

JEFFERIES GROUP INC /DE/

Form 10-Q

October 07, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended August 31, 2011**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-14947**

**JEFFERIES GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware

95-4719745

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

520 Madison Avenue, 10<sup>th</sup> Floor, New York, New  
York

10022

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 284-2550

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 199,716,925 shares as of the close of business on September 28, 2011.



**JEFFERIES GROUP, INC. AND SUBSIDIARIES  
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AUGUST 31, 2011**

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**  
**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**  
**(Dollars in thousands, except per share amounts)**

	August 31, 2011	November 30, 2010
<b>ASSETS</b>		
Cash and cash equivalents (including \$283,968 in 2011 and \$202,565 in 2010, from VIEs)	\$ 2,014,950	\$ 2,188,998
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	5,321,012	1,636,755
Financial instruments owned, at fair value, including securities pledged of \$14,035,813 and \$12,338,728 in 2011 and 2010, respectively:		
Corporate equity securities (including \$79,927 in 2011 and \$120,606 in 2010 from VIEs)	1,676,598	1,565,793
Corporate debt securities (including \$300,652 in 2011 and \$462,462 in 2010 from VIEs)	4,213,249	3,630,616
Government, federal agency and other sovereign obligations	5,531,554	5,191,973
Mortgage- and asset-backed securities (including \$38,629 in 2011 and \$43,355 in 2010 from VIEs)	4,787,608	4,921,565
Loans and other receivables (including \$372,105 in 2011 and \$362,465 in 2010 from VIEs)	528,681	434,573
Derivatives (including \$5,147 in 2011 and \$7,579 in 2010 from VIEs)	916,142	119,268
Investments, at fair value (including \$1,621 in 2011 and \$15,612 in 2010 from VIEs)	116,833	77,784
Physical commodities	369,281	
Total financial instruments owned, at fair value (including \$798,081 in 2011 and \$1,012,079 in 2010 from VIEs)	18,139,946	15,941,572
Investments in managed funds	73,900	131,585
Other investments	572,764	220,323
Securities borrowed	7,815,663	8,152,678
Securities purchased under agreements to resell	4,505,358	3,252,322
Securities received as collateral	40,401	48,616
Receivables:		
Brokers, dealers and clearing organizations (including \$177,793 in 2011 and \$195,485 in 2010 from VIEs)	3,743,143	2,550,234
Customers	1,319,664	1,328,365
Fees, interest and other (including \$6,763 in 2011 and \$127 in 2010 from VIEs)	224,545	165,603
Premises and equipment	170,501	142,729
Goodwill	366,823	364,964
Other assets (including \$446 in 2011 and \$370 in 2010 from VIEs)	816,573	601,799
Total assets (including \$1,267,051 in 2011 and \$1,410,626 in 2010 from VIEs)	\$ 45,125,243	\$ 36,726,543

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED) CONTINUED**  
**(Dollars in thousands, except per share amounts)**

	August 31, 2011	November 30, 2010
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Short-term borrowing	\$ 353,000	\$
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities (including \$19,341 in 2011 and \$2,708 in 2010 from VIEs)	1,736,221	1,638,372
Corporate debt securities (including \$202,037 in 2011 and \$443,100 in 2010 from VIEs)	2,472,045	2,375,925
Government, federal agency and other sovereign obligations (including \$15,605 in 2011 and \$0 in 2010 from VIEs)	5,278,235	4,735,288
Mortgage- and asset-backed securities	82,072	129,384
Loans (including \$142,645 in 2011 and \$150,100 in 2010 from VIEs)	155,646	171,278
Derivatives (including \$1,241 in 2011 and \$136 in 2010 from VIEs)	595,942	59,552
Total financial instruments sold, not yet purchased, at fair value (including \$380,869 in 2011 and \$596,044 in 2010 from VIEs)	10,320,161	9,109,799
Securities loaned	3,338,391	3,108,977
Securities sold under agreements to repurchase	10,935,811	10,684,056
Obligation to return securities received as collateral	40,401	48,616
Payables:		
Brokers, dealers and clearing organizations (including \$134,477 in 2011 and \$157,134 in 2010 from VIEs)	2,754,164	1,885,357
Customers	7,708,390	3,716,357
Accrued expenses and other liabilities (including \$7,411 in 2011 and \$94,402 in 2010 from VIEs)	1,164,164	1,142,850
Long-term debt	4,580,978	3,778,681
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries (including \$313,095 in 2011 and \$315,885 in 2010 from VIEs)	313,095	315,885
Total liabilities (including \$835,852 in 2011 and \$1,163,465 in 2010 from VIEs)	41,633,555	33,915,578
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.0001 par value. Authorized 500,000,000 shares; issued 203,525,528 shares in 2011 and 200,301,656 shares in 2010	20	20
Additional paid-in capital	2,227,985	2,218,123
Retained earnings	1,036,879	850,654
Less:		
Treasury stock, at cost, 3,211,223 shares in 2011 and 28,607,510 shares in 2010	(56,102)	(539,530)
Accumulated other comprehensive loss:		
Currency translation adjustments	(25,628)	(42,859)
Additional minimum pension liability	(8,419)	(8,419)

Total accumulated other comprehensive loss	(34,047)	(51,278)
Total common stockholders' equity	3,174,735	2,477,989
Noncontrolling interests	316,953	332,976
Total stockholders' equity	3,491,688	2,810,965
Total liabilities and stockholders' equity	\$ 45,125,243	\$ 36,726,543

See accompanying unaudited notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)**  
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	Eight Months Ended
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
<b>Revenues:</b>				
Commissions	\$ 154,896	\$ 118,571	\$ 404,108	\$ 347,527
Principal transactions	(74,003)	71,044	391,464	317,686
Investment banking	293,750	246,193	861,230	598,450
Asset management fees and investment income from managed funds	3,086	786	37,501	11,804
Interest	353,006	239,557	930,647	625,725
Other	63,369	16,879	105,948	44,240
 Total revenues	 794,104	 693,030	 2,730,898	 1,945,432
Interest expense	284,822	175,761	736,068	432,995
 Net revenues	 509,282	 517,269	 1,994,830	 1,512,437
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	(14,671)	(2,537)	6,183	(26)
 Net revenues, less mandatorily redeemable preferred interest	 523,953	 519,806	 1,988,647	 1,512,463
<b>Non-interest expenses:</b>				
Compensation and benefits	299,640	308,797	1,174,468	877,204
Floor brokerage and clearing fees	32,959	30,111	92,475	84,199
Technology and communications	60,039	46,135	153,563	114,189
Occupancy and equipment rental	22,581	18,433	60,997	49,448
Business development	21,853	17,420	64,248	42,405
Professional services	19,061	13,008	48,437	34,702
Other	12,582	9,404	45,805	37,222
 Total non-interest expenses	 468,715	 443,308	 1,639,993	 1,239,369
 Earnings before income taxes	 55,238	 76,498	 348,654	 273,094
Income tax expense	1,228	33,873	107,899	110,277
 Net earnings	 54,010	 42,625	 240,755	 162,817
Net (loss) earnings to noncontrolling interests	(14,265)	(2,129)	4,523	1,865
 Net earnings to common shareholders	 \$ 68,275	 \$ 44,754	 \$ 236,232	 \$ 160,952

Earnings per common share:

Basic	\$ 0.30	\$ 0.22	\$ 1.07	\$ 0.79
Diluted	\$ 0.30	\$ 0.22	\$ 1.07	\$ 0.79

Weighted average common shares:

Basic	218,426	195,601	209,544	196,943
Diluted	222,541	195,612	213,661	201,062

See accompanying unaudited notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**(Unaudited)**  
**(Dollars in thousands, except per share amounts)**

	Nine Months Ended August 31, 2011	Eleven Months Ended November 30, 2010
<b>Common stock, par value \$0.0001 per share</b>		
Balance, beginning of period	\$ 20	\$ 19
Issued	1	1
Retired	(1)	
Balance, end of period	20	20
<b>Additional paid-in capital</b>		
Balance, beginning of period	2,218,123	2,036,087
Benefit plan share activity (1)	29,281	19,230
Share-based expense, net of forfeitures and clawbacks	46,484	149,799
Proceeds from exercise of stock options	95	108
Acquisitions and contingent consideration	419	419
Tax benefit for issuance of share-based awards	31,619	2,965
Dividend equivalents on share-based plans	6,590	9,515
Issuance of treasury stock	97,773	
Retirement of treasury stock	(202,399)	
Balance, end of period	2,227,985	2,218,123
<b>Retained earnings</b>		
Balance, beginning of period	850,654	688,039
Net earnings to common shareholders	236,232	223,666
Dividends	(50,007)	(61,051)
Balance, end of period	1,036,879	850,654
<b>Treasury stock, at cost</b>		
Balance, beginning of period	(539,530)	(384,379)
Purchases	(96,929)	(140,071)
Returns / forfeitures	(19,165)	(15,080)
Issued	397,122	
Retirement of treasury stock	202,400	
Balance, end of period	(56,102)	(539,530)

**Accumulated other comprehensive (loss) income**

Balance, beginning of period	(51,278)	(41,626)
Currency adjustment	17,231	(8,490)
Pension adjustment, net of tax		(1,162)
Balance, end of period	(34,047)	(51,278)

**Total common stockholders equity**

3,174,735 2,477,989

**Noncontrolling interests**

Balance, beginning of period	332,976	321,538
Net earnings to noncontrolling interests	4,523	16,601
Contributions	1,713	12,433
Distributions	(22,056)	(15,177)
Deconsolidation of asset management entity	(203)	(5,477)
Adoption of accounting changes to ASC 810		3,058
Balance, end of period	316,953	332,976

**Total stockholders equity**

\$ 3,491,688 \$ 2,810,965

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

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**  
**(Dollars in thousands)**

	Three Months Ended		Nine Months Ended	Eight Months Ended
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Net earnings to common shareholders	\$ 68,275	\$ 44,754	\$ 236,232	\$ 160,952
Other comprehensive income:				
Currency translation adjustments	(6,266)	17,381	17,231	(13,602)
Total other comprehensive (loss) income (1)	(6,266)	17,381	17,231	(13,602)
Comprehensive income	\$ 62,009	\$ 62,135	\$ 253,463	\$ 147,350

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

See accompanying unaudited notes to consolidated financial statements.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**(Dollars in thousands)**

	Nine Months Ended August 31, 2011	Eight Months Ended August 31, 2010
Cash flows from operating activities:		
Net earnings	\$ 240,755	\$ 162,817
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	53,786	27,490
Bargain purchase gain	(52,509)	
Fees related to assigned management agreements	(2,728)	(2,589)
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	6,183	(26)
Accruals related to various benefit plans and stock issuances, net of estimated forfeitures	56,601	30,821
Increase in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(555,008)	(248,032)
(Increase) decrease in receivables:		
Brokers, dealers and clearing organizations	(840,670)	226,379
Customers	185,110	(216,894)
Fees, interest and other	(56,909)	7,625
Decrease in securities borrowed	375,677	283,616
Increase in financial instruments owned	(1,124,290)	(4,687,754)
(Increase) decrease in other investments	(353,053)	22,359
Decrease (increase) in investments in managed funds	57,685	(9,672)
(Increase) decrease in securities purchased under agreements to resell	(1,229,802)	324,488
Increase in other assets	(153,776)	(118,625)
Increase (decrease) in payables:		
Brokers, dealers and clearing organizations	810,130	816,626
Customers	610,233	(75,927)
Increase (decrease) in securities loaned	197,357	(408,214)
Increase in financial instruments sold, not yet purchased	797,320	2,429,942
Increase in securities sold under agreements to repurchase	219,933	1,361,466
Decrease in accrued expenses and other liabilities	(251,027)	(18,579)
Net cash used in operating activities	(1,009,002)	(92,683)
Cash flows from investing activities:		
Net payments on premises and equipment	(60,275)	(24,678)
Cash paid for acquisition during the period, net of cash acquired	(318,196)	
Cash received from contingent consideration	2,733	1,927
Cash paid for contingent consideration	(754)	(8,101)

Net cash used in investing activities	(376,492)	(30,852)
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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED (Unaudited)**  
**(Dollars in thousands)**

	Nine Months Ended August 31, 2011	Eight Months Ended August 31, 2010
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 33,311	\$ 2,148
Gross proceeds from short-term borrowings	2,881,000	2,296,000
Gross payments on short-term borrowings	(2,829,027)	(2,296,000)
Net proceeds from (payments on):		
Issuance of common shares	494,895	
Issuance of senior notes, net of issuance costs	794,587	543,510
Mandatorily redeemable preferred interest of consolidated subsidiaries	(8,973)	(17,077)
Noncontrolling interest	(20,343)	(12,577)
Repurchase of common stock	(96,929)	(114,893)
Dividends	(43,417)	(38,709)
Exercise of stock options, not including tax benefits	95	108
Net cash provided by financing activities	1,205,199	362,510
Effect of foreign currency translation on cash and cash equivalents	6,247	(2,202)
Net (decrease) increase in cash and cash equivalents	(174,048)	236,773
Cash and cash equivalents at beginning of period	2,188,998	1,853,167
Cash and cash equivalents at end of period	\$ 2,014,950	\$ 2,089,940
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 667,376	\$ 428,903
Income taxes, net	143,058	180,420
Acquisitions:		
Fair value of assets acquired	\$ 4,703,533	
Liabilities assumed	(4,229,011)	
Bargain purchase gain	(52,509)	
Total purchase price	422,013	
Anticipated cash payment for acquisition subsequent to August 31, 2011	(2,474)	
Cash acquired	(101,343)	
Cash paid for acquisition during the period, net of cash acquired	\$ 318,196	

See accompanying unaudited notes to consolidated financial statements.





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**JEFFERIES GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**  
**(Unaudited)**

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

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

We operate in two business segments, Capital Markets and Asset Management. Capital Markets includes our securities, commodities, futures and foreign exchange trading (including the results of our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC) and investment banking activities, which provides the research, sales, trading and origination effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds, separate accounts and mutual funds. On July 1, 2011, we acquired Prudential Bache's Global Commodities Group ( Global Commodities Group or Jefferies Bache ) from Prudential Financial Inc. ( Prudential ). Total cash payments made as consideration for the acquisition were \$422.0 million. The Global Commodities Group provides execution and clearing services (including sales and trading activities) covering a wide variety of commodity, financial and foreign exchange futures, swaps and forward contracts to an institutional client base. See Note 3, Acquisition of the Global Commodities Group.

***Change in Year End***

On April 19, 2010, our Board of Directors approved a change to our fiscal year end from a calendar year basis to a fiscal year ending on November 30. As such, the current period represents the three and nine months ended August 31, 2011 and has been reported on the basis of the new fiscal year beginning as of December 1, 2010. Our prior year period consisted of the three and eight months ended August 31, 2010 and is reported on the basis of the previous calendar year cycle beginning as of January 1, 2010.

***Basis of Presentation***

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Jefferies Group, Inc.'s Transition Report on Form 10-K for the eleven months ended November 30, 2010. All adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included.

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 GAAP. The most significant of these estimates and assumptions relate to fair value measurements, compensation and benefits, legal reserves and the realizability of deferred tax assets. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

***Consolidation***

Our policy is to consolidate all entities in which we own more than 50% of the outstanding voting stock and have control. In addition, we consolidate entities which lack characteristics of an operating entity or business for which we

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**  
**(Unaudited)**

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

Intercompany accounts and transactions are eliminated in consolidation.

**Immaterial Restatements**

As indicated in our Transition Report on Form 10-K for the eleven months ended November 30, 2010 (hereafter in this Note referred to as "adjustments"), we made correcting adjustments to our financial statements for the three and eight months ended August 31, 2010 relating to the netting of interest income and interest expense, differences with our former clearing bank, and certain other immaterial adjustments. We do not believe that these adjustments are material to our financial statements for these periods. For additional information on these adjustments, see Note 1, Organization and Basis of Presentation, and Note 23, Selected Quarterly Financial Data (Unaudited), of the Consolidated Financial Statements of our Transition Report on Form 10-K for the eleven months ended November 30, 2010.

The following table sets forth the effects of the adjustments on Net earnings, on an after tax basis, for the three and eight months ended August 31, 2010 (in thousands):

Decrease in Net earnings to common shareholders

	Three Months Ended August 31, 2010	Eight Months Ended August 31, 2010
Previously reported Net earnings to common shareholders	\$ 46,256	\$ 164,795
Netting of interest revenues and expense		
Differences with clearing bank	(1,738)	(3,453)
Other items (1)	236	(390)
Total adjustments	(1,502)	(3,843)
Adjusted Net earnings to common shareholders	\$ 44,754	\$ 160,952

(1) Other items Includes the effect of certain other immaterial adjustments.

The following table sets forth the effects of the adjustments on major caption items within our Consolidated Statement of Earnings for the three and eight months ended August 31, 2010 (in thousands, except per share amounts):

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	Three Months Ended		Eight Months Ended	
	August 31, 2010		August 31, 2010	
	As		As	
	Previously	Adjusted	Previously	Adjusted
	Reported	Adjusted	Reported	Adjusted
Principal transactions	\$ 74,282	\$ 71,044	\$ 324,037	\$ 317,686
Interest	152,546	239,557	430,902	625,725
Total revenues	609,257	693,030	1,756,961	1,945,432
Interest expense	89,159	175,761	237,493	432,995
Net revenues	520,098	517,269	1,519,468	1,512,437
Net revenues, less mandatorily redeemable preferred interest	522,635	519,806	1,519,494	1,512,463
Floor brokerage and clearing fees	30,244	30,111	84,702	84,199
Total non-interest expenses	443,441	443,308	1,239,874	1,239,369
Earnings before income taxes	79,194	76,498	279,620	273,094
Income tax expense	35,067	33,873	112,960	110,277
Net earnings	44,127	42,625	166,660	162,817
Net earnings to common shareholders	46,256	44,754	164,795	160,952
Earnings per common share:				
Basic	\$ 0.23	\$ 0.22	\$ 0.81	\$ 0.79
Diluted	\$ 0.23	\$ 0.22	\$ 0.81	\$ 0.79

These adjustments affected certain line items within cash flows from operating activities on the Consolidated Statement of Cash Flows for the eight months ended August 31, 2010, with no net effect on net cash used in operating activities. In addition, supplemental disclosures for cash paid for interest were also adjusted.

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

*Commissions.* All customer transactions are reported on the Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Soft dollar expenses amounted to \$14.1 million and \$8.7 million for the three months ended August 31, 2011 and 2010, respectively, and \$36.4 million and \$25.8 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. We account for the cost of these arrangements on an accrual basis. As we are not the primary obligor for these arrangements, expenses relating to soft dollars are netted against commission revenues. The commissions and related expenses on client transactions executed by Jefferies Bache, LLC, a futures commission merchant, are recorded on a half turn basis.

*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.

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



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of related out-of-pocket unreimbursed expenses. Unreimbursed out-of-pocket expenses with no related revenues are included in Business development and Professional services expenses in the Consolidated Statements of Earnings. *Asset Management Fees and Investment Income From Managed Funds.* Asset management fees and investment income from managed funds include revenues we earn from management, administrative and performance fees from funds managed by us, revenues from management and performance fees we earn from related-party managed funds and investment income from our investments in these funds. We earn fees in connection with management and investment advisory services performed for various funds and managed accounts. These fees are based on assets under management or an agreed upon notional amount and may include performance fees based upon the performance of the funds. Management and administrative fees are generally recognized over the period that the related service is provided. Generally, performance fees are earned when the return on assets under management exceeds certain benchmark returns, high-water marks or other performance targets. Performance fees are accrued (or reversed) on a monthly basis based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Performance fees are not subject to adjustment once the measurement period ends (generally annual periods) and the performance fees have been realized.

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

***Cash Equivalents***

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

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

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

***Foreign Currency Translation***

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

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***Financial Instruments***

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

**Fair Value Hierarchy**

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

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

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

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

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

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

**Valuation Process for Financial Instruments**

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



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

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

***Investments in Managed Funds***

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

***Other Investments***

Other investments includes investments and loans entered into where we exercise significant influence over operating and capital decisions in private equity and other operating entities in connection with our capital market activities and loans issued in connection with such activities. Other investments are accounted for on the equity method or at cost, as appropriate. Revenues on Other investments are included in Other income in the Consolidated Statement of Earnings.

***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 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

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Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

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

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

***Premises and Equipment***

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the assets, whichever is shorter.

***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 estimated net book value. Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. We completed our annual assessment of goodwill as of June 1, 2011 and no impairment was identified. (Refer to Note 10, Goodwill and Other Intangible Assets, for further details on our annual assessment of goodwill.)

