowance                                     | (11,754)            | (11,950)          |
| <b>Total deferred tax assets</b>                        | <b>374,943</b>      | <b>422,997</b>    |
| Deferred tax liabilities:                               |                     |                   |
| Long-term debt  | 37,370              | 31,727            |
| Amortization of intangibles                             | 62,617              | 52,623            |
| Other   | 47,811              | 27,575            |
| <b>Total deferred tax liabilities</b>                   | <b>147,798</b>      | <b>111,925</b>    |
| <b>Net deferred tax asset, included in Other assets</b> | <b>\$ 227,145</b>   | <b>\$ 311,072</b> |

The valuation allowance represents the portion of our deferred tax assets for which it is more likely than not that the benefit of such items will not be realized. We believe that the realization of the net deferred tax asset of \$227.1 million is more likely than not based on expectations of future taxable income in the jurisdictions in which we operate.

At November 30, 2012, we had loss carryforwards in Asia, primarily Japan, and the United Kingdom of approximately \$80.0 million. The Japanese losses begin to expire in the year 2013 while the United Kingdom losses have an unlimited carryforward period. The deferred tax assets related to the losses in Asia and the United Kingdom have been offset by a valuation allowance of \$7.0 million and \$0.9 million, respectively.

There is a current net tax receivable of \$69.8 million and \$68.9 million at November 30, 2012 and 2011, respectively.

At November 30, 2012, we had approximately \$96 million of earnings attributable to foreign subsidiaries for which no U.S. Federal income tax provision has been recorded because these earnings are permanently invested abroad. Accordingly, a deferred tax liability of approximately \$20 million has not been recorded with respect to these earnings.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions. We do not expect that resolution of these examinations will have a material effect on our consolidated financial position, but could have a material impact on the consolidated results of operations for the period in which resolution occurs. It is reasonably possible that, within the next twelve months, various tax examinations will be concluded and statutes of limitation will expire. However, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the effective tax rate over the next 12 months.



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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

The table below summarizes the earliest tax years that remain subject to examination in the major tax jurisdictions in which we operate:

| <b>Jurisdiction</b> | <b>Tax Year</b> |
|---------------------|-----------------|
| United States       | 2006            |
| United Kingdom      | 2011            |
| California          | 2004            |
| Connecticut         | 2006            |
| Massachusetts       | 2006            |
| New Jersey          | 2007            |
| New York State      | 2001            |
| New York City       | 2003            |

**Note 21. Commitments, Contingencies and Guarantees**  
*Commitments*

The following table summarizes our commitments associated with our capital market and asset management business activities at November 30, 2012 (in millions):

|  | 2013       | 2014     | Expected Maturity Date |               |                | Maximum Payout |
|--|------------|----------|------------------------|---------------|----------------|----------------|
|  |            |          | 2015 and 2016          | 2017 and 2018 | 2019 and Later |                |
| Equity commitments                       | \$ 0.4     | \$ 4.1   | \$ 1.2                 | \$            | \$ 633.0       | \$ 638.7       |
| Loan commitments                         | 129.8      | 387.6    | 111.3                  | 16.4          | 2.3            | 647.4          |
| Mortgage-related commitments             | 1,056.4    | 465.8    | 577.8                  |               |                | 2,100.0        |
| Forward starting reverse repos and repos | 342.7      |          |                        |               |                | 342.7          |
|  | \$ 1,529.3 | \$ 857.5 | \$ 690.3               | \$ 16.4       | \$ 635.3       | \$ 3,728.8     |

The table below presents our credit exposure from our loan commitments, including funded amounts, summarized by period of expiration as of November 30, 2012. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

| <b>Credit Ratings</b> | <b>0 - 12 Months</b> | <b>1 - 5 Years</b> | <b>Greater Than 5 Years</b> | <b>Total Corporate Lending Exposure(1)</b> | <b>Corporate Lending Exposure at Fair Value(2)</b> | <b>Corporate Lending Commitments (3)</b> |
|-----------------------|----------------------|--------------------|-----------------------------|--|--|--|
| Non-investment grade  | \$ 90.0              | \$ 80.5            | \$ 2.4                      | \$ 172.9                                   | \$ 36.2  | \$ 136.7                                 |
| Unrated               | 72.5                 | 663.4              |                             | 735.9                                      | 225.2  | 510.7                                    |

|       |          |          |        |          |          |          |
|-------|----------|----------|--------|----------|----------|----------|
| Total | \$ 162.5 | \$ 743.9 | \$ 2.4 | \$ 908.8 | \$ 261.4 | \$ 647.4 |
|-------|----------|----------|--------|----------|----------|----------|

(1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

(2) The corporate lending exposure carried at fair value includes \$261.4 million of funded loans included in Financial instruments owned Loans and a \$7.1 million liability related to lending commitments recorded in Financial instruments sold Derivatives in the Consolidated Statement of Financial Condition as of November 30, 2012.

(3) Amounts represent the notional amount of lending commitments less the amount of funded commitments reflected in the Consolidated Statements of Financial Condition.

*Equity Commitments.* We have commitments to invest \$500.0 million and \$291.0 million in Jefferies Finance and Jefferies LoanCore as of November 30, 2012, and have funded \$107.5 million and \$110.0 million, respectively. See Note 11, Investments for additional information regarding these investments.

At November 30, 2012, we have committed to invest \$5.9 million in Jefferies Capital Partners LLC, the manager of Jefferies Capital Partners IV L.P., Jefferies Capital Partners V L.P. and a related parallel fund, the SBI USA Fund (Jefferies Capital Partners V L.P. and the SBI USA Fund are collectively Fund V ). As of November 30, 2012, we have funded approximately \$1.0 million of our commitment to Jefferies Capital Partners LLC., leaving \$4.9 million unfunded.

We have committed to invest in aggregate up to \$85.0 million in Fund V, private equity funds managed by a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee, comprised of up to \$75.0 million in the SBI USA Fund and \$10.0 million in Jefferies Capital Partners V L.P.. As of November 30, 2012, we have funded approximately \$27.1 million and \$3.6 million of our commitments to the SBI USA Fund and Jefferies Capital Partners V L.P., respectively, leaving approximately \$54.3 million unfunded in aggregate.

We have committed to invest up to \$45.9 million in Jefferies Capital Partners IV L.P. and \$3.1 million in JCP IV LLC, the General Partner of Jefferies Capital Partners IV L.P. As of November 30, 2012, we have funded approximately \$43.6 million and \$2.2 million of our commitments to Jefferies Capital Partners IV L.P. and JCP IV LLC, respectively, leaving approximately \$3.2 million unfunded in aggregate.

As of November 30, 2012, we had other equity commitments to invest up to \$29.8 million in various other investments of which \$2.7 million remains unfunded.

*Loan Commitments.* From time to time we make commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. As of November 30, 2012, we had \$267.6 million of loan commitments outstanding to clients.

On March 1, 2011, we and MassMutual entered into a \$1.0 billion secured revolving credit facility with Jefferies Finance, to be funded equally, to support loan underwritings by Jefferies Finance. The facility is scheduled to mature on March 1, 2014 with automatic one year extensions subject to a 60 day termination notice by either party. As of November 30, 2012, we have funded \$125.0 million of the aggregate principal balance and \$375.0 million of our commitment remained unfunded.

We entered into a credit agreement with JEP IV, a related party, whereby we are committed to extend loans up to the maximum aggregate principal amount of \$37.5 million. As of November 30, 2012, we funded approximately \$32.7 million of the aggregate principal balance, which is included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition and \$4.8 million of our commitment remained unfunded.

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The unfunded loan commitments to Jefferies Finance and JEP IV of \$379.8 million in aggregate are unrated and included in the total unrated lending commitments of \$510.7 million presented in the table above.

*Mortgage-Related Commitments.* We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statement of Financial Condition was \$57.2 million at November 30, 2012.

*Forward Starting Reverse Repos and Repos.* We enter into commitments to take possession of securities with agreements to resell on a forward starting basis and to sell securities with agreements to repurchase on a forward starting basis that are primarily secured by U.S. government and agency securities.

*Leases.* As lessee, we lease certain premises and equipment under noncancelable agreements expiring at various dates through 2023 which are operating leases. At November 30, 2012, future minimum aggregate lease payments for all noncancelable operating leases for fiscal years ended November 30, 2013 through 2017 and the aggregate amount thereafter, are as follows (in thousands):

| <b>Fiscal Year</b> | <b>Gross</b>      | <b>Sub-Leases</b> | <b>Net</b>        |
|--------------------|-------------------|-------------------|-------------------|
| 2013               | \$ 65,602         | \$ 5,440          | \$ 60,162         |
| 2014               | 58,341            | 5,013             | 53,328            |
| 2015               | 33,090            | 2,344             | 30,746            |
| 2016               | 30,050            | 2,221             | 27,829            |
| 2017               | 28,566            | 300               | 28,266            |
| Thereafter         | 88,216            |                   | 88,216            |
| <b>Total</b>       | <b>\$ 303,865</b> | <b>\$ 15,318</b>  | <b>\$ 288,547</b> |

Rental expense, net of subleases, amounted to \$48.4 million, \$44.3 million and \$36.2 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. In January 2013, we amended our lease agreement for our global executive offices and principal administrative offices in New York to extend the term through 2029.



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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

During 2012, we entered into a master sale and leaseback agreement under which we sold and have leased back existing and additional new equipment supplied by the lessor. The transaction resulted in a gain of \$2.0 million, which is being amortized into earnings in proportion to and is reflected net against the leased equipment. The lease may be terminated on September 30, 2017 for a termination cost of the present value of the remaining lease payments plus a residual value. If not terminated early, the lease term is approximately five years from the start of the supply of new and additional equipment, which commences on various dates in 2013 and 2014. At November 30, 2012, minimum future lease payments are as follows (in thousands):

|  |                  |
|--|------------------|
| <b>Fiscal Year</b>                                 |                  |
| 2013   | \$ 3,887         |
| 2014   | 3,887            |
| 2015   | 3,887            |
| 2016   | 3,887            |
| 2017   | 3,887            |
| Thereafter   | 1,750            |
| <b>Net minimum lease payments</b>                  | <b>21,185</b>    |
| Less amount representing interest                  | 2,219            |
| <b>Present value of net minimum lease payments</b> | <b>\$ 18,966</b> |

**Guarantees**

*Derivative Contracts.* Our dealer activities cause us to make markets and trade in a variety of derivative instruments. Certain derivative contracts that we have entered into meet the accounting definition of a guarantee under U.S. GAAP, including credit default swaps, written foreign currency options and written equity put options. On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest or foreign exchange rates are not contractually limited by the terms of the contract. As such, we have disclosed notional values as a measure of our maximum potential payout under these contracts.

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at November 30, 2012 (in millions):

| Guarantee Type                             | Expected Maturity Date |                    |                     |                     |                      | Notional/<br>Maximum<br>Payout |
|--|------------------------|--------------------|---------------------|---------------------|----------------------|--------------------------------|
|  | 2013                   | 2014               | 2015<br>and<br>2016 | 2017<br>and<br>2018 | 2019<br>and<br>Later |                                |
| Derivative contracts<br>non-credit related | \$ 52,712.3            | \$ 45,703.9        | \$ 1.3              | \$                  | \$                   | \$ 98,417.5                    |
| Derivative contracts<br>credit related     |                        |                    |                     | 67.5                |                      | 67.5                           |
| <b>Total derivative contracts</b>          | <b>\$ 52,712.3</b>     | <b>\$ 45,703.9</b> | <b>\$ 1.3</b>       | <b>\$ 67.5</b>      | <b>\$</b>            | <b>\$ 98,485.0</b>             |



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

At November 30, 2012 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

|                                      | External Credit Rating |           |    |         |                              |         | Notional/<br>Maximum<br>Payout |
|--------------------------------------|------------------------|-----------|----|---------|------------------------------|---------|--------------------------------|
|                                      | AAA/<br>Aaa            | AA/<br>Aa | A  | BBB/Baa | Below<br>Investment<br>Grade | Unrated |                                |
| Credit related derivative contracts: |                        |           |    |         |                              |         |                                |
| Index credit default swaps           | \$ 67.5                | \$        | \$ | \$      | \$                           | \$      | \$ 67.5                        |

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or one-sided component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At November 30, 2012, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$167.0 million.

*Other Guarantees.* We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote. Accordingly no liability has been recognized for these arrangements.

**Note 22. Net Capital Requirements**

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 calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1. Jefferies Bache, LLC is also registered as a Futures Commission Merchants and is 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.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

As of November 30, 2012, 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):

|                              | Net Capital | Excess Net Capital |
|------------------------------|-------------|--------------------|
| Jefferies                    | \$ 841,263  | \$ 794,419         |
| Jefferies Execution          | 12,749      | 12,499             |
| Jefferies High Yield Trading | 566,040     | 565,790            |

|                      | Adjusted Net Capital | Excess Net Capital |
|----------------------|----------------------|--------------------|
| Jefferies Bache, LLC | \$ 252,281           | \$ 85,241          |

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 which are subject to the regulatory supervision and requirements of the Financial Services Authority in the United Kingdom ( U.K. ).

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

**Note 23. Segment Reporting**

We operate in two principal segments – Capital Markets and Asset Management. The Capital Markets segment includes our securities, commodities, futures and foreign exchange brokerage trading activities and investment banking comprising of underwriting and financial advisory activities. The Capital Markets reportable segment provides the sales, trading and origination support for various fixed income, equity and advisory products and services. The Asset Management segment provides investment management services to investors in the U.S. and overseas.

Our reportable business segment information is prepared using the following methodologies:

Net revenues and expenses directly associated with each reportable business segment are included in determining earnings before taxes.

Net revenues and expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment's net revenues, headcount and other factors.

Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment's capital utilization.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

Our net revenues and expenses by segment are summarized below for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 (in millions):

|                          | Year Ended<br>November 30, |            | Eleven Months<br>Ended |
|--------------------------|----------------------------|------------|------------------------|
|                          | 2012                       | 2011       | November 30, 2010      |
| <b>Capital Markets:</b>  |                            |            |                        |
| Net revenues             | \$ 2,971.8                 | \$ 2,502.6 | \$ 2,175.5             |
| Expenses                 | \$ 2,433.5                 | \$ 2,095.0 | \$ 1,751.4             |
| <b>Asset Management:</b> |                            |            |                        |
| Net revenues             | \$ 27.0                    | \$ 46.2    | \$ 16.8                |
| Expenses                 | \$ 30.6                    | \$ 30.9    | \$ 29.3                |
| <b>Total:</b>            |                            |            |                        |
| Net revenues             | \$ 2,998.8                 | \$ 2,548.8 | \$ 2,192.3             |
| Expenses                 | \$ 2,464.1                 | \$ 2,125.9 | \$ 1,780.7             |

The following table summarizes our total assets by segment as of November 30, 2012 and 2011 (in millions):

|                        | November 30, |             |
|------------------------|--------------|-------------|
|                        | 2012         | 2011        |
| <b>Segment Assets:</b> |              |             |
| Capital Markets        | \$ 36,277.7  | \$ 34,946.0 |
| Asset Management       | 15.8         | 25.4        |
| Total assets           | \$ 36,293.5  | \$ 34,971.4 |

**Net Revenues by Geographic Region**

Net revenues for the Capital Market segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For Asset Management, net revenues are allocated according to the location of the investment advisor. Net revenues by geographic region for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010 were as follows (in thousands):

|              | Year Ended<br>November 30, |              | Eleven Months<br>Ended |
|--------------|----------------------------|--------------|------------------------|
|              | 2012                       | 2011         | November 30, 2010      |
| Americas(1)  | \$ 2,469,696               | \$ 2,027,887 | \$ 1,882,764           |
| Europe(2)    | 426,098                    | 494,917      | 300,405                |
| Asia         | 102,990                    | 26,009       | 9,081                  |
| Net revenues | \$ 2,998,784               | \$ 2,548,813 | \$ 2,192,250           |

- (1) Substantially all relates to U.S. results.
- (2) Substantially all relates to U.K. results.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**November 30, 2012 and 2011**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**Note 24. Related Party Transactions**

*Jefferies Capital Partners and JEP IV Related Funds.* We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager to the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee ( Private Equity Related Funds ). At November 30, 2012 and 2011, loans to and/or equity investments in Private Equity Related Funds were \$104.2 million and \$128.1 million, respectively. Interest income earned on loans to Private Equity Related Funds was \$3.1 million, \$3.1 million and \$4.8 million for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. Other revenues and investment income related to net gains and losses on our investment in Private Equity Related Funds was a \$8.5 million loss, \$9.2 million gain and a \$0.3 million loss for the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, respectively. For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 21, Commitments, Contingencies and Guarantees.

