BASE PROSPECTUS

Jefferies

Jefferies Group, Inc.

U.S.$2,000,000,000 Euro Medium Term Note Programme

Jefferies Group, Inc. (the "**Issuer**") has established a programme (the "**Programme**") under which it may from time to time issue notes (the "**Notes**"). The Notes will be issued in series (each a "**Series**") with each Series comprising one or more tranches (each a "**Tranche**"), outside the United States, with maturities of one month or more from the date of issue, which may be denominated in any currency, subject to compliance with applicable legal and/or regulatory requirements and which will have a minimum denomination of €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). The maximum principal amount of Notes outstanding under the Programme may not at any time exceed U.S.$2,000,000,000 (or the equivalent in other currencies, calculated as described herein), provided that the Issuer reserves the right to increase such amount from time to time. The Issuer will prepare final terms ("**Final Terms**") to complete the Conditions (as defined herein) for each Tranche of Notes. The Issuer may issue Notes in a form not contemplated by the Conditions (as defined herein), in which case, if appropriate, the Issuer will prepare a supplement to this Base Prospectus describing such Notes.

The Notes may be issued on a continuing basis to one or more of the Dealers appointed under the Programme from time to time, and such appointments may be on an ongoing basis or for a specific issue (each a "**Dealer**" and together the "**Dealers**").

This Base Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of the Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application will be made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for Notes issued within 12 months of the date hereof, to be admitted to the Official List (the "**Official List**") and trading on its regulated market.

Notes may also be issued pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the Dealer may agree. The relevant Final Terms in respect of any Series will specify whether or not the relevant Notes will be listed on the Irish Stock Exchange (or whether the relevant Notes will be listed on any other stock exchange or will be unlisted).

References in this Base Prospectus to Notes being "**listed**" in Ireland (and all related references) shall mean that such Notes have been admitted to trading on the Irish Stock Exchange's regulated market and have been listed on the Irish Stock Exchange. References in this Base Prospectus to "**Irish Stock Exchange**" (and all related references) shall mean the regulated market of the Irish Stock Exchange.

Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Each Tranche of Bearer Notes will initially be in the form of a temporary global note (a "**Temporary Global Note**"). The Temporary Global Note will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a common safekeeper (a "**Common Safekeeper**") (if the Temporary Global Note is intended to be issued in New Global Note ("**NGN**") form, as stated in the applicable Final Terms) for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or any other clearing system located outside the United States and its possessions, specified by the Issuer and the Dealers (each, an "**Alternative Clearing System**" and each of Euroclear, Clearstream, Luxembourg, and any Alternative Clearing System being a "**Relevant Clearing System**") or (ii) a common depositary (a "**Common Depositary**") (if the Temporary Global Note is intended to be issued in Classic Global Note ("**CGN**") form) for the Relevant Clearing System. Each Temporary Global Note will be exchangeable for a permanent global note in bearer form (a "**Permanent Global Note**") or, if so specified in the relevant Final Terms, for definitive notes in bearer form ("**Definitive Notes**") on or after the Exchange Date (as defined in "*Form of the Notes—Temporary Global Note exchangeable for Permanent Global Note*") only upon certification as to non-U.S. beneficial ownership. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms.

Each Tranche of Registered Notes will initially be represented by a global note ("**Global Registered Note**") or by an individual note certificate ("**Individual Note Certificate**"). A Global Registered Note will be registered in the name of, and a certificate in respect of the Global Registered Note (a "**Global Note Certificate**") will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a Common Safekeeper (if the Global Registered Note is intended to be held under the New Safekeeping Structure (the "**NSS**")) for the Relevant Clearing System or (ii) a Common Depositary (if the Global Registered Note is intended to be a classic global note) on behalf of the Relevant Clearing System. Beneficial interests in a Global Registered Note will be exchangeable for Individual Note Certificates only in accordance with its terms.

There are risks related to an investment in the Notes, including possible loss of the principal amount invested. See "*Risk Factors*" beginning on page 8 of this Base Prospectus).

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, except as stated under "*Subscription and Sale*", may not be offered, sold, or delivered, directly or indirectly, in the United States, its territories, its possessions, and other areas subject to its jurisdiction (the "*United States*") or to a U.S. person (as defined in Regulation S under the Securities Act). Bearer Notes will be subject to United States tax law requirements as described in "*Subscription and Sale*".

Arranger and Dealer

Jefferies

The date of this Base Prospectus is 3 May 2012

IMPORTANT NOTICE

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation not contained in this Base Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty, or undertaking, express or implied, is made and no responsibility is accepted by the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any Final Terms or any other information provided by the Issuer. The Dealers do not accept any liability in relation to the information contained in this Base Prospectus or any Final Terms or any other information provided by the Issuer in connection with the Programme. The Dealers do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme contemplated by this Base Prospectus nor to advise any investor or potential investor of any information coming to their attention.

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Notes shall, in any circumstances, imply that the information contained in this Base Prospectus is correct as of any time subsequent to the date hereof or that there has not been any change, or any event reasonably likely to involve any material adverse change, in the condition (financial or otherwise) of the Issuer or any of its subsidiaries since the date hereof.

This Base Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Dealers that any recipient of this Base Prospectus should purchase any Notes. Each investor should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. This Base Prospectus does not constitute an offer or invitation by or on behalf of the Issuer or the Dealers to any person to subscribe for, or purchase, any Notes.

The distribution of this Base Prospectus and the offer of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor any of the Dealers represents that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or any Dealer which would permit a public offering of any Notes outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations, and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possessions this Base Prospectus or any Notes come must inform themselves about, and observe any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area, United Kingdom, Ireland, France, Italy, Japan, Hong Kong and certain other jurisdictions. The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. Bearer Notes will be subject to United States tax law requirements. See "*Subscription and Sale*".

Credit ratings in respect of the Issuer included in "*Annex—Financial Statements and Other Information*" to this Base Prospectus have been issued by Fitch, Inc. ("**Fitch**"), Moody's Investors Service, Inc. ("**Moody's**") and Standard & Poor's Financial Services LLC ("**S&P**") (together, the "**Rating Agencies**"). Each Tranche of Notes may or may not be rated. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

AS OF THE DATE OF THIS BASE PROSPECTUS, THE RATING AGENCIES ARE NOT ESTABLISHED IN THE EUROPEAN UNION AND HAVE NOT BEEN REGISTERED UNDER REGULATION (EC) NO. 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 16 SEPTEMBER 2009 ON CREDIT RATING AGENCIES (THE "**CRA REGULATION**"). RATINGS ISSUED BY FITCH HAVE BEEN ENDORSED BY FITCH RATINGS LTD, WHICH IS ESTABLISHED IN THE EU AND IS REGISTERED UNDER THE CRA REGULATION. RATINGS ISSUED BY MOODY'S HAVE BEEN ENDORSED BY MOODY'S INVESTORS SERVICE LTD., WHICH IS ESTABLISHED IN THE EU AND IS REGISTERED UNDER THE CRA REGULATION. RATINGS ISSUED BY S&P HAVE BEEN ENDORSED BY STANDARD & POOR'S CREDIT MARKET SERVICES EUROPE LIMITED, WHICH IS ESTABLISHED IN THE EU AND IS REGISTERED UNDER THE CRA REGULATION. THE LATEST UPDATE OF THE LIST OF CREDIT RATING AGENCIES REGISTERED UNDER THE CRA REGULATION IS PUBLISHED ON THE EUROPEAN SECURITIES AND MARKETS AUTHORITY'S WEBSITE.

IN GENERAL, EUROPEAN REGULATED INVESTORS ARE RESTRICTED FROM USING A RATING FOR REGULATORY PURPOSES IF SUCH RATING IS NOT ISSUED BY A CREDIT RATING AGENCY ESTABLISHED IN THE EUROPEAN UNION AND REGISTERED UNDER THE CRA REGULATION UNLESS THE RATING IS PROVIDED BY A CREDIT RATING AGENCY OPERATING IN THE EUROPEAN UNION BEFORE 7 JUNE 2010 WHICH HAS SUBMITTED AN APPLICATION FOR REGISTRATION IN ACCORDANCE WITH THE CRA REGULATION AND SUCH REGISTRATION IS NOT REFUSED.

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and that such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Nothing herein should be considered to impose on the recipient of this Base Prospectus any limitation on disclosure of the tax treatment or tax structure of the transactions or matters described herein.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING

MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning be ascribed to them under applicable law.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, all references to "U.S.$" or "dollars" are to the currency of the United States, all references to "£" and "pounds sterling" are to the currency of the United Kingdom and all references to "€", "EUR" and "euro" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended (the "**Treaty**").

FORWARD LOOKING STATEMENTS

This Base Prospectus contains or incorporates by reference "forward looking statements". Forward looking statements include statements about the Issuer's 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 the Issuer's strategies for future development of its business and products. Forward looking statements represent only the Issuer's belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in the Issuer's forward looking statements is contained in this Base Prospectus and other documents the Issuer files. Investors should read and interpret any forward looking statement together with these documents, including the following:

- the risk factors contained in this Base Prospectus under the caption "Risk Factors";
- the description of the Issuer's business under the caption "*Business*" in the Form 10-K included in "*Annex—Financial Statements and Other Information*" to this Base Prospectus;
- the discussion of the Issuer's analysis of financial condition and results of operations under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in the Form 10-K and the Form 10-Q included in "*Annex—Financial Statements and Other Information*" to this Base Prospectus;
- the discussion of the Issuer's risk management policies, procedures and methodologies under the caption "*Risk Management*" included within "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in the Form 10-K and the Form 10-Q included in "*Annex—Financial Statements and Other Information*" to this Base Prospectus;
- the notes to the consolidated financial statements in the Form 10-K and the Form 10-Q included in "*Annex—Financial Statements and Other Information*" to this Base Prospectus; and
- cautionary statements the Issuer makes in its public documents, reports and announcements.

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

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OVERVIEW OF THE PROGRAMME

This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Words and expressions defined in "Summary of Provisions relating to the Notes while in Global Form" and "Terms and Conditions of the Notes" herein, respectively, shall have the same meanings in this overview.

Issuer:	Jefferies Group, Inc., a Delaware corporation Jefferies Group, Inc. and its subsidiaries (the "**Group**") operate as a global full service, integrated securities and investment banking firm. The Group's principal operating subsidiary, Jefferies & Company, Inc., was founded in the United States in 1962 and the Group's first international operating subsidiary, Jefferies International Limited, was established in the United Kingdom in 1986. On 1 July 2011, the Group acquired the Bache Global Commodities Group from Prudential Financial, Inc. and it now operates a full service futures commission merchant through Jefferies Bache, LLC in the U.S. and a global commodities and financial derivatives broker through Jefferies Bache Limited in the United Kingdom. Since 2000, the Group has grown considerably and become increasingly diversified, increasing its market share and the breadth of its business. The Group's growth has been achieved through the ongoing addition of talented personnel in targeted areas, as well as the acquisition of complementary businesses. As of 30 November 2011, the Group had 3,898 employees in the U.S., Europe, the Middle East and Asia. The Group's global headquarters and executive offices are located at 520 Madison Avenue, New York, New York 10022. The Group's primary telephone number is + 1 (212) 284-2550 and its internet address is www.jefferies.com. No part of this website is incorporated by reference in, or forms part of this Base Prospectus.
Description:	Euro Medium Term Notes.
Arrangers:	Jefferies & Company, Inc. and Jefferies International Limited.
Dealers:	Jefferies & Company, Inc., Jefferies International Limited and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent and Paying Agent:	Citibank, N.A., London Branch or such other entity or entities as may be appointed under the Agency Agreement.
Registrar and Transfer Agent:	Citigroup Global Markets Deutschland AG
Calculation Agent:	Citibank, N.A., London Branch or such other entity or entities as may be appointed in relation to any Tranche of Notes.
Irish Listing Agent:	Arthur Cox Listing Services Limited
Programme Amount:	Up to U.S.$2,000,000,000 (or the equivalent in other currencies, calculated as described herein), provided that the Issuer reserves the right to increase such amount from time to time, in

	accordance with the Dealer Agreement (as defined in "*Subscription and Sale*").
Currencies:	Notes may be issued in any currency, subject to compliance with applicable legal and/or regulatory requirements. Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See "*Subscription and Sale*" herein.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro.
Issue Price:	Notes may be issued on a fully paid or partly paid basis and at an issue price which is at par or at a discount to, or at a premium over, par.
Maturities:	Notes may be of any maturity, subject to a minimum maturity of one month, as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms or, in any case, such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or to Notes denominated in the relevant Specified Currency.
Form of Notes:	Notes may be issued in bearer form or in registered form. Each Tranche of Bearer Notes will initially be in the form of a Temporary Global Note, which will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a Common Safekeeper (if the Temporary Global Note is intended to be issued in NGN form, as stated in the applicable Final Terms) for the Relevant Clearing System or (ii) a Common Depositary (if the Temporary Global Note is intended to be issued in CGN form) for the Relevant Clearing System. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes on or after the Exchange Date (as defined in "*Form of the Notes-Temporary Global Note exchangeable for Permanent Global Note*"), only upon certification as to non- U.S. beneficial ownership. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Notes in bearer form will not be exchangeable for Notes in registered form. Definitive Notes will, if interest bearing, have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts ("**Receipts**") attached. The Issuer has agreed in the Dealer Agreement not to issue Bearer Notes after 18 March 2012, except to the extent that, as a result of a change in law (including a change in administrative practice), interest paid on bearer bonds after that date may

	qualify for the exemption from U.S. withholding tax described in Section 871(h) of the United States Internal Revenue Code of 1986, as amended. Each Tranche of Registered Notes will initially be represented by a Global Registered Note or by Individual Note Certificate. A Global Registered Note will be registered in the name of, and the Global Note Certificate will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a Common Safekeeper (if the Global Registered Note is intended to be held under the NSS) for the Relevant Clearing System or (ii) a Common Depositary (if the Global Registered Note is intended to be a classic global note) on behalf of the Relevant Clearing System. Beneficial interests in a Global Registered Note will be exchangeable for Individual Note Certificates in accordance with its terms.
Denominations:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms, save that: (i) the minimum denomination of all Notes issued with an original maturity of 183 days or less from the Issue Date shall be U.S.$500,000 (or its equivalent in the currency of issue); (ii) the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency; and (iii) the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption or repayment, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms). Fixed Rate Notes will bear interest which will be payable in arrears on each Interest Payment Date as may be specified in the applicable Final Terms and upon redemption or maturity and will be calculated on such basis as may be specified in the applicable Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions (as specified in the applicable Final Terms and as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as of

	the Issue Date of the first Tranche of the Notes of the relevant Series), or on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms). The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each series of Floating Rate Notes. Interest on Floating Rate Notes in respect of each Interest Period will be payable on the first business day of the next Interest Period and on redemption or repayment, and will be calculated using the Day Count Fraction specified in the applicable Final Terms.
Interest Periods for Floating Rate Notes:	Such period(s) as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).
Index Linked Notes:	Payments (whether in respect of principal in respect of Index Linked Redemption Amount Notes or of interest in respect of Index Linked Interest Notes and whether at maturity or otherwise) will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).
Other provisions in relation to Floating Rate Notes and Index Linked Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum rate of interest, a minimum rate of interest or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount or at par and will not bear interest other than in the case of late payment.
Variation of Terms and Conditions:	The Issuer may agree with any Dealer(s) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein. The applicable Final Terms will describe the form of such Notes.
Redemption:	The applicable Final Terms will indicate whether Notes may be redeemed early (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or at the option of the Issuer (an "**Issuer Call**") and/or the Noteholders (an "**Investor Put**") upon giving not less than

	30 nor more than 60 days irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified and at a price or prices and on such terms as are indicated in the applicable Final Terms.
Status:	The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank *pari passu* and rateably without any preference among themselves and (subject to such exceptions as from time to time exist under applicable law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.
Negative Pledge:	The terms of the Notes will include a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The terms of the Notes will include a cross-default provision relating to indebtedness in excess of U.S.$50,000,000 as described in Condition 14 (*Events of Default*).
Withholding Tax:	Payments of principal and interest on the Notes will be made without deduction for or on account of United States withholding taxes, save as set out in Condition 13 (*Taxation*). In that event, the Issuer will, subject to certain exceptions, pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such deduction been required.
Listing:	Applications have been or will be made for Notes to be admitted during the period of twelve months after the date hereof to the Official List of the Irish Stock Exchange and to trading on its regulated market. Notes may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Issuer and the relevant Dealer(s).
Governing Law:	The Notes, including any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	For a description of certain restrictions on offers, sales and distribution of the Notes and on the distribution of offering material to certain persons in the United States, the European Economic Area, the United Kingdom, Ireland, France, Italy, Japan and Hong Kong, see "*Subscription and Sale*".
Ratings:	Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

SUPPLEMENTS TO THE BASE PROSPECTUS

In connection with the listing of the Notes on the Irish Stock Exchange, in the event of a material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus or any change in the information set out under "*Terms and Conditions of the Notes*", the Issuer will prepare a supplement to this Base Prospectus for use in connection with any subsequent issue of Notes to be listed on the Irish Stock Exchange.