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

An intangible asset with an indefinite useful life is not amortized but assessed annually, or more frequently when certain events or circumstances exist, for impairment. Impairment exists when the carrying amount exceeds its fair value.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

***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

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measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, share-based compensation, deferred compensation, unrealized gains and losses on investments and tax amortization on intangible assets. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized.

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

***Legal Reserves***

In the normal course of business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities as a global securities and investment banking firm. We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions.

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

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

***Share-based Compensation***

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

***Earnings per Common Share***

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

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, are included in the earnings allocation in computing earnings per share under the two-class method of earning per share. We grant restricted stock and restricted stock

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units as part of our share-based compensation that contain nonforfeitable rights to dividends and dividend equivalents, respectively, and therefore, prior to the requisite service being rendered for the right to retain the award, restricted stock and restricted stock units meet the definition of a participating security. As such, we calculate Basic and Diluted earnings per share under the two-class method.

***Securitization Activities***

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

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

***New Accounting Developments***

*Testing Goodwill for Impairment*. In September 2011, the Financial Accounting Standards Board ( FASB ) issued an Accounting Standards Update ( ASU ) Testing Goodwill for Impairment ( ASU 2011-08 ) to Topic 350, Intangibles Goodwill and Other. The update outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors, as described in the ASU 2011-08, in determining whether the fair value of a reporting unit is less than its carrying amount. We do not believe that the adoption of this guidance will have an impact on our financial condition, or results of operation.

*Fair Value Measurements and Disclosures*. In May 2011, the FASB issued accounting updates to ASC 820, Fair Value Measurements Topic Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provide clarifying guidance on how to measure fair value and additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2; and for Level 3 fair value measurements, a description of our valuation processes and additional information about unobservable inputs impacting Level 3 measurements. The updates are effective March 1, 2012 and will be applied prospectively. We are currently evaluating the impact, if any, that these updates will have on our financial condition, results of operations or cash flows.

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

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

On July 1, 2011, we acquired Prudential Bache's Global Commodities Group from Prudential. Total cash payments made as consideration for the acquisition were \$422.0 million (a cash payment of \$419.5 million was made on July 1, 2011 and an additional payment of \$2.5 million is anticipated). The acquisition included 100% of the equity interests in Prudential Bache Commodities LLC, a US-based full-service futures commission merchant; Prudential Bache Securities LLC, a US-based registered broker dealer; Bache Commodities Limited, a UK-based global commodities



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and financial derivatives broker; Prudential Bache Asset Management, Inc., a US-based registered investment advisor and commodity trading advisor, Prudential Bache Financial Services, Inc., a global over-the-counter commodities dealer; and Bache Commodities (Hong Kong) Ltd., a Hong Kong-based licensed futures dealer. In addition, we acquired related information technology assets and related contracts used by the Global Commodities Group.

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

In connection with the acquisition of the Global Commodities Group on July 1, 2011, certain acquired entities entered into a \$1.0 billion credit facility agreement with Prudential that was terminated by us on September 16, 2011. For further details, see Note 11, Short-Term Borrowings. On August 26, 2011, Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, as borrowers, entered into a senior secured revolving credit facility in aggregate totaling \$950.0 million with a group of commercial banks. See Note 12, Long-Term Borrowings for further information.

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

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

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

Approximately \$18.3 million was recognized as the fair value of intangible assets. Of this amount, \$5.8 million represents the fair value of customer relationships, \$11.2 million represents the fair value of exchange and clearing organization membership interests and registrations and \$1.3 million represents the fair value of the Bache trade name. See Note 10, Goodwill and Other Intangible Assets for further details. Additionally, we recognized in the acquisition approximately \$6.3 million of internally developed software that is recorded within Premises and equipment on the Consolidated Statements of Financial Condition.

*Condensed statement of net assets acquired*

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

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**Assets acquired:**

Cash and cash equivalents	\$ 101,343
Cash and securities segregated	3,130,586
Financial instruments owned, at fair value	918,598
Securities purchased under agreements to resell	1,489
Receivables:	
Brokers, dealers and clearing organizations	313,939
Customers	173,477
Fees, interest and other	122
Premises and equipment	13,584
Indefinite-lived intangible exchange memberships and licences (1)	11,219
Finite-lived intangible customer relationships (1)(2)	5,800
Trade names (1)(3)	1,300
Other assets	32,076
<b>Total assets</b>	<b>\$ 4,703,533</b>

**Liabilities assumed:**

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>

**Fair value of net assets acquired** **\$ 474,522**

**Purchase price:**

Cash	\$ 422,013
<b>Total purchase price</b>	<b>\$ 422,013</b>

**Bargain purchase gain** **\$ 52,509**

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

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

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

*Unaudited pro forma condensed combined financial information*

Our third quarter results of operation include the operations of the acquired entities for the period from July 1, 2011 to August 31, 2011. The Consolidated Statement of Earnings for the three months ended August 31, 2011, include \$43.5 million of Net revenues and \$6.4 million of Net earnings contributed by the Global Commodities Group. Set forth below are unaudited pro forma combined financial information as they may have appeared if the acquisition had been completed on January 1, 2010 taking into account certain adjustments described below, including the

exclusion of the bargain purchase gain of \$52.5 million related to the acquisition. The unaudited pro forma combined financial information includes the Global Commodities Group's actual results from January 1, 2010 to August 31, 2010 and December 1, 2010 to August 31, 2011.



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(in millions, except per share data)	<b>Three months ended</b>		<b>Nine months ended</b>	<b>Eight months ended</b>
	<b>August 31, 2011</b>	<b>August 31, 2010</b>	<b>August 31, 2011</b>	<b>August 31, 2010</b>
Total net revenues	\$ 473.3	\$ 566.7	\$ 2,079.7	\$ 1,703.0
Net earnings to common shareholders	\$ 16.7	\$ 37.6	\$ 198.4	\$ 210.8
Earnings per common share:				
Basic	\$ 0.07	\$ 0.18	\$ 0.90	\$ 1.03
Diluted	\$ 0.07	\$ 0.18	\$ 0.90	\$ 1.03
Weighted average common shares:				
Basic	218,426	195,601	209,544	196,943
Diluted (1)	218,431	195,612	213,661	201,062

(1) The conversion of our mandatorily redeemable convertible preferred stock was considered anti-dilutive for the purposes of the pro forma calculation for the three months ended August 31, 2011.

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 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 excluded from Net revenues and Net earnings for the periods ended August 31, 2011 and included in Net revenues and Net earnings for the eight months ended August 31, 2010;
- b) an adjustment to reflect Global Commodities Group's physical commodities at market value;
- c) acquisition costs totaling \$4.4 million recognized in Professional services has been excluded from the periods ended August 31, 2011 and included in the eight months ended August 31, 2010;
- d) additional amortization expense on the acquired intangible assets and internally developed software of \$0.2 million and \$1.6 million for the three month and nine month periods ended August 31, 2011 and \$.07 million and \$1.9 million for the three and eight month periods ended August 31, 2010;
- e) the recording of income tax expense resulting from the pro forma adjustments before tax at an effective rate of 44.9% and 36.5% for the three month and nine month periods ended August 31, 2011 and 45.4% and 33.8% for the three and eight month periods ended August 31, 2010.

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

We generally invest our excess cash in money market funds and other short-term investments. Cash equivalents include highly liquid investments not held for resale with original maturities of three months or less. The following are financial instruments that are cash and cash equivalents that are deemed by us to be generally readily convertible into cash as of August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011	November 30, 2010
Cash and cash equivalents:		
Cash in banks	\$ 807,414	\$ 325,227
Money market investments	1,207,536	1,863,771
Total cash and cash equivalents	\$ 2,014,950	\$ 2,188,998
Cash and securities segregated (1)	\$ 5,321,012	\$ 1,636,755

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

**Note 5. Financial Instruments**

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis as of August 31, 2011 and November 30, 2010 by level within the fair value hierarchy (in thousands):

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As of August 31, 2011

	Level 1 (3)	Level 2 (3)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,523,277	\$ 141,909	\$ 11,412	\$	\$ 1,676,598
Corporate debt securities	7,438	4,150,581	55,230		4,213,249
Collateralized debt obligations		92,298	96,664		188,962
U.S. government and federal agency securities	1,932,703	230,780			2,163,483
Municipal securities		682,807	686		683,493
Sovereign obligations	1,994,296	690,154	128		2,684,578
Residential mortgage-backed securities		3,787,720	171,519		3,959,239
Commercial mortgage-backed securities		488,196	40,195		528,391
Other asset-backed securities		107,538	3,478		111,016
Loans and other receivables		364,518	164,163		528,681
Derivatives	967,618	1,557,787	155	(1,609,418)	916,142
Investments at fair value		24,405	92,428		116,833
Physical commodities		369,281			369,281
<b>Total financial instruments owned</b>	<b>\$ 6,425,332</b>	<b>\$ 12,687,974</b>	<b>636,058</b>	<b>\$ (1,609,418)</b>	<b>\$ 18,139,946</b>
Level 3 assets for which the firm does not bear economic exposure (1)			(68,987)		
Level 3 assets for which the firm bears economic exposure			\$ 567,071		
Cash and securities segregated and on deposit for regulatory purposes	\$ 407,096	\$	\$	\$	\$ 407,096
Securities received as collateral	\$ 40,401	\$	\$	\$	\$ 40,401
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,622,547	\$ 113,615	\$ 59	\$	\$ 1,736,221
Corporate debt securities	21,901	2,450,144			2,472,045
	2,381,050	351,749			2,732,799

U.S. government and federal agency securities					
Sovereign obligations	1,830,082	715,354			2,545,436
Residential mortgage-backed securities		81,955			81,955
Commercial mortgage-backed securities		117			117
Loans		144,188	11,458		155,646
Derivatives	674,857	1,836,983	3,601	(1,919,499)	595,942
Total financial instruments sold, not yet purchased	\$ 6,530,437	\$ 5,694,105	\$ 15,118	\$ (1,919,499)	\$ 10,320,161
Obligation to return securities received as collateral	\$ 40,401	\$	\$	\$	\$ 40,401

- (1) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

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(3) There were no significant transfers between Level 1 and Level 2 for the three-months and nine-months ended August 31, 2011.

As of November 30, 2010

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,453,744	\$ 89,430	\$ 22,619	\$	\$ 1,565,793
Corporate debt securities	25	3,557,183	73,408		3,630,616
Collateralized debt obligations		27,863	31,121		58,984
U.S. government and federal agency securities	2,322,204	210,422			2,532,626
Municipal securities		477,462	472		477,934
Sovereign obligations	1,600,762	580,651			2,181,413
Residential mortgage-backed securities		3,912,708	132,359		4,045,067
Commercial mortgage-backed securities		524,614	6,004		530,618
Other asset-backed securities		286,329	567		286,896
Loans and other receivables		206,977	227,596		434,573
Derivatives	279,811	176,069		(336,612)	119,268
Investments at fair value			77,784		77,784
<b>Total financial instruments owned</b>	<b>\$ 5,656,546</b>	<b>\$ 10,049,708</b>	<b>571,930</b>	<b>\$ (336,612)</b>	<b>\$ 15,941,572</b>
Level 3 assets for which the firm does not bear economic exposure (1)			(204,139)		
Level 3 assets for which the firm bears economic exposure			\$ 367,791		
Securities received as collateral	\$ 48,616	\$	\$	\$	\$ 48,616
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,554,489	\$ 83,845	\$ 38	\$	\$ 1,638,372
Corporate debt securities		2,375,925			2,375,925
U.S. government and federal agency securities	1,688,684	51,604			1,740,288

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Municipal securities		170			170
Sovereign obligations	2,180,667	814,163			2,994,830
Residential mortgage-backed securities		127,547			127,547
Commerical mortgage-backed securities		1,837			1,837
Loans		124,050	47,228		171,278
Derivatives	241,860	240,866	2,346	(425,520)	59,552
Total financial instruments sold, not yet purchased	\$ 5,665,700	\$ 3,820,007	\$ 49,612	\$ (425,520)	\$ 9,109,799
Obligation to return securities received as collateral	\$ 48,616	\$	\$	\$	\$ 48,616

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- (1) Consists of Level 3 assets which are either financed by nonrecourse secured financings or attributable to third party or employee noncontrolling interests in certain consolidated entities.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

We elected to apply the fair value option to loans and loan commitments made in connection with our investment banking and sales and trading activities and certain investments held by subsidiaries that are not registered broker-dealers. Loans and investments at fair value 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 was elected for loans and loan commitments and investments held by subsidiaries that are not registered broker-dealers because they are risk managed by us on a fair value basis. We have elected to apply the fair value option to certain secured financings that arise in connection with our securitization activities. At August 31, 2011 and November 30, 2010, \$0-million and \$85.7 million, respectively, in secured financings, are included within Other liabilities on the Consolidated Statement of Financial Position, are accounted for at fair value and are classified as Level 3 liabilities. Cash and cash equivalents, the cash component of Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations, 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 description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

*Corporate Equity Securities*

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

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

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

*Corporate Debt Securities*

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



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

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

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

***Collateralized Debt Obligations***

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

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

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

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

***Municipal Securities***

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

***Sovereign Obligations***

**G-7 Government and non-G-7 Government Bonds:** G-7 government and non-G-7 government bonds are measured based on quoted market prices obtained from external pricing services. G-7 government bonds are categorized within Level 1 of the fair value hierarchy and non-G-7 government bonds are generally categorized within Level 2.

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

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*Residential Mortgage-Backed Securities*

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

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

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

*Commercial Mortgage-Backed Securities*

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

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

*Other Asset-Backed Securities*

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

*Loans and Other Receivables*

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

Participation Certificates in GNMA Project and Construction Loans: Valuations of participation certificates in GNMA project and construction loans are based on observed market prices of recently executed purchases of

similar loans which are then used to derive a market implied spread. The market implied spread is used as the  
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primary input in estimating the fair value of loans at the measurement date. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

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

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

*Derivatives*

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

OTC Derivative Contracts: OTC derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily categorized in Level 2 of the fair value hierarchy given the observability of the inputs to the valuation models.

OTC options include OTC equity and commodity options measured using Black-Scholes models with key inputs impacting the valuation including the underlying security 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, and valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates 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 third parties.

*Physical Commodities*

Physical commodities include crude oil and refined products, natural gas, base and precious metals and agricultural products and are measured using observable inputs including spot prices and published indices. Physical commodities are categorized in Level 2 of the fair value hierarchy.

*Investments at Fair Value*

Investments at fair value include primarily investments in hedge funds, fund of funds, private equity funds and commodity funds, which are measured based on the net asset value of the funds provided by the fund managers and categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our German defined

benefits pension plan and shares in non-US exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and are categorized in Level 3 of the fair value hierarchy. Fair value for the shares in

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non-US exchanges and clearing houses is determined based on a third party model valuation and are categorized in Level 3 of the fair value hierarchy. The following tables provide further information about our investments in entities that have the characteristics of an investment company at August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011		
	Fair Value (f)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (a)			Monthly, Quarterly, Semiannually
High Yield Hedge Funds(b)	\$ 27,282	\$	
Fund of Funds(c)	993	127	Annually
Private Equity Funds(d)	881	5,897	
Commodity Funds(e)	21,198		Bi-Monthly
Commodity Funds(e)	14,569		
Total(g)	\$ 64,923	\$ 6,025	

	November 30, 2010		
	Fair Value (f)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (a)			Quarterly, Semiannually
High Yield Hedge Funds(b)	\$ 19,865	\$	
Fund of Funds(c)	1,561	131	Annually
Private Equity Funds(d)	2,622	6,792	
Other Investments(h)	26,567		At Will
Other Investments(h)	287		
Total(g)	\$ 50,902	\$ 6,923	

(a) This category includes investments in hedge funds that invest in both long and short equity securities in domestic and international markets in both public and private sectors. At August 31, 2011 and November 30, 2010, investments representing approximately 98% and 67%, respectively, of the fair value in this category are redeemable with 30 - 90 days prior written notice. At November 30, 2010, investments representing approximately 30% of fair value cannot be redeemed until the lock-up period expired on December 31, 2010. At August 31, 2011 and November 30, 2010, investments representing approximately 2% and 3% respectively, of fair value cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. We are unable to estimate when the underlying assets will be liquidated. At August 31, 2011 and November 30, 2010, an investment representing less than 1% of fair value has no

redemption provisions; distributions are received through the liquidation of the underlying assets of the fund which is estimated to be within one to two years.

- (b) This category includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions and distributions are received through the liquidation of the underlying assets of the funds. At August 31, 2011 and November 30, 2010, these investments are currently in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.
- (c) This category includes investments in fund of funds that invest in various private equity funds. At August 31, 2011 and November 30, 2010, approximately 95% and 41%, respectively, of the fair value of investments in this category is managed by us and has no redemption provisions. Distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to three years. At August 31, 2011 we requested redemption for investments representing approximately 5% of fair value at August 31, 2011, however we are unable to estimate when these funds will be returned. At November 30, 2010, investments representing approximately 59% of the fair value were approved for redemption and the funds' net asset values were received in the first quarter of 2011.

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- (d) At August 31, 2011 and November 30, 2010, investments representing approximately 81% and 74% respectively, include investments in private equity funds that invest in the equity of various private companies in the energy, technology, internet service and telecommunication service industries including acquired or restructured companies. These investments cannot be redeemed; distributions are received through the liquidation of the underlying assets of the funds and are expected to liquidate in one to ten years. At August 31, 2011, a fund that invests in Croatian companies represents approximately 19% of the total investment in private equity funds. At November 30, 2010, funds that invest in Croatian and Vietnamese companies represent approximately 26% of the total investment in private equity funds.
- (e) At August 31, 2011, this category included investments in funds that invest in various commodity futures contracts on futures exchanges and forward contracts, exchange-traded options on futures contracts and other commodity-related or commodity-linked financial instruments. These investments can be redeemed on the fifteenth and last calendar day of each month with prior written notice within five business days.
- (f) Fair value has been estimated using the net asset value derived from each of the funds' partner capital statements.
- (g) Investments at fair value, in the Consolidated Statements of Financial Condition at August 31, 2011 and November 30, 2010 include \$51.9 million and \$26.9 million, respectively, of direct investments which are not investment companies and therefore are not part of this disclosure table.
- (h) Other Investments at November 30, 2010 included investments in closed-ended funds that invested in Vietnamese equity and debt instruments.

At August 31, 2011 and November 30, 2010, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation basis as follows:

	August 31, 2011		November 30, 2010	
	Financial Instruments	Financial Instruments	Financial Instruments	Financial Instruments
	Owned	Sold, Not Yet Purchased	Owned	Sold, Not Yet Purchased
Exchange closing prices	10%	16%	9%	17%
Recently observed transaction prices	7%	2%	5%	2%
Data providers/pricing services	67%	74%	65%	60%
Broker quotes	1%	1%	12%	19%
Valuation techniques	15%	7%	9%	2%
	100%	100%	100%	100%

Pricing information obtained from external data providers may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period.





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The following is a summary of changes in fair value of our financial assets and liabilities that have been classified as Level 3 for the three months ended August 31, 2011 (in thousands):

	Three Months Ended August 31, 2011						Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2011  (1)
	Balance, May 31, 2011	Total gains/ losses (realized and unrealized)  (1)	Purchases, sales, settlements, and issuances, net	Transfers into Level 3	Transfers out of Level 3	Balance, August 31, 2011	
<b>Assets:</b>							
Financial instruments owned:							
Corporate equity securities	\$ 18,230	\$ 1,720	\$ 2,631	\$ 861	\$ (12,030)	\$ 11,412	\$ (154)
Corporate debt securities	39,688	(4,069)	6,230	14,425	(1,044)	55,230	(7,349)
Collateralized debt obligations	84,046	(3,417)	9,325	19,029	(12,319)	96,664	(5,413)
Municipal securities	858	11	(183)			686	1
Sovereign obligations			128			128	
Residential mortgage-backed securities	206,721	(12,527)	15,276	41,510	(79,461)	171,519	(12,917)
Commercial mortgage-backed securities	33,516	(3,652)	(292)	17,364	(6,741)	40,195	(3,690)
Other asset-backed securities	9,352	(329)	2,773	99	(8,417)	3,478	(329)
Loans and other receivables	261,056	710	(92,362)	27,077	(32,318)	164,163	(116)
Investments at fair value	71,008	2,397	19,045	11	(33)	92,428	(938)
<b>Liabilities:</b>							
Financial instruments sold, not yet purchased:							
Corporate equity securities	\$ 38	\$ 21	\$	\$	\$	\$ 59	\$ 20

Net derivatives (2)	2,739	696		11	3,446	687
Loans	6,398	(230)	5,290		11,458	(230)

(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 Three Months Ended August 31, 2011*

During the three months ended August 31, 2011, transfers of assets of \$120.4 million from Level 2 to Level 3 are primarily attributed to:

Non-agency residential mortgage-backed securities, collateralized debt obligations, and commercial mortgage backed securities due to less observable trading activity and vendor quotes that were not corroborated to market transactions;

Loans and other receivables due to lower number of contributors comprising vendor quotes to support classification in Level 2; and

Corporate debt securities due to lack of observable market transactions.