*Berkadia Commercial Mortgage, LLC.* At November 30, 2012, we have commitments to purchase \$411.6 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

*Officers, Directors and Employees.* At November 30, 2012 and 2011, we had \$46.5 million and \$59.2 million, respectively, of loans outstanding to certain of our employees (none of whom are executive officers or directors) that are included in Other assets on the Consolidated Statements of Financial Condition.

*Leucadia.* During the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, we received commissions and commission equivalents for conducting brokerage services on behalf of Leucadia and its affiliates of \$9.8 million, \$7.2 million and \$17,000, respectively. These revenues are recorded in Commission income on the Consolidated Statements of Earnings. During the years ended November 30, 2012 and 2011, we distributed to Leucadia approximately \$5.4 million and \$9.0 million, respectively, related to earnings associated with their investment in our high yield joint venture.

For information on transactions with our equity method investees, see Note 11, Investments.

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November 30, 2012 and 2011

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****Note 25. Selected Quarterly Financial Data (Unaudited)**

The following is a summary of unaudited quarterly statements of earnings for the years ended November 30, 2012 and 2011 (in thousands, except per share amounts):

|                                 | February 29,<br>2012 | Three Months Ended |                    | November 30,<br>2012 |
|---------------------------------|----------------------|--------------------|--------------------|----------------------|
|                                 |                      | May 31,<br>2012    | August 31,<br>2012 |                      |
| Total revenues                  | \$ 1,006,811         | \$ 946,072         | \$ 945,052         | \$ 973,270           |
| Net revenues                    | 779,966              | 711,031            | 738,938            | 768,849              |
| Earnings before income taxes    | 148,869              | 106,582            | 122,369            | 113,975              |
| Earnings to common shareholders | 77,136               | 63,498             | 70,171             | 71,604               |
| Earnings per common share:      |                      |                    |                    |                      |
| Basic                           | \$ 0.33              | \$ 0.28            | \$ 0.31            | \$ 0.31              |
| Diluted                         | \$ 0.33              | \$ 0.28            | \$ 0.31            | \$ 0.31              |

|                                 | February 28,<br>2011 | Three Months Ended |                       | November 30,<br>2011 |
|---------------------------------|----------------------|--------------------|-----------------------|----------------------|
|                                 |                      | May 31,<br>2011    | August<br>31,<br>2011 |                      |
| Total revenues                  | \$ 966,676           | \$ 970,117         | \$ 794,104            | \$ 798,740           |
| Net revenues                    | 758,382              | 727,165            | 509,282               | 553,983              |
| Earnings before income taxes    | 162,931              | 130,484            | 55,238                | 70,680               |
| Earnings to common shareholders | 87,341               | 80,616             | 68,275                | 48,386               |
| Earnings per common share:      |                      |                    |                       |                      |
| Basic                           | \$ 0.42              | \$ 0.36            | \$ 0.30               | \$ 0.21              |
| Diluted                         | \$ 0.42              | \$ 0.36            | \$ 0.30               | \$ 0.21              |



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**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None

**Item 9A. *Controls and Procedures.***

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of November 30, 2012 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Last year we disclosed our acquisition of the Global Commodities Group (now operating as Jefferies Bache) from Prudential Financial, Inc. In accordance with SEC guidance regarding the reporting of internal control over financial reporting in connection with an acquisition, management's assessment of and conclusion regarding the design and effectiveness of internal control over financial reporting as of November 30, 2011 excluded the internal control over financial reporting for the Global Commodities Group. The Jefferies Bache integration represents a material change in internal control over financial reporting as defined in SEC Rule 13a-15(f) during the quarter and year ended November 30, 2012.

Management's annual report on internal control over financial reporting is contained in Part II, Item 8 of this Form 10-K.

Our Chief Executive Officer and Chief Financial Officer filed with the SEC as exhibits to our Form 10-K for the year ended November 30, 2011 and are filing as exhibits to this Form 10-K, the certifications required by Rules 13a-14(a)/15d-14(a) and 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934.

**Item 9B. *Other Information.***

None

**Table of Contents****PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

Each of the biographies of the directors and executive officers below contains information regarding the person's service as a director, business experience, director positions held currently or at any time during the past five years.

Richard B. Handler, age 51, has been our Chairman since February 2002, and our Chief Executive Officer since January 2001. Mr. Handler has also served as Chief Executive Officer of Jefferies & Company, Inc., our principal operating subsidiary ( Jefferies ), since January 2001 and as President of Jefferies since May 2006. Mr. Handler was first elected to our Board in May 1998. He was Managing Director of High Yield Capital Markets at Jefferies from May 1993 until February 2000, after co-founding that group as an Executive Vice President in April 1990. Mr. Handler has also been the President and Chief Executive Officer of the Jefferies Partners Opportunity family of funds and is Chief Executive Officer of their successor entities, Jefferies High Yield Trading, LLC and Jefferies High Yield Holdings, LLC. He is also Chairman and Chief Executive Officer of the Handler Family Foundation, a non-profit foundation working primarily with underprivileged youth. Mr. Handler received an MBA from Stanford University in 1987, where he serves as a member of the Advisory Council for the University's Graduate School of Business. He received his BA in Economics from the University of Rochester in 1983 where he also serves on the Board of Trustees, is Chairman of the University's Finance Committee and Co-Chairman of its Capital Campaign. For the 22 year period between January 1990 and December 31, 2012 when Mr. Handler has worked at Jefferies, our shares have compounded annually at 22%. Since joining Jefferies in 1990 and throughout his entire 12-year term as CEO, 78% of Mr. Handler's compensation has consisted of non-cash equity related securities vesting over three to five years.

Brian P. Friedman, age 57, has been one of our directors and an executive officer since July 2005, and has been Chairman of the Executive Committee of Jefferies since 2002. Since 1997, Mr. Friedman has also been President of Jefferies Capital Partners (formerly known as FS Private Investments), a private equity fund management company now owned by Mr. Friedman and Jefferies. Mr. Friedman splits his time between his role with us and his position with Jefferies Capital Partners. Mr. Friedman was previously employed by Furman Selz LLC and its successors, including serving as Head of Investment Banking and a member of its Management and Operating Committees. Prior to his 17 years with Furman Selz and its successors, Mr. Friedman was an attorney with the New York City law firm of Wachtell, Lipton, Rosen & Katz. As a result of his management of various private equity funds and the significant equity positions those funds hold in their portfolio companies, Mr. Friedman serves on several boards of directors of private portfolio companies, and serves on the Board of Fiesta Restaurant Group, Inc., a public company that owns and operates several restaurant chains since May 2012. Mr. Friedman also served on the Board of the general partner of K-Sea Transportation L.P. from 2004 through 2011, and served on the Board of Carrols Restaurant Group, Inc. from June 2009 through May 2012. Since joining Jefferies in 2001 and throughout his entire term as Chairman of the Executive Committee, 91% of Mr. Friedman's compensation has consisted of non-cash equity related securities vesting over three to five years.

W. Patrick Campbell, age 66, has been one of our directors since January 2000 and a director of Jefferies International Limited since September 2012. Mr. Campbell was Chairman and Chief Executive Officer of Magex Limited from August 2000 to April 2002 and is currently an independent consultant in the media and telecom field. From 1994 until October 1999, Mr. Campbell was Executive Vice President of Corporate Strategy and Business Development at Ameritech Corp. where he was a member of the Management Committee and directed all corporate strategy and merger and acquisition activity. From 1989 to 1994, Mr. Campbell served as President and Chief Executive Officer of Columbia TriStar Home Video, a Sony Pictures Entertainment Company, and has previously been President of RCA/Columbia Pictures International Video. Mr. Campbell has also been a director of Black & Veatch since November 1999. Mr. Campbell is Chairman of our Audit Committee, and a member of our Compensation Committee and Corporate Governance and Nominating Committee.

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Ian M. Cumming, age 72, has been one of our directors since April 2008 and a director of Jefferies High Yield Holdings, LLC since April 2007. Mr. Cumming has served as a director and Chairman of the Board of Leucadia since June 1978. Leucadia is a diversified holding company engaged in a variety of businesses, including beef processing, manufacturing, gaming entertainment, real estate activities, medical product development and winery operations. Mr. Cumming is a director of Skywest, Inc., a Utah-based regional air carrier and HomeFed Corporation ( HomeFed ), a publicly held real estate development company. Mr. Cumming was previously a director of Mueller Industries Inc. ( Mueller ), a publicly held manufacturer of copper, brass, plastic and aluminum products, Chairman of the Board of The FINOVA Group Inc., formerly, a middle market lender, and a director of AmeriCredit Corp., now known as General Motors Financial Company, Inc., an auto finance company. Mr. Cumming is also a member of our Compensation Committee and Corporate Governance and Nominating Committee.

Richard G. Dooley, age 83, has been one of our directors since November 1993. From 1978 until his retirement in June 1993, Mr. Dooley was Executive Vice President and Chief Investment Officer of Massachusetts Mutual Life Insurance Company ( MassMutual ). Mr. Dooley was a consultant to MassMutual from 1993 to 2003. Mr. Dooley has been a director of Kimco Realty Corporation since 1990 and is a member of its Compensation Committee. Mr. Dooley is Chairman of our Compensation Committee and a member of our Audit Committee and Corporate Governance and Nominating Committee.

Robert E. Joyal, age 68, has been one of our directors since January 2006. Previously, Mr. Joyal was the President of Babson Capital Management LLC, an investment management firm, a position that he held from 2001 until his retirement in June 2003. Mr. Joyal served as Managing Director of Babson from 2000 to 2001. He also served as Executive Director from 1997 to 1999 and Vice President and Managing Director of MassMutual from 1987 to 1997. Mr. Joyal was a director of Scottish Reinsurance Group, Ltd. (2007-2011) and a director of Alabama Aircraft Industries, Inc., from 2003 through 2010. Mr. Joyal is a trustee of various investment companies sponsored by the Massachusetts Mutual Financial Group and various private equity and mezzanine funds sponsored by First Israel Mezzanine Investors. He has been a director of Kimco Insurance Company since 2007 and currently serves as a director of Ormat Technologies, Inc. Mr. Joyal is Chairman of our Corporate Governance and Nominating Committee, and a member of our Audit Committee and Compensation Committee. Mr. Joyal is also a Chartered Financial Analyst.

Michael T. O Kane, age 67, has been one of our directors since May 2006. From 1986 to 2004, Mr. O Kane served in various capacities for TIAA-CREF, first as a Managing Director Private Placements from 1986 to 1990, then as Managing Director Structured Finance from 1990 to 1996 and finally as Senior Managing Director Securities Division from 1986 to 2004, when he was responsible for approximately \$120 billion of fixed income and \$3.5 billion of private equity assets under management. Since August 2005, Mr. O Kane has also served on the Board of Directors and on the Audit, Finance and Risk Oversight Committee of Assured Guaranty, Ltd. In addition, from 2001 to 2006, Mr. O Kane served on the Board of Trustees of Scholarship America, a non-profit company engaged in providing scholarships for young students to attend college. Mr. O Kane is a member of our Corporate Governance and Nominating Committee, Audit Committee and Compensation Committee.

Joseph S. Steinberg, age 68, has been one of our directors since April 2008 and a director of Jefferies High Yield Holdings, LLC since April 2007. Mr. Steinberg has served as a director of Leucadia since December 1978 and as its President since January 1979. In addition, Mr. Steinberg is Chairman of the Board of HomeFed, and was a director of The FINOVA Group, Inc., White Mountains Insurance Group, Ltd., Jordan Industries, Inc., Mueller Industries, Inc. and Fortescue Metals Group, Ltd. Mr. Steinberg is a member of our Compensation Committee and Corporate Governance and Nominating Committee.

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Our executive officers are appointed by the Board of Directors and serve at the discretion of the Board. Other than Messrs. Handler and Friedman, for whom information is provided above, the following sets forth information as to the executive officers:

Peregrine C. Broadbent, age 49, has been our and Jefferies' Executive Vice President and Chief Financial Officer since November 2007. Prior to joining us, Mr. Broadbent was employed by Morgan Stanley for 16 years, including serving as Managing Director, Head of Institutional Controllers (Fixed Income, Equity and Investment Banking) of Morgan Stanley from November 2003 through November 2007, and was Morgan Stanley's Managing Director, Head of Fixed Income Infrastructure (Operations and Controllers) from March 2002 to November 2003. Mr. Broadbent is a Chartered Accountant in the United Kingdom.

Michael J. Sharp, age 57, has been our and Jefferies' Executive Vice President, General Counsel and Secretary since November 2010. Prior to joining us in September 2010, Mr. Sharp had been a partner with the law firm of Wilmer Cutler Pickering Hale & Dorr LLP since March 2009. Previously, Mr. Sharp was General Counsel of Citigroup's Global Wealth Management, Global Consumer Bank, and Global Credit Card business units. Before his 12 years at Citigroup, Mr. Sharp was a litigation associate at Cravath, Swaine & Moore, which he joined in 1992. Mr. Sharp began his legal career as a judicial clerk on the United States Court of Appeals for the Eleventh Circuit. Before embarking on a legal career, Mr. Sharp traded U.S. Treasury Bonds from 1981 to 1988.

John F. Stacconi, age 50, became our Global Treasurer in January 2012. Previously, Mr. Stacconi was Managing Director and International Treasurer at Nomura International from January 2010 through December 2011. Mr. Stacconi was Managing Director in Corporate Treasury at JP Morgan from June 2008 through December 2009. Previously, Mr. Stacconi had been at Bear Stearns since 1985, serving as Senior Managing Director from 1999 through 2008 and Treasurer of Bear Stearns Securities Corp. from 2005 through 2008.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, requires our directors and executive officers, and persons who beneficially own more than 10% of our outstanding Common Stock, to file with the SEC, by a specified date, initial reports of beneficial ownership and reports of changes in beneficial ownership of our Common Stock and other equity securities on Forms 3, 4 and 5. Directors, executive officers, and greater-than-10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon our review of filings made pursuant to Section 16(a) during or related to fiscal 2012, we do not believe any of the persons mentioned above failed to file the required reports on a timely basis other than a Form 4 filed on November 19, 2012 by Mr. Campbell for a June 20, 2012 purchase of 5,000 shares of common stock.

### **Governance Documents**

Important documents related to our corporate governance are posted on our website at <http://www.jefferies.com/> and may be viewed by following the Investor Relations link, and then on the page that follows, following the Governance Documents link in the menu. Documents posted include our Code of Ethics, Corporate Governance Guidelines and the Charters for each of the Board committees mentioned above, which may be accessed directly at <http://www.jefferies.com/charters/>. We will also provide you with any of these documents in print upon request without charge. You may direct your request to Investor Relations, Jefferies & Company, Inc., 520 Madison Avenue, New York, NY 10022, or by calling 203-708-5975 or sending an email to [info@jefferies.com](mailto:info@jefferies.com).

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### **Audit Committee and Financial Expert Determination**

The current Audit Committee members are W. Patrick Campbell, Chairman, Richard G. Dooley, Robert E. Joyal and Michael T. O'Kane. The Audit Committee is appointed by the Board to assist the Board in monitoring the following:

the integrity of our financial statements

our independent registered public accounting firm's qualifications and independence

the performance of our internal audit function and independent registered public accounting firm

our compliance with legal and regulatory requirements

the selection and compensation of our independent registered public accounting firm

The Audit Committee has adopted a written charter which is available on our website as described below. During 2012, there were nine meetings of the Audit Committee.

The Board has determined that the members of its Audit Committee, Messrs. Campbell, Dooley, Joyal and O'Kane, each meet the independence standards as set forth in the Corporate Governance Guidelines and is a Financial Expert as defined by applicable New York Stock Exchange and SEC rules.

### **Item 11. Executive Compensation.**

#### **Objectives of our Compensation Programs**

Our compensation policies, plans and programs are intended to meet three key objectives:

Provide competitive levels of compensation in order to attract and retain talented executives and firm leaders.

Encourage long-term service and loyalty.

Provide compensation that is perceived as fair within the Company and consistent with employee and executive contributions to the Company, and that motivates employees to perform without exposing the Company to excessive risk.