In addition, the Issuer may agree with a Dealer to issue Notes in a form not contemplated in the sections entitled "*Terms and Conditions of the Notes*" and "*Form of Final Terms*". To the extent that the information relating to such Notes constitutes a significant new factor in relation to the information contained in this Base Prospectus, a separate prospectus specific to such Notes will be made available and will contain such information.

RISK FACTORS

The following section does not describe all of the risks and investment considerations (including those relating to the prospective investor's particular circumstances) with respect to an investment in the Notes. The following factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect the Group's business or that could otherwise result in changes that differ materially from the Issuer's expectations. In addition to the specific factors mentioned in this report, the Group may also be affected by other factors that affect businesses generally such as global or regional changes in economic or business conditions, acts of war, terrorism and natural disasters. Prospective investors should consult their own financial, legal, tax, and other professional advisors as to the risks arising from an investment in an issue of Notes and the suitability of the investment for the investor.

Risks related to the Issuer and the Group

The Group's expansion in the commodities futures business presents various risks

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

Recent legislation and new and pending regulation may significantly affect the Group's business

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

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

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

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

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

- A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues received from commissions and spreads.
- Unfavourable financial or economic conditions could reduce the number and size of transactions in which the Group provides underwriting, financial advisory and other services. The Group's investment banking revenues, in the form of financial advisory and underwriting or placement fees, are directly related to the number and size of the transactions in which it participates and could therefore be adversely affected by unfavourable financial or economic conditions.
- Adverse changes in the market could lead to losses from principal transactions on the Group's inventory positions.
- Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on the Group's own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by the Group's funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.
- Limitations on the availability of credit, such as occurred during 2008, can affect the Group's ability to borrow on a secured or unsecured basis, which may adversely affect its liquidity and results of operations.
- New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect the Group's profits.
- Should one of the Group's competitors fail, the Group's securities prices and its revenue could be negatively impacted based upon negative market sentiment causing customers to cease doing business with the Group and its lenders to cease loaning it money, which could adversely affect the Group's business, funding and liquidity.

Unfounded allegations about the Group could result in extreme price volatility and price declines in its securities and loss of revenue, clients, and employees

In November 2011, the Group became the subject of unfounded allegations and false rumours, including among others those relating to the Group's exposure to European sovereign debt. Despite the fact that the Group was able to dispel such rumours, both its stock and bond prices were significantly impacted. The Group's common stock suffered a 20 per cent. sell-off in minutes and, consequently, its trading was temporarily suspended, and the Group's debt-securities prices suffered not only extreme volatility but also record high yields. In addition, the Group's operations were impacted as some clients either ceased doing business or temporarily slowed down the level of business they do, thereby decreasing the Group's revenue stream. Although the Group was able to reverse the negative impact of such unfounded allegations and false rumours, there is no assurance that the Group will be able to do so successfully in the future and its potential failure to do so could have a material adverse effect on the Group's business, financial condition and liquidity.

The downgrade of the U.S. credit rating and Europe's debt crisis could have a material adverse effect on the Group's 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 5 August 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 the Group's 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 European Union 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 the Group's business, financial condition and liquidity.

A credit-rating agency downgrade could significantly impact the Group's business

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

The Group's principal trading and investments expose it to risk of loss

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

Increased competition may adversely affect the Group's revenues, profitability and staffing

All aspects of the Group's business are intensely competitive. It competes directly with numerous bank holding companies and commercial banks, other brokers and dealers and investment banking firms. In addition to competition from firms currently in the securities business, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations. The Group believes that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, the ability to execute the transaction, relative price of the service and products being offered, bundling of products and services and the quality of service. Increased competition or an adverse change in the Group's competitive position could lead to a reduction of business and therefore a reduction of revenues and profits. Competition also extends to the hiring and retention of highly skilled employees. A competitor may be successful in hiring away an employee or group of employees, which may result in the Group losing business formerly serviced by such employee or employees. Competition can also raise the Group's costs of hiring and retaining the key employees it needs to effectively operate its business.

Operational risks may disrupt the Group's business, result in regulatory action against it or limit its growth

The Group's businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies, and the transactions the Group processes have become increasingly complex. If any of its financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in its internal processes, people or systems, the Group could suffer an impairment to its liquidity, financial loss, a disruption of its 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 the Group's control, including a disruption of electrical or communications services or the Group's inability to occupy one or more of its buildings. The inability of the Group's systems to accommodate an increasing volume of transactions could also constrain its ability to expand its businesses.

The Group also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate its securities transactions. Any such failure or termination could adversely affect the Group's ability to effect transactions and manage its exposure to risk.

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

The Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although it takes protective measures and endeavour to modify them as circumstances warrant, the Group's computer systems, software and networks may be vulnerable to unauthorised 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 the Group's or clients' or counterparties' confidential and other information processed and stored in, and transmitted through, its computer systems and networks, or otherwise cause interruptions or malfunctions in the Group's, its clients', its counterparties' or third parties' operations. The Group may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and it may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Group.

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

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

The Group faces numerous risks and uncertainties as the Group expands its business

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

The Group's international operations subject it to numerous risks which could adversely impact its business in many ways

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

Extensive regulation of the Group's business limits its activities, and, if it violates these regulations, it may be subject to significant penalties

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

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

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

Legal liability may harm the Group's business

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

The Group's business is subject to significant credit risk

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

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

Derivative transactions may expose the Group to unexpected risk and potential losses

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

Risks related to the Notes

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of an investment in the Notes in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way for potential investors to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes that are complex financial instruments unless it has the expertise (either alone or with the help of a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. Some of these Notes may have features that contain particular risks for potential investors. Set out below is a description of certain such features:

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

An investment in Index Linked or Dual Currency Notes entails significant risks that are not associated with an investment in a conventional fixed-rate debt security. Indexation of the interest rate of a Note may result in an interest rate that is less than the rate payable on a conventional fixed-rate debt security issued by the Issuers at the same time, including the possibility that no interest will be paid. Indexation of the principal of and/or premium on a Note or linking it to an exchange rate may result in an amount of principal and/or premium being payable that is less than the original purchase price of the Note, including the possibility that no principal will be paid.

The value of an index or rates of exchange can depend on a number of factors over which the Issuers have no control, including economic, financial and political events. These factors are important in determining the existence, magnitude and longevity of the risks and their results. If the formula used to determine the amount of principal, premium and/or interest payable with respect to

Index Linked Notes contains a multiplier or leverage factor, the effect of any change in the index will be magnified.

In recent years, values of indices and formulas have been volatile and investors should be aware that volatility may occur in the future. Nonetheless, the historical experience of an index should not be taken as an indication of its future performance. In addition, special tax rules may apply to Index Linked or Dual Currency Notes, which rules will be discussed in the applicable Final Terms. Investors should consult their own financial, tax and legal advisors as to the risks associated with an investment in Index Linked or Dual Currency Notes and the suitability of such Notes in light of their particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. If any Noteholder fails to pay any instalment due on the Partly-paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to such holder in respect of them.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed within the United States or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

An optional redemption feature is likely to limit the market value of Notes. See "*Risks Related to the Structure of a Particular Issue of Notes — Notes Subject to Optional Redemption by the Issuer*".

Modification and waiver

The conditions of the Notes contain provisions for calling meetings of holders of Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Notes including holders that did not attend and vote at the relevant meeting and holders that voted in a manner contrary to the majority. The Conditions also provide that the Fiscal Agent or in the case of Registered Notes, the Registrar, may, without the consent of Noteholders, agree to any modification of any of the provisions of Notes and the Deed of Covenant to correct a manifest error.

Market making and resale of the Notes

Affiliates of the Issuer, including the Arrangers and Dealers, may make a market in any Series of Notes. However, they are not obligated to make a market in the Notes and any market making may be discontinued at any time at the sole discretion of such affiliates without notice. Under interpretations by the U.S. Securities and Exchange Commission (the "**SEC**") staff, any resale within the United States by any such affiliate of the Issuer of any Notes so acquired must be made pursuant to an effective registration statement filed with the SEC or pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act.

Payments under the Notes may be subject to withholding tax pursuant to FATCA

The Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended and the regulations promulgated thereunder ("**FATCA**") to withhold U.S. tax at a rate of 30.00 per cent. on payments of principal, interest as well as the gross proceeds from the sale, exchange or redemption of the Notes to foreign financial institutions unless the payee foreign financial institution agrees, among other things, to disclose the identity of certain U.S. account holders at the institution (or the institution's affiliates) and to annually report certain information about such accounts. Payments of the foregoing amounts made to certain foreign entities that do not disclose certain information about any substantial U.S. owners (or certify that they do not have any substantial U.S. owners) may also be subject to withholding at the rate of 30.00 per cent. under FATCA.

Recently issued guidance by the U.S. Internal Revenue Service indicates that with respect to Notes that are not outstanding on 1 January 2013, FATCA withholding tax of 30.00 per cent. will apply to (i) payments of interest made after 31 December 2013, and (ii) payments of principal and gross proceeds of sale made after 31 December 2014.

If applicable, FATCA will be addressed in the relevant Final Terms with respect to Notes issued after 31 December 2012. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with FATCA, none of the Issuer, any paying agent or any other person would pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Payments under Index Linked Notes may be subject to U.S. withholding tax

Under the U.S. Internal Revenue Code, a "dividend equivalent" payment is treated as a dividend from sources within the United States and is subject to withholding at the rate of 30 per cent. unless reduced by an applicable tax treaty with the United States ("**DEP Withholding**"). A "dividend equivalent" payment includes (i) a payment made pursuant to a "specified notional principal contract" that (directly or indirectly) is contingent upon, or determined by reference to, the payment of a dividend from sources within the United States, (ii) any other payment determined by the U.S. Internal Revenue Service ("**IRS**") and (ii) a payment made pursuant to any notional principal contract unless otherwise exempted by the IRS. Where the securities reference an interest in a fixed basket of securities or an index, such fixed basket or index will be treated as a single security. Where the securities reference an interest in a basket of securities or an index that may provide for the payment of dividends from sources within the United States, absent guidance from the IRS, it is uncertain whether the IRS would determine that payments under the Index-Linked Notes are substantially similar to a dividend. If the IRS determines that a payment is substantially similar to a dividend, it may be subject to U.S. withholding tax, unless reduced by an applicable tax treaty.

DEP Withholding, if applicable, will be addressed in the relevant Final Terms with respect to Index Linked Notes. If an amount in respect of U.S. DEP Withholding were to be deducted or withheld from interest, principal or other payments on Index Linked Notes, none of the Issuer, any paying agent or any other person would pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

EU Savings Directive

Under EC Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State, details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, each of Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the end of that transitional period is dependent upon the conclusion of certain agreements relating to information exchange within certain non-EU countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 April 2009, the European Parliament approved an amended version of certain changes to the EU Savings Directive proposed by the European Commission (in COM(2008) 727) which could, if implemented, extend the scope of the EU Savings Directive to a wider range of circumstances and make certain other amendments (including to the transitional period provisions).

If, in compliance with the EU Savings Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a Paying Agent following implementation of the EU Savings Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Reliance upon clearing systems

Notes may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes.

While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg. While the Notes are represented by one or more Global Note, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Change of law

The Notes and all related contractual documentation and any non-contractual obligations arising therefrom or connected therewith are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England or administrative practice after the date of this Base Prospectus.

Risks related to the market generally

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon, amongst other factors, currency exchange rates, prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes issued under the

Programme to be admitted to listing on the Official List of the Irish Stock Exchange and to trading on its regulated market, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any Tranche of Notes.

Exchange rate risks and exchange controls

Notes may be denominated or payable in one of a number of currencies. For investors whose financial activities are denominated principally in a currency (the "**Investor's Currency**") other than the Specified Currency, an investment in the Notes entails significant risks that are not associated with a similar investment in a security denominated in that Investor's Currency. Such risks include, without limitation, the possibility of significant changes in the rate of exchange between the Specified Currency and the Investor's Currency and the possibility of the imposition or modification of exchange controls by the country of the Specified Currency or the Investor's Currency. Such risks generally depend on economic and political events over which the Issuer has no control. In recent years, rates of exchange have been highly volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations that may occur in the future. Depreciation of the Specified Currency against the Investor's Currency would result in a decrease in the Investor's Currency equivalent yield on a Note denominated in that Specified Currency, in the Investor's Currency equivalent value of the principal payable at maturity of such Note and generally in the Investor's Currency equivalent market value of such Note. An appreciation of the Specified Currency against the Investor's Currency would have the opposite effect. In addition, depending on the specific terms of a Note denominated in, or the payment of which is related to the value of, one or more foreign currencies, changes in exchange rates relating to any of the currencies involved may result in a decrease of such Note's effective yield and, in certain circumstances, could result in a loss of all or a substantial portion of the principal of a Note to the investor.

Governments have imposed from time to time, and may in the future impose or modify, exchange controls which could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal of, premium, if any, or interest on a Note. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note may not be available when payments on such Note are due.

Rating

One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this paragraph, and other factors that may affect the value of the Notes or the standing of the Issuer. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes.

The applicable Final Terms will disclose whether or not each credit rating applied for in relation to the Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes having a minimum maturity of one month and denominated in any currency as may be agreed between the Issuer and the relevant Dealer(s) and as specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory requirements. The Notes will have a minimum denomination of €100,000 (or, if the Notes are denominated in a currency other that euro, the equivalent in such currency). A general description of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as completed by the Final Terms attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*" and "*Form of Final Terms*".

This Base Prospectus and any supplement to this Base Prospectus will only be valid for issuing Notes in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, as described under "*Form of the Notes*" and "*Form of Final Terms*") shall be determined as of the date of agreement to issue such Notes (the "**Agreement Date**") on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading bank selected by the Issuer on the Agreement Date;

(b) the U.S. dollar equivalent of Dual Currency Notes and Index-Linked Notes (as specified in the applicable Final Terms in relation to the relevant Notes, as described under "*Form of the Notes*" and "*Form of Final Terms*") shall be calculated in the manner specified above by reference to the original principal amount of such Notes;

(c) the principal amount of Zero Coupon Notes (as hereafter defined) and other Notes issued at a discount or a premium shall be deemed to be the net proceeds received by the Issuer for the relevant issue of Notes; and

(d) the face principal amount of Partly Paid Notes (as hereafter defined) will be taken into account regardless of the amount of the subscription price paid.

FORM OF THE NOTES

Bearer Notes

Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note, which will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a Common Safekeeper (if the Temporary Global Note is intended to be issued in NGN form, as stated in the applicable Final Terms) for the Relevant Clearing System or (ii) a Common Depositary (if the Temporary Global Note is intended to be issued in CGN form) for the Relevant Clearing System.

The Issuer has agreed in the Dealer Agreement (as defined in "*Subscription and Sale")* not to issue Bearer Notes after 18 March 2012, except to the extent that, as a result of a change in law (including a change in administrative practice), interest paid on bearer bonds after that date may qualify for the exemption from U.S. withholding tax described in Section 871(h) of the United States Internal Revenue Code of 1986, as amended.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, on or after the date (the "**Exchange Date**") which is the first day following the later of (i) 40 days after the later of the commencement of the offering of Notes of the relevant Tranche and the date of issue thereof (the "**Initial Distribution Compliance Period**") and (ii) if either the commencement of the offering of Notes of any other Tranche of the same Series or the date of issue thereof falls within the Initial Distribution Compliance Period, 40 days after the later of the commencement of the offering of such Tranche and the date of issue thereof, in each case only upon certification as to non-U.S. beneficial ownership. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Notes in bearer form will not be exchangeable for Notes in registered form.

Definitive Notes will, if interest bearing, have interest Coupons attached and, if appropriate, a Talon for further Coupons and will, if the principal thereof is repayable by instalments, have Receipts attached. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent; and

(ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership, within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms;

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) upon the occurrence of an event of default (as defined in Condition 14 (*Events of Default*)) in respect of any Note of that Series.