During the three months ended August 31, 2011, transfers of assets of \$152.4 million from Level 3 to Level 2 are primarily attributed to:

Non-agency residential mortgage-backed securities, collateralized debt obligations, other asset-backed securities, and commercial 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;

Loans and other receivables due to greater number of contributors comprising vendor quotes supporting classification into Level 2; and

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

During the three months ended August 31, 2011 there were no transfers of liabilities from Level 2 to Level 3 and \$.01 million transfers of liabilities from Level 3 to Level 2.

Net losses on Level 3 assets were \$19.2 million and net losses on Level 3 liabilities were \$0.5 million for the three months ended August 31, 2011. Net losses on Level 3 assets were primarily due to decreased valuations of various residential mortgage-backed securities, corporate debt, collateralized debt obligations, and commercial mortgage-backed securities, offset by sales of certain investments at fair value, corporate debt, and collateralized debt obligations.

The following is a summary of changes in fair value of our financial assets and liabilities that have been classified as Level 3 for the three months ended August 31, 2010 (in thousands):

	Three Months Ended August 31, 2010					Balance, August 31, 2010	Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2010  (1)
	Balance, May 31, 2010	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances	Transfers into Level 3	Transfers out of Level 3		
<b>Assets:</b>							
Financial instruments owned:							
Corporate equity securities	\$ 21,918	\$ 1,327	\$ 2,751	\$	\$ (417)	\$ 25,579	\$ (789)
Corporate debt securities	100,275	(714)	3,149	54	(1,480)	101,284	(813)
Collateralized debt obligations	21,957	(495)	352	4,492		26,306	(615)
U.S. issued municipal securities	436	(7)				429	(7)
Residential mortgage-backed securities	148,833	5,914	(8,770)	23,143	(1,281)	167,839	404
Commercial mortgage-backed securities	1,000		50		(1,000)	50	
Other asset-backed securities	369		(369)				
Loans and other receivables	145,181	(4,735)	(55,105)			85,341	(4,139)
Investments at fair value	72,297	8,060	(3,724)	2,723		79,356	9,145

**Liabilities:**

Financial instruments

sold, not yet

purchased:

Corporate equity

securities	\$ 38	\$	\$	\$ 58	\$	\$ 96	\$
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Corporate debt

securities	14,365	(1,275)	(13,090)				
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Net derivatives (2)	1,271	523		(500)	1,294	523	
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Loans	68,242		(42,130)		26,112		
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(1) Realized and unrealized gains/ losses are reported in Principal transactions in the Consolidated Statements of Earnings.

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

During the three months ended August 31, 2010, we had transfers of assets of \$30.4 million from Level 2 to Level 3, which are primarily attributed to transfers of non-agency mortgage-backed securities for which no recent trade activity was observed for purposes of determining observable inputs. Transfers of assets from Level 3 to Level 2 during the three months ended August 31, 2010 were \$4.2 million.

Net gains on Level 3 assets were \$9.4 million and net gains on Level 3 liabilities were \$0.8 million for the three months ended August 31, 2010. Net gains on Level 3 assets were attributed to sales of residential mortgage-backed securities and due to increased valuations of various alternative investments.

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The following is a summary of changes in fair value of our financial assets and liabilities that have been classified as Level 3 for the nine months ended August 31, 2011 (in thousands):

	Nine Months Ended August 31, 2011						Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2011 (1)
	Balance, November 30, 2010	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances, net	Transfers into Level 3	Transfers out of Level 3	Balance, August 31, 2011	
<b>Assets:</b>							
Financial instruments owned:							
Corporate equity securities	\$ 22,619	\$ 2,905	\$ (3,040)	\$ 816	\$ (11,888)	\$ 11,412	\$ (422)
Corporate debt securities	73,408	(487)	(22,533)	6,304	(1,462)	55,230	(5,906)
Collateralized debt obligations	31,121	10,423	54,351	779	(10)	96,664	9,632
Municipal securities	472	89	125			686	78
Sovereign obligations			128			128	
Residential mortgage-backed securities	132,359	(8,354)	64,906	29,901	(47,293)	171,519	(25,284)
Commercial mortgage-backed securities	6,004	1,625	25,574	6,992		40,195	112
Other asset-backed securities	567	(604)	3,156	926	(567)	3,478	(604)
Loans and other receivables	227,596	2,476	(57,473)	9,006	(17,442)	164,163	(1,452)
Investments at fair value	77,784	9,326	8,421		(3,103)	92,428	6,495
<b>Liabilities:</b>							
Financial instruments sold, not yet purchased:							
Corporate equity securities	\$ 38	\$ 21				\$ 59	\$ 20
Net derivatives (2)	2,346	1,100				3,446	1,200

Loans	47,228	(230)	(35,540)	11,458	(230)
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(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 Nine Months Ended August 31, 2011*

During the nine months ended August 31, 2011, transfers of assets of \$54.7 million from Level 2 to Level 3 are primarily attributed to:

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

Loans and other receivables due to lower number of contributors comprising vendor quotes to support classification in Level 2; and

Corporate debt securities due to lack of observable market transactions.

During the nine months ended August 31, 2011, transfers of assets of \$81.8 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;

Loans and other receivables due to greater number of contributors comprising vendor quotes supporting classification into Level 2; and

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

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During the nine months ended August 31, 2011 there were no transfers of liabilities from Level 2 to Level 3 or from Level 3 to Level 2.

Net gains on Level 3 assets were \$17.4 million and net losses on Level 3 liabilities were \$0.9 million for the nine months ended August 31, 2011. Net gains on Level 3 assets were primarily due to sales or settlements of various residential mortgage-backed securities, corporate debt securities, loans and other receivables, investments at fair value, and corporate equity securities, increased valuations of certain collateralized debt obligations and investments at fair value, offset by decreased valuations of certain residential mortgage-backed securities and corporate debt securities.

The following is a summary of changes in fair value of our financial assets and liabilities that have been classified as Level 3 for the eight months ended August 31, 2010 (in thousands):

	Eight Months Ended August 31, 2010					Balance, August 31, 2010	Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2010 (1)
	Balance, December 31, 2009	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances	Transfers into Level 3	Transfers out of Level 3		
<b>Assets:</b>							
Financial instruments owned:							
Corporate equity securities	\$ 43,042	\$ (20,125)	\$ 5,467	\$ 143	\$ (2,948)	\$ 25,579	\$ (22,524)
Corporate debt securities	116,648	(1,056)	(1,084)	75	(13,299)	101,284	1,060
Collateralized debt obligations	9,570	5,397	4,067	7,272		26,306	4,840
U.S. issued municipal securities	420	9				429	9
Sovereign obligations	196				(196)		
Residential mortgage-backed securities	136,496	21,857	(5,893)	23,435	(8,056)	167,839	6,888
Commercial mortgage-backed securities	3,215	11	(1,241)		(1,935)	50	
Other asset-backed securities	110		(110)				
Loans and other receivables	506,542	38,029	(302,151)		(157,079)	85,341	14,960
	65,564	13,744	(3,991)	4,039		79,356	11,029



Investments at fair  
value

**Liabilities:**

Financial

instruments sold, not  
yet purchased:

Corporate equity

securities	\$	\$	\$	\$	96	\$	\$	96	\$
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Corporate debt

securities		(2,210)	2,210						
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Net derivatives (2)	6,835	(3,585)			(1,956)	1,294		(3,585)	
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Loans	352,420	(344)	(214,670)		(111,294)	26,112			
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(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.

During the eight months ended August 31, 2010, we had transfers of assets of \$35.0 million from Level 2 to Level 3, which are primarily attributed to transfers of non-agency mortgage-backed securities for which no recent trade activity was observed for purposes of determining observable inputs. Additionally, transfers of assets from Level 2 to Level 3 are attributed to certain investments at fair value and investments in managed funds, which have little to no transparency as to trade activity. Transfers of assets from Level 3 to Level 2 during the eight months ended August 31, 2010 were \$183.5 million primarily attributed to corporate loans, for which we obtained additional market pricing data from third party sources during the quarter that provided additional transparency into the valuation process for these assets; residential mortgage-backed securities, for which market trades were observed in the period for either identical or similar securities; and corporate debt securities, for which market transactions were announced or market data on comparable securities used as a benchmark became more observable.

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Transfers of liabilities from Level 2 to Level 3 were \$0.1 million and transfers of liabilities from Level 3 to Level 2 were \$113.3 million for the eight months ended August 31, 2010. Transfers of liabilities from Level 3 to Level 2 during the three and eight months ended August 31, 2010 are primarily due to transfers of corporate loans, for which we obtained additional market pricing data from third party sources during the quarter that provided additional transparency into the valuation process for these liabilities.

Net gains on Level 3 assets were \$57.9 million and net gains on Level 3 liabilities were \$6.1 million for the eight months ended August 31, 2010. Net gains on Level 3 assets were primarily due to increased valuations of various alternative investments, sales of certain corporate loans and improved credit conditions and enhanced recovery estimates for certain residential mortgage-backed securities.

Level 3 cash instruments are frequently hedged with instruments classified within Level 1 and Level 2, and accordingly, gains and losses that have been reported in Level 3 are frequently offset by gains or losses attributable to instruments classified within Level 1 or Level 2 or by gains or losses on derivative contracts classified in Level 3 of the fair value hierarchy.

**Note 6. 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 Notes 5 and 19 for additional disclosures about derivative instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. In addition, we may be exposed to legal risks related to derivative activities. 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 firmwide 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.

A portion of our derivative activities is performed by Jefferies Financial Products, LLC ( JFP ), a market maker in commodity index products and a trader in commodity futures and options. JFP maintains credit intermediation facilities with a highly rated European bank (the Bank ), which allow JFP customers that require a counterparty with

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a high credit rating for commodity index transactions to transact with the Bank. The Bank simultaneously enters into offsetting transactions with JFP and receives a fee from JFP for providing credit support.

The following table presents the fair value and related number of derivative contracts at August 31, 2011 and November 30, 2010 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 (dollars in thousands):

	August 31, 2011			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$ 417,666	93,251	\$ 512,254	134,486
Foreign exchange contracts	501,063	105,139	546,885	109,033
Equity contracts	951,232	2,329,567	665,190	2,090,700
Commodity contracts	595,268	172,621	749,278	181,285
Credit contracts	60,331	85	41,834	58
<b>Total</b>	<b>2,525,560</b>	<b>2,700,663</b>	<b>2,515,441</b>	<b>2,515,562</b>
Counterparty/cash-collateral netting	(1,609,418)		(1,919,499)	
<b>Total per Consolidated Statement of Financial Condition</b>	<b>\$ 916,142</b>		<b>\$ 595,942</b>	

	November 30, 2010			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$ 77,295	41,166	\$ 126,281	43,243
Foreign exchange contracts	20,263	1,165	17,004	290
Equity contracts	275,760	1,166,365	249,229	1,133,464
Commodity contracts	62,727	103,562	76,911	35,071
Credit contracts	19,835	18	15,647	15
<b>Total</b>	<b>455,880</b>	<b>1,312,276</b>	<b>485,072</b>	<b>1,212,083</b>
Counterparty/cash-collateral netting	(336,612)		(425,520)	
<b>Total per Consolidated Statement of Financial Condition</b>	<b>\$ 119,268</b>		<b>\$ 59,552</b>	

The following table presents unrealized and realized gains and losses on derivative contracts for the three months ended August 31, 2011 and 2010, respectively, and the nine and eight months ended August 31, 2011 and 2010, respectively (in thousands):



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	Three Months Ended		Nine Months	Eight Months
	August 31, 2011	August 31, 2010	Ended August 31, 2011	Ended August 31, 2010
	Gain (Loss)	Gain (Loss)	Gain (Loss)	Gain (Loss)
Interest rate contracts	\$ (103,572)	\$ (90,599)	\$ (190,800)	\$ (127,358)
Foreign exchange contracts	2,200	(1,185)	(5,981)	(369)
Equity contracts	(74,564)	(14,345)	(178,433)	(61,613)
Commodity contracts	8,512	2,231	41,102	5,963
Credit contracts	11,383	449	17,123	(50,313)
<b>Total</b>	<b>\$ (156,041)</b>	<b>\$ (103,449)</b>	<b>\$ (316,989)</b>	<b>\$ (233,690)</b>

The following tables set forth the remaining contract maturity of the fair value of OTC derivative assets and liabilities as of August 31, 2011 (in thousands):

	OTC derivative assets (1) (2) (4)				
	0 - 12 Months	1 - 5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	Total
Commodity swaps, options and forwards	\$ 102,889	\$ 11,396	\$	\$ (782)	\$ 113,503
Equity options	17,992				17,992
Credit default swaps	468	33,476	11,381	(263)	45,062
Total return swaps	518	17			535
Foreign currency forwards, swaps and options	191,540	36,420	3	(9,973)	217,990
Fixed income forwards	92				92
Interest rate swaps and caps	46,301	88,646	142,426	(14,560)	262,813
<b>Total</b>	<b>\$ 359,800</b>	<b>\$ 169,955</b>	<b>\$ 153,810</b>	<b>\$ (25,578)</b>	<b>657,987</b>
Cross product counterparty netting					(17,588)
Total OTC derivative assets included in Financial instruments owned					\$ 640,399

(1) At August 31, 2011, we held exchange traded derivative assets and other credit enhancements of \$308.0 million.

(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 August 31, 2011, cash collateral

received was \$32.2 million.

- (3) Amounts represent the netting of receivable balances with payable balances within product category for the same counterparty across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.

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	OTC derivative liabilities (1)(2)(4)				Total
	0 - 12 Months	1 - 5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	
Commodity swaps, options and forwards	\$ 258,951	\$ 15,251	\$	\$ (782)	\$ 273,420
Equity options	11,079	1,895			12,974
Credit default swaps	1,001	23,309		(263)	24,047
Total return swaps		1,443			1,443
Foreign currency forwards, swaps and options	238,109	37,407		(9,973)	265,543
Interest rate swaps and caps	47,157	164,399	167,734	(14,560)	364,730
<b>Total</b>	<b>\$ 556,297</b>	<b>\$ 243,704</b>	<b>\$ 167,734</b>	<b>\$ (25,578)</b>	<b>942,157</b>
Cross product counterparty netting					(17,588)
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					\$ 924,569

- (1) At August 31, 2011, we held exchange traded derivative liabilities and other credit enhancements of \$13.7 million.
- (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 August 31, 2011, cash collateral pledged was \$342.3 million.
- (3) Amounts represent the netting of receivable balances with payable balances within product category for the same counterparty across maturity categories.
- (4) Derivative fair values include counterparty netting within product category. At August 31, 2011, 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	\$ 439,724
B to BBB	185,906
Lower than B	6,982
Unrated	7,787
<b>Total</b>	<b>\$ 640,399</b>

- (1) We utilize the credit ratings of external rating agencies when available. When external credit ratings are not available, we may 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 August 31, 2011 and November 30, 2010, is \$239.0 million and \$51.8 million, respectively, for which we have posted collateral of \$221.5 million and \$44.9 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on August 31, 2011 and November



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30, 2010, we would have been required to post an additional \$17.5 million and \$6.5 million, respectively, of collateral to our counterparties.

**Note 7. Collateralized Transactions**

We pledge securities in connection with repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. The pledge of our securities is in connection with our mortgage-backed securities, corporate bond, government and agency securities and equities businesses. Counterparties generally have the right to sell or repledge the collateral. Pledged securities that can be sold or repledged by the counterparty are included within Financial instruments owned and noted as Securities pledged on our Consolidated Statements of Financial Condition.

We receive securities as collateral in connection with resale agreements, securities borrowings and customer margin loans. In many instances, we are permitted by contract or custom to rehypothecate securities received as collateral. These securities may be used to secure repurchase agreements, enter into security lending or derivative transactions or cover short positions. At August 31, 2011 and November 30, 2010, the approximate fair value of securities received as collateral by us that may be sold or repledged was approximately \$25.9 billion and \$22.3 billion, respectively. At August 31, 2011 and November 30, 2010, a substantial portion of the securities received by us had been sold or repledged.

We also receive securities as collateral in connection with derivative transactions and in connection with certain securities for securities transactions in which we are the lender of securities. In instances where we are permitted to sell or repledge these securities, 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 August 31, 2011 and November 30, 2010, \$40.4 million and \$48.6 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

We engage in securities for securities transactions in which we are the borrower of securities and provide other securities as collateral rather than cash. As no cash is provided under these types of transactions, we, as borrower, treat these as noncash transactions and do not recognize assets or liabilities on the Consolidated Statements of Financial Condition. The securities pledged as collateral under these transactions are included within the total amount of Financial instruments owned and noted as Securities pledged on our Consolidated Statements of Financial Condition.

**Note 8. Securitization Activities and Variable Interest Entities*****Securitization Activities***

We engage in securitization activities related to mortgage loans and mortgage-backed and other asset-backed securities. In our securitization activities, we use special purpose entities ( SPEs ). Our securitization vehicles generally meet the criteria of variable interest entities; however we do not consolidate our securitization vehicles as we do not meet the characteristics of the primary beneficiary for these vehicles. See Variable Interest Entities in this footnote for further discussion on variable interest entities and our determination of the primary beneficiary.

We derecognize financial assets transferred in securitizations when we have relinquished control over such assets. If we have not relinquished control over transferred assets, the financial assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other liabilities. Transferred assets are carried at fair value prior to securitization, with unrealized gains and losses reflected in Principal transactions in the Consolidated Statements of Earnings. We act as placement or structuring agent in connection with the beneficial interests issued by securitization vehicles. Net revenues are recognized in connection with these activities.

Our continuing involvement in securitization vehicles to which we have transferred assets is limited to holding beneficial interests in these vehicles (i.e., securities issued by these vehicles), which are included within Financial instruments owned on the Consolidated Statements of Financial Condition, and servicing rights over certain

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transferred assets (i.e., project loans), which are included within Other assets on the Consolidated Statements of Financial Condition. We apply fair value accounting to the securities and the servicing rights are amortized over the period of the estimated net servicing income. We have not provided financial or other support to these securitization vehicles during the nine months ended August 31, 2011 and eight months ended August 31, 2010. 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 August 31, 2011 and November 30, 2010. Although not obligated, 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.

During the three and nine months ended August 31, 2011, we transferred assets of \$2,337.7 million and \$8,988.2 million, respectively, as part of our securitization activities in which we had continuing involvement, received cash proceeds of \$1,922.7 million and \$7,421.1 million, respectively, beneficial interests of \$434.6 million and \$1,624.3 million, respectively, servicing rights of \$0.3 million and \$0.3 million, respectively, and recognized Net revenues of \$17.0 million and \$45.2 million, respectively. During the three and eight months ended August 31, 2010, we transferred assets of \$3,236.8 million and \$8,493.9 million, respectively, as part of our securitization activities in which we had continuing involvement, received cash proceeds of \$2,710.7 million and \$6,982.0 million, respectively, beneficial interests of \$543.0 million and \$1,579.9 million, respectively, servicing rights of \$- and \$0.1 million, respectively, and recognized Net revenues of \$12.3 million and \$63.8 million, respectively. These transfers were accounted for as sales of assets. Assets received in the form of securities issued in these transfers were 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 5, Financial Instruments. The following tables present the total information regarding securitization vehicles to which we, acting as transferor, have transferred assets and for which we received sale accounting treatment at August 31, 2011 and November 30, 2010 (in millions):

Securitization Type	Assets obtained as proceeds	As of August 31, 2011	
		Total Assets (4)	Assets Retained
Residential mortgage-backed securities	\$ 1,490.1(3)	\$ 7,097.2	\$ 679.8(1)(2)
Commercial mortgage-backed securities	134.2(3)	3,076.4	73.0(1)(2)
Project loans	0.3(5)	90.0	0.3(6)

- (1) At August 31, 2011, the securities issued in these securitizations are comprised of government agency-backed securities.
- (2) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of September 30, 2011, we continue to hold approximately \$403.9 million and \$53.4 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.
- (3) Initial fair value of securities received on date of asset transfer that were issued by securitization vehicles.
- (4) Represents unpaid principal amount of assets in the securitization vehicles.

- (5) Initial fair value of servicing rights received on transferred project loans.
- (6) Represents amortized servicing rights on transferred project loans.