Certain components of our compensation programs are targeted to help us achieve one of those objectives, and other components help us achieve multiple objectives simultaneously.

#### *Attract and Retain Talented Employees*

The Company is engaged in a highly competitive service business, and its success depends on the leadership of senior executives and the talent of its key employees. As the financial markets continue to undergo significant turmoil, we continue to broaden and deepen the team that serves our clients. We have continued to take advantage of opportunities as they arise to hire additional talented individuals to join our team, with the continual focus of delivering an exceptional product for our clients. As a result, the focus of our compensation arrangements continues to be the

attraction and retention of highly capable individuals. Our goal has been to ensure that our compensation program provides competitive levels of compensation that are realistic in light of recent and expected market conditions, and inspire continued loyalty to the Company.

In furtherance of this goal, the Compensation Committee established a 2012 compensation program for the named executive officers in early 2012. When considering the program, the Committee did not view it as an appropriate time to reconstitute its peer group or conduct a survey of the compensation of the peer group it

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used in 2009. With the significant turmoil in the market and changes in the financial sector, the Compensation Committee did not view it as an appropriate time to refer to a new peer group analysis. In addition, the long-term equity grants made in 2010 were intended to relate to 2010, 2011 and 2012 compensation, further minimizing the value of a peer group as it related to the 2012 compensation program.

In mid-2012, the Committee saw the need to reconstitute its peer group and establish a long-term compensation program for its key executives. The Committee once again retained the services of Mercer (US) Inc. as its compensation consultant to provide advice and counsel to the Committee generally, and specifically, to:

provide the Committee with an executive compensation assessment for the CEO and Chairman of the Executive Committee,

provide an update on the current environment for financial services/investment banking executive compensation,

develop a recommended long-term incentive program approach for fiscal 2013, and

propose an overall go-forward target pay level and support our disclosure efforts.

Mercer assisted the Committee in proposing its new peer group, provided benchmarking for the compensation arrangements of the CEO and Chairman of the Executive Committee against the peer group, and developed preliminary 2013-15 long-term equity compensation recommendations for review by the Committee. The Committee used a revised peer group consisting of primary comparators and secondary comparators.

**Primary Comparators**

**Secondary Comparators**

Credit Suisse

Barclays

Deutsche Bank AG

Blackrock Inc.

Goldman Sachs Group

Blackstone

Morgan Stanley

Evercore Partners Inc.

UBS

Fortress Investment Group

Greenhill & Co. Inc.

KKR

Lazard Ltd.

Stifel Financial Corp.

An analysis of the compensation practices of these peer groups was used as a general frame of reference for determining 2013-15 long-term equity compensation, though the determination of the amounts was subjective and not formulaic.

In fiscal 2012, we paid Mercer \$82,442 for its services related to the executive compensation work described above, \$8,901 to affiliates of Mercer for providing human resources consulting services in the United States and \$68,299 from our foreign affiliates to Mercer's foreign

affiliates, based on conversion rates as of November 30, 2012. Affiliates of Mercer also received \$4,549,013 in commissions as a result of commercial insurance policies we purchased through those affiliates. The decisions to use Mercer affiliates for these other services are made in the ordinary course of our business and are generally recommended by our business department heads with the approval of management. We view these decisions as unrelated to our discussion of executive compensation and we do not require the Compensation Committee or the Board to review each use of an affiliate of Mercer. The subcommittee of the Compensation Committee reviewed and analyzed Mercer's services and compensation from us prior to its engagement and concluded that the proposed engagement of Mercer for executive compensation work did not raise a conflict of interest, Mercer is independent and approved the engagement of Mercer.



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### *Encourage Long-Term Service and Loyalty*

We have traditionally encouraged long-term service and loyalty to the Company by fostering an employee ownership culture. We are proud of the large percentage of the Company's common stock that is owned by our employees and executives. This ownership encourages our employees and executives to act in the best long-term interest of the Company, and is enhanced through the use of long-term restrictions on vesting.

The long-term equity incentives intended to relate to 2012 compensation were granted in 2010 and contained these long-term restrictions on vesting. In 2012 we granted long-term equity compensation to Mr. Handler and Mr. Friedman intended to relate to 2013, 2014 and 2015. We anticipate that future long-term equity incentives will continue to retain characteristics we have included in our long-term incentive grants in the past. Some characteristics may include multi-year vesting restrictions or restricted cash with a one year or greater vesting requirement.

We have not seen a need to adopt ownership stock guidelines for executives due to their historically large relative stock ownership and our strong culture of stock ownership.

### *Relative Fairness*

As the brokerage and financial services industry emerges from a period of tremendous challenges, it becomes even more essential we retain talented professionals and incentivize them to capitalize on market opportunities. While the financial services market is reshaped, our compensation objective continues to focus on rewarding personal productivity and fostering a results-oriented environment, while maintaining a non-variable component of compensation to provide stability. Our two most senior executives continue to have roles that blend both management and production responsibilities and accordingly, the Compensation Committee generally considers the compensation opportunities those individuals would have if they chose to focus entirely on their production abilities. We believe that maintaining our entrepreneurial culture is still essential and makes us unique among our competitors, so we continue to offer compensation opportunities that are driven by performance and results.

Our Compensation Committee looks to the recommendations of our CEO and Chairman of the Executive Committee in setting the compensation for the other named executive officers.

### **What Our Compensation Program is Designed to Reward**

By linking compensation opportunities to performance of the Company as a whole, we believe our compensation program encourages and rewards:

Executive efforts at enhancing firm-wide productivity and profitability, and

Entrepreneurial behavior, in which executives are shareholders and act to maximize long-term equity value in the interest of all shareholders.

Consistent with rewarding these specific activities, we have fashioned our policies to reward productivity and profitability of our executive officers in a performance based environment much the same way we approach other employees responsible for the generation of revenue throughout the firm, and we expect our executives to set the example for these revenue producers throughout the firm. We accomplish these objectives by providing four different types of compensation described below.

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**Elements of Compensation**

In this section we discuss each element of our compensation program, why we choose to pay each element, and how we determine the amount of each element to pay. Our annual compensation program generally consists of the following elements which make up our executives' total direct compensation:

Salary

Performance Based Bonus

Long-Term Equity Incentive

Other Benefits

The first three items will be described in detail below. The fourth item, Other Benefits, includes medical, dental and other similar benefits we provide to executives and other employees that are not part of what we consider direct compensation, and are not included in the tabular disclosures. We believe providing these benefits furthers our compensation objectives. We intend these benefits to be generally competitive, but our evaluation of these benefits is separate from our decisions on total direct compensation. Our executives participate in these benefit programs on the same basis as all our other employees.

Our Compensation Committee acts on behalf of the Board of Directors and represents the shareholders to advise senior management in the administration of the compensation program for the named executive officers generally. A subcommittee of the Compensation Committee provides independent approval of the compensation program for our named executive officers. Our Committee operates under a charter adopted by the Board of Directors, which delegates authority to the Committee and provides for its governance.

*Employment Contracts and the Role of Negotiation*

None of our named executives had employment contracts in 2012, other than Mr. Stacconi, who joined us in early 2012. We believe it is in the Company's best interest to minimize the number of employment agreements entered into with our key executives. Our Compensation Committee generally enters into, and we disclose, compensation arrangements with our key executives on an annual basis, but we do not enter into employment contracts with preexisting employees which would give our executives a right to future employment or to golden parachute payments if they are terminated. Instead, we depend upon their overall compensation opportunity, share holdings, the vesting of long-term equity and restricted cash grants and their personal commitments to our firm to motivate the loyalty of our key executives.

Avoiding employment contracts allows our Compensation Committee to retain greater flexibility in setting periodic compensation terms. Our Compensation Committee makes decisions on the amount of executive compensation to pay by focusing on total direct compensation for a given year, which includes the sum of all annual base salary, bonuses and attributable long-term compensation.

The Committee considered the views of the CEO and Chairman of the Executive Committee in setting the elements and amounts of their own compensation, and received significant input from the CEO and Chairman of the Executive Committee in determining the bonus for the CFO and General Counsel. The Chief Executive Officer is the principal negotiator with the Compensation Committee regarding his own compensation and the compensation of the Chairman of the Executive Committee, subject to approval by the Compensation Committee. The Chairman of the Executive Committee was the principal negotiator regarding the compensation of the Chief Financial Officer and Global Treasurer, subject to the review and approval of the Compensation Committee. The negotiation regarding the amounts of total compensation and the amount of long-term equity awards for the CEO and Chairman of the Executive Committee occurs primarily between the CEO and the Chairman of the Compensation Committee, but the final decision, and the analysis relied upon to reach that decision, are the Committee's.

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### *Base Salary*

We pay our named executive officers a base salary in order to provide them a predictable level of income and enable the executive to meet living expenses and financial commitments. Though we make our decisions on executive compensation focusing on total direct compensation for a given year including base salary, annual bonus and long-term awards, we are sensitive to the needs of our executives for a certain level of compensation stability. The base salaries we have established for the named executive officers reflects our understanding of the trade-off that exists between aligning the interests of the named executive officers as closely as possible with those of the Company's shareholders and our desire to avoid exposing them to compensation risk. We believe the base salary levels we have established strike the proper balance and that providing a predictable base salary is essential to attract and retain talented executives and provide a compensation package that is perceived as fair, in comparison to other companies and within the Company.

With respect to the base salary paid to our named executive officers in fiscal 2012, our Compensation Committee's determination of the appropriate level of base salary was subjective and not formulaic.

The base salary for the CEO is largely a result of previous negotiation and historical precedent. At the time he began serving as our CEO, the Committee agreed to pay Mr. Handler the maximum base salary permitted within the deductibility limits of Internal Revenue Code §162(m). Mr. Handler has not had an increase in base salary since he began serving as our CEO.

The Committee has historically paid the Chairman of the Executive Committee a base salary that is a fixed ratio to the CEO's salary. In mid 2012, the Compensation Committee reviewed the functions of the CEO and Chairman of the Executive Committee and took note that changes in our business, and in the business of the units in which our executives are active participants, supported a change in the approach to the Chairman of the Executive Committee's compensation. The Committee noted that the CEO and Chairman of the Executive Committee have evolved into equal, but distinct roles in leading the company. The Committee determined that it would adopt a new approach and would treat the salary and long-term equity compensation opportunities of the CEO and Chairman of the Executive Committee equally, but require a credit in respect of ongoing income earned by the Chairman of the Executive Committee from Jefferies Capital Partners.

The base salaries for our other named executive officers are determined by the Chief Executive Officer and/or the Chairman of the Executive Committee and are viewed in light of historical precedent within the firm, competitive factors, the limits of §162(m), and the desire to provide a non-performance based cash component of compensation.

The Committee continues to use base salary to provide compensation not directly tied to performance, and bonuses and long-term equity grants to provide performance based and retention oriented compensation.

### *Bonuses*

We use annual bonuses as our primary tool for encouraging executives to maximize short-term productivity and profitability. Annual incentive awards motivate executives to focus on aspects of Company performance that we believe are key to its success. Accordingly, we have determined bonuses for our CEO, Chairman of the Executive Committee, General Counsel and Global Treasurer in whole or in part by reference to earnings per share, return on equity, and pre-tax profit margin.

To take these factors into account, the Compensation Committee generally establishes formulas for payment of annual bonuses by a date early in the calendar year, so that the performance goals and potential rewards can positively influence the executives during the year and meet the requirements of Code Section 162(m). Section 162(m) generally disallows a public company's tax deduction for the named executive officers in excess of \$1 million in any tax year. Under Section 162(m), compensation that qualifies as performance-based compensation is excluded from the \$1 million deductibility cap, and therefore remains fully deductible even

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though the executive's total direct compensation may exceed \$1 million in a given year. We seek to preserve the tax deductibility of the compensation we pay to executive officers, to the extent we can do so without impairing the operation and effectiveness of our compensation policies and programs.

The Committee followed this approach in 2012 and established 2012 formulas and targets early in the fiscal year. These formulas, which were part of Mr. Handler, Mr. Friedman, Mr. Sharp and Mr. Stacconi's compensation packages in 2012, provided for no annual bonus if threshold levels of performance were not achieved, a targeted amount of annual bonus for achievement of target performance, and greater- or less-than target payouts for performance that exceeded or fell short of the specified target levels, up to a specified maximum payout. The 2012 formulas were dependent on our earnings per share, return on equity and pre-tax profit margin. These financial measures were calculated using consolidated after-tax earnings from our continuing operations. All financial results were adjusted to add back the negative effect of extraordinary transactions (e.g. mergers, acquisitions, divestitures), if any, occurring during 2012. No adjustments were made in 2012.

The Committee established six-tiered performance measures for each of the three performance criteria as follows:

| Level        | Performance      |
|--------------|------------------|
| Threshold    | 25% below Target |
| Below Target | 10% below Target |
| Target       | Target           |
| Above Target | 10% above Target |
| Superior     | 20% above Target |
| Superior+    | 30% above Target |

The Committee then assigned a weight to each of the performance criteria (earnings per share, return on equity and pre-tax profit margin), and used that weighting, together with the threshold category achieved to determine what portion of the executive's target bonus the individual would be entitled to receive, as follows:

|                       |     |
|-----------------------|-----|
| Earnings per Share    | 55% |
| Return on Equity      | 40% |
| Pre-tax Profit Margin | 5%  |

100%

The Committee interpolates the amount of bonus between the set thresholds of performance when our performance falls between the set thresholds, and reserves the right to exercise negative discretion to reduce amounts or to take into consideration additional performance measures in determining whether to reduce calculated bonus awards, but does not have discretion to increase the bonus awards.

For 2012, the Committee established targets for Earnings per Share, Return on Equity and Pre-tax Profit Margin at \$1.04, 7.0% and 14.8% respectively. Our performance fell above the Above Target amount but below the Superior amount in all three categories, resulting in an annual Performance Based Bonus calculated amounts as follows:

|          |              |
|----------|--------------|
| Handler  | \$ 8,116,669 |
| Friedman | \$ 6,087,502 |
| Sharp    | \$ 1,891,111 |
| Stacconi | \$ 691,111   |

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The Committee, which was unanimously impressed with our financial performance and Mr. Handler's and Mr. Friedman's roles in that performance, were fully prepared to pay Mr. Handler and Mr. Friedman those Performance Based Bonuses. Mr. Handler and Mr. Friedman, however, volunteered to reduce their respective bonus compensation for proportionately equal reductions by \$3,116,669 to \$5,000,000, and by \$2,337,502 to \$3,750,000. In accordance with Mr. Handler and Mr. Friedman's request, the Committee agreed to reduce those Performance Based Bonuses as further described in the notes to the *Grants of Plan Based Awards-2012* table below.

We believe the targets we set were substantially uncertain at the time they were established and were set at levels that would make target performance attainable only with continued high level performance, and above target payouts attainable only through significant effort and exemplary performance. These performance goals were intended to motivate and reward our executives for achieving pre-determined goals with respect to earnings per share, return on equity and pre-tax profit margin, and to provide equity-based compensation that would closely align their interests with those of shareholders.

We have also adopted programs permitting deferrals of compensation, so that potentially non-deductible compensation will be paid following termination of an executive's service, at a time when payment of such compensation will not be subject to limits on deductibility under Section 162(m). None of our named executive officers deferred income during fiscal 2012. We retain the flexibility to enter into arrangements that may result in non-deductible compensation to executive officers, which may include non-qualifying awards under the Incentive Plan.

We continue to recognize that Mr. Handler's compensation also reflects his significant direct contributions to the operating results of the Company, particularly with respect to the equity trading, investment banking, and management of Jefferies High Yield Trading, LLC (discussed in *Transactions with Related Person* below), in addition to his duties as CEO. Mr. Handler does not receive compensation for these services apart from his compensation from us generally as described in the Summary Compensation Table and other tables below. Since he assumed the duties of CEO, we have tied his bonus compensation solely to performance of the Company as a whole, and sought to focus his efforts on creating long-term shareholder value through an emphasis on restricted stock awards.

Similarly, we established Mr. Friedman's compensation opportunities in a manner we believed would motivate him toward maximizing firm wide results and long-term value creation. We based Mr. Friedman's compensation opportunity on the performance of the Company as a whole, but we considered his responsibilities overseeing our operations and his compensation opportunities as a fund manager, when establishing the level of compensation we would pay him. See the *Transactions with Related Persons* section below.