If the relevant Final Terms specify the form of Notes as "Permanent Global Note exchangeable for Definitive Notes" in circumstances other than in the limited circumstances specified in the Permanent Global Note, such Notes may only be issued in denominations equal to or greater than the specified "Minimum Denomination" and integral multiples thereof.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes", such Notes may only be issued in denominations equal to or greater than the specified "Minimum Denomination" and integral multiples thereof. The Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than the Exchange Date (as defined in "*Form of the Notes –Temporary Global Note exchangeable for Permanent Global Note*") for the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the initial principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Exchange of Notes

Each exchange of an interest in a Temporary Global Note or Permanent Global Note as described above will be made free of any charge to the bearer.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete the terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions that would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legends concerning United States persons

The following legend will appear on all Bearer Notes and definitive Notes that have a maturity (at issue) of more than 183 days and on the related Receipts and Coupons:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code of 1986, as amended."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, Receipts or Coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition or payment of principal in respect of Notes, Receipts or Coupons.

The following legend will appear on all global Notes and definitive Notes that have a maturity (at issue) of 183 days or less from the date of original issue and on the related Receipts and Coupons:

> "By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in Section 6049(b)(4) of the United States Internal Revenue Code of 1986, as amended and the regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in Section 6049(b)(4) of the United States Internal Revenue Code of 1986, as amended and the regulations thereunder)."

This certification is essentially to the effect that the holder is not subject to United States information reporting and backup withholding tax requirements.

Registered Notes

Each Tranche of Registered Notes will initially be represented by a Global Registered Note or by Individual Note Certificates. A Global Registered Note will be registered in the name of, and the Global Note Certificate will be delivered on or prior to the issue date of the relevant Tranche of Notes to (i) a Common Safekeeper (if the Global Registered Note is intended to be held under the NSS) for the Relevant Clearing System or (ii) a Common Depositary (if the Global Registered Note is intended to be a classic global note) on behalf of the Relevant Clearing System. Beneficial interests in a Global Registered Note will be exchangeable for Individual Note Certificates, represented by Individual Note Certificates only in limited circumstances, as further described in the Conditions.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Registered Note exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Registered Note which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. **Introduction**

(a) *Programme*

Jefferies Group, Inc. (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$2,000,000,000 in aggregate principal amount of notes (the "**Notes**") outstanding at any one time.

(b) *Final Terms*

Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of final terms (the "**Final Terms**") which complete these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) *Agency Agreement*

The Notes are the subject of an agency agreement dated 3 May 2012 (as amended and/or supplemented from time to time, up to and including the Issue Date of any Notes, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citigroup Global Markets Deutschland AG as registrar, (the "**Registrar**" which expression includes any successor or additional registrar appointed from time to time in connection with the Notes), and the paying agent named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agent named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant*

The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 3 May 2012 (the "**Deed of Covenant**") entered into by the Issuer. The Deed of Covenant provides for certain arrangements in the event that a Permanent Global Note or Global Registered Note becomes void in accordance with its terms.

(e) *The Notes*

All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the Specified Office of the Fiscal Agent and copies may be obtained from such office save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under Directive 2003/71/EC, the applicable Final Terms will only be obtainable by a holder of the Notes (individually a "**Noteholder**" and together, the "**Noteholders**") holding one or more Notes and such Noteholder must produce evidence satisfactory to the Fiscal Agent as to its holding of such Notes and identity.

(f) *Summaries*

Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to their detailed provisions. The Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Office of the Fiscal Agent.

2. Interpretation

(a) *Definitions*

In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means, unless otherwise specified in the relevant Final Terms:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that:*

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“**Calculation Agent**” means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

“**Calculation Amount**” has the meaning given in the relevant Final Terms;

“**Capital Lease Obligation**” means, at any time any determination thereof is made, the amount of the liability in respect of a capital lease that would at such time be so required to be capitalised on the balance sheet in accordance with GAAP;

“**Capital Stock**”, as applied to the stock of any corporation, means the capital stock of every class whether now or hereafter authorised, regardless of whether such capital stock shall be limited to a fixed sum or percentage with respect to the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of such corporation;

“**Code**” means the Internal Revenue Code of the United States and the regulations thereunder.

“**Consolidated Net Worth**” means, with respect to any Person as of any date, the sum of (i) the consolidated equity of the common stockholders of such Person and its Subsidiaries as of such date plus (ii) the respective amounts reported on such Person’s balance sheet as of such date with respect to any series of preferred stock (other than Disqualified Stock) that by its terms is not entitled to the payment of dividends unless such dividends may be declared and paid only out of net earnings in respect of the year of such declaration and payment, but only to the extent of any cash received by such Person upon issuance of such preferred stock;

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual** (**ICMA**)" is so specified, means:

(A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) where the Calculation Period is longer than one Regular Period, the sum of:

(1) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(2) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(ii) if "**Actual/365**" or "**Actual/Actual** (**ISDA**)" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non leap year divided by 365);

(iii) if "**Actual/365** (**Fixed**)" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, means (A) in respect of the 2000 ISDA Definitions, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30 day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and (B) in respect of the 2006 ISDA Definitions, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, means (A) in respect of the 2000 ISDA Definitions, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and (B) in respect of the 2006 ISDA Definitions, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360** (**ISDA**)" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls:

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D2 will be 30;

"**Disqualified Stock**" means any Capital Stock which by its terms (or by the terms of any security into which it is convertible of for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the final date of maturity of the relevant series of Notes;

"**Early Redemption Amount** (**Default**)" means the redemption amount (if any) specified in the relevant Final Terms;

"**Early Redemption Amount** (**Tax**)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**GAAP**" means accounting principles generally accepted in the United States of America, as in effect from time to time;

"**Guarantee**" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), or all or any part of any Indebtedness;

"**Hedging Obligations**" means, with respect to any Person, the Obligations of such Person under interest rate swap agreements, interest rate cap agreements, and interest rate collar agreements, and other agreements or arrangements designed to protect such Person against fluctuations in interest rates;

"**Indebtedness**" means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures of similar instruments or letters of credit (or reimbursement agreements in respect thereof) or representing Capital Lease Obligations or the balance deferred and unpaid of the purchase price of any property or representing any Hedging Obligations, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and also includes, to the extent not otherwise included, the Guarantee of any indebtedness of such Person or any other Person;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Lien**" means any mortgage, lien, pledge, charge, security interest, or other encumbrance of any kind, whether or not filed, recorded or otherwise perfected under applicable law;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Material Subsidiary**" means any Subsidiary of the Issuer or any of its Subsidiaries if the Issuer's or any of Subsidiaries investments in such Subsidiary at the date of determination thereof, represent 5 per cent. or more of the Issuer's Consolidated Net Worth as of such date;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Meeting**" means a meeting of Noteholders (whether originally convened or resumed following an adjournment);

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Non-United States Person**" means a person who is not a United States Person;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(c) (*Registered Notes*);

"**Obligations**" means any principal, premium, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing and Indebtedness;

"**Optional Redemption Amount** (**Call**)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount** (**Put**)" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date** (**Call**)" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date** (**Put**)" has the meaning given in the relevant Final Terms;

"**Participating Member State**" means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Liens**" means (a) Liens in favor of the Issuer; (b) Liens on any shares of Voting Stock of any corporation existing at the time such corporation becomes a Material Subsidiary of the Issuer (and any extensions, renewals or replacements thereof); (c) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other Obligations of a like nature incurred in the ordinary course of business; (d) mechanics', materialmen's, workmen's, repairmen's, warehousemen's and carrier's liens arising in the ordinary course of business; (e) easements, rights of way and other similar restrictions that do not materially adversely affect the use and enjoyment of the property subject thereto or affected thereby and (f) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, provided, that any reserve or appropriate provision as shall be required in conformity with generally accepted accounting principles shall have been made therefore;

"**Person**" means any individual, company, corporation, firm, partnership, limited liability company, joint venture, association, trust, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency *provided, however, that:*

(i) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" has the meaning given in the relevant Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date fails other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination**(s)" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Subsidiary**" means a corporation more than 50 per cent. of the outstanding voting stock of which is owned, directly or indirectly, by the Issuer or by one or more other Subsidiaries, or by the Issuer and one or more other Subsidiaries. For the purposes of this definition, "**voting stock**" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System is open;

"**TEFRA D Rules**" means the U.S. Treasury regulation §1.163-5(c)(1) and §1.163-5(c)(2)(i)(D);

"**Treaty**" means the Treaty establishing the European Union, as amended;

"**United States**" means the United States of America, which includes only the States and the District of Columbia;

"**United States Person**" means:

(i) any individual who is a citizen or resident of the United States;

(ii) any corporation, partnership or other entity treated as a corporation or partnership created or organised in or under the laws of the United States or any political subdivision thereof;

(iii) any estate if the income of such estate falls within the federal income tax jurisdiction of United States regardless of the source of such income; and

(iv) any trust if a United States court is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions or the trust elects under U.S. Treasury Regulations to be treated as a United States person;

"**Voting Stock**" means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of any Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency); and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation*

In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

3. Form, Denomination and Title

(a) *Bearer Notes*

Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*

Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*

Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

(d) *Title to Registered Notes*

The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*

The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*

Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*

Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*

The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration*

All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

The Issuer has agreed in the Dealer Agreement not to issue Bearer Notes after 18 March 2012, except to the extent that, as a result of a change in law (including a change in administrative practice), interest paid on bearer bonds after that date may qualify for the exemption from U.S. withholding tax described in Section 871(h) of the Code.

4. **Status of The Notes**

The Notes constitute direct, unconditional, unsubordinated and (without prejudice to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **Negative Pledge**

The Issuer shall not, and shall not permit any of its Material Subsidiaries to, issue, incur, assume or Guarantee any Indebtedness for borrowed money secured by a Lien (other than Permitted Liens) upon any shares of the Voting Stock of a Material Subsidiary without effectively providing that the Notes (and if the Issuer so elects, any other indebtedness of the Issuer ranking on a parity with the Notes) shall be secured equally and ratably with, or prior to, any such secured Indebtedness so long as such Indebtedness remains outstanding.

6. **Fixed Rate Note Provisions**

(a) *Application*

This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) or Condition 12 (*Payments - Registered Notes*), as applicable). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*

The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*

The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index Linked Interest Note Provisions

(a) *Application*

This Condition 7 (*Floating Rate Note and Index Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest*

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments - Bearer Notes*) or Condition 12 (*Payments - Registered Notes*), as applicable.). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*

If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of the preceding Interest Period.

(d) *ISDA Determination*

If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Index Linked Interest*

If the Index Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.

(f) *Maximum or Minimum Rate of Interest*

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*

The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*

If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

(i) *Publication*

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) on which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall publish the Interest Amount in relation to the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents and, in the case of Registered Notes, the Registrar and the Transfer Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

(a) *Application*

This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes*

If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Dual Currency Note Provisions**

(a) *Application*

This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Rate of Interest*

If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

10. **Redemption and Purchase**

(a) *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments - Bearer Notes*) or Condition 12 (*Payments - Registered Notes*), as applicable

(b) *Redemption for tax reasons*

(i) The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice in accordance with Condition 21 (*Notices*) (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with accrued interest, if any, if the Issuer has or will become obliged to pay additional interest on such Notes pursuant to Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of the United States or any change in the application or official interpretation of such laws, regulations or rulings, which change or amendment becomes effective on or after the date on which any person (including any person acting as underwriter, broker or dealer) agrees to purchase any of such Notes pursuant to their original issuance, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such additional interest were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 10, the Issuer shall deliver to the Fiscal Agent (A) a certificate signed by an officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) a legal opinion, from lawyers of recognised standing in the United States, to the effect that the Issuer has or will become obligated to pay such additional interest as a result of such change or amendment.

(ii) Unless otherwise specified in the Final Terms, if the Issuer shall determine that any payment made outside the United States by the Issuer or any of its Paying Agents in respect of any Note, Coupon or Talon, (an "**Affected Note**") would, under any present or future laws or regulations of the United States, be subject to any certification, documentation, information or other reporting requirement of any kind, the effect of which requirement is the disclosure to the Issuer, any Paying Agent or any governmental authority of the nationality, residence or identity of a beneficial owner of such Affected Note that is a Non-United States Person (other than such a disclosure requirement that is an "Exempt Requirement" as defined below) then the Issuer shall elect either to redeem such Affected Notes in whole, but not in part, at their Early Redemption Amount (Tax), together with accrued interest, if any, or if the conditions of the next succeeding paragraph are satisfied, to pay the additional interest specified in such paragraph. An "Exempt Requirement" is a requirement relating to such disclosure (A) that would not be applicable to a payment made by the Issuer or any one of its Paying Agents (1) directly to the beneficial owner or (2) to a custodian, nominee or other agent of the beneficial owner, or (B) that can be satisfied by such custodian, nominee or agent certifying to the effect that the beneficial owner is a Non-United States Person, provided that, in any case referred to in clause (A)(2) or (B), payment by the custodian, nominee or agent to the beneficial owner is not otherwise subject to any such disclosure requirement). The Issuer shall make such determination and election as soon as practicable and publish prompt notice thereof (the "**Determination Notice**"), stating the effective date of such certification, documentation, information or other reporting requirement, whether the Issuer elects to redeem the Affected Notes or to pay the additional interest specified in the next succeeding paragraph and (if applicable) the last date by which the redemption of the Affected

Notes must take place (the "**Redemption Date**"), as provided in the next succeeding sentence. If any Affected Notes are to be redeemed pursuant to this paragraph, the redemption shall take place on such date, not later than one year after the publication of the Determination Notice, as the Issuer shall specify by notice given to the Fiscal Agent at least 60 days before the Redemption Date provided that redemption of any Note, Coupon or Talon, if any, in respect of a Note to which the Floating Rate Note Provisions, as specified in the relevant Final Terms, apply shall only occur on an Interest Payment Date in respect of such Note. Notice of such redemption shall be given to the holders of the Affected Notes not more than 60 days or less than 30 days prior to the Redemption Date. Notwithstanding the foregoing, the Issuer shall not so redeem the Affected Notes if the Issuer shall subsequently determine, not less than 30 days prior to the Redemption Date, that subsequent payments on the Affected Notes would not be subject to any such certification, documentation, information or other reporting requirement, in which case the Issuer shall publish prompt notice of such subsequent determination, and any earlier redemption notice given pursuant to this paragraph shall be revoked and of no further effect. Prior to the publication of any Determination Notice pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (I) a certificate signed by an officer of the Issuer stating that the Issuer is entitled to make such determination and setting forth a statement of facts showing that the conditions precedent to the obligation of the Issuer to redeem the Affected Notes or to pay the additional interest specified in the next succeeding paragraph have occurred and (II) a legal opinion, from lawyers of recognised standing in the United States, to the effect that such conditions have occurred.

If and so long as the certification, documentation, information or other reporting requirement referred to in the preceding paragraph would be fully satisfied by payment of a back-up withholding tax or similar charge, the Issuer may elect to pay as additional interest such amounts as may be necessary so that every net payment made outside the United States following the effective date of such requirement by the Issuer or any of its Paying Agents in respect of any Affected Note of which the beneficial owner is a Non-United States Person (but without any requirement that the nationality, residence or identity of such beneficial owner be disclosed to the Issuer, any Paying Agent or any governmental authority), after deduction or withholding for or on account of such back-up withholding tax or similar charge (other than a backup withholding tax or similar charge that (i) would not be applicable in the circumstances referred to in the second sentence of the preceding paragraph or (ii) is imposed as a result of presentation of any such Affected Note for payment more than 15 days after the Relevant Date), will not be less than the amount provided in any such Affected Note to be then due and payable. If the Issuer elects to pay additional interest pursuant to this paragraph, then the Issuer shall have the right to redeem the Affected Notes at any time in whole, but not in part, at their Early Redemption Amount (Tax) together with accrued interest, if any, subject to the provisions of the last three sentences of the immediately preceding paragraph. If the Issuer elects to pay additional interest pursuant to this paragraph and the condition specified in the first sentence of this paragraph should no longer be satisfied, then the Issuer shall redeem the Affected Notes in whole, but not in part, at their Early Redemption Amount (Tax), together with accrued interest, if any, subject to the provisions of the last three sentences of the immediately preceding paragraph. Any redemption payments made by the Issuer pursuant to the two immediately preceding sentences shall be subject to the continuing obligation of the Issuer to pay additional interest pursuant to this paragraph. If the Affected Notes are to be redeemed pursuant to this paragraph, the redemption shall take place on such date, not later than one year after publication of the notice of redemption, as the Issuer shall specify by notice to the Fiscal Agent at least 60 days prior to the Redemption Date.

(c) *Redemption at the option of the Issuer*

If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*

If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*

If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. Any conditions and/or circumstances that must be satisfied before a Put Option can be exercised will be set out in the relevant Final Terms. In order to exercise the option contained in this Condition 10(e), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

(f) *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(f) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*

The Issuer or any of its respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(i) *Cancellation*

All Notes must be cancelled if they are redeemed by the Issuer pursuant to Condition 10(c) (*Redemption at the option of the Issuer*) or purchased and surrendered for cancellation pursuant to Condition 10(h) (*Purchase*) and, in each case, any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. **Payments – Bearer Notes**

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal*

Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), other than in the United States. No payments on Notes will be made by mail to an address in the United States or by transfer to an account maintained by the holder in the United States.