Securitization Type	Assets obtained	As of November 30, 2010	
	as proceeds	Total Assets (6)	Assets Retained
Residential mortgage-backed securities	\$ 2,203.1(3)	\$ 6,549.5	\$ 684.7(1)(2)
Commercial mortgage-backed securities	105.7(3)	2,005.4	40.4(1)(2)
Project loans	0.1(4)	107.8	0.1(5)

- (1) At November 30, 2010, the securities issued in these securitizations are comprised of government agency-backed securities.
- (2) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of September 30, 2011, we continue to hold approximately \$60.9 million and \$28.6 million of these Residential mortgage- backed securities and Commercial mortgage-backed securities, respectively, in inventory.
- (3) Initial fair value of securities received on date of asset transfer that were issued by securitization vehicles.
- (4) Initial fair value of servicing rights received on transferred project loans.
- (5) Represents amortized servicing rights on transferred project loans.

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(6) Represents unpaid principal amount of assets in the securitization vehicles.

The following table presents cash flows received during the three and nine months ended August 31, 2011 and three and eight months ended August 31, 2010 related to securitization vehicles to which we have transferred assets and received sale accounting (in millions):

	Three Months Ended (1)		Nine Months Ended	Eight Months Ended
	August 31, 2011	August 31, 2010	August 31, 2011 (1)	August 31, 2010 (1)
Residential mortgage-backed securities	\$ 24.8	\$ 11.5	\$ 55.3	\$ 26.3
Commercial mortgage-backed securities	2.0	0.7	4.0	0.9

(1) There were no beneficial interests held on project loans for the three and nine months ended August 31, 2011. Cash flows received on beneficial interests in securitization vehicles of project loans were de minimis for the three and eight months ended August 31, 2010.

***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 rather than upon the occurrence of certain events. 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. 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.

**VIEs Where We Are The Primary Beneficiary**

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 August

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31, 2011 and November 30, 2010 (in millions). 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.

	August 31, 2011			November 30, 2010		
	High	Mortgage- and Asset-backed		High	Mortgage- and Asset-backed	
	Yield	Securitized	Other	Yield	Securitized	Other
Cash	\$ 283.7	\$	\$ 0.3	\$ 202.6	\$	\$
Financial instruments owned	779.2	11.6	7.3	889.8	101.4	21.0
Securities borrowed	238.9			455.8		
Receivable from brokers and dealers	177.8			195.5		
Other	24.7			11.6	0.1	
	\$ 1,504.3	\$ 11.6	\$ 7.6	\$ 1,755.3	\$ 101.5	\$ 21.0
Financial instruments sold, not yet purchased	\$ 383.6	\$	\$	\$ 602.6	\$	\$
Payable to brokers and dealers	134.5			157.1		
Mandatorily redeemable interests (1)	1,047.9			1,047.9		
Promissory note (2)			4.1			4.4
Secured financing (3)		11.6			101.4	
Other	36.9		0.3	36.3	0.1	
	\$ 1,602.9	\$ 11.6	\$ 4.4	\$ 1,843.9	\$ 101.5	\$ 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 in the Consolidated Statements of Financial Condition was approximately \$313.1 million and \$315.9 million at August 31, 2011 and November 30, 2010, respectively.
- (2) The promissory note represents an amount due to us and is eliminated in consolidation.
- (3) Secured financing is included within Accrued expenses and other liabilities in the Consolidated Statements of Financial Condition. Approximately \$8.9 million and \$15.7 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at August 31, 2011 and November 30, 2010, respectively.

*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, LLC ( JLCP ). JHYT is a registered broker-dealer engaged in the secondary sales and trading of high yield securities 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 National Corporation ( Leucadia ), a significant holder of our common stock, 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. The arrangement term is through April 2013, with an option to extend. As a result of agreements entered into with Leucadia in April 2008, any request to Leucadia for additional capital investment in JHYH requires the unanimous consent of our Board of Directors, including the consent of any Leucadia designees to our board. We have determined that JHYH, JSOP and JESOP meet the

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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 August 31, 2011 and November 30, 2010, the carrying amount of our variable interests was \$324.9 million and \$328.2 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.

*Mortgage and asset-backed securitizations.* 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 beneficial interests (i.e., securities) issued by the securitization vehicle. Our variable interests in this vehicle consist of beneficial interests 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.

During the quarter, we sold beneficial interests in a mortgage-backed securitization vehicle for which we were previously the primary beneficiary. Upon the sale of our beneficial interests in 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 this mortgage-backed securitization vehicle during the third quarter.

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

**VIEs Where We Have a Variable Interest**

We also hold variable interests in VIEs in which we are not the primary beneficiary and accordingly do not consolidate. We do not consolidate these VIEs as we do not have the power to direct the activities that most significantly impact their economic performance. Other than Jefferies Employees Partners IV, LLC, as discussed below, we have not provided financial or other support to these VIEs during the nine months ended August 31, 2011 or eleven months ended November 30, 2010 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 August 31, 2011 and November 30, 2010.

We have aggregated certain nonconsolidated VIEs based upon principal business activity. The following tables present the total assets of nonconsolidated VIEs in which we hold variable interests, our maximum exposure to loss from these nonconsolidated VIEs, and the carrying amount of our interests in these nonconsolidated VIEs at August 31, 2011 and November 30, 2010 (in millions):



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		VIE Assets	August 31, 2011 Maximum exposure to loss in non- consolidated VIEs	Carrying Amount
Collateralized loan obligations		\$ 1,794.1	\$ 45.5 <sup>(2)</sup>	\$ 45.5
Mortgage- and asset-backed vehicles	Non-agency (1)	92,722.8	847.6 <sup>(2)</sup>	847.6
Mortgage- and asset-backed vehicles	Agency (1)	7,296.5	2,090.7 <sup>(2)</sup>	2,090.7
Asset management vehicle		1,167.1	3.0 <sup>(2)</sup>	3.0
Private equity vehicles		96.3	131.5	64.0
<b>Total</b>		<b>\$ 103,076.8</b>	<b>\$ 3,118.3</b>	<b>\$ 3,050.8</b>

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at August 31, 2011.

(2) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment.

		VIE Assets	November 30, 2010 Maximum exposure to loss in non- consolidated VIEs	Carrying Amount
Collateralized loan obligations		\$ 1,937.8	\$ 35.3 <sup>(2)</sup>	\$ 35.3
Mortgage- and asset-backed vehicles	Non-agency (1)	91,285.1	852.1 <sup>(2)</sup>	852.1
Mortgage- and asset-backed vehicles	Agency (1)	7,464.8	1,840.9 <sup>(2)</sup>	1,840.9
Asset management vehicle		760.4	18.1 <sup>(2)</sup>	18.1
Private equity vehicles		63.9	131.0	49.7
<b>Total</b>		<b>\$ 101,512.0</b>	<b>\$ 2,877.4</b>	<b>\$ 2,796.1</b>

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2010.

(2) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment.

*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. No gain or loss was recognized upon the initial consolidation of these CLOs. Subsequently, we sold and assigned our management agreements for the CLOs to a third party; thus, we no longer have the power to direct the most significant activities of the CLOs. Upon the assignment of the management agreements in the first quarter of 2010, we deconsolidated the CLOs. Our remaining variable interests in the CLOs subsequent to the assignment of our management agreement consist of debt securities and a right to a portion of the CLOs' management and incentive fees. The debt securities are accounted for at fair value and are included in Financial instruments owned at August 31, 2011

and November 30, 2010 on our Consolidated Statements of Financial Condition. The carrying amount of the debt securities was \$12.4 million and \$8.8 million at August 31, 2011 and November 30, 2010, respectively. The 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.

In addition, we have variable interests in Babson Loan Opportunity CLO, Ltd., a third party managed CLO. This VIE has assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Our variable interests in this VIE consists of debt securities. The fair value of our interests in this VIE consist of a direct interest and an indirect interest via Jefferies Finance, LLC. The direct investment is accounted for at fair value and included in Financial instruments owned in our Consolidated Statements of Financial Condition. Our exposure to loss is limited to our investments in the debt securities.

*Mortgage- and Asset-Backed Vehicles.* We purchase and sell variable interests in VIEs, which primarily issue mortgage-backed and other asset-backed securities, in connection with our trading and market-making activities. Our

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variable interests in these VIEs consist 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. We include our variable interests in agency mortgage and asset-backed vehicles in the disclosure of our variable interests in VIEs.

*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 August 31, 2011 and November 30, 2010 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees. The equity interests are accounted for on the equity method and included in Investments in managed funds on our Consolidated Statements of Financial Condition.

*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 USA Fund). As of August 31, 2011 and November 30, 2010, we funded approximately \$17.9 million and \$9.3 million, respectively, of our commitment. The USA Fund has assets consisting primarily of private equity and equity related investments. Our investment in the USA Fund is accounted for on the equity method and included in Investments in managed funds in our Consolidated Statements of Financial Condition. The carrying amount of our equity investment was \$17.6 million and \$9.1 million at August 31, 2011 and November 30, 2010, respectively. Our exposure to loss is limited to our equity commitment.

We have variable interests in Jefferies Employees Partners IV, LLC ( JEP IV ). JEP IV has assets consisting primarily of private equity and equity related investments. Our variable interests in JEP IV consist of an equity investment and a loan commitment. Our equity investment in JEP IV is accounted for on the equity method and included in Investments in managed funds in our Consolidated Statements of Financial Condition. The carrying amount of our equity investment was \$2.8 million and \$1.8 million at August 31, 2011 and November 30, 2010, respectively. During the fourth quarter of 2010, we repaid outstanding debt of JEP IV on its behalf and committed to make loans to JEP IV in an aggregate principal amount of up to \$54.0 million. As of August 31, 2011 and November 30, 2010, we funded approximately \$43.6 million and \$38.8 million, respectively, of the aggregate principal balance, which is included in Other investments in our Consolidated Statements of Financial Condition. Our exposure to loss is limited to our equity investment and the aggregate amount of our loan commitment.

**Note 9. Jefferies Finance LLC**

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, LLC ( JFIN ), a joint venture entity created for the purpose of offering senior loans to middle market and growth companies. JFIN 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. JFIN can also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. JFIN also purchases syndicated loans in the secondary market, including loans that are performing, stressed and distressed loan obligations.

On March 1, 2011, we and MassMutual increased our equity commitments to JFIN, with an incremental \$250 million committed by each partner. Including the incremental \$250 million from each partner, the total committed equity capital of JFIN is \$1.0 billion. As of August 31, 2011, we have funded \$107.5 million of our aggregate \$500 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 the loan underwritings by JFIN. The Secured Revolving Credit Facility bears interest

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on the interest rates of the related JFIN 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 August 31, 2011, we have funded \$194.7 million of our \$500 million commitment.

Our total commitment under a revolving line of credit increased from \$150 million to \$500 million during the first quarter of 2011 and was scheduled to renew on September 4, 2011, was terminated on March 1, 2011. At November 30, 2010, the amount funded under the revolving line of credit was \$-0-.

Our investment in JFIN is accounted for under the equity method of accounting and is included in Other investments in the Consolidated Statements of Financial Condition. Equity method gains and losses on JFIN are included in Equity income in the Consolidated Statements of Earnings.

The following is a summary of selected financial information for JFIN as of August 31, 2011 and November 30, 2010 (in millions):

	August 31, 2011	November 30, 2010
Total assets	\$ 1,369.6	\$ 890.4
Total liabilities	975.2	566.4
Total equity	394.4	324.0
Our total equity balance	197.2	162.0

JFIN's net earnings were \$10.5 million and \$18.0 million for the three months ended August 31, 2011 and 2010, respectively, and \$69.3 million and \$48.2 million for the nine months ended August 31, 2011 and the eight months ended August 31, 2010, respectively.

During the nine months ended August 31, 2011, we purchased participation certificates in loans originated by JFIN of \$477.2 million, which were subsequently redeemed in full during the same period.

We engage in debt capital markets transactions with JFIN related to the originations of loans by JFIN. In connection with such transactions, we earned fees of \$16.6 million and \$8.0 million during the three months ended August 31, 2011 and 2010, respectively, and \$52.0 million and \$19.0 million during the nine months ended August 31, 2011 and the eight months ended August 31, 2010, respectively. In addition, in relation to these transactions we also paid fees to JFIN of \$2.9 million and \$1.7 million during the three months ended August 31, 2011 and 2010, respectively, and \$9.3 million and \$12.2 million during the nine months ended August 31, 2011 and the eight months ended August 31, 2010, respectively.

**Note 10. Goodwill and Other Intangible Assets**

*Goodwill*

The following table is a summary of the changes to goodwill for the nine months ended August 31, 2011 (in thousands):

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	Nine Months Ended August 31, 2011
Balance, at beginning of period	\$ 364,964
Add: Contingent consideration	825
Add: Translation adjustments	1,034
 Balance, at end of period	 \$ 366,823

Contingent consideration recorded during the nine months ended August 31, 2011 relates to the lapse of certain conditions as specified in the purchase agreements associated with the acquisition of LongAcre Partners in 2007. During the three months ended August 31, 2011, a payment of \$754,000 for contingent consideration was made to the selling owners of LongAcre Partners, which was accrued to goodwill in previous periods.

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 estimated net book value. Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. We completed our annual test of goodwill impairment as of June 1, 2011. No impairment was identified.

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

*Intangible Assets*

The following table presents the gross carrying amount, accumulated depreciation and net carrying amount of identifiable intangible assets and weighted average amortization period as of August 31, 2011 and November 30, 2010 (in thousands):

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	August 31, 2011			Weighted average
	Gross cost	Accumulated amortization	Net carrying amount	remaining lives (years)
Exchange and clearing organization membership interests and registrations	\$ 11,219	\$	\$ 11,219	N/A
Customer relationships	10,542	(2,425)	8,117	6.8
Trade name	1,300	(144)	1,156	1.3
Other	100	(7)	93	14.0
	\$ 23,161	\$ (2,576)	\$ 20,585	

	November 30, 2010			Weighted average
	Gross cost	Accumulated amortization	Net carrying amount	remaining lives (years)
Customer relationships	\$ 4,742	\$ (1,726)	\$ 3,016	4.2
Other	100	(2)	98	14.8
	\$ 4,842	\$ (1,728)	\$ 3,114	

The aggregate amortization expense for the three months and nine months ended August 31, 2011 was \$0.4 million and \$0.8 million, respectively, and for the three and eight months ended August 31, 2010 was \$0.2 million and \$0.5 million, respectively. Amortization expense is included in Other expenses on the Consolidated Statements of Earnings.

The estimated future amortization expense for fiscal years ended November 30, 2011 through 2016 are as follows (in thousands):

Fiscal Year	Estimated future amortization expense
2011 (Period from September to November)	\$ 570
2012	2,203
2013	1,243
2014	853
2015	695
2016	695

*Mortgage Servicing Rights*

We hold servicing rights to certain military housing mortgage loans, which 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 income 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 portfolio. 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 \$1.0 million and \$2.9 million during the three and nine months ended August 31,

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2011, respectively, and \$0.9 million and \$2.6 million during the three and eight months ended August 31, 2010, respectively.

The following presents the activity in the balance of these servicing rights for the nine months ended August 31, 2011 and eleven months ended November 30, 2010 (in thousands):

	Nine Months Ended August 31, 2011	Eleven Months Ended November 30, 2010
Balance, beginning of period	\$ 8,263	\$ 8,500
Add: Acquisition	347	87
Less: Amortization	(278)	(324)
Balance, end of period	\$ 8,332	\$ 8,263

We estimate the fair value of these servicing rights was \$15.8 million and \$16.1 million at August 31, 2011 and November 30, 2010, respectively. Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, the fair value of servicing rights is estimated using a discounted cash flow model, which projects future cash flows discounted at a risk-adjusted rate based on recently observed transactions for interest-only bonds backed by military housing mortgages. Estimated future cash flows consider contracted servicing fees and costs to service. Given the underlying asset class, assumptions regarding repayment and delinquencies are not significant to the fair value.

**Note 11. 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 instruments owned or clearing related balances. We had no outstanding unsecured or secured bank loans as of August 31, 2011 and November 30, 2010. Average daily bank loans for the nine months ended August 31, 2011 and the eleven months ended November 30, 2010 were \$16.0 million and \$23.8 million, respectively.

In connection with the acquisition of the Global Commodities Group from Prudential on July 1, 2011, Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited entered into a \$1.0 billion revolving credit facility with Prudential with an expiry date of September 29, 2011. The borrowings under the facility were used to provide working capital for the Global Commodities Group. The credit facility contains financial covenants that significantly restrict the ability of the borrowers to pay dividends and make other payments or advances to Jefferies Group, Inc. or our other subsidiaries. Borrowings outstanding under the credit facility were \$353.0 million at August 31, 2011. On September 16, 2011, the credit facility with Prudential was terminated and repaid in full.

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**Note 12. 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 August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011	November 30, 2010
7.75% Senior Notes, due 2012 (effective interest rate of 8.08%) (1)	\$ 305,232	\$ 305,969
5.875% Senior Notes, due 2014 (effective interest rate of 6.00%)	249,234	249,048
3.875% Senior Note, due 2015 (effective interest rate of 3.92%)	499,140	499,000
5.5% Senior Notes, due 2016 (effective interest rate of 5.57%)	348,997	348,854
5.125% Senior Notes, due 2018 (effective interest rate of 5.18%)	797,342	
8.5% Senior Notes, due 2019 (effective interest rate of 8.31%)	707,977	708,529
6.875% Senior Note, due 2021 (effective interest rate of 6.99%)	545,737	545,510
6.45% Senior Debentures, due 2027 (effective interest rate of 6.55%)	346,633	346,544
3.875% Convertible Senior Debentures, due, 2029 (effective interest rate of 7.20%)	287,944	282,577
6.25% Senior Debentures, due 2036 (effective interest rate of 6.37%)	492,742	492,650
	\$4,580,978	\$3,778,681

(1) Our 7.75% Senior Notes, due in 2012, are payable in March 2012.

On April 8, 2011, we issued 5.125% Senior Notes, due in 2018, with a principal amount of \$800.0 million and received proceeds of \$794.6 million. On November 2, 2010, we issued 3.875% Senior Notes, due in 2015, with a principal amount of \$500.0 million and received proceeds of \$497.7 million. On June 24, 2010 and July 15, 2010, we issued 6.875% Senior Notes, due in 2021, with a principal amount of \$400.0 million and \$150.0 million, respectively, and received proceeds of \$394.2 million and \$148.7 million, respectively.

We previously issued 3.875% convertible senior debentures (the debentures), due in 2029, with an aggregate principal amount of \$345.0 million, each \$1,000 debenture currently convertible into 26.0754 shares of our common stock (equivalent to a conversion price of approximately \$38.35 per share of common stock). In addition to ordinary interest, beginning on 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. We previously entered into a fair value hedge with no ineffectiveness using interest rate swaps in order to convert \$200 million aggregate principal amount of unsecured 7.75% senior notes due March 15, 2012 into floating rates based upon LIBOR. During the third quarter of 2007, we terminated these interest rate swaps and received cash consideration of \$8.5 million, net of accrued interest. The \$8.5 million basis is being amortized as a reduction in

Interest expense of approximately \$1.9 million per year over the remaining life of the notes through March 2012.

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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 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. 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. There were no borrowings outstanding under the Credit Facility at August 31, 2011.

**Note 13. 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 August 31, 2011, 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.

**Note 14. 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 our noncontrolling interests at August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011	November 30, 2010
JSOP	\$ 279,033	\$ 282,469
JESOP	32,277	32,645
Other (1)	5,643	17,862
Noncontrolling interests	\$ 316,953	\$ 332,976

(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 our 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 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 three and nine months ended August 31, 2011 and three and eight months ended August 31, 2010, respectively, because all other comprehensive income or loss is attributed to us.

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*Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries*

Certain interests in consolidated subsidiaries meet the definition of a mandatorily redeemable financial instrument and require reclassification as liabilities 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 by third parties 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 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 and 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 interest of consolidated subsidiaries on our Consolidated Statements of Earnings. The carrying amount of the Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately \$313.1 million and \$315.9 million at August 31, 2011 and November 30, 2010, respectively.

**Note 15. Benefit Plans***Jefferies Employees Pension Plan*

We have a defined benefit pension plan, Jefferies Employees Pension Plan, which is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers certain of our employees. Benefits are based on years of service and the employee's career average pay. Our funding policy is to contribute to the plan at least the minimum amount required for funding purposes under the Internal Revenue Code. If the difference between the actual return on plan assets and the expected return on plan assets exceeds 10% of the greater of the market-related value of plan assets or projected plan liabilities, the excess net gain or loss is amortized as a component of net periodic pension cost. Effective December 31, 2005, benefits under the pension plan have been frozen. Accordingly, there are no further benefit accruals for future service after December 31, 2005.