At the recommendation of Mr. Friedman, the Committee agreed that Mr. Broadbent's performance, and that of his group, had been exemplary. Several significant transactions had been successfully managed during the year which required higher levels of diligence. In light of our improved performance and the contributions of Mr. Broadbent and his group, Mr. Broadbent's bonus was set at \$1,500,000 for the year.

For all of the named executive officers, our commitment to long-term equity compensation encourages ownership of a significant equity stake in the Company, which we believe is important to promoting a culture of entrepreneurship. Consistent with this, we have implemented a program permitting employees and executive officers to defer settlement of equity awards, including restricted stock units. Deferrals of equity awards enable the employee to specify that shares will be delivered in settlement at a date later than the date the risk of forfeiture will lapse. The cost of such a program to the Company results mainly from deferring the time at which tax deductions for the equity compensation may be claimed.

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### *Long-Term Awards*

Long-term equity-based awards serve both to align the interests of executive officers with those of shareholders and to promote retention and long-term service to the Company. These awards provide increasing rewards to executives if the value of the Company's stock rises during the life of the award, thus encouraging a long-term focus and aligning the interests of executive officers with the interests of shareholders.

In 2002, our Compensation Committee began using multi-year grants to establish the compensation of our CEO, and continued this pattern with grants in September 2012 for Mr. Handler and Mr. Friedman which were intended to serve as long-term compensation for 2013, 2014 and 2015. Since the Company does not generally have employment contracts with its named executive officers once their initial employment contracts have expired, the long-term grants to the CEO and Chairman of the Executive Committee help ensure that they will stay committed to the Company's success. These long-term grants vest based on our performance in those years. Through these grants, we sought to provide a substantial component of compensation that would focus the CEO and Chairman of the Executive Committee on long-term growth in the value of the Company's stock.

In recognition of the more challenging times faced throughout our industry and the economy generally, the Committee determined that for fiscal 2012 it would grant restricted cash instead of restricted equity awards to employees generally. Restricted cash grants are subject to 100% forfeiture for one year and a lesser scale of forfeiture over a period of four years from the date of grant, and must be repaid in whole or in part by the employee if a forfeiture event occurs. The Committee believes that restricted cash is consistent with its goal of promoting retention and long-term service to the Company while recognizing the need of employees for a more liquid form of compensation during difficult economic times.

### *Other Benefits*

The Company provides its named executive officers with medical, dental, life insurance, disability and other similar benefits that are not part of what we consider direct compensation. We intend these benefits to be generally competitive, in order to help in our efforts to recruit and retain talented executives. We have not implemented severance arrangements with our named executive officers; however, our practice has generally been to limit severance payments to no more than six months' salary for newer employees, and up to one year of salary for those who are retirement eligible (the individual has served at least twelve years with us and their age plus years in service is greater than 60). We do not provide significant enhancements to compensation in connection with a change in control. We believe that the substantial equity stake of our executives provides alignment with the interests of shareholders, so that the executives can be expected to approach potential strategic transactions with their interests as shareholders in mind and consistent with their fiduciary duties. We do not provide for payment of gross-ups to offset golden parachute excise taxes. Executives who worked for us in periods before April 1, 1997 are also entitled to benefits under our pension plan. In the aggregate, we believe our severance, change in control and pension benefits are quite modest compared to general business practices for companies of comparable size and character. We have considered this fact in setting the levels of total direct compensation for senior executives.

We provide the CEO with a driver for his increased business transit, including his commute to several of our different offices.

## **How Our Compensation Decisions Fit our Overall Objectives**

### *Role of Individual Performance*

Rather than focus executive compensation on performance of the business units within an executive officer's specific area of expertise, the Compensation Committee views overall firm performance as the best indicator of individual performance of our named executive officers and has therefore tied their individual

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compensation to firm wide performance as a whole. The Compensation Committee believes this focus creates a greater enhancement to firm-wide profitability and teamwork, a key goal of our compensation policies, rather than a more segmented approach which rewards individual productivity. In typical years, individual initiative will affect the amount of bonus paid only to the extent such individual performance resulted in achieving firm wide performance required in our targets for a particular year, although it may impact future compensation opportunities.

### *Culture of Long-Term Stock Ownership*

Our CEO and Chairman of the Executive Committee have frequently taken advantage of our equity deferral programs. These arrangements provide them the advantages of tax deferral, but provide no enhancement by the Company of the net value of their restricted stock or restricted stock units. In this type of deferral arrangement, the Company's tax deduction is delayed until the year in which the executive recognizes income, and is generally based on the value of shares delivered at the time of settlement of the deferral arrangement. Our insider trading policy precludes short sales, purchases or sales of options and other derivatives, and other transactions that offset or hedge the risk of ownership of our stock.

We have established our Deferred Compensation Plan ( DCP ) and permit the deferral of restricted stock units, option gains and other awards under our Amended and Restated 2003 Incentive Compensation Plan (the Incentive Plan ) as a method for providing our employees advantages of tax deferral and also encouraging long-term retention of equity positions. We believe these policies serve to align the interests of executives with shareholder interests in return on equity and appreciation over time. In this type of deferral arrangement, the Company's tax deduction is delayed until the close of the tax year in which the executive recognizes income, and is generally based on the value of shares delivered at the time of settlement of the deferral arrangement.

We do not consider gains or losses from equity awards in setting other elements of compensation but the Compensation Committee may consider the effect of the vesting of prior compensation on employee retention.

### *Compatible Investment Opportunities*

In addition, we have established investment entities and permitted executive officers and others to acquire interests in these entities, and have permitted deferred bonus amounts to be deemed invested in those entities. Some of these investment entities are funds we manage, some hold equity and derivative securities in companies for which we have provided investment banking and other services, and others that share in the profitability of Jefferies High Yield Division, which now operates as Jefferies High Yield Trading, LLC. See Transactions with Related Persons. We believe that an executive's participation in these investments helps to further align the executive's interests with our long-term success and profitability. Our offering these kinds of opportunities also helps us compete for executive talent in the financial services industry, in which our competitors, particularly non-public companies, offer wealth-building investment opportunities as a way to attract and retain executives and producers.

### *Disparities in Executive Compensation*

We generally view the compensation for our named executive officers in view of the relative market for each individual employee, our anticipated replacement cost for the employee, and the applicable competitive environment. In 2012 we undertook a reevaluation of the disparity we have historically maintained between the compensation of our Chief Executive Officer and the Chairman of our Executive Committee. The Committee found that the roles and responsibilities of our Chief Executive Officer and Chairman of the Executive Committee have evolved into equal, but distinct roles in leading the company. The Chairman of the Executive Committee has also seen an increase in the demands on the amount of time he spends managing the company. As a result, the Committee has determined that beginning in fiscal 2013, the total compensation of the two executives should be equal, after taking into account any compensation the Chairman of the Executive Committee receives from Jefferies Capital Partners.

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With respect to our Chief Executive Officer and Chairman of the Executive Committee, a significant factor in our Compensation Committee's determination of the amount of equity-based awards granted is the fact that these executives have forgone other internal and external opportunities for increasing their personal earnings that would have arisen if they had focused solely on their production capabilities, but have instead agreed to serve in management roles in addition to producing responsibilities. We recognize the significant compensation these individuals have earned in the past when focusing on their specific business units and understand that our competitors will also consider these production opportunities. As a result, we continue to consider the compensation potential of these two individuals in particular when setting targets and long-term equity compensation that is intended to encourage long-term retention, including the continuing opportunity for the Chairman of the Executive Committee to earn compensation directly from his ownership interest in Jefferies Capital Partners. See Transactions with Related Persons - Private Equity Funds.

**Consideration of Say-On-Pay Votes**

We conducted an advisory shareholder vote on executive compensation at our 2011 annual meeting in which the shareholders approved our compensation packages and approved our recommendation to put our compensation packages to vote once every three years. As a result, we will not conduct a Say-On-Pay vote this year and do not plan to modify our compensation arrangements as a result of the Say-On-Pay vote.

**Grants of Plan Based Awards - 2012**

The following table describes grants issued by the Compensation Committee during fiscal 2012 in which it (a) established the ranges of possible compensation for certain of the named executives, and (b) granted shares of restricted stock or restricted stock units as long-term compensation.

| Name                   | Grant Date | Threshold (\$) | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards |               |               | Estimated Future Payouts Under Equity Incentive Plan Awards | All Other Stock Awards: Number of Shares of Stock or Units | Grant Date Fair Value of Stock Awards (\$) |
|------------------------|------------|----------------|---|---------------|---------------|---|--|--|
|                        |            |                | Target (\$)   | Maximum (\$)  | Target Shares |   |  |  |
| (a)                    | (b)        | (c)            | (d)   | (e)           | (g)           | (i)   | (l)  |  |
| Richard B Handler      | 1/26/2012  | 0              | \$ 6,000,000  | \$ 12,000,000 |               |   |  |  |
| Richard B Handler      | 9/19/2012  |                |   |               | 2,490,421(1)  |   | \$ 38,999,993  |  |
| Brian P. Friedman      | 1/26/2012  | 0              | \$ 4,500,000  | \$ 9,000,000  |               |   |  |  |
| Brian P. Friedman      | 9/19/2012  |                |   |               | 2,490,421(1)  |   | \$ 38,999,993  |  |
| Peregrine C. Broadbent | 11/29/2012 |                | \$ 1,500,000  |               |               |   |  |  |
| Michael J. Sharp       | 1/26/2012  | 0              | \$ 1,750,000  | \$ 2,050,000  |               |   |  |  |
| John Stacconi          | 1/26/2012  | 0              | \$ 550,000  | \$ 800,000    |               |   |  |  |

(1) Shares granted on September 19, 2012 were of RSUs valued at \$15.66 per share, the closing price of our common stock on the grant date, and will cliff vest on December 23, 2015.

The following provides background information to give a better understanding of the compensation amounts shown in the Summary Compensation Table and Grants of Plan-Based Awards Table above.



**Table of Contents***Summary of Equity and Non-Equity Incentive Plan Grants***Richard Handler Fiscal 2012 Compensation**

In early 2012, the Committee established a 2012 Pay for Performance program for Mr. Handler that included a Base Salary, Cash Bonus and Long-Term Equity Incentive. According to the Pay for Performance program for Mr. Handler, his bonus would have been \$8,116,669. The Committee, which was unanimously impressed with our financial performance and Mr. Handler's role in that performance, was fully prepared to pay Mr. Handler the Performance Based Bonuses. Mr. Handler, however, voluntarily offered as he has for the past three years to reduce his Performance Based Bonus. Mr. Handler volunteered to reduce his bonus compensation by \$3,116,669 to \$5,000,000. The subcommittee of the Compensation Committee accepted Mr. Handler's proposal and awarded him a \$5,000,000 cash bonus for fiscal 2012. Mr. Handler's cash bonus is subject to 100% forfeiture for one year and a lesser scale of forfeiture over a period of four years from the date of grant, and must be repaid in whole or in part if a forfeiture event occurs. As a result, for the 2012 fiscal year, Mr. Handler was compensated as follows:

| <b>Base Salary</b> | <b>Bonus</b> | <b>Long-Term<br/>Equity Incentive</b> | <b>Total FY<br/>2012</b> |
|--------------------|--------------|---------------------------------------|--------------------------|
| \$1,000,000        | \$5,000,000  | \$13 million                          | \$19 million             |

The Long-Term Equity Incentive was granted as part of a single grant intended to cover the 2010, 2011 and 2012 compensation years. An aggregate of 1,509,872 Long-Term Performance-Linked Restricted Stock Units were granted on January 19, 2010 representing part of the executive's 2010, 2011 and 2012 compensation. One-third of the aggregate grant is subject to performance criteria for each of 2010, 2011 and 2012 and between 0 and 503,290 restricted stock units are subject to forfeiture for each performance year depending on the Company's performance for that year. In addition, the aggregate grant is subject to 3 year cliff vesting.

The restricted stock unit agreements contain a provision that provides that the RSUs will vest if Mr. Handler's employment is terminated by reason of his death or disability. The agreements also contain a provision that provides that the RSUs will continue to vest if we terminate his employment without Cause (as defined in the agreement) and he does not compete with the Company. Unlike the standard grant given as part of our year-end compensation process, if he terminates his employment other than by death or disability, the unvested restricted stock and restricted stock units will be forfeited.

The Committee also granted Mr. Handler a long-term performance-linked award of 2,490,421 restricted stock units intended to cover the 2013, 2014 and 2015 compensation years. One-third of the aggregate grant is subject to performance criteria for each of 2013, 2014 and 2015 and between 0 and 830,140 restricted stock units are subject to forfeiture for each performance year depending on the Company's performance for that year. In addition, the aggregate grant is subject to 3 year cliff vesting.

**Brian Friedman 2012 Compensation**

In early 2012, the Committee established a 2012 Pay for Performance program for Mr. Friedman that included a Base Salary, Cash Bonus and Long-Term Equity Incentive. According to the Pay for Performance program for Mr. Friedman, his bonus would have been \$6,087,502. The Committee, which was unanimously impressed with our financial performance and Mr. Friedman's role in that performance, was fully prepared to pay Mr. Friedman the Performance Based Bonuses. Mr. Friedman, however, voluntarily offered as he has for the past three years to reduce his Performance Based Bonus. Mr. Friedman volunteered to reduce his bonus compensation by \$2,337,502 to \$3,750,000. The subcommittee of the Compensation Committee accepted Mr. Friedman's proposal and awarded him a \$3,750,000 cash bonus for fiscal 2012. Mr. Friedman's cash bonus

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is subject to 100% forfeiture for one year and a lesser scale of forfeiture over a period of four years from the date of grant, and must be repaid in whole or in part if a forfeiture event occurs. As a result, for fiscal 2012, Mr. Friedman was compensated as follows:

| <b>Base Salary</b> | <b>Cash Bonus</b> | <b>Long-Term<br/>Equity Incentive</b> | <b>Total FY<br/>2012</b> |
|--------------------|-------------------|---------------------------------------|--------------------------|
| \$750,000          | \$ 3,750,000      | \$ 9,750,000                          | \$ 14,250,000            |

The Long-Term Equity Incentive was granted as part of a single grant intended to cover the 2010, 2011 and 2012 compensation years. An aggregate of 1,132,404 Long-Term Performance-Linked Restricted Stock Units were granted on January 19, 2010. One-third of the aggregate grant is subject to performance criteria for each of 2010, 2011 and 2012 and between 0 and 377,468 restricted stock units are subject to forfeiture for each performance year depending on the Company's performance for that year. In addition, the aggregate grant is subject to 3 year cliff vesting.

The restricted stock unit agreement contains a provision that provides that the RSUs will vest if Mr. Friedman's employment is terminated by reason of his death or disability. The agreement also contains a provision that provides that the RSUs will continue to vest if we terminate his employment without Cause (as defined in the agreement) and he does not compete with the Company. Unlike the standard grant given as part of our year-end compensation process, if he terminates his employment other than by death or disability, the unvested restricted stock and restricted stock units will be forfeited.

The Committee also granted Mr. Friedman a long-term performance-linked award of 2,490,421 restricted stock units intended to cover the 2013, 2014 and 2015 compensation years. One-third of the aggregate grant is subject to performance criteria for each of 2013, 2014 and 2015 and between 0 and 830,140 restricted stock units are subject to forfeiture for each performance year depending on the Company's performance for that year. In addition, the aggregate grant is subject to 3 year cliff vesting.

**Peregrine C. Broadbent 2012 Compensation**

The compensation arrangement for Mr. Broadbent for 2012 was as follows:

| <b>Base Salary</b> | <b>Cash Bonus</b> | <b>Long-Term<br/>Equity Incentive</b> | <b>Total FY<br/>2012</b> |
|--------------------|-------------------|---------------------------------------|--------------------------|
| \$1,000,000        | \$ 1,500,000      | \$ 0                                  | \$ 2,500,000             |

The Compensation Committee Subcommittee approved Mr. Broadbent's total compensation of \$2,500,000 for fiscal 2012, consisting of \$1 million in base salary and \$1,500,000 in performance based bonus. Mr. Broadbent's cash bonus is subject to 100% forfeiture for one year and a lesser scale of forfeiture over a period of four years from the date of grant, and must be repaid in whole or in part if a forfeiture event occurs.