(b) *Interest*

Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons (if any) at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City*

In respect of Notes denominated in U.S. dollars only, payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the principal and the interest on the Notes in U.S. dollars, (ii) payment of the full amount of such principal or interest in U.S. dollars at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law, including the TEFRA D Rules.

(d) *Payments subject to fiscal laws*

All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*

If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that,* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*

If the relevant Final Terms specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(c) (*Redemption at the option of the Issuer*), *Condition 10(d) (Partial Redemption),* Condition 10(e) (*Redemption at the option of Noteholders*), or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*

If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. **Payments - Registered Notes**

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*

Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*

Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*

All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Registered Note, the Registrar will annotate the Register with a record of the amount and date of such payment and, in the case of partial payment upon presentation of a Note Certificate, endorse on the relevant Note Certificate a statement indicating the amount and the date of such payment.

(f) *Record date*

Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the

"**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

13. Taxation

The Issuer will, subject to the exceptions and limitations set forth below, pay as additional amounts to the holder of any Note or Coupon that is a Non-United States Person such amounts as may be necessary so that every net payment on such Note or Coupon, after deduction or withholding for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by the United States, will not be less than the amount provided in such Note or Coupon to be then due and payable. However, the Issuer will not be required to make any such payment of additional amounts for or on account of:

(a) any tax, assessment or other government charge that would not have been imposed but for (i) the existence of any present or former connection (or relationship) between a Noteholder or Couponholder (or between a fiduciary, settlor or beneficiary of, or a person holding a power over, such holders, if such holder is an estate or a trust, or a member or shareholder of such holder, if such holder is a partnership or corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in trade or business or present therein or having or having had a permanent establishment therein or (ii) such Noteholder or Couponholder's past or present status as a personal holding company, foreign personal holding company, foreign private foundation or other foreign tax-exempt organisation with respect to the United States, passive foreign investment company, controlled foreign corporation or as a corporation that accumulates earnings to avoid United States federal income tax; or

(b) any withholding or deduction imposed on a payment required to be made pursuant to the European Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**") or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) a holder who would have been able to avoid such withholding or deduction imposed under (b) above: (i) by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements including, without limitation, the provision of information; or

(d) any estate, inheritance, gift, sales, transfer, excise, wealth or personal property tax or any similar tax, assessment, withholding, deduction or other governmental charge; or

(e) any tax, assessment or other governmental charge that would not have been imposed but for: (i) the presentation by the holder of a Note or Coupon for payment more than 30 days after the Relevant Date; or (ii) a change in law, regulation or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later; or

(f) any tax, assessment or other governmental charge that is payable otherwise than by deduction or withholding from a payment on a Note or Coupon; or

(g) any tax, assessment or other governmental charge required to be deducted or withheld by any Paying Agent from a payment on a Note or Coupon, if such payment can be made without such deduction or withholding by any other Paying Agent; or

(h) any tax, assessment or other governmental charge that would not have been imposed but for a failure to comply with applicable certification, documentation, identification, information or other reporting requirement concerning the nationality, residence, identity or connection with the United States of the holder or the beneficial owner of a Note or Coupon if such compliance is required by statute or regulation of the United States or by a tax treaty of the United States, as a precondition to relief or exemption from such tax, assessment or other government charge; or

(i) any tax, assessment or other governmental charge imposed on (i) a holder that actually or constructively owns 10 per cent. or more of the combined voting power of all classes of stock of the Issuer or that is a controlled foreign corporation related to the Issuer through stock ownership or is a bank that acquired such Note or Coupon in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, or (ii) contingent interest as described in section 871(h)(4) of the Code (generally, interest that is determined with reference to the cash flow, profitability, value of property of, or distributions of the Issuer or a related person thereto); or

(j) any tax, assessment or other governmental charge which is imposed by the United States pursuant to (i) section 1471(a) of the Code as a result of (A) the failure of a holder or beneficial owner that is a "foreign financial institution" within the meaning of section 1471(d)(4) of the Code to comply with the requirements of section 1471(b) of the Code, or (B) the Note or Coupon being held by a "recalcitrant account holder" of a foreign financial institution within the meaning of section 1471(d)(6) of the Code that otherwise complies with the requirements of section 1471(b) of the Code, or (ii) section 1472(a) of the Code as a result of the failure of a holder or beneficial owner that is a "non-financial foreign entity" within the meaning of section 1472(d) of the Code to comply with the requirements of section 1472(b) of the Code; or

(k) a payment on a Note or Coupon to a holder that is a fiduciary, partnership, limited liability company or other fiscally transparent entity or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner would not have been entitled to the additional interest had such beneficiary, settlor, member or beneficial owner been the holder of such Note or Coupon; or

(l) any tax, assessment or other governmental charge which is imposed pursuant to sections 871 or 881 of the Code on the "dividend equivalent" payment, within the meaning of section 871(m)(2) of the Code, on an Indexed Linked Note; or

(m) any combination of sub-paragraphs (a) to (l) above.

14. Events of Default

(a) *Events of Default*

"**Event of Default**", with respect to Notes of any Series, means any one of the following events:

(i) default in the payment of any interest upon any Notes of that Series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(ii) default in the payment of the principal of (or premium, if any, on) any Notes of that Series at its Maturity Date; or

(iii) default in the deposit of any sinking fund payment, when and as due by the terms of Notes of that Series and continuance of such default for a period of 30 days; or

(iv) default in the performance, or breach, of any covenant of the Issuer under the Notes (other than a covenant a default in whose performance or whose breach is elsewhere in this Condition specifically dealt with or which has expressly been included in the Conditions solely for the benefit of a Series of Notes other than the relevant Series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Issuer and the Fiscal Agent (and, if the Notes are Registered Notes, the Registrar) by the Noteholders of at least 25 per cent. in principal amount of the outstanding Notes of that Series or Tranche and a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(v) the Issuer shall fail to pay any Indebtedness in excess of U.S.$50,000,000 owing by the Issuer, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness, or the Issuer shall fail to perform any term, covenant or agreement on its part to be performed under any agreement or instrument evidencing or securing or relating to any such Indebtedness, if the effect of such failure in either case is that the maturity of such Indebtedness is duly accelerated, without such Indebtedness having been discharged or such acceleration having been rescinded or annulled, in each such case, within a period of 10 days after there shall have been given, by registered or certified mail, to the Issuer and the Fiscal Agent (and, if the Notes are Registered Notes, the Registrar) by Noteholders of at least 25 per cent. in principal amount of the outstanding Notes of that Series, a written notice specifying such default and requiring the Issuer to cause such Indebtedness to be discharged or cause such acceleration to be rescinded or annulled, as the case may be, and stating that such notice is a "Notice of Default" hereunder; or

(vi) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable United States Federal or State bankruptcy, insolvency, reorganization or other similar law or (ii) a decree or order adjudging the Issuer a bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation, arrangement, adjustment or composition of or in respect of the Issuer under any applicable United States Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Issuer or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(vii) the commencement by the Issuer of a voluntary case or proceeding under any applicable United States Federal or State bankruptcy, insolvency, reorganisation or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Issuer in an involuntary case or proceeding under any applicable United States Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganisation or relief under any applicable United States Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Issuer or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer in furtherance of any such action; or

(viii) any other Event of Default set out in the Final Terms with respect to Notes of the relevant Series.

(b) *Acceleration*

Subject to these Conditions, if an event of default with respect to the Notes of a particular Series at the time outstanding occurs and is continuing, then in such case the holders of not less than 25 per cent. in principal amount of the outstanding Notes of such Series may declare the Early Redemption Amount (Default) (being the amount so specified in the applicable Final Terms and if no such amount is specified, the principal amount thereof) and all accrued but unpaid interest on the Notes of the Series to be due and payable immediately, by a notice in writing to the Issuer and the Fiscal Agent (and, if the Notes are Registered Notes, the Registrar), and upon any such declaration such Early Redemption Amount (Default) (or other specified amount) and interest shall become immediately due and payable. Upon payment of such amounts in the currency in which such Notes are denominated, all obligations of the Issuer in respect of payment of principal and interest on such Notes shall terminate.

At any time after such a declaration of acceleration of the Notes of a Series has been made, the holders of a majority in principal amount of the outstanding Notes of such Series, by written notice to the Issuer, may, on behalf of all Noteholders of such Series, waive such event of default and rescind and annul such declaration and its consequences if:

(i) the Issuer has paid or deposited with the Fiscal Agent a sum in the currency in which such Notes are denominated sufficient to pay:

(A) all overdue instalments of interest on such Notes or all overdue payments with respect to any related Coupons;

(B) the amounts of principal (and premium, if any, on) such Notes that have become due otherwise than by such declaration of acceleration and interest thereon at the rate prescribed therefor in these Conditions;

(C) to the extent that payment of such interest is lawful, interest upon overdue instalments of interests on each such Note or upon overdue payments on any Coupons at the rate or rates prescribed therefor in such Notes or Coupons; and

(D) all sums paid or advanced by the Paying Agents and the reasonable compensation, expenses, disbursements and advances of the Paying Agents; provided, however, that all sums payable under this sub-paragraph (D) shall be paid in U.S. dollars; and

(ii) all defaults and events of default with respect to such Notes, other than the non-payment of principal of and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived as provided in Condition 18 (*Meetings of Noteholders; Modification and Waiver*).

No such rescission and waiver shall affect any subsequent default or impair any right consequent thereon.

15. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; *provided, however, that:*

(a) the Issuer shall at all times maintain a Fiscal Agent and, so long as there are Registered Notes outstanding, a Registrar; and

(b) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(c) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a

Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

(b) *Modification*

The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

19. **Consolidation, Merger, Conveyance Transfer or Lease**

(a) *When Issuer May Merge*

The Issuer may not, in a single transaction or through a series of related transactions, consolidate with or merge with or into any other person, or, directly or indirectly, sell, lease, assign, transfer or convey its properties and assets as an entirety or substantially as an entirety (computed on a consolidated basis) to another person or group of affiliated persons, and another person or group of affiliated persons may not directly or indirectly sell, lease, assign, transfer or convey its properties and assets as an entity or substantially as an entity (computed on a consolidated basis) to the Issuer, unless:

(i) the Issuer shall be the continuing person, or the person (if other than the Issuer) formed by such consolidation or into which the Issuer is merged or to which all or substantially all of the properties and assets of the Issuer are transferred as an entirety or substantially as an entirety (the Issuer or such other person being hereinafter referred to as the "**Surviving Person**"), shall be a corporation organised and validly existing under the laws of the United States, any State thereof or the District of Columbia, and shall expressly assume, all the obligations of the Issuer under the Notes and Coupons and the Agency Agreement; and

(ii) immediately after giving effect to such transaction and the assumption of the obligations as set forth in (i), above, none of the events of default described in Condition 14 (*Events of Default*) shall have occurred and be continuing.

(b) *Successor Corporation Substituted*

Upon any consolidation or merger, or any transfer of assets in accordance with Condition 19(a) (*When Issuer May Merge*), the Surviving Person formed by such consolidation or into which the Issuer is merged or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes and the Agency Agreement with the same effect as if such Surviving Person had been named as the Issuer herein. When a Surviving Person duly assumes all of the obligations of the Issuer pursuant hereto and pursuant to the Notes, the predecessor shall be relieved of the performance and observance of all obligations and covenants under the Notes and Coupons and the Agency Agreement, including but not limited to the obligation to make payment of the principal of and interest, if any, on all the Notes and Coupons then outstanding, and the Issuer may thereupon or any time thereafter be liquidated and dissolved.

20. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

21. Notices

(a) *Bearer Notes*

Notices to the Holders of Bearer Notes shall be valid if published (i) in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and (ii) if any Notes are admitted to trading on the Irish Stock Exchange and the rules of that exchange so require, a daily newspaper having general circulation in Dublin (which is expected to be the *Irish Times*), or if such publication in either the case of (i) or (ii) is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*

Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In the case of Notes which are listed on the Irish Stock Exchange and, if the rules of that exchange so require, such notices will also be published in a leading newspaper having general circulation in Dublin (which is expected to be the *Irish Times*).

22. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

23. **Redenomination**

(a) *Application*

This Condition 23 (*Redenomination*) is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

(b) *Notice of redenomination*

If the country of the Specified Currency is, becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

(c) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Union regulations); provided, however, that if the Issuer determines, with the agreement of the Fiscal Agent, that then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendments;

(ii) if Notes have been issued in definitive form:

(A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 23) shall remain in full force and effect; and

(C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(iii) If Notes have been issued in individual certificated form, new Individual Note Certificates denominated in euro will be issued in exchange for Individual Note Certificates denominated in the Specified Currency in such manner as the Registrar may specify and as shall be notified to Noteholders in the Euro Exchange Notice.

(iv) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to, a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the Principal Financial Centre of any Member State of the European Union.

(d) *Interest*

Following redenomination of the Notes pursuant to this Condition 23, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

(e) *Interest Determination Date*

If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

24. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

25. **Governing Law and Jurisdiction**

(a) *Governing law*

The Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) *English courts*

The Issuer agrees for the benefit of the Noteholders that the courts of England shall have non-exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with the Notes ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(c) *Process agent*

Any Proceedings which are commenced in England pursuant to Condition 25(b) (*English Courts*) may be served on it by being delivered to the Issuer at Jefferies International Limited, Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ or at any other address of the Issuer in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. Nothing in this paragraph shall affect the right of the Noteholders to serve process in any other manner permitted by law.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be in the following form and will be completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

JEFFERIES GROUP, INC.

Issue of [Aggregate Nominal Amount of Tranche][Title of Notes]
under the U.S.$2,000,000,000 Euro Medium Term Note Programme

The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances.

Part A
Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [●] which [together with the supplement[s] to the Base Prospectus dated [●]] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address].]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated ●]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated ●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated ●] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplements to the Base Prospectuses dated ● and ●]. The Base Prospectuses [and the supplements to the Base Prospectuses] are available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address]].

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1.	(i)	Issuer:	Jefferies Group, Inc.
2.	[(i)	Series Number:]	[●]
	[(ii)	Tranche Number:]	[●] *(If fungible with an existing Series, include details of that Series, including the date on which the Notes become fungible).*
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		[●]
	[(i)	Series:]	[●]
	[(ii)	Tranche:]	[●]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
6.	(i)	Specified Denominations:	[●] *(N.B. Where multiple denominations above €100,000 (or equivalent) are being used, the following sample wording should be followed: "[€100,000] and integral multiples of [€1,000] in excess thereof[up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000][latter wording for bearer notes only]].")*
	(ii)	Calculation Amount:	[●] *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date: *(If different from the Issue Date)*	[[●]/Issue Date/Not Applicable]

8.	Maturity Date:	[●] *(Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year)* *(If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.)*
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[*Specify reference rate*] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] [(further particulars specified below)]
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)] *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(i) Status of the Notes:	Senior
	[(ii)] Date [Board] approval for issuance of Notes obtained:	[●] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*

14.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA) / other]
	(vi)	[Determination Dates:	[[●] in each year *(insert regular Interest Payment Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. Note: only relevant where Day Count Fraction is Actual/Actual (ICMA))*] *(Note: this will need to be amended in the case of regular interest payment dates which are not of equal duration)*
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
16.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
	(iii)	First Interest Payment Date:	[●]
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(v)	Additional Business Centre(s):	[Not Applicable/*give details*]

	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(vii)	Calculation Agent responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[Not Applicable/[*Name and address*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
	(viii)	Screen Rate Determination:	
		– Reference Rate:	*[For example, LIBOR or EURIBOR]*
		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	*[For example, Reuters LIBOR 01/ EURIBOR 01]*
		– Relevant Time:	*[For example, 11.00 a.m.-London time/Brussels time]*
		– Relevant Financial Centre:	*[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro]*
	(ix)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
	(x)	Margin(s):	[+/-][●] per cent. per annum
	(xi)	Minimum Rate of Interest:	[●] per cent. per annum
	(xii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiii)	Day Count Fraction:	[●] [as per the [2000/2006] ISDA Definitions] *(N.B. that there is an option in the Day Count Fraction definitions to apply the 2000 or 2006 Definitions)*
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
17	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	[Amortisation/Accrual] Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]

	(iii)	Any other formula/basis of determining amount payable:	*[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g)]*
18	**Index Linked Interest Note/other variable linked interest Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula/other variable:	*[give or annex details]*
	(ii)	Calculation Agent responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[Not Applicable/[*Name and address*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Interest or calculation period(s):	[●]
	(vii)	Specified Period:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")*
	(viii)	Specified Interest Payment Dates:	[●] *(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*
	(ix)	Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(x)	Additional Business Centre(s):	[●]