The components of our net periodic pension cost for the three months ended August 31, 2011 and 2010 and the nine and eight months ended August 31, 2011 and 2010, respectively (in thousands), are as follows:

	Three Months Ended		Nine Months Ended	Eight Months Ended
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Net pension cost included the following components:				
Service cost (1)	\$ 44	\$ 50	\$ 131	\$ 134
Interest cost on projected benefit obligation	591	603	1,774	1,630
Expected return on plan assets	(644)	(644)	(1,933)	(1,738)
Net loss amortization	223	171	671	464
Net periodic pension cost	\$ 214	\$ 180	\$ 643	\$ 490

(1) Service cost relates to administrative expenses incurred during the periods.

We contributed \$2.0 million and \$2.0 million to our pension plan during the three and nine months ended August 31, 2011, respectively. We do not anticipate making further contributions to the plan during the remainder of the fiscal

year.

*German Pension Plan*

In connection with the acquisition of the Global Commodities Group from Prudential on July 1, 2011, we acquired a German defined benefits pension plan for the benefit of eligible employees in that territory and a liability of \$21.8 million was recognized on July 1, 2011 as a pension obligation within Accrued expenses and other liabilities as part of

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purchase accounting. The German pension plan is reinsured by insurance contracts held in the name of Jefferies Bache Limited with multi-national insurers. The investment in these insurance contracts are recognized in Financial instruments owned. Investments at fair value in the Consolidated Statements of Financial Condition at August 31, 2011. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) will be met in full 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.

Our net periodic pension cost for the two months ended August 31, 2011 was \$190,000, comprised of service cost and interest cost on the projected benefit obligation of \$6,000 and \$184,000, respectively. We did not contribute to the plan during the two months ended August 31, 2011 and do not anticipate making a contribution during the remainder of the fiscal year.

**Note 16. 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 \$49.8 million and \$33.4 million for the three months ended August 31, 2011 and 2010, respectively, and \$160.7 million and \$92.8 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. The net tax (deficiency) benefit related to share-based compensation plans recognized in additional paid-in capital was (\$0.8) million and \$0.1 million during the three months ended August 31, 2011 and 2010, respectively, and \$31.6 million and \$2.8 million during the nine months ended August 31, 2011 and eight months ended August 31, 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 \$33.3 million and \$2.1 million related to share-based compensation in cash flows from financing activities for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. Effective for the year ended November 30, 2010, we changed our tax year end to coincide with the recent change in our fiscal year end. As a result of this change, the timing of certain deductions related to share-based compensation plans have changed in certain jurisdictions. Consequently, approximately \$20.9 million of the net tax benefit recognized in additional paid-in capital during the three months ended February 28, 2011 relates to share-based compensation awards that vested during the eleven months ended November 30, 2010; including \$15.4 million of net tax benefit related to share-based compensation initially recorded to additional paid-in capital in the three months ended March 31, 2010 and reversed upon our change in fiscal year end in the second quarter 2010. Additionally, we expect to recognize a net tax benefit of \$26.2 million related to share-based compensation awards that vested during January through August 2011 in additional paid-in capital during the three month period ending February 29, 2012.

As of August 31, 2011, we had \$185.1 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 3.3 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 deferred cash awards.

The following are descriptions of the compensation plans sponsored by us and the activity of such plans for the three and nine months ended August 31, 2011 and three and eight months ended August 31, 2010:



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**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, restricted stock units, 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. Restricted stock units give a participant the right to receive fully vested shares at the end of a specified deferral period. One advantage of restricted stock units, as compared to restricted stock, is that the period during which the award is deferred as to settlement can be extended past the date the award becomes nonforfeitable, allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, restricted stock units 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.

We grant restricted stock and restricted stock units as part of year-end compensation. Restricted stock and restricted stock units 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 precedes the grant date for restricted stock and restricted stock units 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. We accrued compensation expense of approximately \$37.5 million and \$21.0 million for the three months ended August 31, 2011 and 2010, respectively, and \$112.5 million and \$64.0 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively, related to restricted stock and restricted stock units expected to be granted as part of our year-end compensation.

In addition to year end compensation awards, we grant restricted stock and restricted stock units 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 restricted stock units 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 restricted stock units amounted to \$49.6 million and \$33.1 million for the three months ended August 31, 2011 and 2010, respectively, and \$159.0 million and \$91.5 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. Total compensation cost includes estimated year-end compensation and the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

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The following table details the activity of restricted stock:

	Nine Months Ended August 31, 2011 (Shares in 000s)	Weighted Average Grant Date Fair Value
<b>Restricted stock</b>		
Balance, beginning of period	4,918	\$ 22.82
Grants (1)	2,798	\$ 22.96
Forfeited	(55)	\$ 23.29
Fulfillment of service requirement (1)	(1,307)	\$ 22.41
Balance, end of period (2)	6,354	\$ 22.96

(1) Includes approximately 444,000 shares of restricted stock granted with no future service requirements during the nine months ended August 31, 2011. These shares are shown as granted and vested during the period. The weighted average grant date fair value of these shares was approximately \$23.53.

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

The following table details the activity of restricted stock units:

	Nine Months Ended August 31, 2011 (Shares in 000s)		Weighted Average Grant Date Fair Value	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
<b>Restricted stock units</b>				
Balance, beginning of period	3,998	24,730	\$ 24.04	\$ 14.74
Grants	1,356	303(1)	\$ 21.13	\$ 21.78
Distribution of underlying shares		(4,953)	\$	\$ 16.28
Forfeited	(16)	(279)	\$ 16.54	\$ 19.23
Fulfillment of service requirement	(301)	301	\$ 20.06	\$ 20.06
Balance, end of period	5,037	20,102	\$ 23.53	\$ 14.47

(1) Includes approximately 280,000 dividend equivalents declared on restricted stock units during the nine months ended August 31, 2011. The weighted average grant date fair value of these dividend equivalents was approximately \$21.60.

The aggregate fair value of restricted stock and restricted stock units granted with a service requirement that vested during the nine months ended August 31, 2011 and eight months ended August 31, 2010 was \$27.0 million and

\$8.5 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 \$11.0 million and \$3.4 million during the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively.

*Stock Options*

The fair value of all option grants were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for all fixed option grants in 2004: dividend yield of 0.9%; expected volatility of 32.6%; risk free interest rates of 3.0%; and expected lives of 4.8 years. There are no option grants subsequent to 2004. A summary of our stock option activity for the nine months ended August 31, 2011 is presented below (amounts in thousands, except per share data):

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(Shares in 000s)	Options	Nine Months Ended August 31, 2011 Weighted Average Exercise Price
Outstanding at beginning of period	26	\$ 9.89
Exercised	(12)	\$ 8.03
Outstanding at end of period	14	\$ 11.44
Options exercisable at end of period	14	\$ 11.44

The total intrinsic value of stock options exercised during the nine months ended August 31, 2011 and eight months ended August 31, 2010 was \$161,000 and \$449,000, respectively. Cash received from the exercise of stock options during the nine months ended August 31, 2011 and eight months ended August 31, 2010 totaled \$95,000 and \$108,000, respectively. During the nine months ended August 31, 2011, we realized a tax benefit of \$181,000 related to stock option exercises that occurred during the eleven months ended November 30, 2010; including \$99,000 of tax benefits related to stock options exercises initially recorded to additional paid-in capital during the three months ended March 31, 2010 and reversed upon our change in fiscal year end in the second quarter 2010 (see above for discussion on the timing of certain deductions as a result of our change in year-end). We did not realize a tax benefit related to stock options exercised during the nine months ended August 31, 2011, and expect to realize a tax benefit of \$60,000 related to these exercises during the first quarter 2012. There was no tax benefit related to stock options realized during the eight months ended August 31, 2010.

The table below provides additional information related to stock options outstanding at August 31, 2011: Dollars and shares in thousands, except per share data

	Outstanding, Net of Expected Forfeitures	Options Exercisable
August 31, 2011		
Number of options	14	14
Weighted-average exercise price	11.44	11.44
Aggregate intrinsic value	70	70
Weighted-average remaining contractual term, in years	1.11	1.11

At August 31, 2011, tax benefits expected to be recognized in equity upon exercise of vested options are approximately \$26,000.

**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 vest three years after the date of grant and are expensed over the requisite service period. 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 Statement of Earnings, was \$0.2 million and \$0.3 million for the three months ended August 31, 2011 and 2010, respectively, and \$1.5 million and \$1.2 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively.

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

**Deferred Compensation Plan.** We also have a Deferred Compensation Plan, which was established in 2001. In 2011 and 2010, employees with annual compensation of \$200,000 or more were eligible to defer compensation on a pre-tax basis by investing in our common stock at a discount ( DCP shares ) and/or stock options (prior to 2004) or by specifying the return in other alternative investments. 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 \$45,000 and \$22,000 for the three months ended August 31, 2011 and 2010, respectively, and \$244,000 and \$88,000 for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. As of August 31, 2011, there were approximately 2,368,000 shares issuable under the DCP Plan.

**Employee Stock Ownership Plan.** We have an Employee Stock Ownership Plan ( ESOP ) which was established in 1988. We had no contributions and no compensation cost related to the ESOP during the three and nine months ended August 31, 2011 and three and eight months ended August 31, 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 \$1.0 million and \$0.9 million for the three months ended August 31, 2011 and 2010, respectively, and \$5.4 million and \$4.3 million for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively,

**Deferred 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. We amortize these awards to compensation expense over the relevant service period. At August 31, 2011 and November 30, 2010, the remaining unamortized amount of these awards was \$236.9 million and \$104.1 million, respectively.

**Note 17. 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 three and nine months ended August 31, 2011 and the three and eight months ended August 31, 2010 (in thousands, except per share amounts):

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	Three Months Ended		Nine Months Ended	Eight Months Ended
	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
<b>Earnings for basic earnings per common share:</b>				
Net earnings	\$ 54,010	\$ 42,625	\$ 240,755	\$ 162,817
Net (loss) earnings to noncontrolling interests	(14,265)	(2,129)	4,523	1,865
Net earnings to common shareholders	68,275	44,754	236,232	160,952
Less: Allocation of earnings to participating securities (1)	3,410	1,674	11,136	5,452
Net earnings available to common shareholders	\$ 64,865	\$ 43,080	\$ 225,096	\$ 155,500
<b>Earnings for diluted earnings per common share:</b>				
Net earnings	\$ 54,010	\$ 42,625	\$ 240,755	\$ 162,817
Net (loss) earnings to noncontrolling interests	(14,265)	(2,129)	4,523	1,865
Net earnings to common shareholders	68,275	44,754	236,232	160,952
Add: Convertible preferred stock dividends (2)	1,016		3,047	2,708
Less: Allocation of earnings to participating securities (1)	3,415	1,674	11,116	5,465
Net earnings available to common shareholders	\$ 65,876	\$ 43,080	\$ 228,163	\$ 158,195
<b>Shares:</b>				
Average common shares used in basic computation	218,426	195,601	209,544	196,943
Stock options	5	11	9	14
Mandatorily redeemable convertible preferred stock (2)	4,110		4,108	4,105
Convertible debt				
Average common shares used in diluted computation	222,541	195,612	213,661	201,062
<b>Earnings per common share:</b>				
Basic	\$ 0.30	\$ 0.22	\$ 1.07	\$ 0.79

Diluted	\$	0.30	\$	0.22	\$	1.07	\$	0.79
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- (1) Represents dividends declared during the period on participating securities plus an allocation of undistributed earnings to participating securities. 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 11,239,000 and 7,661,000 for the three months ended August 31, 2011 and 2010, respectively, and 10,297,000 and 6,797,000 for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively. Dividends declared on participating securities during the three and nine months ended August 31, 2011 amounted to approximately \$934,000 and \$2,414,000, respectively, and \$559,000 and \$1,621,000 for the three and eight months ended August 31, 2010, 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.
- (2) For the three months ended August 31, 2010, the mandatorily redeemable convertible preferred stock of 4,105,138 outstanding at August 31, 2010 was considered anti-dilutive and therefore excluded in the computation of Diluted earnings per share for that period.

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 12, Long-term debt, and the governing provisions of the Delaware General Corporation Law.

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Dividends per Common Share (declared):

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter
2011	\$ 0.075	\$ 0.075	\$ 0.075
2010	\$ 0.075	\$ 0.075	\$ 0.075

On September 20, 2011, a quarterly dividend was declared of \$0.075 per share of common stock payable on November 15, 2011 to stockholders of record as of October 17, 2011.

**Note 18. Income Taxes**

As of August 31, 2011 and November 30, 2010, we had approximately \$70.8 million and \$52.9 million, respectively, of total gross unrecognized tax benefits. The total amount of unrecognized benefits that, if recognized, would favorably affect the effective tax rate in future periods was \$47.3 million and \$34.3 million (net of federal benefit of state taxes) at August 31, 2011 and November 30, 2010, respectively.

We are currently under examination by the Internal Revenue Service and other tax authorities in jurisdictions in which we have significant business operations. We do not expect that conclusion of these examinations will have a material effect on the Consolidated Statement of Financial Condition, but could have a material impact on the Consolidated Statement of Earnings for the period in which resolution occurs. The table below summarizes the earliest tax years that are subject to examination in the major tax jurisdictions in which we operate:

Jurisdiction	Tax Year
United States	2006
United Kingdom	2008
New Jersey	2006
New York State	2001
New York City	2003

We recognize interest accrued related to unrecognized tax benefits in interest expense. Penalties, if any, are recognized in Other expenses in the Consolidated Statements of Earnings. As of August 31, 2011 and November 30, 2010, we have accrued interest related to unrecognized tax benefits of approximately \$10.2 million and \$6.4 million, respectively. No material penalties were required to be accrued at August 31, 2011 and November 30, 2010.

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**Note 19. Commitments, Contingencies and Guarantees**

The following table summarizes our commitments and guarantees at August 31, 2011 (in millions):

	2011	2012	Expected Maturity Date			Notional/ Maximum Payout
			2013 and 2014	2015 and 2016	2017 and Later	
Equity commitments	\$ 0.5	\$ 0.2	\$ 7.6	\$ 2.9	\$ 631.1	\$ 642.3
Loan commitments	33.2	12.1	381.0	67.6	33.0	526.9
Mortgage-related commitments	542.4	23.6	815.9			1,381.9
Forward starting repos	0.2					0.2
Derivative contracts: Derivative contracts non credit related	13,681.8	12,499.3	50,550.6			76,731.7
Derivative contracts credit related	10.0		392.0	586.2	40.0	1,028.2
Total derivative contracts	13,691.8	12,499.3	50,942.6	586.2	40.0	77,759.9
	\$ 14,268.1	\$ 12,535.2	\$ 52,147.1	\$ 656.7	\$ 704.1	\$ 80,311.2

The following table summarizes the external credit ratings of the underlyings or referenced assets for credit related guarantees and derivatives (in millions):

	External Credit Rating					Notional/ Maximum Payout
	AAA/ Aaa	AA/Aa	BBB/Baa	Below Investment Grade	Unrated	
Loan commitments	\$	\$ 30.0	\$ 73.0	\$ 54.1	\$ 369.8	\$ 526.9
Derivative contracts- credit related: Index credit default swaps	20.0	345.0		412.0	251.2	1,028.2
Total credit related commitments	\$ 20.0	\$ 375.0	\$ 73.0	\$ 466.1	\$ 621.0	\$ 1,555.1

The table below shows our credit exposure from our lending commitments, including funded amounts, as of August 31, 2011. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

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## Corporate Lending Commitments and Funded Loans at August 31, 2011

<u>Credit Ratings</u>	0 - 12 Months	1 - 5 Years	Greater Than 5 Years	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
A	\$ 10.0	\$	\$ 20.0	\$ 30.0	\$	\$ 30.0
BBB	32.7	43.3	8.0	84.0	11.0	73.0
Non-investment grade	42.1	38.7		80.8	26.7	54.1
Unrated	31.3	635.5		666.8	297.0	369.8
<b>Total</b>	<b>\$ 116.1</b>	<b>\$ 717.5</b>	<b>\$ 28.0</b>	<b>\$ 861.6</b>	<b>\$ 334.7</b>	<b>\$ 526.9</b>

- (1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.
- (2) The corporate lending exposure carried at fair value includes \$337.1 million of funded loans included in Financial instruments owned Loans and \$(2.4) million of lending commitments recorded in Financial instruments sold Derivatives in the Consolidated Statement of Financial Condition as of August 31, 2011.
- (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.* On October 7, 2004, we entered into an agreement with Babson Capital and MassMutual to form JFIN, a joint venture entity created for the purpose of offering senior loans to middle market and growth companies. Loans are originated primarily through the investment banking efforts of Jefferies with Babson Capital providing primary credit analytics and portfolio management services. The total committed equity capitalization by the partners to JFIN was \$500 million as of November 30, 2010. On March 1, 2011, we and MassMutual increased our equity commitments to JFIN, with an incremental \$250 million committed by each partner. As a result, the new total committed equity capitalization to JFIN is \$1 billion as of August 31, 2011. As of August 31, 2011, we have funded \$107.5 million of our aggregate \$500 million commitment leaving \$392.5 million unfunded.

As of August 31, 2011, we have an aggregate commitment to invest additional equity of approximately \$5.7 million in Jefferies Capital Partners IV L.P. and its related parallel fund, and an aggregate commitment to invest an additional \$64.7 million in Jefferies Capital Partners V L.P. and its related parallel funds.

On February 23, 2011, we entered an agreement with the Government of Singapore Investment Corporation ( GIC ) and LoanCore LLC to form Jefferies LoanCore LLC, a new joint venture commercial real estate finance company with \$600 million in initial equity commitments. Jefferies LoanCore LLC will originate commercial real estate debt. As of August 31, 2011, we have funded \$117.5 million of our aggregate \$291 million commitment leaving \$173.5 million unfunded.

As of August 31, 2011, we had other equity commitments to invest up to \$6.0 million in various other investments.

*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 August 31, 2011, we had \$211.2 million of

loan commitments outstanding to clients. The fair value of loan commitments recorded as derivatives in the Consolidated Statement of Financial Condition was \$(2.4) million and \$0.1 million at August 31, 2011 and November 30, 2010, respectively.

On March 1, 2011, we and MassMutual entered into a \$1.0 billion secured revolving credit facility with JFIN, to be funded equally, to support loan underwritings by JFIN. 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 August 31, 2011, we have funded \$194.7 million of the aggregate principal balance and \$305.3 million of our commitment remained unfunded.

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We entered into a credit agreement with Jefferies Employee Partners IV, LLC, a related party, whereby we are committed to extend loans up to the maximum aggregate principal amount of \$54.0 million. As of August 31, 2011, we funded approximately \$43.6 million of the aggregate principal balance, which is included in Other investments in our Consolidated Statements of Financial Condition and \$10.4 million of our commitment remained unfunded.

*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 as derivatives in the Consolidated Statement of Financial Condition was \$4.0 million at August 31, 2011.

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

*Derivative Contracts.* We disclose certain derivative contracts meeting the definition of a guarantee under GAAP. Such derivative contracts include credit default swaps and written equity put options. At August 31, 2011, the maximum payout value of derivative contracts deemed to meet the definition of a guarantee was approximately \$77,759.9 million. For purposes of determining maximum payout, notional values are used; however, we believe the fair value of these contracts is a more relevant measure of these obligations because we believe the notional amounts overstate our expected payout. At August 31, 2011, the fair value of such derivative contracts approximated \$(312.9) million. In addition, the derivative contracts deemed to meet the definition of a guarantee under GAAP are before consideration of hedging transactions. We substantially mitigate our risk on these contracts through hedges, such as other derivative contracts and/or cash instruments. We manage risk associated with derivative contracts meeting the definition of a guarantee consistent with our risk management policies.

*Jefferies Financial Products, LLC.* JFP maintains a credit intermediation facility with a highly rated European bank (the Bank), which allows JFP customers that require a counterparty with a high credit rating for commodity index transactions to transact with the Bank. The Bank simultaneously enters into offsetting transactions with JFP and receives fees from JFP for providing credit support.

*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.

**Note 20. Net Capital Requirements**

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority (FINRA), Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache Securities, LLC (formerly Prudential Bache Securities, LLC) 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, Jefferies High Yield Trading and Jefferies Bache Securities, LLC have elected to use the alternative method permitted by Rule 15c3-1. Additionally, Jefferies and Jefferies Bache, LLC are registered as Futures Commission Merchants and subject to Rule 1.17 of the Commodities Futures Trading

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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 August 31, 2011, Jefferies, Jefferies Execution, Jefferies High Yield Trading, Jefferies Bache Securities, LLC 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	\$ 762,729	\$ 693,313
Jefferies Execution	\$ 15,651	\$ 15,401
Jefferies High Yield Trading	\$ 527,962	\$ 527,712
Jefferies Bache Securities, LLC	\$ 3,464	\$ 3,214

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 248,824	\$ 41,335

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

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

**Note 21. 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 activities. The Capital Markets reportable segment is managed as a single operating segment that provides the sales, trading and origination effort 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.