**Michael J. Sharp 2012 Compensation**

Mr. Sharp's compensation for the fiscal 2012 included:

| <b>Base Salary</b> | <b>Cash Bonus</b> | <b>Long-Term<br/>Equity Incentive</b> | <b>Total FY<br/>2012</b> |
|--------------------|-------------------|---------------------------------------|--------------------------|
| \$1,000,000        | \$ 1,888,829      | \$ 0                                  | \$ 2,888,829             |

Mr. Sharp did not receive a long-term equity incentive award during fiscal 2012. Mr. Sharp's cash bonus is subject to 100% forfeiture for one year and a lesser scale of forfeiture over a period of four years from the date of grant, and must be repaid in whole or in part if a forfeiture event occurs.

**Table of Contents****John Stacconi 2012 Compensation**

The compensation arrangement for Mr. Stacconi was established at the time he joined Jefferies and is described in his employment agreement. For 2012, Mr. Stacconi was compensated as follows:

| <b>Base Salary</b> | <b>Prior Year Services</b> | <b>Equity Grant Replacement</b> | <b>Cash Bonus</b> | <b>Total FY 2012</b> |
|--------------------|----------------------------|---------------------------------|-------------------|----------------------|
| \$400,000          | \$ 350,000                 | \$ 131,250                      | \$ 742,308        | \$ 1,223,558         |

Mr. Stacconi's base salary is calculated at the level described in the table above, but he was not paid the full amount during our fiscal 2012 since he did not begin his employment with us until mid-January 2012. The amount paid for prior year services was a restricted cash payment, subject to payback if Mr. Stacconi resigns or we terminate his employment for cause as follows: 100% payback if he leaves within the first year of his employment, 50% payback if he leaves within the first two years. The amount paid for equity grant replacement was also a restricted cash payment, subject to payback if Mr. Stacconi resigns or we terminate his employment for cause as follows: 100% payback if he leaves within the first year of his employment, 75% payback if he leaves within the first two years, 50% payback if he leaves within the first three years, and 25% payback if he leaves within the first four years.

*No Ongoing Employment Agreements*

We generally do not enter into employment agreements with our named executive officers after the initial employment agreement negotiated when they are hired and we presently have no employment agreements with our named executive officers. During fiscal 2012, Mr. Stacconi was the only named executive officer with an employment agreement.

*Other Terms of Restricted Stock and Restricted Stock Units*

All of the incentive plans and arrangements described above that result in the issuance of restricted stock and restricted stock units have been adopted pursuant to our Incentive Plan as approved by our shareholders. We pay dividends on restricted stock and credit dividend equivalents on restricted stock units. We have implemented a program under the Plan permitting employees and executive officers to defer equity awards, including restricted stock units. Deferrals of restricted stock units enable the employee to specify that shares will be delivered in settlement at a date later than the date the risk of forfeiture will lapse. This program encourages long-term ownership of a significant equity stake in the Company, which we believe is important to promoting a culture of entrepreneurship. Prior to settlement, the restricted stock units carry no voting or dividend rights, but dividend equivalents are accrued if a cash dividend is paid on our common stock. Dividend equivalents are converted to additional restricted stock units at the end of the quarter in which the dividend equivalent is credited based on the price of a share of our common stock on the last trading day of the quarter. On the settlement date for the stock units (which are no longer restricted once the risk of forfeiture lapses), we deliver to the executive one share of common stock for each stock unit being settled, including the stock units resulting from the credited dividend equivalents. Executives are not permitted to switch stock units into some other form of investment prior to settlement.

*Options*

We have not granted options to our executive officers since January 2003 and although our Incentive Plan still permits us to grant options, at the present time, we do not view options as a desirable method of compensation. None of our named executive officers had any options outstanding as of November 30, 2012.

**Table of Contents****Summary Compensation Table 2012**

Shown below is information concerning the compensation we paid to those persons who were, during fiscal 2012, our (a) Principal Executive Officer, (b) Principal Financial Officer, and (c) the other three most highly compensated executive officers as specified by SEC rules.

| Name and<br>Principal Position                              | Year         | Salary<br>(\$) | Bonus<br>(\$)  | Stock<br>Awards<br>\$(1)<br>(e) | Non-Equity Incentive<br>Plan Compensation<br>(f) | Change<br>in<br>Pension<br>Value<br>and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$)<br>(h) | All<br>Other<br>Compensation<br>(\$)<br>(i) | Total<br>(\$)<br>(j)                   |
|---|--------------|----------------|----------------|---------------------------------|--|--|---|--|
| Richard B. Handler<br>Chairman & Chief<br>Executive Officer | 2012         | 1,000,000      | \$5,000,000(2) |                                 | 2013 related 12,999,981                          | 37,958(4)  | 144,288(5)                                  | 2012 Non-Stock \$6,182,246             |
|   |              |                |                |                                 | 2014 related 13,000,006                          |  |   | 2013 Related Stock \$12,999,981        |
|   |              |                |                |                                 | 2015 related <u>13,000,006</u>                   |  |   | 2014 Related Stock \$13,000,006        |
|   |              |                |                |                                 | Total 38,999,993(3)                              |  |   | <u>2015 Related Stock \$13,000,006</u> |
|   |              |                |                |                                 |  |  |   | Total 45,182,239(3)                    |
|   | 2011         | 1,000,000      |                |                                 |  | 27,526   | 141,580                                     | \$1,169,106                            |
|   | 2010(11mo)   | 916,667        | 1,251,632      | 5,999,998                       | 2010 related 12,999,981                          | 43,671   | 137,158                                     | 2010 Non-Stock \$2,349,128             |
|   |              |                |                |                                 | 2011 related 13,000,007                          |  |   | 2009 Related Stock \$5,999,998         |
|   |              |                |                |                                 | 2012 related <u>13,000,007</u>                   |  |   | 2010 Related Stock \$12,999,981        |
|   |              |                |                |                                 | Total 38,999,995                                 |  |   | 2011 Related Stock \$13,000,007        |
|   |              |                |                |                                 |  |  |   | 2012 Related Stock \$13,000,007        |
|   |              |                |                |                                 |  |  |   | Total \$47,349,121                     |
|   | 2009         | 1,000,000      | 6,000,000      |                                 |  |  | 145,270                                     | 7,145,270                              |
|   | 2008         | 1,000,000      |                |                                 |  |  | 367,422                                     | 1,367,422                              |
| Brian P. Friedman<br>Chairman of the Exec.<br>Committee     | 2012         | 750,000        | \$3,750,000(6) |                                 | 2013 related 12,999,981                          |  | 4,288                                       | 2012 Non-Stock 4,504,288               |
|   |              |                |                |                                 | 2014 related 13,000,006                          |  |   | 2013 Related Stock 12,999,981          |
|   |              |                |                |                                 | 2015 related <u>13,000,006</u>                   |  |   | 2014 Related Stock 13,000,006          |
|   |              |                |                |                                 | Total 38,999,993(7)                              |  |   | <u>2015 Related Stock 13,000,006</u>   |
|   |              |                |                |                                 |  |  |   | Total \$43,504,281(7)                  |
|   | 2011         | 750,000        |                |                                 |  |  | 4,163                                       | 754,163                                |
|   | 2010 (11 mo) | 687,500        | 938,724        | 8,999,999                       | 2010 related 9,749,998                           |  | 4,242                                       | 2010 Non-Stock \$1,630,467             |
|   |              |                |                |                                 | 2011 related 9,749,998                           |  |   | 2009 Related Stock \$8,999,999         |

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2012 related 9,749,998

2010 Related Stock \$9,749,998

Total 29,249,995

2011 Related Stock \$9,749,998

2012 Related Stock \$9,749,998

Total 39,880,460

|                        |              |           |              |       |           |
|------------------------|--------------|-----------|--------------|-------|-----------|
|                        | 2009         | 500,000   |              | 4,987 | 504,987   |
|                        | 2008         | 500,000   |              | 7,752 | 507,752   |
| Peregrine C. Broadbent | 2012         | 1,000,000 | 1,500,000    | 4,288 | 2,504,288 |
|                        |              | 1,000,000 | 879,688      | 4,163 |           |
| Executive V.P. & Chief | 2011         | 916,667   | 900,000      | 4,642 | 1,883,851 |
| Financial Officer      | 2010 (11 mo) |           | 474,990      |       | 2,296,299 |
| Michael J. Sharp       | 2012         | 1,000,000 | 1,888,829    | 4,288 | 2,893,117 |
|                        |              | 1,000,000 | 887,956      | 4,163 |           |
| Executive V.P.,        | 2011         | 235,256   | 550,000      |       | 1,892,119 |
| General                | 2010 (4 mo)  |           | 499,994      |       | 1,285,250 |
| Counsel & Secretary    |              |           |              |       |           |
| John Stacconi          | 2012         | 367,692   | 1,223,558(8) | 4,038 | 1,595,288 |
| Global Treasurer       |              |           |              |       |           |

- (1) In accordance with revised disclosure rules, historical years have been restated to show the fair market value of awards in the years they were granted rather than the amount accrued with respect to those years as was previously required. The amounts shown include cash and non-cash compensation earned by the Named Executive Officers as well as amounts earned but deferred under our deferred compensation plans, as identified in the footnotes for each executive officer.
- (2) According to the Pay for Performance program for Mr. Handler, his bonus should have been \$8,116,669, but Mr. Handler volunteered to reduce his bonus compensation to \$5,000,000, for a reduction of \$3,116,669. The subcommittee of the Compensation Committee accepted Mr. Handler's proposal and awarded him a \$5,000,000 cash bonus for fiscal 2012.

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- (3) As reflected in the notes to the *Grants of Plan Based Awards 2012* table above, the compensation payable to Mr. Handler for his 2012 performance is \$19 million, of which \$18 million remains subject to forfeiture.
- (4) The actuarial present value of the accumulated pension benefit increased by the stated amount under the terms of our Pension Plan, as more fully described in the Pension Benefits Table.
- (5) Includes \$137,417 related to a driver we provide to Mr. Handler to facilitate his transportation to and from meetings, between our offices and for his personal use.
- (6) According to the Pay for Performance program for Mr. Friedman, his bonus should have been \$6,087,502, but Mr. Friedman volunteered to reduce his bonus compensation to \$3,750,000, for a reduction of \$2,337,502, which was proportionately commensurate with Mr. Handler's voluntary reduction. The subcommittee of the Compensation Committee accepted Mr. Friedman's proposal and awarded him a \$3,750,000 cash bonus for fiscal 2012.
- (7) As reflected in the notes to the *Grants of Plan Based Awards 2012* table above, the compensation payable to Mr. Friedman for his 2012 performance is \$14,250,000, of which \$13,500,000 remains subject to forfeiture.
- (8) Includes \$131,250 in restricted cash to compensate Mr. Stacconi for securities forfeited from his prior employer upon joining Jefferies which vests over 4 years, \$350,000 in restricted cash which vests over 2 years, 50% of which will vest on the first anniversary of his joining the firm and 50% on his second anniversary, and \$742,308 awarded by the Compensation Committee as 2012 incentive compensation. See the notes to the Grants of Plan Based Awards-2012 below.

**Outstanding Equity Awards at Fiscal Year-End 2012**

| Name                   | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested | Stock Awards  |   | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have |
|------------------------|---|---|---|---|--|
|                        |   |   | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested |  |
|                        | (#)   | (\$)  | (#)   | (#)   | (\$)   |
| (a) Richard B. Handler | 77,430(1)   | \$ 1,313,213  | 4,000,293(2)  |   | \$ 67,844,969  |
| Brian Friedman         | 116,144(3)  | \$ 1,969,802  | 1,132,404(3)  |   | \$ 19,205,572  |
| Peregrine C. Broadbent | 41,816(4)   | \$ 709,199  |   |   |  |
| Michael J. Sharp       | 10,675(5)   | \$ 181,048  |   |   |  |
| John Stacconi          |   |   |   |   |  |

(1) Shares vested on January 19, 2013.

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- (2) Of these RSU awards, 1,509,872 units vested on January 19, 2013 and 2,490,421 units will vest on September 19, 2015.
- (3) RSUs vested on January 19, 2013.
- (4) 24,803 shares vested on January 31, 2013; 12,122 shares will vest on January 31, 2014; and 4,891 shares will vest on January 31, 2015.
- (5) Of these RSU awards, 5,337 will vest on September 7, 2013; and 5,338 will vest on September 7, 2014.

**Table of Contents****Option Exercises and Stock Vested 2012**

The table below reflects the restricted stock or RSUs which became non-forfeitable (vested) during fiscal 2012 for each of the named executive officers. Shares are valued on the day they became vested.

| Name                | Stock Awards        |                |
|---------------------|---------------------|----------------|
|                     | Number of Shares    | Value Realized |
|                     | Acquired on Vesting | on Vesting     |
| (a)                 | (#)                 | (\$)           |
|                     | (d)                 | (e)            |
| Richard B. Handler  | 105,323             | \$ 1,654,865   |
| Brian Friedman      | 152,463(1)          | \$ 2,401,067   |
| Peregrine Broadbent | 76,771              | \$ 1,224,068   |
| Michael J. Sharp    | 5,584(2)            | \$ 86,600      |
| John Stacconi       |                     |                |

- (1) Includes 116,144 RSUs the settlement of which was deferred until January 19, 2013 and RSUs acquired as a result of dividend reinvestments which are deferred to the same extent as the underlying grants generating those dividends are deferred.
- (2) Reflects RSUs the settlement of which has been deferred until November 7, 2014 and includes 986 RSUs acquired as a result of dividend reinvestments which are deferred to the same extent as the underlying grants generating those dividends are deferred.

**Pension Benefits 2012**

| Name               | Plan Name                                       | Number of Years | Present Value of | Payments During |
|--------------------|---|-----------------|------------------|-----------------|
|                    |   | Credited        | Accumulated      | Last Fiscal     |
| (a)                | (b)   | Service         | Benefit          | Year            |
|                    |   | (#)             | (\$)             | (\$)            |
|                    |   | (c)             | (d)              | (e)             |
| Richard B. Handler | Jefferies Group, Inc.<br>Employees Pension Plan | 16              | \$ 223,437       | \$ 0            |

To calculate the values in the table above, we needed to make certain assumptions about the employees, their retirement age, interest rates and discount rates, as follows:

Benefit commencement is at age 65, our Pension Plan's normal retirement age.

Benefit is paid as a lump sum.

The figures provided are based on the discount rate of 4.00% as was used in the November 30, 2012 ASC715-20-50 (formerly SFAS87) disclosure.

For calculating the lump sum payable at age 65, we used the November 2011 segment rates of 1.99%, 4.47% and 5.26%.



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For post-retirement mortality, we used the prescribed mortality assumption under Revenue Ruling 2007-67. We assumed no pre-retirement decrements.

We first adopted our pension plan in 1964 and stopped admitting new participants into the plan on April 1, 1997. Effective December 31, 2005, benefits under the Pension Plan were frozen. All persons who were our employees prior to April 1, 1997, who are citizens or residents of the United States, who are 21 years of age, and who have completed one year of service are covered by our pension plan. The plan is a defined benefit plan, and is funded through our ongoing contributions and through earnings on existing plan assets. The amount an employee will receive as a plan benefit depends on the person's covered compensation during specific plan years. An employee retiring at age 65 will receive 1% of the employee's covered compensation from January 1, 1987,

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until termination of employment plus 20% of the first \$4,800 and 50% of amounts exceeding \$4,800 of annual average covered compensation for 1985 and 1986. If the employee was employed less than 15 years on the date of termination, the amount of benefit will be reduced proportionately. Benefits under the plan are payable for the remaining life of the participant, and are not subject to deduction for Social Security benefits or other offsets.

The amount of covered compensation used to calculate the benefit earned in a given year includes salaries, bonuses and commissions, but is capped each year. Since 2004, the amount of covered compensation has been capped at \$210,000 per year. An employee who retires upon normal retirement at age 65 with at least four years of service will receive a full vested benefit. An employee who retires at age 55 with at least four years of service will receive the normal retirement benefit reduced by  $\frac{1}{2}\%$  for each month benefit payments commence before age 65. Employees who terminate employment with us for reasons other than death or retirement will be entitled to the vested portion of their benefits at their normal or early retirement age. Benefits vest at the rate of 0% for the first year of service, 33% for each of the next two years of service, and 34% for the fourth year of service. The retirement benefits payable at age 65 for those employees with service prior to January 1, 1987, will be composed of two items: (1) a benefit for service up to December 31, 1986, in accordance with the original Pension Plan formula recognizing pay as the average of 1985 and 1986 compensation up to \$100,000, and (2) a benefit for service commencing on January 1, 1987, equal to 1% of covered compensation through the date of termination.