	(xi)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(xii)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(xiii)	Day Count Fraction:	[●]
19.	**Dual Currency Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	*[give details]*
	(ii)	Calculation Agent, if any, responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[Not Applicable/[*Name and address*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[[●] per Calculation Amount]
		(b) Maximum Redemption Amount:	[[●] per Calculation Amount]
	(iv)	Notice period:	[●]
21.	**Put Option**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Optional Redemption Date(s):	[●]

	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount]
	(iii)	Notice period:	[●]
22.	**Final Redemption Amount of each Note**		[[●] per Calculation Amount]
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
	(i)	Index/Formula/variable:	*[give or annex details]*
	(ii)	Calculation Agent responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[Not Applicable/[*Name and address*] shall be the Calculation Agent (*no need to specify if the Fiscal Agent is to perform this function*)]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Determination Date(s):	[●]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	Payment Date:	[●]
	(vii)	Minimum Final Redemption Amount:	[[●] per Calculation Amount]
	(viii)	Maximum Final Redemption Amount:	[[●] per Calculation Amount]

23. **Early Redemption Amount**

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable*(If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	**Form of Notes:**	[Bearer Notes/ Registered Notes] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice (such Definitive Notes may only be issued in denominations equal to or greater than the specified "Minimum Denomination" and integral multiples thereof)] [Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note (such Definitive Notes may only be issued in denominations equal to or greater than the specified "Minimum Denomination" and integral multiples thereof)] (Interests in the Bearer Notes will not be exchangeable for Notes in registered form) *(If Bearer Notes)* [Global Registered Note exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Registered Note (Interests in the Global Registered Note will not be exchangeable for Bearer Notes)] *(If Registered Notes to be held through the Relevant Clearing System)* [Individual Note Certificates] *(If Registered Notes not to be held through the Relevant Clearing System)*
25.	New Global Note/ New Safekeeping Structure:	[Yes – New Global Note/ New Safekeeping Structure][No]
26.	Additional Financial Centre(s) or other	[Not Applicable/*give details.*

	special provisions relating to payment dates:	*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 15(ii), 16(v) and 18(x) relate]*
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
29.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
30.	Redenomination provisions:	[Not Applicable/ The provisions of Condition 23 apply.]
32.	Other final terms:	[Not Applicable/*give details*] *[(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
34.	If non syndicated, name of Dealer:	[Not Applicable/*give name*]
35.	U.S. Selling Restrictions:	Reg. S Category 2 [TEFRA D *(In the case of Bearer Notes)*/TEFRA not applicable *(In the case of Registered Notes)*]
36.	Additional selling restrictions:	[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [admission to trading on [specify relevant regulated market] of the Notes described herein] pursuant to the Programme for the issuance of U.S.$2,000,000,000 Euro Medium-Term Notes of Jefferies Group, Inc.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [*(Relevant third party information)* has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

JEFFERIES GROUP, INC.

By: ____________________________________
Duly authorised

Part B
Other Information

1. LISTING

(i) Admission to trading	[Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market*] with effect from [●].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
(ii) Estimate of total expenses related to admission to trading	[●]

2. **RATINGS**

Ratings:	The Notes to be issued have been rated: [S & P: [●]] [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] *[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]* *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* *Insert one (or more) of the following options, as applicable:* *Option 1: CRA is (i) established in the EU; and (ii) registered under the CRA Regulation:* *[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").* *Option 2: CRA is (i) established in the EU; (ii) not registered under the CRA Regulation; but (iii) has applied for registration:* *[Insert legal name of particular credit rating agency entity providing rating] is established in*

the EU and has applied for registration under Regulation (EC) No 1060/2009 (the "CRA Regulation"), although notification of the registration decision has not yet been provided.

Option 3: CRA is (i) established in the EU; and (ii) has not applied for registration is not registered under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and is neither registered nor has it applied for registration under Regulation (EC) No 1060/2009 (the "CRA Regulation").

Option 4: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the [Notes] is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").

Option 5: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "CRA Regulation").

Option 6: CRA is neither established in the EU nor certified under the CRA Regulation and the relevant rating is not endorsed under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the "CRA Regulation") and the rating it has given to the [Notes] is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.

The latest update of the list of credit rating agencies registered under the CRA Regulation is published on the European Securities and Markets Authority's website.

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

[Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in "Subscription and Sale", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

[When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i)]	Reasons for the offer	[●] *(See "Use of Proceeds" wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)*
[(ii)]	Estimated net proceeds:	[●] *(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
[(iii)]	Estimated total expenses:	[●] [*Include breakdown of expenses*] *(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

5. [***Fixed Rate Notes only* – YIELD**

Indication of yield:	[●] Calculated as [*include details of method of calculation in summary form*] on the Issue Date. As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. [*Floating Rate Notes only* – **HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **[*Index linked or other variable linked notes only* – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

(Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.)

(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information, except if required to do so by any applicable laws and regulations].

8. **[*Dual Currency Notes only* – PERFORMANCE OF RATE[S] OF EXCHANGE**

[Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risk are most evident.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

9. **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]

Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes] [No] *(only applicable for Bearer Global Notes issued in NGN form and Global Registered Notes which are to be held under the NSS)* [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositaries as Common Safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper, in respect of Registered Global Notes that are held under the New Safekeeping Structure for registered global securities] *(include this text for Registered Notes which are to be held under the NSS)* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *(include this text if "yes" is selected in which case Bearer Notes must be issued in NGN form)*

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes in bearer form represented by a Global Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under the Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear, Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the bearer of the Global Note or registered owner of the Global Registered Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

(a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Note; or

(b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Fiscal Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated on or about 3 May 2012 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global

Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Global Registered Notes

Whenever a Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Registered Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note in accordance with the terms of the Global Registered Note on the due date for payment,

then the Global Registered Note (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above), and the holder of the Global Registered Note will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Registered Note or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes and Global Registered Notes

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Global Note or Global Registered Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note at the Specified Office of any Paying Agent outside the United States and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the same is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Exercise of put option

In order to exercise the option contained in Condition 10(e) (*Redemption at the option of Noteholders*), if applicable in respect of a Series of Notes, the bearer of the Permanent Global Note or the holder of the Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option

In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*), if applicable in respect of a Series of Notes, in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions. The rights of accountholders with a clearing system in respect of the Notes of such Series will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected as either a pool factor or a reduction in principal amount, at their discretion) and/or other clearing system. For the avoidance of doubt, if the Notes are listed on the official list of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange and the rules of that exchange so require, such notices shall also be published in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*).

Notices

Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or Global Registered Note and the Permanent Global Note or Global Registered Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the regulated market of the Irish Stock Exchange and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*).

Redenomination

If the Notes are redenominated pursuant to Condition 23 (*Redenomination*), then following redenomination:

(a) if Definitive Notes or Individual Note Certificates are required to be issued, they shall be issued at the expense of the Issuer in such denominations as the Fiscal Agent or, as the case may be, the Registrar shall determine and notify to the Noteholders; and

(b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note or Global Registered Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest Euro 0.01.

Record Date

The Record Date under Condition 12(f) (*Record Date*) for any Global Registered Note will be the close of business on the Clearing System Business Day immediately prior to the due date for such payment, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Payment Business Day

In the case of a Global Note, or a Global Registered Note, if the currency of payment is euro, a "Payment Business Day" shall be any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, a "**Payment Business Day**" shall be any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

USE OF PROCEEDS

The net proceeds of any Notes will be used by the Issuer for general corporate purposes. If the Issuer elects at the time of issuance of Notes to make different or more specific use of proceeds other than those set forth in this Base Prospectus, the Issuer will describe that use in the applicable Final Terms.

JEFFERIES GROUP, INC.

Information about the Issuer

Jefferies Group, Inc. was incorporated on 23 December 1998 (for an indefinite duration) under the General Corporation Law of the State of Delaware. The Issuer's Delaware registration number is 2984002. The Issuer operates under the General Corporation Law of the State of Delaware, Title 8 of the Delaware Code 1953, sections 101 through 398, known as the "Delaware General Corporation Law". The Issuer's stated purpose is to engage in any lawful act or activity for which corporations may be organised under the General Corporation Law of the State of Delaware, as specified in the third paragraph of the Issuer's amended and restated certificate of incorporation dated 25 May 2004.

Overview

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

As of 30 November 2011, the Group had 3,898 employees in the U.S., Europe, the Middle East and Asia. The Group's global headquarters and executive offices are located at 520 Madison Avenue, New York, New York 10022. The Group's primary telephone number is + 1 (212) 284-2550 and its internet address is www.jefferies.com. No part of this website is incorporated by reference in, or forms part of this Base Prospectus.

Additional Information

Additional information on the Issuer and the Group is included in the Issuer's Annual Report on Form 10-k for 2011 and the Issuers Quarterly Report on Form 10-Q for the period ended 29 February 2012, both included in "*Annex—Financial Statements and Other Information*".

MANAGEMENT

Following is a description of certain information concerning the Issuer's board of directors (the "**Board**") and executive officers.

Directors

Richard B. Handler, age 50, has been the Issuer's Chairman since February 2002, and Chief Executive Officer since January 2001. Mr. Handler has also served as Chief Executive Officer of Jefferies & Company, Inc., since January 2001, as President of Jefferies since May 2006, and as Co-President and Co-Chief Operating Officer of both companies during 2000. Mr. Handler was first elected to the Board in May 1998. He was Managing Director of High Yield Capital Markets at Jefferies from May 1993 until February 2000, after co-founding that group as an Executive Vice President in April 1990. Mr. Handler has also been the President and Chief Executive Officer of the Jefferies Partners Opportunity family of funds and is Chief Executive Officer of their successor entities, Jefferies High Yield Trading, LLC and Jefferies High Yield Holdings, LLC. He is also Chairman and Chief Executive Officer of the Handler Family Foundation, a non-profit foundation working primarily with underprivileged children. Mr. Handler received an MBA from Stanford University in 1987, where he serves as a member of the Advisory Council for the University's Graduate School of Business. He received his BA in Economics from the University of Rochester in 1983 where he also serves on the Board of Trustees and is Chairman of the University's Finance Committee. For the 22 year period Mr. Handler has worked at Jefferies, the Issuer's shares compounded annually at 15.9 per cent.. Since joining in 1990 and throughout his entire term as CEO, 75 per cent. of Mr. Handler's compensation has consisted of non-cash equity related securities vesting over three to five years. Mr. Handler's broad experience in the securities industry, long history with the Group, years of demonstrated leadership in both favourable and difficult markets and commitment to the Group, including his significant stock ownership, are key attributes and skills that make him uniquely suited to serve as a director, Chief Executive Officer, and Chairman of the Board.

Brian P. Friedman, age 55, has been a director and an executive officer of the Issuer since July 2005 and Chairman of the Executive Committee of Jefferies & Company, Inc. since 2002. Since 1997, he has also been President of Jefferies Capital Partners (formerly known as FS Private Investments), a private equity fund management company now owned by Mr. Friedman and Jefferies. Mr. Friedman splits his time between the Issuer and his position with Jefferies Capital Partners. Mr. Friedman was previously employed by Furman Selz LLC and its successors, including serving as Head of Investment Banking and a member of its Management and Operating Committees. Prior to his 17 years with Furman Selz and its successors, Mr. Friedman was an attorney with the New York City law firm of Wachtell, Lipton, Rosen & Katz. As a result of his management of various private equity funds and the significant equity positions those funds hold in their portfolio companies, Mr. Friedman serves on several boards of directors of private portfolio companies, and has served on the board of the general partner of K-Sea Transportation L.P. from 2004 through 2011, of Carrols Restaurant Group, Inc., a public company that owns and operates several restaurant chains, since June 2009. Since Mr. Friedman became associated with Jefferies in May 2001, initially as an advisor and since 2005 as an executive officer, he has been instrumental in helping establish and implement a focused and consistent strategy that has guided the Issuer's growth and development, including business unit buildouts and acquisitions. Over 91 per cent. of Mr. Friedman's compensation from the Group has consisted of non-cash equity related securities vesting over three to five years. Additionally, Mr. Friedman's experience analysing, selecting and managing private equity investments, as well as his prior experience in building and managing another Wall Street firm, have provided him skills, knowledge and insights valuable to the Issuer's growth and management. In light of his management experience and track record, both at the company and previously, Mr. Friedman has been a significant addition to the Board.

W. Patrick Campbell, age 65, has been a director since January 2000. Mr. Campbell was Chairman and Chief Executive Officer of Magex Limited from August 2000 to April 2002 and is currently an independent consultant in the media and telecom field. From 1994 until October 1999, Mr. Campbell was Executive Vice President of Corporate Strategy and Business Development at Ameritech Corp. where he was a member of the Management Committee and directed all corporate strategy and merger and acquisition activity. From 1989 to 1994, Mr. Campbell served as President and Chief Executive Officer of Columbia TriStar Home Video, a Sony Pictures Entertainment Company, and has previously been President of RCA/Columbia Pictures International Video. Mr. Campbell has also been a director of Black & Veatch since 6 November 1999. Mr. Campbell is Chairman of the Audit Committee, and a member of the Compensation Committee and Corporate Governance and Nominating Committee. Mr. Campbell brings the Board the perspective of an experienced business leader from outside the financial services industry. His merger and acquisition experience provides familiarity with a key component of the Group's investment banking and capital market business and his understanding of the media and telecom field provides him insight in a key industry where the Group has a significant research presence. Mr. Campbell's mix of strategic planning experience and understanding of the Group's business lines has made him a valuable contributor to the Board.

Ian M. Cumming, age 70, has been a director since April 2008 and a director of Jefferies High Yield Holdings, LLC since April 2007. Mr. Cumming has served as a director and Chairman of the Board of Leucadia since June 1978. Leucadia is a diversified holding company engaged in a variety of businesses, including manufacturing, telecommunications, property management and services, gaming entertainment, real estate activities, medical product development and winery operations. Mr. Cumming was also Chairman of the Board of The FINOVA Group Inc, a middle market lender and AmeriCredit Corp., an auto finance company. Mr. Cumming is a director of Skywest, Inc., a Utah-based regional air carrier, HomeFed Corporation ("**HomeFed**"), a publicly held real estate development company. Mr. Cumming is an alternate director of Fortescue Metals Group Ltd ("**Fortescue**"), an Australian public company that is engaged in the mining of iron ore. Mr. Cumming is also a member of the Issuer's Compensation Committee and Corporate Governance and Nominating Committee. His experience in finance and investments gives him a skill set he brings to the Board and his history of working with the Group as a client and now key investor bring a new perspective to Board discussions. Mr. Cumming was originally appointed to the Issuer's board by Leucadia as a result of its strategic investment in the company in April 2008 and has been nominated by the Board to continue as a director.

Richard G. Dooley, age 81, has been a director since November 1993. From 1978 until his retirement in June 1993, Mr. Dooley was Executive Vice President and Chief Investment Officer of Massachusetts Mutual Life Insurance Company ("**MassMutual**"). Mr. Dooley was a consultant to MassMutual from 1993 to 2003. Mr. Dooley has been a director of Kimco Realty Corporation since 1990 and is a member of its Compensation Committee. Mr. Dooley is Chairman of the Issuer's Compensation Committee and a member of the Audit Committee and Corporate Governance and Nominating Committee. Mr. Dooley is also a Chartered Financial Analyst and his experience as an investment professional, and with Jefferies in particular, has given him an understanding of the Issuer's long-term strategic goals and objectives and how the Group has progressed over time. His service on a number of other boards has helped him gain insights he applies to his service on the Group's board, and his ability to recognise and react to market changes and trends have made him an important contributor to the Board and its leadership.

Robert E. Joyal, age 66, has been a director since January 2006. Previously, Mr. Joyal was the President of Babson Capital Management LLC, an investment management firm, a position that he held from 2001 until his retirement in June 2003. Mr. Joyal served as Managing Director of Babson from 2000 to 2001. He also served as Executive Director from 1997 to 1999 and Vice President and Managing Director from 1987 to1997 of the Massachusetts Mutual Life Insurance Company and a director of York Enhanced Strategy Fund from 2005 to 2006, and a director of Scottish Reinsurance Group, Ltd. From 2007 to 2011. Mr. Joyal is a trustee of various investment companies sponsored by the Massachusetts Mutual Financial Group and various private equity and mezzanine funds sponsored by First Israel Mezzanine Investors. Mr. Joyal is also a director of Alabama Aircraft Industries, Inc., since 2003, of Kimco Insurance Company since 2007. Mr. Joyal is Chairman of the Issuer's Corporate Governance and Nominating Committee, and a member of the Audit Committee and

Compensation Committee. Mr. Joyal brings the Board skills derived from his time at Massachusetts Mutual and his involvement in the management of the many investments of the entities mentioned above. As a Chartered Financial Analyst, and executive with 38 years of cumulative experience in financial management, Mr. Joyal is able to offer his evaluation of the financial return on investments and opinion of long-term strategic goals from an outside perspective.