Our net revenues and expenses by segment are summarized below for the three and nine months ended August 31, 2011 and the three and eight months ended August 31, 2010 (in millions):

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	Three Months Ended		Nine Months	Eight Months
	August 31, 2011	August 31, 2010	Ended August 31, 2011	Ended August 31, 2010
Capital Markets:				
Net revenues	\$ 506.2	\$ 516.5	\$ 1,957.3	\$ 1,500.6
Expenses	\$ 463.7	\$ 435.0	\$ 1,616.0	\$ 1,218.8
Asset Management:				
Net revenues	\$ 3.1	\$ 0.8	\$ 37.5	\$ 11.8
Expenses	\$ 5.0	\$ 8.3	\$ 24.0	\$ 20.6
Total:				
Net revenues	\$ 509.3	\$ 517.3	\$ 1,994.8	\$ 1,512.4
Expenses	\$ 468.7	\$ 443.3	\$ 1,640.0	\$ 1,239.4

Our total assets by segment are summarized below as of August 31, 2011 and 2010 (in millions):

	August 31, 2011	August 31, 2010
Segment Assets:		
Capital Markets	\$ 45,080.9	\$ 32,539.5
Asset Management	44.3	132.6
Total Assets	\$ 45,125.2	\$ 32,672.1

**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. The following table presents Net revenues by geographic region for the three and nine months ended August 31, 2011 and the three and eight months ended August 31, 2010 (in thousands):

	Three Months Ended		Nine Months	Eight Months
	August 31, 2011	August 31, 2010	Ended August 31, 2011	Ended August 31, 2010
Americas (1)	\$ 372,727	\$ 428,037	\$ 1,611,117	\$ 1,294,118
Europe (2)	127,229	85,485	363,114	215,034
Asia (including Middle East)	9,326	3,747	20,599	3,285
Net Revenues	\$ 509,282	\$ 517,269	\$ 1,994,830	\$ 1,512,437

(1) Substantially all relates to U.S. results.

(2) Substantially all relates to U.K. results.

**Note 22. Related Party Transactions**

We have committed to invest an aggregate of up to \$85.0 million in Jefferies Capital Partners V L.P. and its related parallel funds (collectively, Fund V ). Fund V is a private equity fund managed by a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee. On July 26, 2010, we entered into a Subscription Agreement and agreed to commit up to \$75.0 million in the USA Fund, a parallel fund within Fund V. As of August 31, 2011 and November 30, 2010, we have funded approximately \$17.9 million and \$9.3 million, respectively, of our



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commitment to the USA Fund. On August 12, 2010, we entered into a Subscription Agreement and agreed to commit up to \$10.0 million in Fund V. As of August 31, 2011 and November 30, 2010, we have funded approximately \$2.4 million and \$1.2 million, respectively, of this commitment.

At August 31, 2011, we have commitments to purchase \$166.1 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

At August 31, 2011 and November 30, 2010, we had \$64.6 million and \$76.5 million, respectively, of loans outstanding to certain of our employees that are included in Other assets on the Consolidated Statements of Financial Condition.

In February 2011, we entered into a joint venture with the Government of Singapore Investment Corporation and formed Jefferies LoanCore LLC, a commercial real estate finance company. Total initial equity commitments to Jefferies LoanCore LLC approximate \$600 million, with our commitment comprising \$291 million of the total commitment. As of August 31, 2011, we have funded approximately \$117.5 million of our equity commitment.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This report contains or incorporates by reference forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements about our future and statements that are not historical facts. These forward-looking statements are usually preceded by the words believe, intend, may, will, or similar expressions. Forward-looking statements may contain expectations regarding revenues, earnings, operations and other financial projections, and may include statements of future performance, plans and objectives. Forward-looking statements also include statements pertaining to our strategies for future development of our business and products. Forward-looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain and outside of our control. 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 and risk factors contained in our Transition Report on Form 10-K for the transition period from January 1, 2010 to November 30, 2010 and filed with the SEC on February 2, 2011;

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 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 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 on November 30. As such, the current period represents the three and nine months ended August 31, 2011 and has been reported on the basis of the new fiscal year beginning as of December 1, 2010. Our prior year periods consist of the three and eight months ended August 31, 2010 and are reported on the basis of the previous calendar year cycle beginning as of January 1, 2010.

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

	Three Months Ended		Nine Months Ended	Eight Months Ended
(Dollars in thousands, except for per share amounts)	August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
Net revenues, less mandatorily redeemable preferred interest	\$ 523,953	\$ 519,806	\$ 1,988,647	\$ 1,512,463
Non-interest expenses	468,715	443,308	1,639,993	1,239,369
Earnings before income taxes	55,238	76,498	348,654	273,094
Income tax expense	1,228	33,873	107,899	110,277
Net earnings	54,010	42,625	240,755	162,817
Net (loss) earnings to noncontrolling interests	(14,265)	(2,129)	4,523	1,865
Net earnings to common shareholders	68,275	44,754	236,232	160,952
Earnings per diluted common share	\$ 0.30	\$ 0.22	\$ 1.07	\$ 0.79
Effective tax rate	2%	44%	31%	40%

**Immaterial Restatements**

As indicated in our Transition Report on Form 10-K for the eleven months ended November 30, 2010, we made correcting adjustments to our financial statements for the three and eight months ended August 31, 2010 relating to the netting of interest income and interest expense, differences with our former clearing bank, and certain other immaterial adjustments. We do not believe that these adjustments are material to our financial statements for the three and eight months ended August 31, 2010. For additional information on these adjustments, see Note 1, Organization and Basis of Presentation, in our Consolidated Financial Statements.

**Global Commodities Group Acquisition**

On July 1, 2011, we acquired Prudential Bache's Global Commodities Group from Prudential. Total cash payments as consideration for the acquisition are \$422.0 million (a cash payment of \$419.5 million was made on July 1, 2011 and an additional cash payment of \$2.5 million is anticipated). The Global Commodities Group provides clearing and execution 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. Our results of operations include the operations of the acquired businesses for the periods beginning on July 1, 2011 and forward.

**Executive Summary**

Net revenues, less mandatorily redeemable preferred interest, for the three months ended August 31, 2011 increased 0.8% to \$524.0 million as compared to \$519.8 million for the three months ended August 31, 2010 primarily due to record capital markets results within investment banking and a bargain purchase gain of \$52.5 million arising on the acquisition of the Global Commodities Group, offset by significantly weaker fixed income results. For the nine months ended August 31, 2011, net revenues, less mandatorily redeemable preferred interest, were \$1,988.6 million as compared to \$1,512.5 million for the eight month period ended August 31, 2010. The increase in revenues for the nine month period ended August 31, 2011 as compared to the eight month period ended August 31, 2010 was driven by increased results across all of our businesses.

Non-interest expenses of \$468.7 million for the three months ended August 31, 2011 reflected a 6% increase over the comparable 2010 period primarily attributable to additional costs across non-compensation expenses commensurate with our expanding business. Non-interest expenses were \$1,640.0 million for the nine months ended August 31, 2011 as compared to \$1,239.4 million for the eight months ended August 31, 2010. Non-interest expenses include \$4.4 million in costs associated with the acquisition of Jefferies Bache and \$4.6 million in charitable contributions for



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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

Japan earthquake relief. Compensation costs for the nine months ended August 31, 2011 were 59% of net revenues as compared to 58% for the eight months ended August 31, 2010. At August 31, 2011, we had 3,842 employees globally, compared to 2,971 at August 31, 2010.

Our effective tax rate was 2.2% for the three months ended August 31, 2011 and 30.9% for the nine months ended August 31, 2011 as compared to an effective tax rate of 44.3% and 40.4% for the three and eight months ended August 31, 2010, respectively. The decrease in our effective tax rate for the 2011 periods as compared to the 2010 periods was primarily attributable to the impact of the bargain purchase gain of \$52.5 million on the acquisition of Jefferies Bache, which is non-taxable.

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 the 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 II, Item 1A of this report and in Part I, Item IA of our Transition Report on Form 10-K for the eleven months ended November 30, 2010.

**Revenues by Source**

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

For presentation purposes, the remainder of Results of Operations is presented on a detailed product and expense basis rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective sales and trading activities, which is a function of the mix of each business associated assets and liabilities and the related funding costs. Prior to the first quarter of 2011, we presented revenues attributed from our convertibles business in Fixed income Net revenues within our Revenues by Source statement. Revenues attributed from our convertibles business as of the first quarter of 2011 are presented within Equities Net revenues. Reclassifications have been made to our previous presentation of Revenues by Source for the three and eight months ended August 31, 2010 to conform to the current presentation.

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 three months ended August 31, 2011 and 2010 and the nine and eight months ended August 31, 2011 and August 31, 2010, respectively:

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(in thousands)	Three Months Ended			
	August 31, 2011		August 31, 2010	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	\$ 126,850	25%	\$ 109,280	21%
Fixed income	33,087	7	161,010	31
Other	52,509	10		
Total sales and trading	212,446	42	270,290	52
Equity	58,629	12	19,151	4
Debt	128,058	25	77,564	15
Capital markets	186,687	37	96,715	19
Advisory	107,063	21	149,478	29
Investment banking	293,750	58	246,193	48
Asset management fees and investment income from managed funds:				
Asset management fees	3,127	1	3,996	1
Investment income from managed funds	(41)		(3,210)	(1)
Total	3,086	1	786	
Net revenues	509,282	100%	517,269	100%
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	(14,671)		(2,537)	
Net revenues, less mandatorily redeemable preferred interest	\$ 523,953		\$ 519,806	

(in thousands)	Nine Months Ended		Eight Months Ended	
	August 31, 2011		August 31, 2010	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	\$ 469,284	23%	\$ 401,701	27%
Fixed income	574,306	29	500,482	33
Other	52,509	3		
Total Sales and Trading	1,096,099	55	902,183	60
Equity	160,352	8	102,288	7
Debt	322,831	16	236,363	15

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Capital markets	483,183	24	338,651	22
Advisory	378,047	19	259,799	17
Investment banking	861,230	43	598,450	39
Asset management fees and investment income from managed funds:				
Asset management fees	24,263	1	10,436	1
Investment income from managed funds	13,238	1	1,368	
Total	37,501	2	11,804	1
Net revenues	1,994,830	100%	1,512,437	100%
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	6,183		(26)	
Net revenues, less mandatorily redeemable preferred interest	\$ 1,988,647		\$ 1,512,463	

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

Net revenues, before mandatorily redeemable preferred interest, for the three months ended August 31, 2011 were \$509.3 million, a decrease of 2%, as compared to net revenues of \$517.3 million for the third quarter of 2010. The decrease was primarily due to significantly weaker fixed income results, offset by a strong revenue contribution from investment banking of \$293.8 million, a 19% increase over the comparable prior quarter, and a bargain purchase gain of \$52.5 million arising from the accounting for our acquisition of the Global Commodities Group.

Net revenues, before interest on mandatorily redeemable preferred interests, for the nine months ended August 31, 2011 were \$1,994.8 million, an increase of 32%, as compared to net revenues of \$1,512.4 million for the eight months ended August 31, 2010. The increase in net revenues is attributed to strong revenues across all the businesses for the nine months ended August 31, 2011 as compared to the eight months ended August 31, 2010. Net revenues from our investment banking activities were a record for the nine month period ended August 31, 2011. Sales and trading revenues were \$1,096.1 million for the nine months ended August 31, 2011 as compared to sales and trading revenues of \$902.2 million generated over an eight month period for the 2010 comparable reported results. Additionally, the results for the nine months ended August 31, 2011 include a bargain purchase gain of \$52.5 reported in Other revenues and recognized in connection with our acquisition of the Global Commodities Group.

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

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

Three Months Ended	Three Months Ended	Nine Months Ended	Eight Months Ended
August 31, 2011	August 31, 2010	August 31, 2011	August 31, 2010
65 days	65 days	190 days	167 days

*Equities Revenue*

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

Total equities revenue was \$126.9 million and \$109.3 million for the three months ended August 31, 2011 and August 31, 2010, respectively, an increase of \$17.6 million or 16%. Our equity revenue results are for the most part dependent on our trading volumes which, for June and July of 2011, were muted; however, volumes picked up significantly in August 2011 together with increased volatility. The 2011 third quarter revenues are driven by strong performance in equity derivatives trading, which benefited from the increased volatility in August, as well as enhanced revenue contributions from our expanded Asian equities and prime brokerage platforms and certain block trading opportunities. The increase in equities revenues generated in these areas was partially offset by losses attributed to certain quantitative alternative investment strategies and reduced revenue from our equity joint ventures, along with increased interest expense incurred in supporting these ventures.

Total equities revenue was \$469.3 million and \$401.7 million for the nine months ended August 31, 2011 and the eight months ended August 31, 2010. Equity market conditions during the nine month period ended August 31, 2011 were mainly characterized by lower stock market volumes and, other than August, a reduction in equity market volatility. This is compared with market conditions for the eight months ended August 31, 2010, of uneven equity prices and higher stock market volumes. Equities net revenue for the nine months ended August 31, 2011 was characterized by relatively consistent equities sales and trading revenues from our cash equities business on the relative basis of the number of trading days in the 2011 period as compared to the eight months ended August 31, 2010





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

as well as continued increases in the revenue contributions from the expansion of our prime brokerage platform and our European and Asian cash equities trading businesses. The nine months ended August 31, 2011 also reflect the strong performance of certain quantitative alternative investment strategies and strong revenue contributions from our Jefferies Finance, LLC joint venture, partially offset by interest expenses.

*Fixed Income Revenue*

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

In the third quarter of 2011, concerns about European sovereign debt risk, the deteriorating global economy, combined with political uncertainty over the US debt ceiling, which culminated in Standard & Poors downgrading the US from AAA to AA+, and continuing high unemployment in the US, led to challenging trading conditions, which were particularly pronounced in August. Towards the end of August 2011, certain fixed income markets had declined by as much as 15% from May 31, 2011 levels.

Fixed income revenue was \$33.1 million for the third quarter of 2011, down 79% from revenue of \$161.0 million for the third quarter of 2010. Fixed income revenue for the third quarter of 2011 reflects market volatility in certain fixed income sectors suppressing customer activity in June and July. In August, the widening of credit spreads led to significant negative price marks in high yield and corporate bonds and mortgages-backed securities. In addition, a flight to quality, which led to US Treasury yields trading at their lowest levels on record, resulted in losses on short treasury positions used as inventory hedges. The results for the third quarter of 2011 also include losses on U.S. dollar denominated interest rate swap futures contracts (which have now been fully closed out) cleared through the International Derivatives Clearing Group. The decline in revenues in these fixed income businesses was partially offset by a strong performance from our Euro rates platform, solid performance in municipal bonds and the revenue contribution from Jefferies Bache.

Fixed income revenue was \$574.3 million for the nine months ended August 31, 2011, up 15% as compared to revenue of \$500.5 million for the eight months ended August 31, 2010. The increase in revenue for the first nine months of 2011 reflects the revenues of Jefferies Bache for a two month period, continued growth of our fixed income platform in Europe, together with stronger performance from our municipal trading activities, partially offset by declines in our corporate, mortgage-backed security and emerging market revenues.

Our government and agency sales and trading revenues in the U.S. and in Europe for the nine months ended August 31, 2011 increased significantly compared to the comparable eight month 2010 period 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. Municipal securities revenue increased significantly, benefiting from the recent strengthening of our trading effort and new products offered. Commodities revenues improved for the 2011 period versus the 2010 period as a result of wider energy and agriculture spreads and the addition of the Global Commodities Group contributed positively to fixed income net revenue. Revenue increases from these businesses were partially offset by a decline in sales and trading revenue in our corporate bond business given widening credit spreads and losses on U.S. dollar denominated interest rate swap futures contracts (which have now been fully closed out) cleared through the International Derivatives Clearing Group. Such losses were recognized approximately equally in each of the quarterly periods of 2011.

Of the results recognized in Jefferies High Yield Holdings, LLC (our high yield and distressed securities and bank loan trading and investment business), approximately 53% of such results for the three and nine months ended August 31, 2011 and 66% for the three and eight months ended August 31, 2010, 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.

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

Other revenue for the three and nine months ended August 31, 2011 of \$52.5 million represents the bargain purchase gain arising in the accounting for the acquisition of the Global Commodities Group from Prudential on July 1, 2011. The bargain purchase gain is not taxable and is presented within the Capital Market Business Segment. For additional information on the acquisition, see Note 3, Acquisition of the Global Commodities Group in our Consolidated Financial Statements.

*Investment Banking Revenue*

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

	Three Months Ended		%	Nine	Eight	%
	August	August		Months	Months	
(in thousands)	31,	31,	Change	Ended	Ended	Change
	2011	2010		August 31,	August 31,	
				2011	2010	
Equity	\$ 58,629	\$ 19,151	206%	\$ 160,352	\$ 102,288	57%
Debt	128,058	77,564	65%	322,831	236,363	37%
Capital markets	186,687	96,715	93%	483,183	338,651	43%
Advisory	107,063	149,478	-28%	378,047	259,799	46%
Total	\$ 293,750	\$ 246,193	19%	\$ 861,230	\$ 598,450	44%

Investment banking revenues were \$293.8 million for the three months ended August 31, 2011 as compared to revenues of \$246.2 million for the three months ended August 31, 2010, a 19% increase.

Capital markets origination produced record revenues of \$186.7 million for the three months ended August 31, 2011, compared to \$96.7 million for the three months ended August 31, 2010 and reflects the particularly strong environment for debt issuance given the attractive financing rates available in the market in June and July of 2011. Revenues from our advisory business were \$107.1 million for the three months ended August 31, 2011, a result reflective of our increasing prominence in mergers and acquisitions advisory work, however down when compared to the third quarter of 2010, due to the closing of several notable transactions in the 2010 period and a decrease in restructuring fees consistent with the slower pace of corporate defaults.

Our capital markets business produced revenue of \$483.2 million for the nine months ended August 31, 2011, compared to \$338.7 million for the eight months ended August 31, 2010, reflective of the improved market environment for debt and equity underwritings and our success in winning book runner roles. Revenue from our advisory business of \$378.0 million for the nine months ended August 31, 2011 increased as compared to the eight months ended August 30, 2010 revenue of \$259.8 million, reflective of the overall strengthened market for mergers and acquisitions activity and an improved market outlook through July 2011.

*Asset Management Fees and Investment Income from Managed Funds*

Asset management revenues include revenues from management, administrative and performance fees from funds and accounts managed by us, revenues from asset management and performance fees from related party managed funds and investment income from our investments in these funds. The following summarizes revenue from asset management fees and investment income for the three months ended August 31, 2011 and 2010 and the nine and eight

months ended August 31, 2011 and August 31, 2010, respectively (in thousands):

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	Three Months Ended		Nine Months	Eight Months
	August	August 31,	Ended	Ended
	31,	August 31,	August 31,	August 31,
	2011	2010	2011	2010
Asset management fees:				
Fixed Income	\$ 992	\$ 1,002	\$ 2,729	\$ 2,589
Equities	(950)	94	3,087	2,022
Convertibles	771	2,611	10,163	3,086
Commodities	2,314	289	8,284	2,739
	3,127	3,996	24,263	10,436
Investment (loss) income from managed funds (1)	(41)	(3,210)	13,238	1,368
Total	\$ 3,086	\$ 786	\$ 37,501	\$ 11,804

- (1) Of the total investment income from managed funds, approximately \$-0- and \$0.1 million is attributed to noncontrolling interest holders for the three months ended August 31, 2011 and August 31, 2010, respectively, and approximately \$-0- and \$(0.1) million is attributed to noncontrolling interest holders for the nine months ended August 31, 2011 and the eight months ended August 31, 2010, respectively.

Asset management fees declined to \$3.1 million for the three months ended August 31, 2011 as compared to asset management fees of \$4.0 million for the three months ended August 31, 2010, primarily due to reduced incentive fees from our global convertible bond and equity long-short asset management businesses, partially offset by the growth in commodities asset management. Investment loss from managed funds totaled \$41,000 for the three months ended August 31, 2011, as compared to a loss of \$3.2 million for the three months ended August 31, 2010, as asset valuations in the our private equity investments remained relatively unchanged in the third quarter of 2011.

Asset management fees increased to \$24.3 million for the nine months ended August 31, 2011 as compared to asset management fees of \$10.4 million for the eight months ended August 31, 2010, primarily as a result of growth and the performance of our convertible securities and commodities asset funds. Investment income from managed funds totaled \$13.2 million for the nine months ended August 31, 2011 as compared to \$1.4 million for the eight months ended August 31, 2010 primarily due to asset appreciation in our private equity investment in Jefferies Capital Partners IV L.P.