**Nonqualified Deferred Compensation 2012**

| Name                   | Executive     | Registrant    | Aggregate       | Aggregate         |
|------------------------|---------------|---------------|-----------------|-------------------|
|                        | Contributions | Contributions | Earnings        | Balance           |
|                        | In Last       | In Last       | In Last         | At Last           |
|                        | FY            | FY            | FY              | FYE               |
|                        | (\$)          | (\$)(1)       | (\$)            | (\$)(2)           |
| (a)                    | (b)           | (c)           | (d)             | (f)               |
| Richard B. Handler     |               |               | \$ 3,963,535(3) | \$ 107,171,799(4) |
| Brian Friedman         |               | \$ 1,840,882  | \$ 51,787(5)    | \$ 12,891,092(6)  |
| Peregrine C. Broadbent |               |               | \$ 3,686,588(7) | \$ 2,601,873(8)   |
| Michael J. Sharp       |               | \$ 82,777     | \$ 583(7)       | \$ 149,472(8)     |
| John Stacconi          |               |               |                 |                   |

- (1) The Registrant Contribution column reflects the value of RSUs which vested but by their terms will not be distributed until a later date. RSUs are subject to a mandatory period following vesting during which they are not distributed. We have chosen to show this mandatory deferral as a Registrant Contribution, but the value of the RSUs at the vesting date is reflected in full in the Options Exercised and Stock Vested table as compensation to the named executive officer.
- (2) Amounts in the table do not reflect compensation granted in any single year but include reported compensation that has been deferred and market returns on investments that deferred amounts were deemed invested in which have accrued over time. Specifically, amounts in the table consist of (i) contributions resulting from compensation which has been disclosed in previous Jefferies proxy statements (to the extent the executive was a named executive officer in the year of deferral and the amount was otherwise required to be disclosed under SEC rules then in effect), plus (ii) earnings on deferred amounts, (iii) less distributions. For purposes of this table, earnings includes gains and losses in value of the investments into which deferred amounts are deemed invested, including the value of stock units resulting from deferrals of vested restricted stock shares, restricted stock units and resulting from option gain deferrals.
- (3) Includes \$1,352,232 in increased value in Mr. Handler's self-directed deferred compensation account, \$1,099,553 in increased value of investments in our DCP and \$1,511,750 in increased value of RSUs and dividend reinvestments on RSUs.
- (4) Includes \$85,421,844 attributable to RSUs originally awarded from 2000 through 2012 and dividend reinvestments on those RSUs. The value of RSUs represents both compensation originally earned and the



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appreciation of our common stock. For the 22 year period between January 1990 and December 31, 2012 when Mr. Handler has worked at Jefferies, our shares have compounded annually at 22.09%. Since joining Jefferies in 1990 and throughout his entire 12 year term as CEO, 78% of Mr. Handler's compensation has consisted of non-cash equity related securities vesting over three to five years. Also includes \$2,338,671 in amounts deferred through our generally available DCP on terms that are the same as other Jefferies employees who participate in the DCP. Includes \$19,411,284 in deferred compensation and gains on investments in Mr. Handler's self-directed deferred compensation account which was in place before he became CEO in 2000. The amount reflected is the result of deferring compensation earned while he was Head of the High Yield Division, before implementing our generally applicable DCP and prior to his becoming an executive officer. The last deferral into Mr. Handler's self-directed deferred compensation account was in 2000.

- (5) Includes 150,898 in increased value of investments in our DCP and \$99,111 in decreased value of RSUs, primarily as a result of the timing of distributions and deferrals and the change in our share price during FY 2012, and dividend reinvestments on RSUs.
- (6) Includes \$11,551,179 attributable to RSUs and dividend reinvestments on RSUs, and \$1,339,913 in amounts deferred through our DCP.
- (7) Reflects the increase in value of RSUs and dividend reinvestments on RSUs.
- (8) Reflects the value of RSUs and dividend reinvestments on RSUs.

The amounts of deferred compensation in the table above reflect compensation that was paid to each named executive officer historically, and reported as compensation at the time to the extent required under SEC rules then in effect, but for which the actual receipt of the compensation has been deferred. A substantial portion of the value listed above was derived from the value of deferred stock or other investments after the compensation was credited to the employee and were not the amounts we actually paid the executive. When an executive's deferred compensation is not denominated in cash, but is deemed invested in a particular fund or security, the executive's deemed investment subjects their earnings to market risk that may produce gain or loss depending on the performance of the investments selected.

***Deferred Compensation Plan***

We provide an opportunity for executives to defer receipt of cash portions of annual bonus awards, and to have deferred amounts be deemed invested in specified investment vehicles during the period of deferral. The Company has implemented the Jefferies Group, Inc. Deferred Compensation Plan (the "DCP"), which permits executive officers and other eligible employees to defer cash compensation, some or all of which may be deemed invested in stock units. A portion of the deferrals may also be directed to notional investments in a money market fund or certain of the employee investment opportunities described under the caption "Transactions with Related Persons." We believe this discount encourages employee participation in the DCP and accordingly, enhances long-term retention of equity interests and alignment of executive interests with those of shareholders. The salary, bonus and non-equity incentive plan compensation deferred by named executive officers are reflected in the Summary Compensation Table without regard to deferral. In years in which the named executive officers defer a portion of their compensation, the portion of the deferrals under the DCP representing the value of the discount on stock units is reflected in the Summary Compensation Table in the column captioned "All Other Compensation" and in the table above in the column captioned "Registrant Contributions in Last FY."

The DCP provides eligible employees with the opportunity to defer receipt of cash compensation for five years, with an optional deferral of an additional five years. Participants chose whether their deferred compensation is allocated to a cash denominated investment subaccount, to an equity subaccount which permits amounts to be deemed to be invested in a combination of stock units or other specified equity investment vehicles. Credits of stock units to a participant's subaccount occur at a predetermined discount of up to 15% of

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the volume weighted average market price per share of our common stock on the last day of the quarter. The predetermined discount amount for fiscal 2012 was 10%. The discounted portion of any amounts credited, or the additional stock units credited as a result of those discounts, is forfeitable upon termination of employment until the earliest of the time the participant has participated in the DCP for three consecutive years, the participant's age plus the number of years of service equals 65, the participant is still employed 5 years after the deferral or the participant's death or a change in control. Mr. Handler and Mr. Friedman have met this vesting requirement, but did not elect to defer compensation in 2012. None of the other named executive officers have elected to defer compensation through the DCP.

### ***Richard Handler Deferred Compensation Plan***

We established an individual Deferred Compensation Plan for Mr. Handler while he was Head of the High Yield Division, before implementing our generally applicable Deferred Compensation Plan and prior to his becoming an executive officer. Amounts deferred under this individual plan reflect compensation paid to him as a department head for the High Yield Division and were based on the productivity of that division. The last deferral into Mr. Handler's individual Deferred Compensation Plan was in 2000.

## **Potential Payments upon Termination or Change in Control**

### **Single-Trigger Policies or Agreements**

With one minimal exception (value less than \$100), we do not have any single-trigger policies or agreements that would entitle any current executive officer to a payment or enhanced rights solely as a result of a change in control. Generally, the treatment of our named executive officers is the same as our treatment of other employees in connection with a change in control. There are some aspects of our relationship with the named executive officers that may result in payments if a change in control occurs and the employee is terminated without cause, but payment amounts are not enhanced by virtue of the change in control. Those payments result from the application of generally applicable policies or contractual terms and not from any payment or benefit levels which were determined by independent analysis. To understand when those payments are triggered, we have described below the types of agreements, relationships or investments that may require payments to the named executive officers upon termination of employment. Following these descriptions, we also provide a summary of the amounts that would have been payable to each named executive officer as a specific result of termination if the person's employment had been terminated on November 30, 2012 under various circumstances.

### **Description of Agreements, Relationships and Investments**

#### ***Equity Awards***

Under the terms of restricted stock agreements entered into with one executive officer, the restrictions on 41,816 shares of restricted stock will lapse and the restricted stock will become non-forfeitable if the executive's employment is terminated by us without cause following a change in control.

#### ***Deferred Compensation Plan***

Amounts that executive officers have deferred through our Deferred Compensation Plan (DCP) would continue to be deferred through the expiration of the applicable deferral period and, at the conclusion of that period, would result in a payment to current and former executives of the deferred amounts. In some cases when deferred amounts have been deemed invested in specific investment vehicles, we may choose to make the required payments through in-kind distributions of securities reflecting those investments. Settlement of certain

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of those distributions could be delayed for up to six months if such delay is required under Code Section 409A. Of the named executive officers, only Mr. Handler and Mr. Friedman have participated in the DCP and both are fully vested so shares attributable to discounts on shares purchased are no longer forfeitable. Thus, all of their DCP account balances are non-forfeitable, and the occurrence of a change in control or a termination in connection with a change in control would not cause a payment or enhancement in the value of their deferral accounts.

Early withdrawals from the DCP are generally not permitted except in the event of an unexpected hardship. An employee is permitted to request an unscheduled withdrawal of certain balances resulting from deferrals before 2005, but 10% of the amount withdrawn will be forfeited. If we experience a change in control, deferred amounts will not be automatically distributed. Unscheduled withdrawals permitted for balances resulting from deferrals before 2005 may be made within two years after a change in control at a reduced forfeiture percentage of 5% of the amount withdrawn.

If an employee dies before payment of deferred amounts has begun, all unvested restricted stock under the DCP will immediately vest and the balance of any deferred amounts will be paid to the designated beneficiary in January following the year of death. If payment of deferred amounts has already begun, the beneficiary will continue to receive payments in the same manner the employee had elected before his or her death.

### ***Richard Handler Deferred Compensation Plan***

Amounts deferred under Mr. Handler's individual Deferred Compensation Plan are non-forfeitable, and the occurrence of a change in control or a termination in connection with a change in control would not cause a payment or enhancement in the value of his deferral account. In the event of a change in control, we may determine to terminate a portion of his deferred compensation arrangement and make a full distribution of the deferred amounts, to the extent permitted under Code Section 409A. If a change in control had occurred on November 30, 2012 and the Board had elected to make a full distribution at that date, Mr. Handler would have received a payment of \$19,411,284 in settlement of his individual Deferred Compensation Plan (this amount is included in the value of Mr. Handler's deferred compensation shown in the table above under the caption "Non-Qualified Deferred Compensation 2012"). Absent a change in control, Mr. Handler's deferrals under this plan generally will be settled upon his termination of employment, although settlement may be delayed for up to six months if subject to Code Section 409A.

### ***High Yield Trading Desk Investments***

Our employees have the opportunity to invest in the continuing operations of our high yield trading desk through Jefferies Employees Special Opportunity Partners, LLC (JESOP). Investors in JESOP would have the right to redeem their investment should Mr. Handler cease actively managing the high yield trading desk. If an executive officer other than Mr. Handler is terminated, we anticipate that we would repurchase that person's interest in JESOP at his or her current capital account balance.

Mr. Handler's investments in JESOP are in the form of deferred compensation arrangements which follow the performance of JESOP. As a result, a liquidation of the fund would not result in a cash payout to Mr. Handler unless the circumstances also resulted in a payout of his deferred compensation as described above.

### ***Employee Stock Ownership Plan***

Under the terms of our Employee Stock Ownership Plan, upon a change in control, any unvested shares held for the accounts of employees and former employees will immediately vest. As of November 30, 2012, one executive officer held unvested shares (valued at less than \$100) and an aggregate of 3,057 unvested shares in the ESOP were subject to accelerated vesting upon a change in control for all employees and former employees.

**Table of Contents*****Severance Payments***

We do not have a firm-wide severance policy, but generally follow certain practices when establishing severance payments which apply to all our employees if they are laid off, including our named executive officers. Our current practice is to pay employees two weeks of severance for each year of service, up to a maximum of six months pay. For employees who are retirement eligible (the individual has served at least twelve years with us and their age plus years in service is greater than 60) the maximum severance payment is generally increased to twelve months. As of November 30, 2012, Mr. Handler was the only named executive officer who was retirement eligible. We generally do not pay severance to employees who resign voluntarily or are terminated for cause. If each of the named executive officers had been terminated on November 30, 2012, in addition to vacation pay for any unused portion of earned vacation time, they would have received the following amounts in severance pay:

**Severance Policy Payments**

|                     |            |
|---------------------|------------|
| Richard Handler     | \$ 846,154 |
| Brian Friedman      | \$ 317,308 |
| Peregrine Broadbent | \$ 192,308 |
| Michael Sharp       | \$ 76,923  |
| John Stacconi       | \$ 15,384  |

***Insurance Benefits***

We provide benefits to all our employees, including our named executive officers, that may result in payments to employees or their estates after their death, retirement or termination of employment. These benefits include our medical and dental plans, long-term disability plan, life insurance and business travel insurance.

Our medical and dental plans provide that, following the death or termination of an employee, the employee or his or her dependents may continue coverage in our medical and dental plans on a month-to-month basis for 18 to 36 months. To remain in the plans during this period, the person would be required to pay the same premium we had previously been paying for the coverage, plus a 2% charge for administrative expenses. Following retirement, a former employee who satisfies age and years of service criteria may continue in the Jefferies medical plan at a retiree premium rate which we do not subsidize.

If an executive becomes permanently disabled, the individual will be entitled to participate in our Long-Term Disability insurance program. Our basic program entitles a disabled employee to receive 60% of his or her aggregate earnings up to a maximum of \$10,000 per month until reaching age 65 and in some cases, for a short period thereafter. Employees are also eligible to purchase additional coverage through our negotiated rates at their own cost. Employees are entitled to continue this coverage after termination by completing appropriate documentation and paying premiums directly to the carrier.

We provide life insurance to our employees which would result in a payment to an employee's designee upon death. Our basic insurance policy would cover each employee for the amount of his or her annual compensation up to \$200,000 through age 65. Once an employee reaches age 65, the basic life insurance benefit will be reduced to 65% of the coverage amount. Employees are also eligible to purchase additional coverage through our negotiated rates at their own cost. Employees who are terminated may elect to continue coverage after employment for both the basic coverage and any additional coverage they have purchased at their own expense.

We also provide business travel accident insurance to all our employees with a benefit of \$250,000 in the event of an employee's death as the result of an accident while traveling. For our named executive officers and executive committee, the benefit would result in a payment of \$1 million in the event of an employee's death as the result of an accident while traveling.

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### **Summary of Payments on Termination or Change in Control**

As described above, certain of our policies or agreements would result in severance payments to a named executive officer upon termination by us not for cause (whether before or after a change in control) and, in the case of one named executive officer, accelerated vesting of restricted stock if the person is terminated without cause following a change in control. With the exception of the accelerated vesting of minimal shares in our Employee Stock Ownership Plan, we do not have any single-trigger policies or agreements that would entitle an executive to a payment or enhanced rights solely as a result of a change in control and we treat our named executive officers generally the same way we treat other employees in this regard. The table below shows the estimated value of payments to which a named executive officer would have been entitled if the executive's employment had been terminated on November 30, 2012. For purposes of valuing these amounts, we made the following assumptions:

If an executive has received a restricted stock unit or share of restricted stock which has fully vested and is non-forfeitable, or holds vested and deferred stock units that are similarly non-forfeitable, the executive would retain that interest following termination, and we therefore do not view the termination as resulting in a payment or enhancement of those rights.

Shares of restricted stock which immediately vest if the executive is terminated following a change in control and unvested shares held in the ESOP which immediately vest upon a change of control are valued at \$16.96 per share, the closing price of our common stock on November 30, 2012.

Equity awards that remain unvested and do not accelerate are not included in the totals below but will continue to vest according to their terms.

Amounts a named executive officer has deferred through our deferred compensation plans are non-forfeitable, so whether they continue to be deferred or are paid out following the change in control or termination of employment does not represent a payment or enhancement to benefits resulting from the change in control or termination of employment in connection.

Each employee agreed to sign our standard settlement and release agreement as required under his or her restricted stock or restricted stock unit agreements.

No payment to a named executive officer would need to be reduced to avoid adverse tax consequences under Code Sections 4999 and 280G. As discussed above, some of our equity awards contain a cut-back provision of this type. We have no obligation to any named executive officer to pay a gross-up to offset golden parachute excise taxes under Code Section 4999 or to reimburse the executive for related taxes.