Michael T. O'Kane, age 65, has been a director since May 2006. From 1986 to 2004, Mr. O'Kane served in various capacities for TIAA-CREF, first as a Managing Director — Private Placements from 1986 to 1990, then as Managing Director — Structured Finance from 1990 to 1996 and finally as Senior Managing Director — Securities Division from 1986 to 2004, when he was responsible for approximately U.S.$120 billion of fixed income and U.S.$3.5 billion of private equity assets under management. Since August 2005, Mr. O'Kane has also served on the Board of Directors and on the Audit, Finance and Risk Oversight Committee of Assured Guaranty, Ltd. In addition, Mr. O'Kane served on the Board of Trustees of Scholarship America, a non profit company engaged in providing scholarships for young students to attend college, from 2001 to 2006. Mr. O'Kane is a member of the Issuer's Corporate Governance and Nominating Committee, Audit Committee and Compensation Committee. Mr. O'Kane's experience in two of the Group's key industries, fixed income investments and asset management, required that he conduct financial analysis in many companies. This experience, together with his experience as the Chief Financial Officer of another public company, Motor Coils Manufacturing Company, during 1984 and 1985, provide him with an understanding of key issues and a unique perspective.

Joseph S. Steinberg, age 67, has been a director since April 2008 and a director of Jefferies High Yield Holdings, LLC since April 2007. Mr. Steinberg has served as a director of Leucadia since December 1978 and as its President since January 1979. In addition, Mr. Steinberg is Chairman of the Board of HomeFed, was a director of FINOVA, and is an alternate director of Fortescue. Mr. Steinberg is a member of the Compensation Committee and Corporate Governance and Nominating Committee. Like Mr. Cumming, Mr. Steinberg has had experience in finance and investments and brings the perspective of a client, business partner and now significant strategic investor. Mr. Steinberg was originally appointed to the Issuer's board by Leucadia as a result of its strategic investment in the Issuer in April 2008.

Other Executive Officers

The Issuer's Executive Officers are appointed by the Board of Directors and serve at the discretion of the Board. Other than Messrs. Handler and Friedman, for whom information is provided above, the following sets forth information as to the Executive Officers:

Peregrine C. Broadbent, age 47, has been the Issuer's and Jefferies & Company, Inc.'s Executive Vice President and Chief Financial Officer since November 2007. Prior to joining the Group, Mr. Broadbent was employed by Morgan Stanley for 16 years, including serving as Managing Director, Head of Institutional Controllers (Fixed Income, Equity and Investment Banking) of Morgan Stanley from November 2003 through November 2007, and was Morgan Stanley's Managing Director, Head of Fixed Income Infrastructure (Operations and Controllers) from March 2002 to November 2003. Mr. Broadbent is a Chartered Accountant in the United Kingdom.

Charles J. Hendrickson, age 60, was the Issuer's Treasurer from July 2006 through January 2012 and has been the Treasurer and a Managing Director of Jefferies & Company, Inc. since July 2006. Mr. Hendrickson was Managing Director and Treasurer of Donaldson, Lufkin & Jenrette, Inc. from March 1984 to September 2000, when it was acquired by Credit Suisse, and provided continuing services to Credit Suisse through the transition until February 2001. Mr. Hendrickson has served as a director of ImaginAsian Entertainment, Inc. since 2004 and served as its interim Chief Financial Officer from 2005 to 2006 when he joined the Group. From 2001 to 2005 Mr. Hendrickson also served on the Board of Youth Directions and Alternatives, a New York based charitable organization, and served as its Treasurer from 2003 to 2005. Mr. Hendrickson served as Treasurer of Clarendon Ltd. from 1983 to 1984 and from 1973 to 1983 Mr. Hendrickson held various positions in credit and marketing at Chase Manhattan Bank finally serving as Vice President and Division Executive of the Financial Analysis Division of its Workout Group.

Michael J. Sharp, age 56, has been the Issuer’s and Jefferies & Company, Inc.’s Executive Vice President, General Counsel and Secretary since November 2010. Prior to joining the Group in September 2010, Mr. Sharp had been a partner with the law firm of Wilmer Cutler Pickering Hale & Dorr LLP since March 2009. Previously, Mr. Sharp was General Counsel of Citigroup's Global Wealth Management, Global Consumer Bank, and Global Credit Card business units. Before his 12 years at Citigroup, Mr. Sharp was a litigation associate at Cravath, Swaine & Moore, which he joined in 1992. Mr. Sharp began his legal career as a judicial clerk on the United States Court of Appeals for the Eleventh Circuit. Before embarking on a legal career, Mr. Sharp traded U.S. Treasury Bonds from 1981 to 1988.

John F. Stacconi, age 49, became the Issuer’s Global Treasurer in January 2012. Previously, Mr. Stacconi was Managing Director and International Treasurer at Nomura International from December 2009 through December 2011. Mr. Stacconi was Managing Director and Corporate Treasurer at JP Morgan from June 2008 through December 2009, and was Senior Managing Director at Bear Stearns and Treasurer of Bear Stearns Securities Corp. from July 1985 through June 2008.

The business address of each member of the Board and each Executive Officer is 520 Madison Avenue, New York, NY 10022.

Corporate Governance

The Board is responsible for supervision of the Issuer’s business. During fiscal 2011, the Board held 9 meetings. To assist it in carrying out its duties, the Board has three committees: an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. Each incumbent member of the Board attended at least 90 per cent. of the fiscal 2011 meetings of the Board and its committees that he was required to attend, except Mr. Steinberg who attended 62.5 per cent.. Though the Issuer does not have a policy regarding attendance by directors at the Annual Meeting of Shareholders, one of the eight directors attended the Annual Meeting of Shareholders in 2011.

Director Independence

The Board has adopted Corporate Governance Guidelines that contain categorical standards for the determination of director independence, which are available to the public through the Issuer’s website as described below (but the website does not form part of this Base Prospectus). The Board has determined that directors who comply with the standards in the Corporate Governance Guidelines have no material relationship with the Issuer as required by New York Stock Exchange Rules. The Board has noted relationships by and among its Board members and nominees that may give rise to conflicts. In particular, the board has noted that:

- Mr. Campbell also serves on the Compensation Committee of Black & Veatch.
- Mr. Dooley also serves on the Compensation Committee of Kimco Realty Corp.
- Mr. Dooley was an associate of Mr. Joyal prior to Mr. Dooley’s retirement from Mass Mutual.
- Mr. Cumming and Mr. Steinberg, each serves in various capacities at Leucadia and its affiliates.
- Mr. Steinberg also serves on the Compensation Committee of HomeFed Corp.
- Mr. Joyal also serves on the board of First Israel Opportunity Funds, which deliberates on that fund’s executive compensation issues.

- Mr. Cumming and Mr. Steinberg have had prior social and business relationships between and various members of the Issuer's management, including Mr. Handler.

The Board has determined that these facts do not impair the independence of these directors or lessen their qualifications to serve on the Board, or on any committees.

Audit Committee and Financial Expert Determination

The current Audit Committee members are W. Patrick Campbell, Chairman, Richard G. Dooley, Robert E. Joyal and Michael T. O'Kane. The Audit Committee is appointed by the Board to assist the Board in monitoring the following: (i) the integrity of the Issuer's financial statements, (ii) the Issuer's independent registered public accounting firm's qualifications and independence, (iii) the performance of the Issuer's internal audit function and independent registered public accounting firm and (iv) the compliance by the Issuer with legal and regulatory requirements.

The Audit Committee has adopted a written charter which is available on the Issuer's website as described below (but the website does not form part of this Base Prospectus). During 2011, there were nine meetings of the Audit Committee. The Board has determined that the members of its audit committee, Messrs. Campbell, Dooley, Joyal and O'Kane, each meet the independence standards as set forth in the Corporate Governance Guidelines and is a "Financial Expert" as defined by applicable New York Stock Exchange and SEC rules.

Compensation Committee

The current Compensation Committee members are Richard G. Dooley, Chairman, W. Patrick Campbell, Ian M. Cumming, Robert E. Joyal, Michael T. O'Kane and Joseph S. Steinberg. The Compensation Committee is appointed by the Board to: (i) advise senior management on the administration of the Issuer's compensation programs, (ii) review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and determine and approve the CEO's compensation level based on this evaluation, (iii) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval (iv) produce a compensation committee report on executive compensation required by the rules and regulations of the United States Securities and Exchange Commission.

The Compensation Committee has the sole authority to select, retain and terminate a compensation consultant and to approve the consultant's fees and other retention terms. The Compensation Committee has adopted a written charter which is available on the Issuer's website as described below (but the website does not form part of this Base Prospectus). During 2011, there were six meetings of the Compensation Committee.

Corporate Governance and Nominating Committee

The current Corporate Governance and Nominating Committee members are Robert E. Joyal, Chairman, W. Patrick Campbell, Ian M. Cumming, Richard G. Dooley, Michael T. O'Kane and Joseph S. Steinberg. The Corporate Governance and Nominating Committee: (i) identifies individuals to the Board who are qualified to become board members consistent with criteria approved by the board, (ii) recommends individuals to the Board for nomination as members of the Board and its committees, (iii) develops and recommends to the Board a set of corporate governance principles applicable to the corporation, and (iv) oversees the evaluation of the board and management.

In nominating candidates, the Committee takes into consideration such factors as it deems appropriate, which may include judgment, skill, diversity, experience with businesses and other organizations of comparable size, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees of the Board. The Committee seeks members with diverse backgrounds, with an understanding of the Company's business, and with a reputation for integrity, and has adopted a policy with regard to the consideration of diversity in evaluating candidates. The Committee is committed to a policy of inclusiveness and takes reasonable steps to see that women and minority candidates are considered for the pool from which the Board nominees are chosen. In addition to candidates proposed by management, the Committee may consider candidates proposed by shareholders, but is not required to do so. If the Committee considers any candidates proposed by shareholders it would consider the same factors in making its recommendation as it uses when evaluating candidates proposed by management or the Board. The Corporate Governance and Nominating Committee has adopted a written charter which is available on the Issuer's website as described below (but the website does not form part of this Base Prospectus). During 2011, there was one meeting of the Corporate Governance and Nominating Committee.

Board Organization, Leadership and Accessibility

The non-employee directors of the Board of Directors meet in executive session at each meeting of the Board of Directors. These executive sessions are led by the non-employee members of the Board on a rotating basis. The non-employee directors have the authority to retain outside consultants and to schedule additional meetings. Mr. Handler continues to serve as both Chairman of the Board and Chief Executive Officer and the Issuer does not have a lead independent director. The Board believes a lead independent director is not desirable for three reasons: (i) the Board's size makes interaction among all directors relatively easy; (ii) the existence of a lead independent director may cut off or reduce access of other directors to the CEO and management and result in a less informed and less effective Board; and (iii) the Board has a procedure for determining who shall lead non-employee executive sessions of the Board.

Important documents related to the Issuer's corporate governance are posted on its website at http://www.jefferies.com/ and may be viewed by following the "Investor Relations" link near the lower middle of the screen, and then the "Corporate Governance" link in the menu that follows. Documents posted include the Issuer's Code of Ethics, Corporate Governance Guidelines and the Charters for each of the board committees mentioned above, which may be accessed directly at http://www.jefferies.com/charters/. The Issuer will also provide any of these documents in print upon request without charge. Requests may be directed to Investor Relations, Jefferies & Company, Inc., 520 Madison Avenue, New York, NY 10022, or by calling 203-708-5975 or sending an email to info@jefferies.com. Neither the website nor any such documents in print form part of this Base Prospectus.

Transactions with Related Persons

Regular Margin Accounts

Through Jefferies & Company, Inc., the Issuer's wholly owned broker-dealer subsidiary, the Group has extended credit to Mr. Handler in margin accounts in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Issuer and did not involve more than the normal risk of collectability or present other unfavourable features.

Jefferies High Yield Funds

The Issuer continues to operate its high yield secondary market business through Jefferies High Yield Trading, LLC ("**Jefferies High Yield Trading**"). The Issuer and a subsidiary of Leucadia National Corporation ("**Leucadia**") each own 50 per cent. of the voting securities of Jefferies High Yield Holdings, LLC ("**Holdings**"), which owns Jefferies High Yield Trading. The Issuer and Leucadia each have the right to nominate two of a total of four directors to Holding's board of directors. Messrs. Cumming and Steinberg are the two directors of Holdings nominated by Leucadia. Leucadia has invested U.S.$350,000,000 in Holdings and is currently committed to an additional investment of U.S.$250,000,000, subject to the Issuer's prior request. Pursuant to the Agreements, (as defined below) any request to Leucadia for additional capital investment in Holdings will require the unanimous consent of the Board (including the consent of Leucadia's designees to the Board).

In exchange for Jefferies & Company, Inc. transferring its high yield secondary market trading business to Jefferies High Yield Trading, Jefferies & Company, Inc. received securities entitling it to an additional 20 per cent. of the profits, and will provide services to Jefferies High Yield Trading for a fee equal to 1.5 per cent. of contributed capital. Jefferies & Company, Inc. will receive a placement fee of 0.25 per cent. for the equity capital raised. Jefferies & Company, Inc. expects that it will receive a management fee of 0.50 per cent., in addition to the 1.5 per cent. fee for services described above, for a total fee of 2 per cent.. Jefferies High Yield Trading continues to be overseen by Richard Handler. The Issuer has offered its qualified employees the option to invest in the operations of Jefferies High Yield Trading through investments in Jefferies Employees Special Opportunity Partners, LLC ("**JESOP**"). As of 30 November 2011, Mr. Handler held an economic interest through his individual deferred compensation plan and the DCP with a value of 21.9 per cent. of JESOP. Mr. Handler's interest in JESOP is calculated on the same basis, and charged the same fees, as any other third party investor in JESOP.

Private Equity Funds

The Issuer has also invested in three private equity funds managed by companies controlled by Mr. Friedman, one of the directors of the Issuer, Chairman of the Executive Committee and a nominee, and have acquired interests in the profit participation earned by two management companies that manage these three funds. These two management companies (the "**Fund Managers**") serve as the managers of the three private equity funds (the "**Private Equity Funds**") and have varying profit participations and other interests in those funds. Mr. Friedman founded the business of the Fund Managers before he became associated with the Issuer. As of 31 December 2011, the Issuer had committed an aggregate of approximately U.S.$146.8 million to three of these funds, and had funded approximately U.S.$83.1 million of these commitments. As a result of those investments, commitments and profit participations, in 2011 the Issuer received distributions from the Private Equity Funds of approximately U.S.$2.3 million and profit participations from the Fund Managers in the amount of U.S.$2 million. Included in the U.S.$1.24 billion in total equity committed to funds over which Mr. Friedman has control are individual investments of certain of the Issuer's named executive officers. As a result of their individual commitments, as of 31 December 2011, Mr. Handler, had an aggregate interest in the total committed capital in such funds of 0.1 per cent. and Mr. Friedman had an aggregate interest of 4.5 per cent. In addition, Mr. Friedman has a substantial economic interest in the Fund Managers and, directly and indirectly, in the carried interest paid by the Private Equity Funds.

On 30 September 2010, the Issuer became the lender to Jefferies Employee Partners IV LLC, one of the Private Equity Funds managed by companies controlled by Mr. Friedman, under a Credit Agreement assumed from Bank of America (the "**JEP Credit Facility**"). The JEP Credit Facility has an aggregate commitment of U.S.$54 million and matures on 31 December 2013. The interest rate is the greater of the Prime Rate (as defined in the Credit Facility) plus 400 basis points or 7 per cent., payable quarterly in arrears. As of 30 November 2011, loans in the aggregate principal amount of approximately U.S.$44,327,500 were outstanding under the JEP Credit Facility and recorded on the Issuer's consolidated statements of financial condition.

Through the Issuer's subsidiaries, it has performed investment banking and other services for companies in which the Private Equity Funds have invested. In some cases, the Private Equity Funds control those companies in which they have invested. In fiscal 2011, the Issuer received U.S.$5.5 million in fee income for investment banking and other services performed for companies in which the Private Equity Funds and other funds overseen by Mr. Friedman have investments. During fiscal 2011, U.S.$2.2 million was paid to Jefferies Finance, LLC, an entity in which the Issuer has a 50 per cent. ownership interest and share control with an independent third party, with respect to loans to companies in which the Private Equity Funds and other funds overseen by Mr. Friedman have investments. As of 28 February 2012, the total commitments to those companies in revolving loans was U.S.$19,250,000 and the aggregate principal amount of those loans was U.S.$12,975,000.