*Assets under Management*

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

	August 31,	August 31,
	2011	2010
Assets under management (1)(3):		
Equities	\$ 273	\$ 78
Convertibles	2,187	1,759
Commodities	596	
	3,056	1,837

Assets under management by related parties (2):				
Private equity (4)		649		592
		649		592
Total		\$ 3,705	\$	2,429

(1) Assets under management include assets actively managed by us including hedge funds and 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.

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- (2) Related party managed funds in which we have a 50% or less interest in the entities that manage these assets or otherwise receive a portion of the management and/or incentive fees.
- (3) Assets under management are based on the fair value of the assets.
- (4) Assets under management represent either the capital commitment to a fund or carrying value of a fund depending on how management fees are calculated as governed by the partnership or management agreement.

*Change in Assets under Management*

(in millions)	Three Months Ended		% Change	Nine Months Ended	Eight Months Ended	% Change
	August 31, 2011	August 31, 2010		August 31, 2011	August 31, 2010	
Balance, beginning of period	\$ 3,315	\$ 2,325	43%	\$ 2,556	\$ 4,024	-36%
Net cash flow	561	261		992	(1,313)	
Net market (depreciation) appreciation	(171)	(157)		157	(282)	
	390	104		1,149	(1,595)	
Balance, end of period	\$ 3,705	\$ 2,429	53%	\$ 3,705	\$ 2,429	53%

The net increase in assets under management of \$390 million during the three months ended August 31, 2011 is attributable to new commodity index accounts associated with Jefferies Bache. There were also customer investments in a newly launched long-short equity fund, offset by cash outflows and market depreciation of the underlying assets in our global convertible bond fund. The net increase in assets under management of \$104 million during the three months ended August 31, 2010 is primarily attributable to increases in customer investments in Jefferies Capital Partners V, L.P. private equity fund and market appreciation in our global convertible bond funds, partially offset by market depreciation of the underlying assets in the Jefferies Capital Partners IV, L.P. private equity fund. The net increase in assets under management of \$1.1 billion during the nine months ended August 31, 2011 is attributable to new commodity index accounts associated with Jefferies Bache, customer investments in a newly launched long-short equity fund, as well market appreciation in and increased investments in the global convertible bond fund. The net decrease in assets under management of \$1.6 billion during the eight months ended August 31, 2010 is primarily attributable to the sale in January 2010 of our contracts to manage certain CLOs, market depreciation of the underlying assets in the Jefferies Capital Partners IV, L.P. private equity fund, partially offset by increases in customer investments in our Jefferies Capital Partners V, L.P. private equity fund.

*Managed Accounts*

We manage certain portfolios as mandated by client arrangements and management fees are assessed based upon an agreed upon notional account value. Managed accounts by predominant asset allocation strategy were as follows:

(notional account value)	August 31,	August 31,

(in millions)	2011	2010
Managed Accounts:		
Equities	\$ 148	\$ 147
Commodities	1,279	496
	\$ 1,427	\$ 643



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

(notional account value)	Three Months Ended		Nine Months	Eight
(in millions)	August	August 31,	Ended	Months
	31,	2010	August 31,	Ended
	2011	2010	2011	August 31,
				2010
Balance, beginning of period	\$ 1,314	\$ 618	\$ 949	\$ 560
Net account additions	140	36	372	136
Net account (depreciation) appreciation	(27)	(11)	106	(53)
Balance, end of period	\$ 1,427	\$ 643	\$ 1,427	\$ 643

The change in the notional account value of managed accounts for the three and nine months ended August 31, 2011 is primarily attributed to customer inflows to commodities managed accounts where the management fees are assessed on the agreed upon notional account value. The change in the notional account value of managed accounts for the three months and eight months ended August 31, 2010 is primarily attributed to the additions of commodity managed accounts where the management fees are assessed on the agreed upon notional account value, partially offset by declines in the value of certain commodity and equity managed accounts.

*Investment in Managed Funds*

The following table presents our invested capital in managed funds at August 31, 2011 and November 30, 2010 (in thousands):

	August 31,	November
	2011	30,
		2010
Unconsolidated funds (1)	\$ 73,383	\$ 131,024
Consolidated funds (2)	22,677	53,843
Total	\$ 96,060	\$ 184,867

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

**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****Non-interest expenses**

Non-interest expenses for the three months ended August 31, 2011 and 2010, and nine months ended August 31, 2011 and eight months ended August 31, 2010, were as follows:

(in thousands)	Three Months Ended		Change	Nine Months	Eight Months	Change
	August 31, 2011	August 31, 2010		Ended August 31, 2011	Ended August 31, 2010	
Compensation and benefits	\$ 299,640	\$ 308,797	(3)%	\$ 1,174,468	\$ 877,204	34%
Floor brokerage and clearing fees	32,959	30,111	9	92,475	84,199	10
Technology and communications	60,039	46,135	30	153,563	114,189	34
Occupancy and equipment rental	22,581	18,433	23	60,997	49,448	23
Business development	21,853	17,420	25	64,248	42,405	52
Professional services	19,061	13,008	47	48,437	34,702	40
Other	12,582	9,404	34	45,805	37,222	23
Total non-compensation expenses	169,075	134,511	26%	465,525	362,165	29%
Non-interest expenses	\$ 468,715	\$ 443,308	6%	\$ 1,639,993	\$ 1,239,369	32%

*Compensation and Benefits*

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

Compensation and benefits totaled \$299.6 million and \$1,174.5 million for the three and nine months ended August 31, 2011, respectively, as compared to \$308.8 million and \$877.2 million for the three and eight months ended August 31, 2010, respectively and includes share-based amortization expense for senior executive awards granted in January 2010 and non-annual share-based awards to other employees. Our ratio of compensation and benefits to net revenues for the third quarter of 2011 was 59% as compared to 60% for the third quarter of 2010 and 59% and 58% for the nine months ended August 31, 2011 and eight months ended August 31, 2010, respectively.

For the three and nine months ended August 31, 2011, compensation and benefits included \$9.1 million relating to the acquisition of the Global Commodities Group, comprising severance costs for certain employees of the acquired group that were terminated subsequent to the acquisition, the amortization of stock awards granted to former Global Commodities Group employees as replacement awards for previous Prudential stock awards that were forfeited as a result of the acquisition, and bonus costs for employees as a result of the completion of the acquisition. When excluding these expenses, together with the bargain purchase gain recognized in revenues of \$52.5 million, our ratio of compensation and benefits to net revenues for the three and nine months ended August 31, 2011 was 64% and 60%,

respectively.

Employee headcount increased to 3,842 total global employees at August 31, 2011 as compared to 2,971 employees at August 31, 2010. Of the increase, approximately 425 employees are attributed to the acquisition of the Global Commodities Group.

The decline in total compensation and benefits expense for the three months ended August 31, 2011 as compared to the three months ended August 31, 2010 is commensurate with the decline in revenues, partially offset by the increases in our headcount and compensation commitments as we continue to expand our sales and trading,

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

investment banking and support groups, both in the U.S. and internationally. The increase in total compensation and benefits expense for the nine months ended August 31, 2011 as compared to the eight months ended August 31, 2010 is commensurate with our increased revenues as well as increased headcount.

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

*Non-Compensation Expenses*

Non-compensation expenses were \$169.1 million and \$134.5 million for the three ended August 31, 2011 and 2010, respectively, an increase of \$34.6 million, or 26%. The increase from the third quarter 2010 was predominantly driven by the inclusion of two months of expenses relating to the Global Commodities Group totaling approximately \$13.8 million, and higher technology and communication and business developments expenses. The increase in technology and communication expenses, exclusive of the effect of the Global Commodities Group, reflects expansion of our business and personnel platforms derived from increasing demand for market data and technology connections. Business development expense increased \$4.4 million commensurate with our focused efforts of strengthening our presence and broadening our client base.

Non-compensation expenses were \$465.5 million and \$362.2 million for the nine months ended August, 31 2011 and the eight months ended August 31, 2010, respectively. Technology and communications costs have increased as the expansion of our personnel and business platforms has increased the demand for market data, technology connections and applications. In addition, occupancy costs and business development expenses increased commensurate with our efforts of strengthening our presence in Europe and Asia and our continued efforts to broaden our client base. The increase in expenses reflect the acquisition of the Global Commodities Group, including acquisition costs of \$4.4 million. Increase in Other expenses as compared to the eight months ended August 31, 2010, reflects the charitable contribution for Japanese earthquake relief in the second quarter of 2011.

*Earnings Before Income Taxes*

Earnings before income taxes was \$55.2 million for the three months ended August 31, 2011 a decline from earnings before income taxes of \$76.5 million for the three months ended August 31, 2010. For the nine months ended August 31, 2011, earnings before income taxes was \$348.7 million as compared to \$273.1 million for the eight months ended August 31, 2010.

*Income Taxes*

Income tax expense was \$1.2 million and \$33.9 million and the effective tax rate was 2.2% and 44.3% for the three months ended August 31, 2011 and 2010, respectively. Income tax expense was \$107.9 million and \$110.3 million and the effective tax rate was 30.9% and 40.4% for the nine months ended August 31, 2011 and the eight months ended August 31, 2010, respectively. The decrease in our effective tax rate for the 2011 periods as compared to the 2010 periods was primarily attributable to the impact of the bargain purchase gain of \$52.5 million in the accounting for the acquisition of the Global Commodities Group from Prudential in the third quarter of 2011, which is non-taxable.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

*Earnings per Common Share*

Diluted earnings per common share was \$0.30 for the three months ended August 31, 2011 on 222,541,000 shares compared to diluted earnings per common share of \$0.22 for the three months ended August 31, 2010 on 195,612,000 shares. Diluted earnings per common share was \$1.07 for the first nine months of 2011 on 213,661,000 shares compared to diluted earnings per common share of \$0.79 for the first eight months ended August 31, 2010 on 201,062,000 shares. See Note 17, Earnings Per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

**Recent Accounting Pronouncements**

In September 2011, the FASB issued an Accounting Standards Update ( ASU ) Testing Goodwill for Impairment ( ASU 2011-08 ) to Topic 350, Intangibles Goodwill and Other. The update outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors, as described, in determining whether the fair value of a reporting unit is less than its carrying amount. We do not believe that the adoption of this guidance will have an impact on our financial condition, or results of operation.

**Critical Accounting Policies**

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles ( 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 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. For further discussion of these and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements.

*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.

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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 August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011		November 30, 2010	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	\$ 1,676,598	\$ 1,736,221	\$ 1,565,793	\$ 1,638,372
Corporate debt securities	4,213,249	2,472,045	3,630,616	2,375,925
Government, federal agency and other sovereign obligations	5,531,554	5,278,235	5,191,973	4,735,288
Mortgage and asset-backed securities	4,787,608	82,072	4,921,565	129,384
Loans and other receivables	528,681	155,646	434,573	171,278
Derivatives	916,142	595,942	119,268	59,552
Investments	116,833		77,784	
Physical commodities	369,281			
	\$ 18,139,946	\$ 10,320,161	\$ 15,941,572	\$ 9,109,799

**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 Notes 2 and 5 to the consolidated financial statements.

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

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	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	August 31, 2011	November 30, 2010	August 31, 2011	November 30, 2010
Residential mortgage-backed securities	\$ 171,519	\$ 132,359	\$	\$
Loans and other receivables	164,163	227,596	11,458	47,228
Collateralized debt obligations	96,664	31,121		
Investments at fair value	92,428	77,784		
Corporate debt securities	55,230	73,408		
Commercial mortgage-backed securities	40,195	6,004		
Corporate equity securities	11,412	22,619	59	38
Other asset-backed securities	3,478	567		
Municipal securities	686	472		
Derivatives	155		3,601	2,346
Sovereign obligations	128			
<b>Total Level 3 assets</b>	<b>636,058</b>	<b>571,930</b>	<b>15,118</b>	<b>49,612</b>
Level 3 assets for which the firm bears no economic exposure (1)	(68,987)	(204,139)		
<b>Level 3 assets for which the firm bears economic exposure</b>	<b>\$ 567,071</b>	<b>\$ 367,791</b>	<b>\$ 15,118</b>	<b>\$ 49,612</b>

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

While our Financial instruments sold, not yet purchased, which are included within liabilities on our Consolidated Statement of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities. Secured financings accounted for at fair value were approximately \$2.7 million at August 31, 2011 and classified as Level 2 and \$85.7 million at November 30, 2010 and classified as Level 3 and are included within Other liabilities on the Consolidated Statements of Financial Condition.

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

	Three Months Ended		Nine Months	Eight Months
	August 31, 2011	August 31, 2010	Ended August 31, 2011	Ended August 31, 2010
<i>(in millions)</i>				
<b>Assets:</b>				
Transfers from Level 3 to Level 2	\$ 152.4	\$ 4.2	\$ 81.8	\$ 183.5
Transfers from Level 2 to Level 3	120.4	30.4	54.7	35.0
Net gains (losses)	(19.2)	9.4	17.4	57.9
<b>Liabilities:</b>				

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Transfers from Level 3 to Level 2	\$	\$	0.5	\$	\$	113.3
Transfers from Level 2 to Level 3			0.1			0.1
Net gains (losses)	(0.5)		0.8	(0.9)		6.1

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

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Level 3 cash instruments are frequently hedged with instruments classified within Level 1 and Level 2, and accordingly, gains or losses that have been reported in Level 3 are frequently offset by gains or losses attributable to instruments classified within Level 1 or Level 2 or by gains or losses on derivative contracts classified in Level 3 of the fair value hierarchy.

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

*Goodwill*

At least annually we are required to assess goodwill for impairment by comparing the estimated fair value of the operating segment with its net book value. Periodically estimating the fair value of the Capital Markets segment requires significant judgment. We estimate the fair value of the operating segment based on valuation methodologies we believe market participants would use, including consideration of control premiums for recent acquisitions observed in the market place. We completed our annual test of goodwill impairment as of June 1, 2011. No impairment was identified.

*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.

**Liquidity, Financial Condition and Capital Resources**

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

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

*Liquidity*

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

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	August 31, 2011	November 30, 2010
Cash and cash equivalents:		
Cash in banks	\$ 807,414	\$ 325,227
Money market investments	1,207,536	1,863,771
Total cash and cash equivalents	\$ 2,014,950	\$ 2,188,998

The majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable which is reflective of our ability to readily obtain repurchase financing for a large portion of our inventory at haircuts of 10% or less. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at the collateral haircut levels of 10% or less. Additionally, agency mortgage-backed securities, which are eligible to be delivered to and cleared by the Fixed Income Clearing Corporation, are considered to be liquid. 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. 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 August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011		November 30, 2010	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments
Corporate equity securities	\$ 1,523,277	\$ 123,426	\$ 1,453,744	\$ 264,603
Corporate debt securities	2,898,420	225,350	2,813,465	223,455
Government, federal agency and other sovereign obligations	5,426,776	200,228	5,159,605	168,523
Mortgage- and asset-backed securities	3,769,460	169,295	3,607,895	
Physical commodities	369,281	251,538		
	\$ 13,987,214	\$ 969,837	\$ 13,034,709	\$ 656,581

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.

*Liquidity Management Policies*

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.

The principal elements of our liquidity management framework are our Contingency Funding Plan and our Cash Capital Policy.

*Contingency Funding Plan.* Our Contingency Funding Plan is designed 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

and replacement with cash collateral; (c) higher margin requirements than currently existing on assets in securities financing activity, including repurchase agreements, (d) lower availability of secured funding; (e) client cash

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withdrawals; (f) the anticipated funding of outstanding investment commitments and (g) certain accrued expenses and other liabilities and fixed costs.

*Cash Capital Policy.* We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of \$8.2 billion as of August 31, 2011 exceeded our cash capital requirements.

*Financial Condition and Capital Management.*

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.

*Analysis of Financial Condition and Capital Resources*

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. As our government and agencies fixed income business has expanded throughout 2010 and 2011 both domestically and internationally, a significant portion of our securities inventory is comprised of U.S. government and agency securities and other G-7 government securities, for which there is a deep and liquid market. During the nine months ended August 31, 2011 and eleven months ended November 30, 2010, average total assets were approximately 6% lower and 2% higher than at August 31, 2011 and November 30, 2010, respectively.

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

	August 31, 2011	November 30, 2010	% Change
Total assets	\$ 45,125.2	\$ 36,726.5	23%
Financial instruments owned	18,139.9	15,941.6	14%
Financial instruments sold, not yet purchased	10,320.2	9,109.8	13%
Total Level 3 assets	636.1	571.9	11%
Level 3 assets for which we have economic exposure	567.1	367.8	54%
Securities borrowed	7,815.7	8,152.7	-4%
Securities purchased under agreements to resell	4,505.4	3,252.3	39%
Total securities borrowed and securities purchased under agreements to resell	\$ 12,321.1	\$ 11,405.0	8%
Securities loaned	\$ 3,338.4	\$ 3,109.0	7%
Securities sold under agreements to repurchase	10,935.8	10,684.1	2%
Total securities loaned and securities sold under agreements to repurchase	\$ 14,274.2	\$ 13,793.1	3%



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The increase in total assets at August 31, 2011 from November 30, 2010 is primarily due to an increase in the cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations as a result of the acquisition of the Global Commodities Group; and the level of our financial instruments owned inventory and trade related receivables. The increase in our inventory level of financial instruments owned, including securities pledged to creditors, is coupled with a commensurate increase in the level of our financial instruments sold, not yet purchased, over this time period. The increase in total assets at August 31, 2011 compared to November 30, 2010 is also partially impacted by an increase in securities purchased under agreements to resell, resulting from growth in the match book and an increase in term funding with more counterparties.

A portion of the increase in our total financial instruments owned inventory is increased holdings of government and agency securities. Our long inventory of government, federal agency and other sovereign obligations increased from \$5.2 billion at November 30, 2010 to \$5.5 billion at August 31, 2011. Short inventory of government, federal agency and other sovereign obligations increased from \$4.7 billion at November 30, 2010 to \$5.3 billion at August 31, 2011. These fluctuations in our inventory positions (long and short inventory) are primarily attributed to the continued development of our U.S. government and agencies and other sovereign debt trading businesses, in the U.S. and Europe, as we were designated a Primary Dealer in the U.S. during 2009 and in similar capacities in several European jurisdictions as well during the latter part of 2009 and 2010. 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. Our market risk exposure to Portugal, Italy, Ireland, Greece and Spain was modest at August 31, 2011. Our corporate debt securities inventory also increased by 16%, from \$3.6 billion at November 30, 2010 to \$4.2 billion at August 31, 2011 due to increased opportunities in the high yield corporate debt market, partially offset by decreases in inventory levels in the latter part of the period as we sought to reduce risk exposures given market conditions. Our mortgage- and asset-backed securities inventory remained relatively constant at August 31, 2011 as compared to November 30, 2010. We continually monitor our overall mortgage- and asset-backed securities exposure, including the inventory turnover rate, which confirms the liquidity of the overall asset class. The Jefferies Bache entities contributed approximately \$369 million of physical commodities, \$553 million of US treasuries, and \$290 million of over-the-counter derivative inventory to our level of Financial instruments owned at August 31, 2011.

Of our total Financial instruments owned, approximately 77% 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 capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. In addition, 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 modeled levels.

At August 31, 2011, our Level 3 assets for which we have economic exposure was 3% of our total assets at fair value as compared to 2% at November 30, 2010. Level 3 mortgage and asset backed securities represent 7% of total mortgage- and asset backed securities inventory at August 31, 2011 and 3.5% at November 30, 2010 and represent 49% and 30% of total Level 3 assets at August 31, 2011 and November 30, 2010, respectively.

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. Our total liabilities increased as the outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 8% from November 30, 2010 to August 31, 2011. The outstanding balance of our securities loaned and securities sold under agreements to repurchase increased by 4% from November 30, 2010 to August 31, 2011.

The following table presents our period end balance, average balance and maximum balance at any month end within the period for the nine months ended August 31, 2011 and the eleven months ended November 30, 2010 for Securities purchased under agreements to resell and Securities sold under agreements to repurchase (in millions):

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	Nine Months Ended August 31, 2011	Eleven Months Ended November 30, 2010
Securities Purchased Under Agreements to Resell		
Period end	4,505	3,252
Period average	6,006	3,769
Maximum month end	8,838	4,983

Securities Sold Under Agreements to Repurchase		
Period end	10,936	10,684
Period average	13,169	11,464
Maximum month end	15,797	14,447

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. The general growth in outstanding repo activity over the nine month period from November 30, 2010 to August 31, 2011 is reflective of supporting our overall business growth, particularly the continued expansion of our U.S. and European government securities and mortgage-backed securities sales and trading platforms. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented is impacted 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. As reflected above, month end balances may be higher or lower than average period balances.