Any withdrawals from an employee's profit sharing plan or ESOP account, or the decision of an employee to transfer balances into another qualified account are entirely within the discretion of the employee, will not result in a payment by us, and are not included in the table below.

Except as otherwise indicated all amounts reflected in the table would be paid on a lump sum basis.

The named executive officers have satisfied all applicable requirements for receiving severance payments in accordance with our generally applicable severance practices.





**Table of Contents****Summary of Payments on Termination or Change in Control**

|                     | <b>Retirement or<br/>Voluntary<br/>Termination by<br/>Employee</b> | <b>Involuntary<br/>Termination</b> | <b>Involuntary<br/>Termination<br/>following a Change<br/>in Control</b> |
|---------------------|--|------------------------------------|--|
| Richard Handler     |  | \$ 846,154                         | \$ 846,154(1)  |
| Brian Friedman      |  | \$ 317,308                         | \$ 317,308(2)  |
| Peregrine Broadbent |  | \$ 192,308                         | \$ 901,507(3)  |
| Michael Sharp       |  | \$ 76,923                          | \$ 76,971(4)   |
| John Stacconi       |  | \$ 15,384                          | \$ 15,384(5)   |

- (1) Consists of \$846,154 as a severance payment.
- (2) Consists of \$317,308 as a severance payment.
- (3) Consists of \$192,308 as a severance payment and \$709,199 in shares of restricted stock that will become non-forfeitable.
- (4) Consists of \$76,923 as a severance payment and \$48 in unvested shares held in our ESOP which would immediately vest.
- (5) Consists of \$15,384 as a severance payment.

**Director Compensation Fiscal Year 2012**

| <b>Name</b>             | <b>Fees Earned or<br/>Paid in Cash</b> | <b>Stock<br/>Awards</b> | <b>All Other<br/>Compensation</b> | <b>Total</b>        |
|-------------------------|--|-------------------------|-----------------------------------|---------------------|
|                         | <b>(\$)<br/>(b)</b>                    | <b>(\$) (1)<br/>(c)</b> | <b>(\$)<br/>(g)</b>               | <b>(\$)<br/>(h)</b> |
| (a) W. Patrick Campbell | \$ 105,032(2)                          | \$ 97,730(3)            |                                   | \$ 202,762          |
| Ian M. Cumming          | \$ 65,000                              | \$ 84,214(4)            |                                   | \$ 149,214          |
| Richard G. Dooley       | \$ 75,000(5)                           | \$ 91,333(6)            |                                   | \$ 166,333          |
| Robert E. Joyal         | \$ 75,000                              | \$ 88,159(7)            |                                   | \$ 163,159          |
| Michael T. O Kane       | \$ 72,500                              | \$ 96,615(8)            |                                   | \$ 169,115          |
| Joseph S. Steinberg     | \$ 65,000                              | \$ 100,000(9)           |                                   | \$ 165,000          |

- (1) Amounts reflect the grant date fair value of equity awards computed in accordance with FASB ASC Topic 718. The amounts reflect a single equity award with a market value of \$100,000 in the form of either 6,609 shares of restricted stock or 6,609 deferred shares granted on May 7, 2012 to each director upon his re-election to our Board at last year's annual meeting of shareholders. A discussion of the computation of grant date fair value pursuant to FASB ASC Topic 718 may be found in Note 18 Compensation Plans of the Notes to Consolidated Financial Statements contained in this report.
- (2) Amount includes \$20,032 earned by Mr. Campbell for the period September 1, 2012 through November 30, 2012 for service as a director of Jefferies International Limited.

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- (3) At November 30, 2012, Mr. Campbell held 4,154 shares of unvested restricted stock and 6,609 unvested deferred shares.
- (4) At November 30, 2012, Mr. Cumming held 10,763 unvested deferred shares.
- (5) Amounts were credited as non-forfeitable deferred shares under our Directors Stock Compensation Plan.
- (6) At November 30, 2012, Mr. Dooley held 10,763 unvested deferred shares.
- (7) At November 30, 2012, Mr. Joyal held 10,763 unvested deferred shares.
- (8) At November 30, 2012, Mr. O Kane held 10,763 unvested deferred shares.
- (9) At November 30, 2012, Mr. Steinberg held 10,763 shares of unvested restricted stock.

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Each member of our Board who is also a non-employee is entitled to receive the following applicable compensation as approved by the Board pursuant to the terms of the Jefferies Group, Inc. 1999 Directors' Stock Compensation Plan, as amended and restated January 1, 2009 (the "DSCP"):

an annual retainer of \$50,000;

an annual grant of \$100,000 in our restricted common stock or deferred shares which vest in equal annual installments over three years, subject to accelerated vesting in the event of death, disability or retirement;

an annual retainer of \$7,500 for each non-Chair committee membership;

an annual retainer of \$20,000 to the Chairman of the Audit Committee; and

an annual retainer of \$10,000 to the Chairman of the Compensation Committee and the Chairman of the Governance and Nominating Committee.

Annual retainers are paid quarterly in equal installments. Under our DSCP, each non-employee director may elect to receive annual retainer fees in the form of cash, deferred cash or deferred shares. If deferred cash is elected, the director's account is credited with interest on deferred cash at the prime interest rate in effect at the date of each annual meeting of shareholders. None of our directors have elected to receive deferred cash. If deferred shares are elected, the director's account is credited with the number of deferred shares having a market value equal to the deferred fees and, when dividends are declared and paid on our common stock, with dividend equivalents on deferred shares which are then deemed reinvested as additional deferred shares. Settlement of deferred shares (including both annual grants and deferred shares acquired by deferral of fees) occurs upon specified dates or dates subsequent to termination of service as a director, at which time, deferred shares are settled in shares of our common stock.

Directors who are also our employees are not entitled to director compensation.

We offer our Charitable Gifts Matching Program to all employees and directors to encourage charitable giving. Under the program, we will match 50% of allowable charitable contributions made by an employee or director, up to a maximum matching contribution of \$3,000 per person per year.

The children of directors may also participate (along with the children of all our employees) in the Jefferies Family Scholarship program which provides scholarship awards for secondary and post-secondary education based on factors such as financial need, academic merit and personal statements. The grants are made by an independent scholarship committee, none of whose members are affiliated with us.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of our Compensation Committee during 2012 were our current or former employees or officers. The Compensation Committee members other than Messrs. Cumming and Steinberg were not involved in transactions with us which would require disclosure as related party transactions. Messrs. Cumming and Steinberg were not involved in transactions which would require disclosure other than the transactions which are described in detail under the heading "Transactions With Related Persons - Leucadia National Corporation."

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on our review and discussions, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this annual report on Form 10-K.



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The Compensation Committee of the Board of Directors, the members of which in fiscal 2012 were Messrs. Campbell, Dooley, Joyal, Steinberg, Cumming and O Kane, has furnished this report.

Richard G. Dooley, Chairman, W. Patrick Campbell, Robert E. Joyal

Joseph S. Steinberg, Ian M. Cumming and Michael T. O Kane

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.  
Equity Compensation Plan Information**

The following table provides information regarding our compensation plans (other than our tax qualified ESOP and 401(k) Plan), under which our equity securities were authorized for issuance as of November 30, 2012.

| Plan Category  | Number of<br>Securities<br>to be Issued upon<br>Exercise of<br>Outstanding Options,<br>Warrants and Rights<br>(a) | Weighted-Average<br>Exercise<br>Price of<br>Outstanding<br>Options, Warrants<br>and Rights<br>(b) | Number of Securities<br>Remaining Available for<br>Future Issuance<br>Under<br>Equity Compensation Plans<br>(Excluding Securities<br>Reflected in Column<br>(a))<br>(c) |
|--|---|---|---|
| Equity compensation plans approved by security holders     | 22,874,787(1)   | \$ .01(2)   | 49,985,007(3)   |
| Equity compensation plans not approved by security holders |   |   |   |
| <b>Total</b>   | <b>22,874,787</b>   | <b>\$ .01</b>   | <b>49,985,007</b>   |

- (1) Includes 20,680,276 outstanding RSUs under our Incentive Plan; 1,859,600 deferred shares under our Deferred Compensation Plan ( DCP ); and 329,339 deferred shares and an option to purchase 5,572 shares of common stock under our Director s Stock Compensation Plan.
- (2) The weighted average exercise price of outstanding options, warrants and rights is calculated including RSUs and similar rights which have an exercise price of zero. If the weighted average exercise price was calculated including only those awards that have a specified exercise price, which in our case is only one option, the weighted average exercise price for plans approved by security holders would be \$10.23.
- (3) Includes 42,730,654 shares under our Incentive Plan for general use; 6,645,907 shares under our Incentive Plan designated for use under the DCP and 608,446 shares under the Director s Stock Compensation Plan. These plans also authorize the grant of options and other types of equity awards. The number of shares available for general use under the Incentive Plan changes pursuant to a formula set forth in the plan. The formula establishes that the number of shares available for grant under the plan shall be equal to 30% of the total number of shares outstanding immediately prior to the grant, less shares subject to outstanding awards under the Incentive Plan. For this purpose, an award is outstanding in the calendar year in which it is granted and for so long thereafter as it remains subject to any vesting condition requiring continued employment. A maximum of 16 million shares were reserved for issuance under the under the Incentive Plan designated for use under the DCP and a maximum of 2 million shares were reserved for issuance under the Director s Stock Compensation Plan. RSUs and deferred shares will be credited with dividend equivalents (in the form of additional RSUs or deferred shares as the case may be) on the dividend payment date. The number of shares remaining available under our plans and the terms of outstanding share based awards are subject to equitable adjustment by the Compensation Committee in the event of certain extraordinary corporate events.



**Table of Contents****Security Ownership Of Certain Beneficial Owners And Management**

The following table sets forth certain information regarding beneficial ownership of our common stock by

each person we know of who beneficially owns more than 5% of our common stock

each of our directors

each executive officer and former executive officer named in the Summary Compensation Table and

all directors and executive officers as a group

The information set forth below is as of November 30, 2012, unless otherwise indicated. Information regarding shareholders other than directors and executive officers is based upon information contained in documents filed with the SEC. The number of shares beneficially owned by each shareholder and the percentage of the outstanding common stock those shares represent include shares that may be acquired by that shareholder within 60 days through the exercise of any right, but do not take into consideration the potential application of Section 409A of the Internal Revenue Code (the "Code"), which in some cases could result in a delay of the distribution beyond 60 days. Unless otherwise indicated, the mailing address of the parties listed below is our principal business address and the parties have sole voting power and sole dispositive power over their shares.

| Name and Address of Beneficial Owner  | Shares of Common<br>Stock<br>Beneficially<br>Owned | Percentage of<br>Common Stock<br>Beneficially Owned |
|---|--|---|
| Leucadia National Corporation ( Leucadia )<br>315 Park Avenue South<br><br>New York, New York 10010 | 58,006,024(1)                                      | 28.5%   |
| BlackRock Inc.<br>40 East 52nd Street<br><br>New York, NY 10022                                     | 14,482,322(2)                                      | 7.1%  |
| Richard B. Handler  | 10,644,818(3)                                      | 5.1%  |
| Brian P. Friedman   | 3,854,570(4)                                       | 1.9%  |
| Peregrine C. Broadbent  | 136,566(5)   | *   |
| Richard G. Dooley   | 268,062(6)   | *   |
| W. Patrick Campbell   | 68,112(7)  | *   |
| Joseph S. Steinberg   | 25,338(8)  | *   |
| Robert Joyal  | 20,598(9)  | *   |
| Michael J. Sharp  | 11,573(10)   | *   |
| Ian M. Cumming  | 5,479(11)  | *   |
| Michael T. O Kane   | 5,000(12)  | *   |
| John Stacconi   | 0  | *   |
| All directors and executive officers as a group   | 15,040,117(13)                                     | 7.1%  |

\* The percentage of shares beneficially owned does not exceed one percent of the class.



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- (1) The indicated interest was reported on Amendment No. 5 to Schedule 13D filed with the SEC by Leucadia on November 13, 2012. According to the Schedule 13D as amended, the position is directly owned by BEI Jeffvest, LLC ( Jeffvest ), a subsidiary of Baldwin Enterprises, Inc. ( Baldwin ), which is a subsidiary of Phlcorp Holding LLC ( Phlcorp ), which is a subsidiary of Leucadia. Leucadia, Phlcorp, Baldwin and Jeffvest reported shared voting and dispositive power over the shares.
  
- (2) The indicated interest was reported on Amendment No. 1 to Schedule 13G filed with the SEC by Blackrock, Inc. on February 13, 2012.

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- (3) Assuming Mr. Handler's continued employment with us through the expiration of all applicable vesting and deferral periods, Mr. Handler would beneficially own 14,748,737 shares (representing 7.25% of the currently outstanding class). The table above includes 6,616,771 vested restricted stock units ( RSUs ) which Mr. Handler has a right to acquire within 60 days from November 30, 2012; 77,430 unvested shares of restricted stock as to which Mr. Handler has sole voting but no dispositive power; 118,624 shares held under the Jefferies Group, Inc. Employee Stock Ownership Plan (the ESOP ) as to which Mr. Handler had sole voting power and dispositive power on November 30, 2012; 902,335 RSUs resulting from dividend reinvestments which Mr. Handler has a right to acquire within 60 days from November 30, 2012; 2,929,647 shares which Mr. Handler has shared voting and dispositive power with his wife through a family trust; 11 shares held by the Trustee of our profit sharing plan (the PSP ). Participants in the PSP have sole voting power and limited dispositive power over shares allocated to their PSP accounts. As of November 30, 2012, all of the participants in the ESOP had sole voting power and dispositive power over their ESOP shares. The table above excludes 4,000,293 RSUs which do not represent a right to acquire shares within 60 days from November 30, 2012; and 103,626 share denominated deferrals under the Jefferies Group Inc. Deferred Compensation Plan (the DCP ).
- (4) Assuming Mr. Friedman's continued employment with us through the expiration of all applicable vesting and deferral periods, Mr. Friedman would beneficially own 7,593,539 shares (representing 3.73% of the currently outstanding class). The table above includes 916,082 vested RSUs which Mr. Friedman has a right to acquire within 60 days from November 30, 2012; 143,260 RSUs resulting from dividend reinvestments which Mr. Friedman has a right to acquire within 60 days from November 30, 2012; 1,330 shares held under the ESOP; 1,471,329 shares which Mr. Friedman has shared voting and dispositive power through a trust accounts and 14,195 shares held by the trustee of the PSP. The table above excludes 3,738,969 unvested RSUs which do not represent a right to acquire shares within 60 days from November 30, 2012.
- (5) Assuming the expiration or termination of all applicable vesting and deferral periods, Mr. Broadbent would beneficially own 136,566 shares (representing less than 1% of the currently outstanding class). The table above includes 24,802 vested shares of restricted stock which Mr. Broadbent has a right to acquire within 60 days from November 30, 2012; 17,014 shares of restricted stock as to which Mr. Broadbent has sole voting and no dispositive power; 11 shares held by the trustee of the PSP; and 15 shares held under the ESOP.
- (6) Assuming the expiration of all applicable deferral periods, Mr. Dooley would beneficially own 465,841 shares (representing less than 1% of the currently outstanding class). The table above excludes 197,779 stock units held under our Director Stock Compensation Plan (the DSCP ), which do not represent a right to acquire shares within 60 days after November 30, 2012. Directors holding shares under the DSCP have voting but no dispositive power over those shares.
- (7) Assuming the expiration or termination of all applicable deferral periods, Mr. Campbell would beneficially own 111,322 shares (representing less than 1% of the currently outstanding class). The table above includes 4,154 shares of restricted stock as to which Mr. Campbell has sole voting and no dispositive power. The table above excludes 43,210 shares of restricted stock under the DSCP.
- (8) Excludes shares held by Leucadia as to which Mr. Steinberg disclaims beneficial ownership. The table above includes 10,763 shares of restricted stock as to which Mr. Steinberg has sole voting and no dispositive power.
- (9) Assuming the expiration or termination of all applicable deferral periods, Mr. Joyal would beneficially own 54,182 shares (representing less than 1% of the currently outstanding class). The table above excludes 33,584 deferred shares under the DSCP which do not represent a right to acquire shares within 60 days from November 30, 2012.
- (10) Assuming the expiration or termination of all applicable deferral periods, Mr. Sharp would beneficially own 22,248 shares (representing less than 1% of the currently outstanding class). The table above includes 10,674 vested RSUs which Mr. Sharp has a right to acquire within 60 days from November 30, 2012; and

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896 RSUs resulting from dividend reinvestments which Mr. Sharp has a right to acquire within 60 days from November 30, 2012. The table above excludes 10,675 unvested RSUs which do not represent a right to acquire shares within 60 days from November 30, 2012.