The Issuer employs and provides office space for all the Fund Managers' employees under an arrangement it entered into with Mr. Friedman and Jefferies Capital Partners in 2005 and previously under an agreement entered into in 2001. Jefferies Capital Partners reimburses the Issuer on an annual basis for its direct employee costs, office space costs and other direct costs. In 2011, the Issuer billed and received approximately U.S.$6.6 million in cash for such expenses.

Leucadia National Corporation

Leucadia National Corporation ("**Leucadia**") has been the Issuer's largest shareholder since 2008 and as of 1 January 2012, held 27.8 per cent. of the outstanding shares. In 2008, Leucadia designated Ian M. Cumming, Leucadia's Chairman, and Joseph S. Steinberg, a director of Leucadia and its President, to fill the two newly created vacancies on the Issuer's board. The Issuer's board appointed Messrs. Cumming and Steinberg to the Board of Directors on 21 April 2008, and the Issuer's shareholders have re-elected Messrs. Cumming and Steinberg in four consecutive annual meetings.

On 25 February 2011, the Issuer entered into two Stock Purchase Agreements, one with Mr. Cumming and one with Mr. Steinberg. Pursuant to the agreements, the Issuer purchased 261,599 Leucadia common shares from each of Mr. Cumming and Mr. Steinberg, for which each received the purchase price of U.S.$8,433,952, or U.S.$32.24 per share. The closing price for Leucadia common shares on the date of the transaction was U.S.$32.97 per share. The Issuer's Board reviewed the transaction in advance in accordance with the Issuer's corporate governance policies and determined that the terms of the transaction were on terms no less favourable to the Issuer than the Issuer could have obtained in a comparable transaction with an unrelated person.

On 12 April 2011, the Issuer entered into a Stock Purchase Agreement with Steinberg Holding, Inc., an entity controlled by Mr. Steinberg. Pursuant to the agreement, the Issuer purchased 648,060 Leucadia common shares for the purchase price of U.S.$23,006,130, or U.S.$35.50 per share. The closing price for Leucadia common shares on the date of the transaction was U.S.$36.40 per share. The Issuer's Board reviewed the transaction in advance in accordance with the Issuer's corporate governance policies and determined that the terms of the transaction were on terms no less favourable to the Issuer than the Issuer could have obtained in a comparable transaction with an unrelated person.

During 2011, the Issuer purchased and sold common shares of Fortescue Metals Group Ltd., an Australian Stock Exchange listed company, in the ordinary course of its business. From time to time the Issuer purchased these shares from Leucadia and its affiliates. Mr. Cumming and Mr. Steinberg, may be viewed as having an indirect financial interest in the transaction by virtue of their ownership of Leucadia shares and their positions as the Chairman of the Board and President of Leucadia. Mr. Cumming and Mr. Steinberg are also directors of Fortescue. In each case, the Issuer realized a profit on the disposition of the shares. In accordance with the Issuer's corporate governance policies, the Board appointed Mr. Handler to review the purchases on behalf of the Board, and to approve the transactions provided that he determined that each transaction was on terms no less favourable to the Issuer than those that would have been obtained in a comparable transaction with an unrelated person. Mr. Handler made this determination with respect to each transaction. Specifically, the Issuer purchased:

Trade Date	**Shares**	**Seller**	**Total Purchase Price**	**Price per share**	**Closing Price**
			(U.S.$)	*(U.S.$)*	*(U.S.$)*
7 Jun 2011	31,100,000	LUK-Fortescue, LLC	$207,126,000	$6.66	$6.68
14 Jun 2011	61,300,000	LUK-Fortescue, LLC	$408,258,000	$6.66	$6.69
5 Dec 2011	25,000,000	Leucadia National Corp.	$123,750,000	$4.95	$4.98
25 Jan 2012	65,000,000	LUK-Fortescue, LLC	$334,100,000	$5.14	$5.15
25 Jan 2012	35,000,000	Leucadia National Corp.	$179,900,000	$5.14	$5.15

Prices in the table above were based on the closing price on the Australian Stock Exchange on the trade dates, when converted to U.S. dollars at then current exchange rates.

The Issuer also continues to provide various services to Leucadia in the ordinary course of its business. Through Jefferies High Yield Trading, the Issuer purchased and sold Leucadia's debt securities from time to time in unsolicited transactions, selling to independent third parties through Rule 144. During fiscal 2011, the Issuer received U.S.$14,537,522 in commissions and commission equivalents for conducting brokerage services on behalf of Leucadia affiliates. These transactions took place in the ordinary course of the Issuer's business on substantially the same terms as those prevailing at the time for comparable transactions with persons not related to the Issuer and did not involve more than the normal market risk.

At 15 February 2012, the Issuer had commitments to purchase U.S.$262,943,743 in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Director of Marketing

The Issuer has employed Thomas E. Tarrant, the brother-in-law of the Issuer's Chief Executive Officer, as Jefferies & Company, Inc.'s Director of Marketing since 1997, three years before Mr. Handler was appointed CEO.

Review, Approval or Ratification of Related Person Transactions

The Issuer adopted a written Code of Ethics which is available to the public through the Issuer's website (but the website does not form part of this Base Prospectus). The Code of Ethics governs the behaviour of all of the Issuer's employees, officers and directors, including the named executive officers. The Issuer's Code of Ethics provides that no employee shall engage in any transaction involving the Issuer if the employee or a member of his or her immediate family has a substantial interest in the transaction or can benefit directly or indirectly from the transaction (other than through the employee's normal compensation), unless the transaction or potential benefit and the interest have been disclosed to and approved by the Issuer.

If one of the Issuer's executive officers has the opportunity to invest or otherwise participate in such a transaction, the Issuer's policy requires that the executive prepare a memorandum describing the proposed transaction. The memo must be submitted to the Global Head of Compliance or the General Counsel or his designee, and a copy of the memorandum will be provided to the Chairman of the Corporate Governance and Nominating Committee of the Board of Directors, or any other member designated by the Committee, for consideration and action by that committee. After consideration of the matter, the Corporate Governance and Nominating Committee will provide written notice to the executive of the action taken.

The Issuer's Code of Ethics has been adopted by the Board of Directors and any exceptions to the policies set forth therein must be requested in writing addressed to the Corporate Governance and Nominating Committee of the Board of Directors. If an executive officer requests an exception, the request must be delivered to the General Counsel and no exceptions shall be effective unless approved by the Corporate Governance and Nominating Committee.

Shareholders

The Issuer's largest shareholder is Leucadia, which beneficially owned 58,006,024 shares of common stock representing 27.8 per cent. of the outstanding shares of the Issuer as of 1 January 2012. As far as the Issuer is aware, there are no existing arrangements which may result in a change of control of the Issuer.

UNITED STATES TAXATION

TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS BASE PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following is a general summary of certain anticipated principal U.S. federal tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Notes. This summary addresses only the U.S. federal tax considerations of holders that are Non-U.S. Holders (as defined below) that acquire Notes at their original issuance and hold the Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"). This discussion is a summary for general information only and does not purport to address all U.S. federal tax matters that may be relevant to the purchase, ownership, and disposition of any Notes to a particular Noteholder in light of its circumstances or to holders subject to special tax rules, such as trusts, estates and controlled foreign corporations, or the beneficiaries or stockholders of such entities.

Moreover this summary does not address the United States federal income tax consequences of Dual Currency Notes, Index Linked Notes, perpetual Notes, Bearer Notes issued after 18 March 2012, Notes with contingent payments or the potential implication of the United States tax shelter disclosure, registration and list maintenance regulations with respect to a particular Series of Notes, the United States federal income tax consequences of which will be set forth, if required, in the applicable Final Terms.

This summary is based on the Code, U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below. Further, this summary does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction. Prospective purchasers of the Notes are urged to consult their own tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning Notes in light of their own particular circumstances.

No opinion of counsel or United States Internal Revenue Service ("**IRS**") ruling has been or will be sought regarding any matter discussed herein, and no assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of those set forth below. The United States federal income tax consequences applicable to any Tranche of the Notes will depend upon the final terms of such Notes, which may affect the consequences described below.

A "Non-U.S. Holder" is a beneficial owner of a Note, Coupon or Talon that is not a U.S. Person. As used here, the term "U.S. Person" means (i) a citizen or individual resident of the United States, (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organised in or under the laws of the United States or any political sub-division thereof or therein (including the District of Columbia), (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, and (iv) a trust, if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (b) the trust has made a valid election under U.S. Treasury regulations to be treated as a U.S. person.

A "U.S.-Controlled Person" is (i) a controlled foreign corporation for United States federal income tax purposes, (ii) a foreign person 50 per cent. or more of whose gross income is effectively connected with the conduct of a trade or business within the United States for a specified three-year period, and (iii) a foreign partnership that is engaged in the conduct of a trade or business within the United States or more than 50 per cent. of the income or capital interests in which are held by U.S. persons.

If a partnership holds Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the Notes.

Taxation of Non-U.S. Holders of the Notes

Under current United States federal income tax law, payment on a Note, Coupon or Talon by the Issuer or any Paying Agent to a Non-U.S. Holder should not be subject to withholding of United States federal income tax, provided that, with respect to payments of interest, (1) the beneficial owner does not actually or constructively own 10 per cent. or more of the total combined voting power of all classes of stock of the Issuer entitled to vote, (2) the beneficial owner is not (i) a controlled foreign corporation for U.S. federal income tax purposes that is related to the Issuer through stock ownership or (ii) a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business, (3) such interest payments are not effectively connected with the conduct of a trade or business of the beneficial owner within the United States (and, if an applicable treaty so requires, are not attributable to a permanent establishment in the United States maintained by such Non-U.S. Holder), (4) such interest is not contingent on the Issuer's profits, revenues or changes in the value of its property and is not otherwise excluded from the definition of "portfolio interest" by Section 871(h)(4) of the Code, and (5) in the case of a Registered Note, the beneficial owner provides a statement signed under penalties of perjury that certifies that it is a Non-U.S. Holder in compliance with applicable requirements (or satisfies certain documentary evidence requirements for establishing that it is a Non-U.S. Holder). Further, a Note, Coupon or Talon should not be subject to United States federal estate tax as a result of the death of a holder who is not a citizen or resident of the United States at the time of death, provided that (i) such holder did not at the time of death actually or constructively own 10 per cent. or more of the combined voting power of all classes of stock of the Issuer and (ii) at the time of such holder's death, payments of interest on such Note, Coupon or Talon would not have been effectively connected with the conduct by such holder of a trade or business in the United States.

Bearer Notes issued after 18 March 2012 will not be eligible for the "portfolio interest" exemption and will be subject U.S. federal income tax withholding at the rate of 30 per cent. (or lower treaty rate, if applicable). The Issuer has agreed not to issue Bearer Notes after 18 March 2012, except to the extent that, as a result of a change in law (including a change in administrative practice), interest paid on bearer bonds after that date may qualify for the portfolio interest exemption from U.S. withholding tax. Bearer Notes outstanding on 18 March 2012 will be exempt from withholding as described above unless such Notes are modified by an agreement between the Noteholders and the Issuer after 18 March 2012 in a manner that is "economically significant" for U.S. federal income tax purposes and as result of such modification such Notes are deemed to be exchanged for a "new" debt instrument. In such event, U.S. federal income tax withholding could then apply to such "new" debt instruments.

Additionally, a holder of a Note, Coupon or Talon that is a Non-U.S. Holder should not be subject to United States federal tax on gain realised on the sale, exchange or redemption of such Note, Coupon or Talon unless (1) the gain is effectively connected with the conduct of a trade or business of the beneficial owner within the United States (and, if an applicable treaty so requires, is attributable to a permanent establishment in the United States maintained by such Non-U.S. Holder), or (2) such beneficial owner is an individual who is present in the United States for 183 days or more during the taxable year and certain other requirements are met.

Non-U.S. Holders engaged in the conduct of a trade or business within the United States (and, if an applicable treaty so requires, that maintain a permanent establishment within the United States) should be subject to United States federal income tax on a net income basis in the same manner as if such Non-U.S. Holder were a U.S. Person on any payments on a Note, Coupon, or Talon or any gain recognised on the sale, exchange, retirement, or other disposition of a Note, Coupon, or Talon to the extent such payments or gain are effectively connected with such trade or business (and, if an applicable treaty so requires, are attributable to such permanent establishment). In addition, a Non-U.S. Holder that is a foreign corporation engaged in a trade or business in the United States may be subject to a branch profits tax at a rate of 30 per cent. (or lower treaty rate, if applicable) on its earnings and profits that are effectively connected with its conduct of a trade or business within the United States.

Information Reporting and Backup Withholding

United States information reporting requirements and backup withholding tax should not apply to any payment on a Bearer Note, Coupon or Talon made outside the United States by the Issuer or any Paying Agent to a holder that is a Non-U.S. Holder. Payments on a Registered Note owned by a Non-U.S. Holder should not be subject to such requirements or tax if the beneficial owner satisfies the requirements described under "*Taxation of Non-U.S. Holders of the Notes*" above. Information reporting requirements and backup withholding tax should not apply to any payment on a Bearer Note, Coupon or Talon outside the United States by a foreign office of a custodian, foreign nominee or other agent of the beneficial owner of such Bearer Note, Coupon or Talon, provided that such custodian, nominee or other agent is neither a U.S. Person nor a U.S.-Controlled Person. Payment in respect of a Bearer Note, Coupon or Talon outside the United States to the beneficial owner thereof by a foreign office of any other custodian, nominee or agent should not be subject to backup withholding tax, but may be subject to information reporting requirements unless such custodian, nominee or agent has documentary evidence in its records that the beneficial owner is a Non-U.S. Holder or the beneficial owner otherwise establishes an exemption. Payment in respect of a Registered Note or a Bearer Note, Coupon or Talon by the United States office of a custodian, nominee or other agent of the beneficial owner of such Note, Coupon or Talon may be subject to information reporting requirements and backup withholding tax unless the beneficial owner certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Information reporting requirements and backup withholding tax should not apply to any payment of the proceeds of the sale of a Registered Note or a Bearer Note, Coupon or Talon effected outside the United States by a foreign office of a foreign "broker" (as defined in applicable Treasury Regulations), provided that such broker is neither a U.S. Person nor a U.S.-Controlled Person. Payment of the proceeds of the sale of a Registered Note or a Bearer Note, Coupon or Talon effected outside the United States by a foreign office of any other broker should not be subject to backup withholding tax, but may be subject to information reporting requirements unless such broker has documentary evidence in its records that the beneficial owner is a Non-U.S. Holder and certain other conditions are met, or the beneficial owner otherwise establishes an exemption. Payment of the proceeds of a sale of a Registered Note or a Bearer Note, Coupon or Talon by the United States office of a broker may be subject to information reporting requirements and backup withholding tax unless the beneficial owner certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against the holder's United States federal income tax liability, if any, provided that the owner timely provides the required information to the IRS.

Foreign Account Tax Compliance Act

Pursuant to sections 1471‑1474 of the Code, (the so‑called "**FATCA**" provisions) and subject to certain exceptions, a withholding tax is imposed at a rate of 30 per cent. on "withholdable payments" made on or after 1 January 2014 (or, in the case of proceeds of sale, redemption or other disposition of the Notes, after 1 January 2015) to "foreign financial institutions" ("**FFIs**") and non-financial foreign entities ("**NFFEs**") that fail to comply with certain information reporting obligations. For this purpose, withholdable payments are comprised of U.S.-source payments (including those otherwise exempt from withholding tax imposed by section 1441 of the Code, such as payments of portfolio interest) and gross proceeds from the sale of any equity or debt instruments of U.S. issuers. An FFI is defined broadly pursuant to section 1471(d)(4) of the Code to include non-U.S. banks, non-U.S. custodians and certain non-U.S. investment vehicles engaged in investing, reinvesting or trading in securities. An NFFE, as defined in section 1472(d) of the Code, includes any non-U.S. entity that is not a foreign financial institution that fails to certify that, in the case where the NFFE is the beneficial owner of the payment, the NFFE either (i) has no "substantial United States owners" within the meaning of section 1473(2) or (ii) fails to provide certain identifying information regarding each substantial United States owner of the NFFE. Treasury is authorised to provide rules for implementing the FATCA withholding regime and coordinating the FATCA withholding regime with the existing nonresident withholding tax rules.