*Leverage Ratios*

The following table presents total assets, adjusted assets, total stockholders' equity and tangible stockholders' equity with the resulting leverage ratios as of August 31, 2011 and November 30, 2010 (in thousands):

	August 31, 2011	November 30, 2010
Total assets	\$ 45,125,243	\$ 36,726,543
Deduct: Securities borrowed	(7,815,663)	(8,152,678)
Securities purchased under agreements to resell	(4,505,358)	(3,252,322)
Add: Financial instruments sold, not yet purchased	10,320,161	9,109,799
Less: Derivative liabilities	(595,942)	(59,552)
Subtotal	9,724,219	9,050,247
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(5,321,012)	(1,636,755)
Goodwill and intangible assets	(387,408)	(368,078)
Adjusted assets	\$ 36,820,021	\$ 32,366,957
Total stockholders' equity	\$ 3,491,688	\$ 2,810,965
Deduct: Goodwill and intangible assets	(387,408)	(368,078)
Tangible stockholders' equity	\$ 3,104,280	\$ 2,442,887

Leverage ratio (1)	12.9	13.1
Adjusted leverage ratio (2)	11.9	13.2

(1) Leverage ratio equals total assets divided by total stockholders equity.  
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(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 relevant measure of financial risk when comparing financial services companies. Our leverage ratio and adjusted leverage ratio decreased from November 30, 2010 to August 31, 2011 primarily due to an increase in our common stockholders' equity as a result of the issuance of 20.6 million shares of common stock in April 2011.

*Capital Resources*

We had total long-term capital of \$8.2 billion and \$7.0 billion and a long-term debt to equity capital ratio of 1.35:1 and 1.50:1, at August 31, 2011 and November 30, 2010, respectively. Our total capital base as of August 31, 2011 and November 30, 2010 was as follows (in thousands):

	August 31, 2011	November 30, 2010
Long-Term Debt (1)	\$ 4,275,746	\$ 3,778,681
Mandatorily Redeemable Convertible Preferred Stock	125,000	125,000
Mandatorily Redeemable Preferred Interest of Consolidated Subsidiaries	313,095	315,885
Total Stockholders' Equity	3,491,688	2,810,965
 Total Capital	 \$ 8,205,529	 \$ 7,030,531

(1) Long-term debt for purposes of evaluating long-term capital at August 31, 2011 excludes \$305.2 million of our 7.75% Senior Notes as the notes mature in less than one year from the balance sheet date.

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. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate term secured and unsecured funding, primarily through securities financing transactions. This is also augmented by our \$1,682.2 million of uncommitted secured and unsecured bank lines, including \$1,647.0 million of bank loans and \$35.2 million of letters of credit. Of the \$1,682.2 million of uncommitted lines of credit, \$882.2 million is unsecured and \$800.0 million is secured. Secured amounts are collateralized by a combination of customer and firm securities. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Bank loans represent temporary (usually overnight) secured and unsecured short term borrowings, which are generally payable on demand and generally bear interest at a spread over the federal funds rate. Bank loans that are unsecured are typically overnight loans used to finance financial instruments owned or clearing related balances. We had no outstanding secured or unsecured bank loans as of August 31, 2011 and November 30, 2010. Average daily bank loans for the nine months ended August 31, 2011 and the eleven months ended November 30, 2010 were \$16.0 million and \$23.8 million, respectively. In addition to our funding sources described above, as part of the acquisition agreement for Jefferies Bache, Prudential agreed to provide short term borrowing capacity of up to \$1.0 billion for a period of three months from closing. Borrowings outstanding under the facility were \$353.0 million at August 31, 2011. On September 16, 2011, the credit facility with Prudential was terminated and repaid in full. On August 26, 2011 we announced the establishment of a three year \$950.0 million senior secured revolving credit facility with a group of commercial banks to support the operations of our futures and commodities platform, Jefferies Bache. There were no borrowings under the \$950.0 million senior revolving credit facility at August 31, 2011. In April 2011, we issued \$800 million in unsecured senior notes with a maturity of 7 years. We issued \$400 million and \$150 million in unsecured senior notes in June and July 2010 with maturities of approximately 11 years and \$500 million in unsecured senior notes in November 2010 with a maturity of 5 years. As of August 31, 2011, our

long-term

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debt has a weighted average maturity of 8.7 years, which includes our 7.75% Senior Notes, due in 2012, payable in March 2012.

Our long-term debt ratings are as follows:

	Rating	Outlook
Moody's Investors Service	Baa2	Stable
Standard and Poor's	BBB	Stable
Fitch Ratings	BBB	Stable

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

There were no changes to our long-term debt ratings from the previous quarter.

**Contractual Obligations and Commitments**

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of August 31, 2011. The table presents principal cash flows with expected maturity dates (in millions):

	2011	2012	Expected Maturity Date			Total
			2013 and 2014	2015 and 2016	2017 and Later	
<b>Debt obligations:</b>						
Senior notes (contractual principal payments net of unamortized discounts and premiums)	\$	305.2	249.2	848.1	3,178.5	\$ 4,581.0
Interest payment obligations on senior notes	267.3	265.7	510.6	454.1	1,225.3	2,723.0
Mandatorily redeemable convertible preferred stock					125.0	125.0
Interest payment obligations on Mandatorily redeemable convertible preferred stock	4.1	4.1	8.1	8.1	77.7	102.1
Total debt obligations	271.4	575.0	767.9	1,310.3	4,606.5	7,531.1
<b>Commitments and guarantees:</b>						
Equity commitments	0.5	0.2	7.6	2.9	631.1	642.3
Loan commitments	33.2	12.1	381.0	67.6	33.0	526.9
	542.4	23.6	815.9			1,381.9

Mortgage-related commitments							
Forward starting repos	0.2						0.2
Derivative contracts:							
Derivative contracts non credit related	13,681.8	12,499.3	50,550.6				76,731.7
Derivative contracts credit related	10.0		392.0	586.2	40.0		1,028.2
Total commitments and guarantees	14,268.1	12,535.2	52,147.1	656.7	704.1		80,311.2
	\$ 14,539.5	\$ 13,110.2	\$ 52,915.0	\$ 1,967.0	\$ 5,310.6		\$ 87,842.3

Certain of our derivative contracts meet the definition of a guarantee and are therefore included in the above table. For

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additional information on commitments, see Note 19, Commitments, Contingencies and Guarantees, to the consolidated financial statements.

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

We are routinely involved with variable interest entities ( VIEs ) in connection with our mortgage-backed securities securitization activities. At August 31, 2011, we did not have any commitments to purchase assets from our securitization vehicles. At August 31, 2011, we held \$752.9 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial instruments owned on our consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 8, Securitization Activities and Variable Interest Entities, to the 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 18, Income Taxes, to the consolidated financial statements for further information.

*Equity Capital*

Common stockholders' equity increased to \$3,174.7 million at August 31, 2011 from \$2,478.0 million at November 30, 2010. The increase in our common stockholders' equity during the nine months ended August 31, 2011 is principally attributed to our issuance of 20,618,557 shares of treasury stock, net earnings to common shareholders, tax benefits for issuance of share-based awards, currency translation adjustment and share-based compensation. This increase in our common stockholders' equity is partially offset by dividend and dividend equivalents paid during the nine months ended August 31, 2011 and repurchases of approximately 4.8 million shares of our common stock during the period for \$96.9 million.

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

	August 31, 2011	November 30, 2010
Common stockholders' equity	\$ 3,174,735	\$ 2,477,989
Less: Goodwill and intangible assets	(387,408)	(368,078)
Tangible common stockholders' equity	\$ 2,787,327	\$ 2,109,911
Common stockholders' equity	\$ 3,174,735	\$ 2,477,989
Add: Unrecognized compensation (6)	185,101	160,960
Adjusted common stockholders' equity	\$ 3,359,836	\$ 2,638,949
Tangible common stockholders' equity	\$ 2,787,327	\$ 2,109,911
Add: Unrecognized compensation (6)	185,101	160,960
Adjusted tangible common stockholders' equity	\$ 2,972,428	\$ 2,270,871
Shares outstanding	200,314,305	171,694,146
Outstanding restricted stock units (5)	25,138,787	28,734,563
Adjusted shares outstanding	225,453,092	200,428,709
Common book value per share (1)	\$ 15.85	\$ 14.43
Adjusted common book value per share (2)	\$ 14.90	\$ 13.17
Tangible common book value per share (3)	\$ 13.91	\$ 12.29
Adjusted tangible common book value per share (4)	\$ 13.18	\$ 11.33

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

been met.

- (6) Unrecognized compensation relates to granted restricted stock and restricted stock units which contain future service requirements.

Tangible common stockholders' equity, adjusted common stockholders' equity, adjusted tangible common stockholders' equity, adjusted common book value per share, tangible common book value per share, and adjusted tangible common book value per share are non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP guidance. Goodwill and other intangible assets are subtracted from common stockholders' equity in determining tangible common stockholders' equity as we believe that goodwill and other intangible assets do not constitute operating assets, which can be deployed in a liquid manner. The cost of restricted stock and restricted stock units that have been granted but for which the costs will be recognized in the future with the related service requirements is added to common stockholders' equity and tangible common stockholders' equity in determining adjusted common stockholders' equity and adjusted tangible common stockholders' equity, respectively, as we believe that this is reflective of current capital outstanding and of the capital that would be required to be paid out at the balance sheet date. We calculate adjusted common book value per share as adjusted common stockholders' equity divided by adjusted shares outstanding. We

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believe the adjustment to shares outstanding for outstanding restricted stock units reflects potential economic claims on our net assets enabling shareholders to further assess their standing with respect to our financial condition.

Valuations of financial companies are often measured as a multiple of tangible common stockholders' equity, inclusive of any dilutive effects, making these ratios, and changes in these ratios, a meaningful measurement for investors.

In April 2011, we issued 20,618,557 shares of our common stock in a public offering priced at \$24.25 per share. The shares offered by us consisted entirely of treasury shares and increased shares outstanding at August 31, 2011. On November 29, 2010, we granted 5,062,000 shares of restricted stock and 127,000 restricted stock units as part of year end compensation. The closing price of our common stock was \$24.28 on November 29, 2010. The shares of restricted stock were issued in the first quarter of 2011 and increase shares outstanding at August 31, 2011. Shares underlying the restricted stock units will be issued in future periods, but are included in outstanding restricted stock units as of August 31, 2011 and November 30, 2010. The increase in shares outstanding is offset by repurchases of 4.8 million shares at an average price of \$20.26 during the nine months ended August 31, 2011.

At August 31, 2011, we had \$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 8,996,013 shares of our common stock at an effective conversion price of approximately \$38.35 per share.

On September 20, 2011, we declared a quarterly dividend of \$0.075 per share of common stock payable on November 15, 2011 to stockholders of record as of October 17, 2011. On June 20, 2011, we declared a quarterly dividend of \$0.075 per share of common stock payable on August 15, 2011 to stockholders of record as of July 15, 2011. On March 21, 2011, we declared a quarterly dividend of \$0.075 per share of common stock payable on May 16, 2011 to stockholders of record as of April 15, 2011.

*Net Capital*

Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache Securities, LLC are subject to the net capital requirements of the SEC and other regulators, which are designed to measure the general financial soundness and liquidity of broker-dealers. Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache Securities, LLC use the alternative method of calculation. Additionally, Jefferies and Jefferies Bache, LLC are registered as Futures Commission Merchants and subject to Rule 1.17 of the Commodities Futures Trading Commission (CFTC).

As of August 31, 2011, Jefferies, Jefferies Execution, Jefferies High Yield Trading, Jefferies Bache Securities, LLC 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	\$ 762,729	\$ 693,313
Jefferies Execution	\$ 15,651	\$ 15,401
Jefferies High Yield Trading	\$ 527,962	\$ 527,712
Jefferies Bache Securities, LLC	\$ 3,464	\$ 3,214

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 248,824	\$ 41,335

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



**Table of Contents****JEFFERIES GROUP, INC. AND 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 and profitability. We seek to identify, assess, monitor and manage the following principal risks involved in our business activities: market, credit, operational, legal and compliance, new business, reputational and other. Risk management is a multifaceted process that requires communication, judgment and knowledge of financial products and markets. Senior management takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment and control of various risks. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

*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 marketmaking, 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.

*Credit Risk.* Credit risk represents the loss that we would incur if a client, counterparty or issuer of financial instruments, such as securities and derivatives, held by us fails to perform its contractual obligations. We follow industry practices to reduce credit risk related to various trading, investing and financing activities by obtaining and maintaining collateral. We adjust margin requirements if we believe the risk exposure is not appropriate based on market conditions. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, we may purchase the underlying security in the market and seek reimbursement for losses from the counterparty in accordance with standard industry practices.

*Operational Risk.* Operational risk generally 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 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.



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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

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.

*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, antimoney laundering and record keeping. 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. We review 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.

*Other Risk.* Other risks encountered by us include political, regulatory and tax risks. These risks 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.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We use a number of quantitative tools to manage our exposure to market risk. These tools include:

inventory position and exposure limits, on a gross and net basis;

scenario analyses, stress tests and other analytical tools that measure the potential effects on our trading net revenues of various market events, including, but not limited to, a large widening of credit spreads, a substantial decline in equities markets and significant moves in selected emerging markets; and

risk limits based on a summary measure of risk exposure referred to as Value-at-Risk.

**Value-at Risk**

We estimate Value-at-Risk (VaR) using a model that simulates revenue and loss distributions on all financial instruments by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss of trading revenues at a given confidence level over a specified time horizon. We calculate VaR over a one day holding period measured at a 95% confidence level which implies that, on average, we expect to realize a loss of daily trading revenue at least as large as the VaR amount on one out of every twenty trading days. VaR is one measurement of potential loss in trading revenues that may result from adverse market movements over a specified period of time with a selected likelihood of occurrence. As with all measures of VaR, our estimate has substantial limitations due to our reliance on historical performance, which is not necessarily a predictor of the future. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities. VaR is a model that predicts the future risk based on historical data. 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. In addition, the VaR model measures the risk of a current static position over a one-day horizon and might not predict the future position. When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies could produce significantly different results.

The VaR numbers below are shown separately for interest rate, equity, currency and commodity risk categories for our overall trading positions, excluding corporate investments in asset management positions, using a historical simulation approach. 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. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days and because of general diversification benefits introduced when risk is measured across a larger set of specific risk factors than exist in the respective categories. Similar diversification benefits are also taken into account across risk factors within each category. The following tables illustrate the VaR for each component of market risk, including the average, high and low VaR for each component of market risk during the quarters ended August 31, 2011, May 31, 2011 and February 28, 2011.

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

Risk Categories	Daily VaR <sup>(1)</sup> (In Millions)					
	Value-at-Risk in trading portfolios			Average VaR Three Months Ended		
	8/31/11	VaR at 5/31/11	2/28/11	8/31/11	5/31/11	2/28/11
Interest Rates	\$ 9.16	\$ 7.78	\$ 7.81	\$ 8.59	\$ 9.03	\$ 6.32
Equity Prices	\$ 3.95	\$ 5.53	\$ 3.18	\$ 5.88	\$ 6.53	\$ 5.55
Currency Rates	\$ 1.46	\$ 0.61	\$ 0.50	\$ 1.06	\$ 0.77	\$ 0.56
Commodity Prices	\$ 0.96	\$ 1.87	\$ 2.04	\$ 1.36	\$ 1.33	\$ 1.45
Diversification Effect <sup>2</sup>	-\$5.12	-\$6.62	-\$4.14	-\$6.41	-\$4.98	-\$3.37
Firmwide	\$ 10.41	\$ 9.17	\$ 9.39	\$ 10.48	\$ 12.68	\$ 10.51

Risk Categories	Daily VaR <sup>(1)</sup> (In Millions)					
	Value-at-Risk Highs and Lows for Three Months Ended					
	8/31/11		5/31/11		2/28/11	
	High	Low	High	Low	High	Low
Interest Rates	\$ 14.85	\$ 6.18	\$ 13.67	\$ 3.09	\$ 9.99	\$ 3.26
Equity Prices	\$ 12.73	\$ 1.81	\$ 11.92	\$ 2.59	\$ 9.36	\$ 3.13
Currency Rates	\$ 1.88	\$ 0.32	\$ 1.49	\$ 0.04	\$ 1.20	\$ 0.10
Commodity Prices	\$ 2.76	\$ 0.77	\$ 2.38	\$ 0.70	\$ 2.90	\$ 0.53
Firmwide	\$ 15.69	\$ 7.05	\$ 18.88	\$ 8.45	\$ 13.56	\$ 7.65

(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 and 95% confidence level were used.

(2) Equals the difference between firmwide VaR and the sum of the VaRs by risk categories. This effect is due to the market categories not being perfectly correlated.

Average VaR of \$10.48 million during the three months ended August 31, 2011 decreased from the \$12.68 million average during the three months ended May 31, 2011 due mainly to lower equity and fixed income exposure, along with an increase in the diversification benefit. The largest change quarter on quarter was in the diversification effect, which was primarily due to a broader product mix.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

The following table presents our daily VaR over the last periods:

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

**Daily Net Trading Revenue**

(\$ in millions)

The table below shows the distribution of daily net trading revenue for substantially all of our trading activities. The number of days with trading losses in the quarter ended August 31, 2011 (26 days out of a total of 65 trading days in the quarter) was sharply higher than in the quarter ended May 31, 2011 as a result of increased volatility in underlying markets.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**

**Item 4. Controls and Procedures**

We, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of August 31, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of August 31, 2011 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.

No change in our internal control over financial reporting occurred during the quarter ended August 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Information regarding our risk factors appears in Item 1A. of our Transition Report on Form 10-K for the fiscal year ended November 30, 2010 filed with the SEC on February 2, 2011. These risk 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. The following additional risk factors should be read in addition to the risk factors contained in our Form 10-K:

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

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

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

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

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

liquidity. See our risk factors titled *Changing conditions in financial markets and the economy could result in decreased revenues, losses or other adverse consequences* and *Our international operations subject us to numerous risks which could adversely impact our business in many ways* in our Form 10-K filed on February 2, 2011 for additional information.



**Table of Contents****JEFFERIES GROUP, INC. AND SUBSIDIARIES****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities*

The following table presents information on our purchases of our own common stock during the 3 months ended August 31, 2011:

Period		(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3)
June 1	June 30, 2011	228,396	\$ 20.08	200,000	9,459,440
July 1	July 31, 2011	605,920	19.29	582,564	8,876,876
August 1	August 31, 2011	2,310,243	16.92	2,217,436	6,659,440
Total		3,144,559		3,000,000	

- (1) We repurchased an aggregate of 144,559 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 satisfy certain tax liabilities arising from the vesting of restricted stock or the distribution of restricted stock units. The number above does not include unvested shares forfeited back to us pursuant to the terms of our stock compensation plans.
- (2) On December 14, 2009 we announced the authorization by our Board of Directors of the repurchase, from time to time, of up to an aggregate of 15,000,000 shares of our common stock, inclusive of prior authorizations.
- (3) 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. This additional authorization is not reflected in the above table.

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**JEFFERIES GROUP, INC. AND SUBSIDIARIES**  
**Item 6. Exhibits**

**Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation of Jefferies Group, Inc. is incorporated herein by reference to Exhibit 3 of the Registrant's Form 8-K filed on May 26, 2004.
- 3.2 Certificate of Designations of 3.25% Series A Cumulative Convertible Preferred Stock is incorporated herein by reference to Exhibit 3.1 of the Registrant's Form 8-K filed on February 21, 2006.
- 3.3 By-Laws of Jefferies Group, Inc are incorporated herein by reference to Exhibit 3 of Registrant's Form 8-K filed on December 4, 2007.
- 10.1 Selling Agent Agreement, dated August 5, 2011, among Jefferies Group, Inc. and Jefferies & Company, Inc. is incorporated herein by reference to Exhibit 1.1 of Registrant's Form 8-K filed on August 11, 2011.
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer.
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification by the 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 at August 31, 2011 and November 30, 2010, (ii) the Consolidated Statements of Earnings for the Three and Nine Months Ended August 31, 2011 and the Three and Eight Months Ended August 31, 2010, (iii) the Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended August 31, 2011 and the Eleven Months Ended November 30, 2010, (iv) the Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended August 31, 2011 and the Three and Eight Months Ended August 31, 2010, (v) the Consolidated Statements of Cash Flows for the Nine Months Ended August, 2011 and the Eight Months Ended August 31, 2010, and (vi) Notes to Consolidated Financial Statements.

\* Filed herewith.

\*\* Furnished herewith.

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**SIGNATURE**

Pursuant to the requirements 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.**

(Registrant)

Date: October 7, 2011

By: /s/ Peregrine C. Broadbent  
Peregrine C. Broadbent  
Chief Financial Officer  
(duly authorized officer)

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