- (11) Assuming the expiration or termination of all applicable deferral periods, Mr. Cumming would beneficially own 25,988 shares (representing less than 1% of the currently outstanding class). Excludes 20,509 shares held under the DSCP which do not represent a right to acquire shares within 60 days from November 30, 2012; and excludes shares held by Leucadia as to which Mr. Cumming disclaims beneficial ownership.
- (12) Assuming the expiration or termination of all applicable deferral periods, Mr. O Kane would beneficially own 39,256 shares (representing less than 1% of the currently outstanding class). The table above excludes 34,256 shares which reflect deferred shares under the DSCP and do not represent a right to acquire shares within 60 days from November 30, 2012.
- (13) Includes 7,543,527 vested RSUs which the holder has a right to acquire within 60 days from November 30, 2012; 1,046,491 shares representing dividend reinvestments on RSUs which may be acquired within 60 days from November 30, 2012; 109,361 shares of restricted stock as to which holders have sole voting and no dispositive power; 119,972 shares held under the ESOP; and 14,217 shares under the PSP for the listed directors and executive officers as a group. The table above excludes 7,749,937 unvested RSUs which do not represent a right to acquire shares within 60 days from November 30, 2012. Assuming the expiration of all applicable vesting and deferral periods, the directors and named executive officers as a group would beneficially own 23,223,017 shares (representing 11.42% of the currently outstanding class).

**Item 13. Certain Relationships and Related Transactions, and Director Independence.  
Transactions with Related Persons**

***Jefferies High Yield Funds***

We continue to operate our high yield secondary market business through Jefferies High Yield Trading, LLC ( Jefferies High Yield Trading ). We and a subsidiary of Leucadia each own 50% of the voting securities of Jefferies High Yield Holdings, LLC ( Holdings ), which owns Jefferies High Yield Trading. We and Leucadia each have the right to nominate two of a total of four directors to Holding s Board of directors. Messrs. Cumming and Steinberg are the two directors of Holdings nominated by Leucadia. Leucadia has invested \$350,000,000 in Holdings.

In exchange for Jefferies transferring its high yield secondary market trading business to Jefferies High Yield Trading, Jefferies received securities entitling it to an additional 20% of the profits, and provides services to Jefferies High Yield Trading for a fee equal to 1.5% of contributed capital. Jefferies received a placement fee of 0.25% for the equity capital raised. Jefferies also receives a management fee of 0.50%, in addition to the 1.5% fee for services described above, for a total fee of 2%. Jefferies High Yield Trading continues to be overseen by Richard Handler. We have offered our qualified employees the option to invest in the operations of Jefferies High Yield Trading through investments in Jefferies Employees Special Opportunity Partners, LLC ( JESOP ). As of December 31, 2012, Mr. Handler held an economic interest through his individual deferred compensation plan and the DCP with a value of 21.9% of JESOP. Mr. Handler s interest in JESOP is calculated on the same basis, and charged the same fees, as any other third party investor in JESOP.

***Private Equity Funds***

We have also invested in three private equity funds managed by companies controlled by Mr. Friedman, one of our directors, Chairman of the Executive Committee and a nominee, and have acquired interests in the profit participation earned by two management companies that manage these three funds. These two management

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companies (the Fund Managers ) serve as the managers of the three private equity funds (the Private Equity Funds ) and have varying profit participations and other interests in those funds. Mr. Friedman founded the business of the Fund Managers before he became associated with us. As of December 31, 2012, we had committed an aggregate of approximately \$146.8 million to these funds, and had funded approximately \$97.9 million of these commitments. As a result of those investments, commitments and profit participations, in 2012 we received distributions from the Private Equity Funds of approximately \$19.8 million and profit participations from the Fund Managers of approximately \$0.9 million. Included in the \$1.24 billion in total equity committed to funds over which Mr. Friedman has control are individual investments of certain of our named executive officers. As a result of their individual commitments, as of December 31, 2012, Mr. Handler, had an aggregate interest in the total committed capital in such funds of 0.1% and Mr. Friedman had an aggregate interest of 4.3%. In addition, Mr. Friedman has a substantial economic interest in the Fund Managers and, directly and indirectly, in the carried interest paid by the Private Equity Funds.

On September 30, 2010, we became the lender to Jefferies Employee Partners IV LLC, one of the Private Equity Funds managed by companies controlled by Mr. Friedman, under a Credit Agreement assumed from Bank of America (the JEP Credit Facility ). The JEP Credit Facility has aggregate commitment of \$54 million and matures on December 31, 2013. The interest rate is the greater of the Prime Rate (as defined in the Credit Facility) plus 400 basis points or 7%, payable quarterly in arrears. As of November 30, 2012, loans in the aggregate principal amount of approximately \$32.7 million were outstanding under the JEP Credit Facility and recorded on our consolidated statements of financial condition.

Through our subsidiaries, we have performed investment banking and other services for companies in which the Private Equity Funds have invested. In some cases, the Private Equity Funds control those companies in which they have invested. In fiscal 2012, we received \$12,168,749 in fee income for investment banking and other services performed for companies in which the Private Equity Funds and other funds overseen by Mr. Friedman have investments. During fiscal 2012, \$1.9 million was paid to Jefferies Finance, LLC, an entity in which we have a 50% ownership interest and share control with an independent third party, with respect to loans to companies in which the Private Equity Funds and other funds overseen by Mr. Friedman have investments. As of November 30, 2012, the aggregate principal amount of those loans was \$19,500,000.

We employ and provide office space for all the Fund Managers employees under an arrangement we entered into with Mr. Friedman and Jefferies Capital Partners in 2005 and previously under an agreement entered into in 2001. Jefferies Capital Partners reimburses us on an annual basis for our direct employee costs, office space costs and other direct costs. In 2012, we billed and received approximately \$4.9 million in cash for such expenses.

***Leucadia National Corporation***

During the years ended November 30, 2012 and 2011 and eleven months ended November 30, 2010, we received commissions and commission equivalents for conducting brokerage services on behalf of Leucadia and its affiliates of \$9.8 million, \$7.2 million and \$17,000, respectively. These revenues are recorded in Commission income on the Consolidated Statements of Earnings. These transactions took place in the ordinary course of our business on substantially the same terms as those prevailing at the time for comparable transactions with persons not related to Jefferies and did not involve more than the normal market risk. During the years ended November 30, 2012 and 2011, we distributed to Leucadia approximately \$5.4 million and \$9.0 million, respectively, related to earnings associated with their investment in our high yield joint venture.

At November 30, 2012, we have commitments to purchase \$411.6 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

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### ***Director of Marketing***

We have employed Thomas E. Tarrant, the brother-in-law of our Chief Executive Officer, as our Director of Marketing since 1997, three years before Mr. Handler was appointed CEO. For his services during fiscal 2012, Mr. Tarrant was paid \$290,000.

### **Review, Approval or Ratification of Related Person Transactions**

We have adopted a written Code of Ethics which is available both on our public website and on our corporate intranet. The Code of Ethics governs the behavior of all our employees, officers and directors, including our named executive officers. Our Code of Ethics provides that no employee shall engage in any transaction involving the Company if the employee or a member of his or her immediate family has a substantial interest in the transaction or can benefit directly or indirectly from the transaction (other than through the employee's normal compensation), unless the transaction or potential benefit and the interest have been disclosed to and approved by the Company.

If one of our executive officers has the opportunity to invest or otherwise participate in such a transaction, our policy requires that the executive prepare a memorandum describing the proposed transaction. The memo must be submitted to the General Counsel or his designee, and a copy of the memorandum will be provided to the Chairman of the Corporate Governance and Nominating Committee of the Board of Directors, or any other member designated by the Committee, for consideration and action by that committee. After consideration of the matter, the Corporate Governance and Nominating Committee will provide written notice to the executive of the action taken.

Our Code of Ethics has been adopted by the Board of Directors and any exceptions to the policies set forth therein must be requested in writing addressed to the Corporate Governance and Nominating Committee of the Board of Directors. If an executive officer requests an exception, the request must be delivered to the General Counsel and no exceptions shall be effective unless approved by the Corporate Governance and Nominating Committee.

### **Director Independence**

The Board has adopted Corporate Governance Guidelines that contain categorical standards for the determination of director independence, which are available to the public through the Jefferies website at [www.jefferies.com](http://www.jefferies.com). The Board has determined that directors who comply with the standards in the Corporate Governance Guidelines have no material relationship with us as required by New York Stock Exchange Rules. The Board has noted relationships by and among its directors and nominees that may give rise to conflicts. In particular, the Board has noted that:

Mr. Campbell also serves on the Compensation Committee of Black & Veatch

Mr. Dooley also serves on the Compensation Committee of Kimco Realty Corp.

Mr. Dooley was an associate of Mr. Joyal prior to Mr. Dooley's retirement from Mass Mutual

Mr. Cumming and Mr. Steinberg, each serves in various capacities at Leucadia and its affiliates and investments

Mr. Cumming and Mr. Steinberg have had prior social and business relationships with various members of our management, including Mr. Handler

The Board has determined that these facts do not impair the independence of these directors or lessen their qualifications to serve on the Board, or on any committees.

**Table of Contents****Item 14. Principal Accountant Fees and Services.**

For the fiscal years ended November 30, 2011 and 2012, fees for services provided by Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu Limited were as follows:

|                       | 2011                | 2012                |
|-----------------------|---------------------|---------------------|
| Audit Fees            | \$ 6,665,000        | \$ 7,692,000        |
| Audit-Related Fees    | \$ 1,052,600        | \$ 784,000          |
| Tax Fees              | \$ 592,000          | \$ 927,000          |
| All Other Fees        | \$ 0                | \$ 0                |
| <b>Total All Fees</b> | <b>\$ 8,309,600</b> | <b>\$ 9,403,000</b> |

**Audit Fees** The Audit Fees reported above reflect fees for services provided during fiscal 2011 and 2012. These amounts include fees for professional services rendered as our principal accountant for the audit of our consolidated financial statements included in this Annual Report on Form 10-K, the audits of various affiliates and investment funds managed by Jefferies or its affiliates, the audit of internal controls over financial reporting required by Section 404 of Sarbanes-Oxley, reviews of the interim consolidated financial statements included in our quarterly reports on Form 10-Q, the issuance of comfort letters, consents and other services related to SEC and other regulatory filings, audit fees related to the acquisition of Global Commodities Group from Prudential and for other services that are normally provided in connection with statutory and regulatory filings or engagements. The Audit Committee preapproves all auditing services and permitted non-audit services to be performed for us by our independent registered public accounting firm, which are approved by the Audit Committee prior to the completion of the audit. In 2012, the Audit Committee preapproved all auditing services performed for us by the independent registered public accounting firm.

**Audit-Related Fees** The Audit-Related Fees reported above reflect fees for services provided during fiscal 2011 and 2012. These amounts include fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under **Audit Fees** above. Specifically, the Audit-Related services included the audit of our pension plan, preparation of our SAS 70 and/or SSAE-16 report, performing agreed upon procedures related to specific matters at our request, the audits of our employee benefit plans, accounting consultations, and other services that are normally provided in connection with statutory and regulatory filings or engagements.

**Tax Fees** Tax Fees includes fees for services provided during fiscal 2011 and 2012 related to tax compliance, tax advice and tax planning.

**All Other Fees** There were no fees in this category for fiscal 2011 or 2012.

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules.***(a)1. Financial Statements*

|  | <b>Pages</b> |
|--|--------------|
| Included in Part II of this report:                        |              |
| Report of Independent Registered Public Accounting Firm    | 76           |
| Report of Independent Registered Public Accounting Firm    | 77           |
| Consolidated Statements of Financial Condition             | 78           |
| Consolidated Statements of Earnings                        | 81           |
| Consolidated Statements of Comprehensive Income            | 82           |
| Consolidated Statements of Changes in Stockholders' Equity | 83           |
| Consolidated Statements of Cash Flows                      | 84           |
| Notes to Consolidated Financial Statements                 | 86           |

*(a)2. Financial Statement Schedules*

All Schedules are omitted because they are not applicable or because the required information is shown in the Consolidated Financial Statements or notes thereto.

*(a)3. Exhibits*

- 3.1 Registrant's Amended and Restated Certificate of Incorporation is incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on May 26, 2004.
- 3.2 Registrant's Certificate of Designations of 3.25% Series A Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on February 21, 2006.
- 3.3 Registrant's By-Laws as amended and restated on December 3, 2007 are incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on December 4, 2007.
- 4 Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.
- 10.1 Jefferies Group, Inc. 2003 Incentive Compensation Plan, as Amended and Restated as of May 19, 2008 is incorporated herein by reference to Appendix 1 of Registrant's proxy statement filed on April 16, 2008.
- 10.2 Jefferies Group, Inc. Deferred Compensation Plan, as Amended and Restated as of January 1, 2009 is incorporated by reference to Exhibit 10.4 of Registrant's Form 10-K filed on February 27, 2009.
- 10.3

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Jefferies Group, Inc. 1999 Directors' Stock Compensation Plan, as Amended and Restated as of January 1, 2009 is incorporated by reference to Exhibit 10.5 of Registrant's Form 10-K filed on February 27, 2009.

- 10.4 Summary of the 2012 Executive Compensation Program for Messrs. Handler and Friedman is incorporated by reference to Exhibit 10 of Registrant's Form 8-K filed on January 20, 2010.
- 10.5 Summary of the 2012 Executive Compensation Program for Messrs. Broadbent and Sharp is incorporated herein by reference to Exhibit 10.2 of Registrant's Form 10-Q filed on April 5, 2012.
- 10.6 Agreement between Jefferies Group, Inc. and Mr. John Stacconi dated October 11, 2011 is incorporated by reference to Exhibit 10.3 of Registrant's Form 10-Q filed on April 5, 2012.
- 10.10 Purchase Agreement dated April 19, 2012 between Jefferies Group, Inc. and Jefferies & Company, Inc. is incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on April 24, 2012.



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- 12\* Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.
- 21\* List of Subsidiaries.
- 23.1\* Consent of Deloitte & Touche LLP.
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.
- 32\* Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.
- 101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of November 30, 2012 and November 30, 2011; (ii) the Consolidated Statements of Earnings for the twelve months ended November 30, 2012 and November 30, 2011 and the eleven months ended December 31, 2010; (iii) the Consolidated Statements of Comprehensive Income for the twelve months ended November 30, 2012 and November 30, 2011 and the eleven months ended December 31, 2010; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the twelve months ended November 30, 2012 and November 30, 2011 and the eleven months ended December 31, 2010; (v) the Consolidated Statements of Cash Flows for the twelve months ended November 30, 2012 and November 30, 2011 and the eleven months ended December 31, 2010; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

Exhibits 10.1 through 10.6 are management contracts or compensatory plans or arrangements.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JEFFERIES GROUP, INC.

/s/ RICHARD B. HANDLER  
Richard B. Handler  
Chairman of the Board of Directors,  
Chief Executive Officer

Dated: January 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name   | Title  | Date             |
|--|--|------------------|
| /s/ RICHARD B. HANDLER<br>Richard B. Handler             | Chairman of the Board of Directors, Chief<br>Executive Officer                         | January 28, 2013 |
| /s/ PEREGRINE C. BROADBENT<br><br>Peregrine C. Broadbent | Executive Vice President and Chief<br>Financial Officer (Principal Accounting Officer) | January 28, 2013 |
| /s/ BRIAN P. FRIEDMAN<br>Brian P. Friedman               | Director and Chairman, Executive Committee   | January 28, 2013 |
| /s/ W. PATRICK CAMPBELL<br>W. Patrick Campbell           | Director   | January 21, 2013 |
| /s/ IAN M. CUMMING<br>Ian M. Cumming                     | Director   | January 28, 2013 |
| /s/ RICHARD G. DOOLEY<br>Richard G. Dooley               | Director   | January 28, 2013 |
| /s/ ROBERT E. JOYAL<br>Robert E. Joyal                   | Director   | January 28, 2013 |
| /s/ MICHAEL T. O KANE<br>Michael T. O Kane               | Director   | January 19, 2013 |
| /s/ JOSEPH S. STEINBERG<br>Joseph S. Steinberg           | Director   | January 28, 2013 |