Recently issued guidance by the IRS indicates that these rules generally do not apply to any payments made with respect to a debt obligation outstanding on 1 January 2013 or to the gross proceeds from the disposition of an obligation outstanding as of such date. Even if FATCA and the related information reporting requirements thereunder do not apply to Notes issued prior to 1 January 2013, it is possible that if the Notes are modified by an agreement between the Noteholders and the Issuer after 1 January 2013 in a manner that is "economically significant" for U.S. federal income tax purposes, the Notes could be considered to be deemed exchanged for a "new" debt instrument. In such event, FATCA could then apply to such "new" debt instruments. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with FATCA, none of the Issuer, any paying agent or any other person would pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. Each prospective investor should consult its own tax advisor regarding the potential application of FATCA and related tax or information reporting requirements to an investment in the Notes.

THE U.S. FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction (a "**paying agent**") to or for an individual (or a non-corporate, "**residual entity**") in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also, a number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a "paying agent" within its jurisdiction to or for an individual in a Member State.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established (including partnerships) within the scope of the EU Savings Directive. The timing of the implementation of these proposed amendments is not yet known nor is its possible application.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to Jefferies & Company, Inc., Jefferies International Limited and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in respect of a particular Tranche of Notes (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealer agreement dated 3 May 2012 (the "**Dealer Agreement**") between the Issuer and the Dealers.

Any agreement for the issue and subscription of Notes will, *inter alia,* make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes. Notes of the same Series may be subscribed to at different times and at different prices. Notes may be resold at prices to be agreed with the relevant Dealers. There can be no assurance that the Notes will be resold or that there will be a secondary market for them.

Jefferies & Company, Inc. and Jefferies International Limited are wholly owned subsidiaries of the Issuer.

General

Other than with respect to the approval of this Base Prospectus as a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and the admission to trading of the Notes on the regulated market of the Irish Stock Exchange or such stock exchange as may be specified in the relevant Final Terms, no action has been or will be taken by the Issuer or any Dealer in any jurisdiction that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Base Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Base Prospectus comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish the Base Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Each Dealer will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any such purchase, offer, sale or delivery. Each Dealer will, to the best of its knowledge and belief, comply with all such laws and regulations.

None of the Issuer, the Fiscal Agent, or any of the Dealers has represented that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Neither this Base Prospectus nor any Final Terms constitute, nor may be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. The distribution of this Base Prospectus and the offering and sale of the Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Base Prospectus comes are required by the Dealers and the Issuer to inform themselves about and to observe any such restrictions.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. person (other than a distributor) except in certain transactions in accordance with Regulation S under the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, a U.S. person (other than a distributor) and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice substantially to the following effect:

> "The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing of the offering, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in the paragraphs above have the meanings given to them by Regulation S under the Securities Act.

In respect of Bearer Notes, each Dealer has represented and agreed that:

(a) except to the extent permitted under U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**"), (i) it has not offered or sold, and during the restricted period will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) such Dealer has not delivered and will not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if such Dealer is a United States person, it represents that it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and, if such Dealer retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6); and

(d) with respect to each affiliate (if any) that acquires from such Dealer Notes in bearer form for the purposes of offering or selling such Notes during the restricted period, such Dealer either (i) hereby represents and agrees on behalf of such affiliate (if any) to the effect set forth in sub paragraphs (a), (b) and (c) of this paragraph or (ii) agrees that it will obtain from such affiliate (if any) for the benefit of the Issuer the representations and agreements contained in sub paragraphs (a), (b) and (c) of this paragraph.

Terms used in the paragraphs above have the meanings given to them by the United States Internal Revenue Code of 1986 and Regulations thereunder, including the D Rules.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to additional U.S. selling restrictions as the relevant Dealer or Dealers shall agree as a term of the issuance and purchase of such Notes. Each Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Ireland

Each Dealer has represented and agreed that:

(a) it will not underwrite the issue of, or place, any Notes, otherwise than in conformity with the provisions of the Irish European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith;

(b) it will not underwrite the issue of, or place, any Notes, otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942-1999 (as amended) and any codes of conduct rules made under Section 117(1) thereof;

(c) it will not underwrite the issue of, place or otherwise act in Ireland in respect of any Notes, otherwise than in conformity with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

France

Each of the Dealers and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals, and/or (c) a restricted group of investors (*cercle restreint d'investisseurs*), all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 and D.411-2 of the French *Code monétaire et financier*.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has represented and agreed that it has not offered or sold and will not offer or sell, any Notes in the Republic of Italy to the public.

For the purposes of this provision, the expression "offer of Notes to the public" in Italy means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, including the placement through authorised intermediaries.

Each Dealer has represented and agreed that it will not offer, sell or deliver any Note or distribute copies of any offering materials relating to the Notes in the Republic of Italy except:

(a) to "Qualified Investors" (*Investitori Qualificati*), as defined in Articles 34-*ter*, paragraph 1, letter b), of CONSOB Regulation No. 11971 of 14 May 1999 as amended ("**Issuers' Regulation**"), and in accordance with Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Italian Financial Act**") or,

(b) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under the Italian Financial Act and Issuers' Regulation.

Any such offer, sale or delivery of the Notes or any offering materials relating to the Notes in the Republic of Italy must be made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended, the Italian Financial Act, Issuers' Regulation, CONSOB Regulation No. 16190, dated 29 October 2007, as amended and any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the Notes is solely responsible for ensuring that any offer, sale, delivery or resale of the Notes by such investor occurs in compliance with applicable Italian laws and regulations.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, as amended (the "**FIEL**") and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

This Base Prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong.

No person may offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the Base Prospectus being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

GENERAL INFORMATION

1. **Authorisation**

The establishment of the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 19 September 2011.

2. **Clearing systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. A Common Code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. If the Notes are to be cleared through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

3. **Listing**

This Base Prospectus has been approved by the Central Bank, as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application will be made to the Irish Stock Exchange for the Notes issued under the programme to be admitted to the Official list and trading on its regulated market.

Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the Irish Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Programme and is not itself seeking admission of the Notes to trading on the regulated market of the Irish Stock Exchange.

4. **Significant change and material adverse change**

Since 29 February 2012 there has been no significant change in the financial or trading position of the Issuer and its subsidiaries taken as a whole.

There has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 30 November 2011.

5. **Litigation**

The Issuer and its subsidiaries have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus, which may have, or have had in such period, a significant effect on the financial position or profitability of the Issuer and its subsidiaries, taken as a whole.

6. **Available information**

For the life of the Base Prospectus, physical copies of the following documents may be inspected during normal business hours at the specified office of the Fiscal Agent in London, London Branch, 14th Floor, Citigroup Centre, Canada Square, London E14 5LB, United Kingdom:

(a) the Amended and Restated Certificate of Incorporation of the Issuer and the Bylaws of the Issuer, as amended and restated;

(b) the Agency Agreement;

(c) the Dealer Agreement;

(d) the Deed of Covenant;

(e) copies of this Base Prospectus (including the Issuer's financial statements beginning on pages A-69 and A-169 of "*Annex—Financial Statements and Other Information*"), any supplements to this Base Prospectus and any Final Terms, however, copies of the Final Terms for any Notes which are not listed will only be available upon proof satisfactory to the Fiscal Agent as to ownership of such Notes.

7. **Conflicts of interest**

For the purposes of the Prospectus Directive, no potential conflicts of interest exist between the duties to the Issuer of the members of the Board of Directors, as listed above, and their private interests and/or other duties.

8. **Independent registered public accounting firm**

The Issuer's consolidated statements of financial condition as of 30 November 2011 and 30 November 2010 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended 30 November 2011 and the eleven-month transition period beginning 1 January 2010 through 30 November 2010, which are included in this Base Prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm with respect to the Issuer within the meaning of the applicable rules and regulations adopted by the SEC and the Public Company Accounting Oversight Board (United States), as stated in their report thereon, which is also included in this Base Prospectus.

The Issuer's consolidated statement of financial condition as of 31 December 2009 and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year ended 31 December 2009, which are included in this Base Prospectus have been audited by KPMG LLP, an independent registered public accounting firm with respect to the Issuer within the meaning of the applicable rules and regulations adopted by the SEC and the Public Company Accounting Oversight Board (United States), as stated in their report thereon, which is included in this Base Prospectus. The Issuer has agreed to indemnify KPMG LLP with respect to legal costs and expenses they may incur as a result of their successful defense of any legal action or proceeding that may arise as a result of their consent to include their report in the Transition Report on Form 10-K for the eleven month transition period ended 30 November 2010.

Deloitte & Touche LLP is a member of the American Institute of Certified Public Accountants and is registered with the Public Company Accounting Oversight Board (United States). Deloitte & Touche LLP has its principal business office at Two World Financial Center, New York, NY 10281.

ANNEX – FINANCIAL STATEMENTS AND OTHER INFORMATION

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

Form 10-K

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

For the fiscal year ended November 30, 2011

OR

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

For the transition period from __________ to __________

Commission File Number: 1-14947

JEFFERIES GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4719745**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
520 Madison Avenue, New York, New York	**10022**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock, $.0001 par value	**New York Stock Exchange**

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting company ☐

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

LOCATION OF EXHIBIT INDEX

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

JEFFERIES GROUP, INC.

2011 FORM 10-K ANNUAL REPORT

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JEFFERIES GROUP, INC. AND SUBSIDIARIES

PART I

Item 1. ***Business.***

Introduction

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

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

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

- Code of Ethics;
- Reportable waivers, if any, from our Code of Ethics by our executive officers;
- Board of Directors Corporate Governance Guidelines;
- Charter of the Audit Committee of the Board of Directors;
- Charter of the Corporate Governance and Nominating Committee of the Board of Directors;
- Charter of the Compensation Committee of the Board of Directors;
- Annual and interim reports on Form 10-K;
- Quarterly reports on Form 10-Q;
- Current reports on Form 8-K;
- Beneficial ownership reports on Forms 3, 4 and 5; and
- Any amendments to the above-mentioned documents and reports.

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

Business Segments

We currently operate in two business segments, Capital Markets and Asset Management. Our Capital Markets reportable segment consists of our securities and commodities trading activities (including the results of our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC), and our investment banking activities. The Capital Markets reportable segment is managed as a single operating segment that provides the research, sales, trading and/or origination and execution effort for various equity, fixed income and advisory products and services. The Asset Management segment includes asset management activities and related services.

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

Our Businesses

Capital Markets

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

Equities

Equities Sales & Trading

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

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

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

Equity Finance

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

We offer prime brokerage services in the U.S. that provide hedge funds, money managers and registered investment advisors with execution, financing, clearing, reporting and administrative services. We finance our client's securities positions through margin loans that are collateralized by securities, cash or other acceptable liquid collateral. We earn an interest spread equal to the difference between the amount we pay for funds and the amount we receive from our clients. We also operate a matched book in equity and corporate bond securities, whereby we borrow and lend securities versus cash or liquid collateral and earn a net interest spread. During 2011, we launched an Asia Pacific securities finance business based in our Hong Kong office.

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

Equity Research

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

Wealth Management

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

Fixed Income

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

Fixed Income Sales and Trading

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

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

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

Futures, Foreign Exchange and Commodities

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

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

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

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

Investment Banking

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

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

Equity Capital Markets

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

Debt Capital Markets

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

Advisory Services

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

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

Asset Management

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

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

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

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

Competition

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

Regulation

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

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

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

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

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

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

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

Item 1A. *Risk Factors.*

Factors Affecting Our Business

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

Our expansion in the commodities futures business presents various risks.

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

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

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

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

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

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

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

- A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads.
- Unfavorable financial or economic conditions could reduce the number and size of transactions in which we provide underwriting, financial advisory and other services. Our investment banking revenues, in the form of financial advisory and underwriting or placement fees, are directly related to the number and size of the transactions in which we participate and could therefore be adversely affected by unfavorable financial or economic conditions.
- Adverse changes in the market could lead to losses from principal transactions on our inventory positions.
- Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on our own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.
- Limitations on the availability of credit, such as occurred during 2008, can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations.
- New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect our profits.
- Should one of our competitors fail, our securities prices and our revenue could be negatively impacted based upon negative market sentiment causing customers to cease doing business with us and our lenders to cease loaning us money, which could adversely affect our business, funding and liquidity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legal liability may harm our business.

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

Our business is subject to significant credit risk.

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

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

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

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

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

None

Item 2. ***Properties.***

Our global executive offices and principal administrative offices are located at 520 Madison Avenue, New York, New York under an operating lease arrangement. We maintain offices throughout the world including New York, Los Angeles, Stamford, Jersey City, London, Zurich, Hong Kong, Tokyo and Mumbai. In addition, we maintain backup facilities with redundant technologies in Jersey City, New Jersey and Stamford, Connecticut. We lease all of our office space, which management believes is adequate for our business. For information concerning leasehold improvements and rental expense, see Note 2, Summary of Significant Accounting Policies and Note 20, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

Item 3. *Legal Proceedings.*

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

Item 4. *(Removed and Reserved).*

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

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

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

(1) The first and second quarters of 2010 include the high and low sales prices of our common stock during the month of March.

There were approximately 1,850 holders of record of our Common Stock at January 17, 2012. Our transfer agent is American Stock Transfer & Trust Company, LLC and their address is 59 Maiden Lane, Plaza Level, New York, NY 10038.

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

Dividends per Common Share (declared):

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

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

Issuer Purchases of Equity Securities

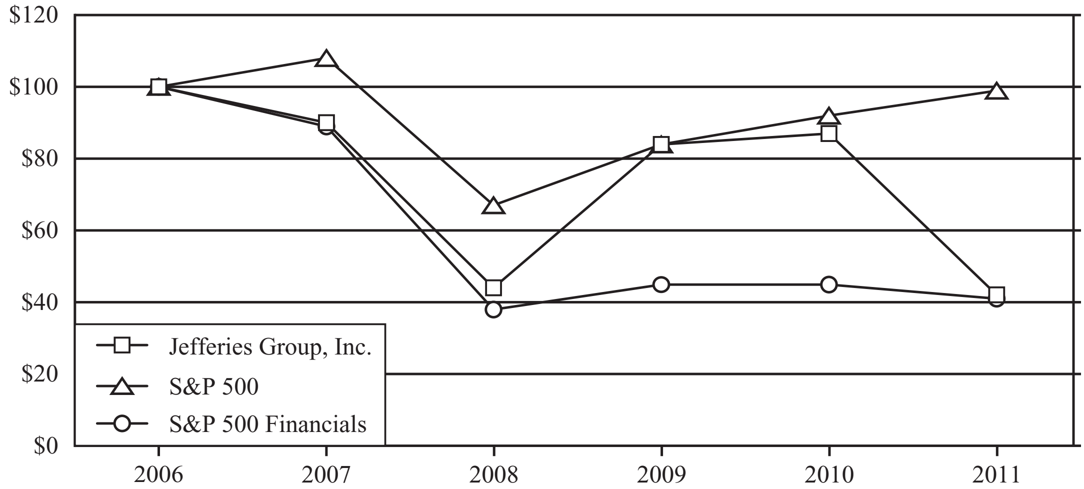
Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 1 — September 30, 2011	616,301	12.57	602,700	19,397,300
October 1 — October 31, 2011	213,684	12.13	196,300	19,201,000
November 1 — November 30, 2011	4,305,190	10.58	4,301,000	14,900,000
Total	5,135,175		5,100,000	

(1) We repurchased an aggregate of 35,175 shares other than as part of a publicly announced plan or program. We repurchased these securities in connection with our stock compensation plans which allow participants to use shares to pay the exercise price of certain options exercised and to use shares to satisfy certain tax liabilities arising from the exercise of options or the vesting of restricted stock. The number above does not include unvested shares forfeited back to us pursuant to the terms of our stock compensation plans.

(2) On September 20, 2011, we announced the authorization by our Board of Directors of the repurchase, from time to time, of up to an aggregate of 20,000,000 shares of our Common Stock, inclusive of prior authorizations.

Shareholder Return Performance Presentation

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



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

Item 6. *Selected Financial Data.*

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009	2008	2007
	(In Thousands , Except Per Share Amounts)				
Earnings Statement Data					
Revenues:					
Commissions	$ 534,726	$ 466,246	$ 512,293	$ 611,823	$ 524,716
Principal transactions	428,035	509,070	838,396	(80,479)	221,259
Investment banking	1,122,528	890,334	474,315	425,887	750,192
Asset management fees and investment income (loss) from managed funds	44,125	16,785	35,887	(52,929)	23,534
Interest	1,248,132	852,494	732,250	741,559	1,174,512
Other	152,092	62,417	38,918	28,573	24,311
Total revenues	3,529,638	2,797,346	2,632,059	1,674,434	2,718,524
Interest expense	980,825	605,096	468,798	660,448	1,150,779
Net revenues	2,548,813	2,192,250	2,163,261	1,013,986	1,567,745
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	3,622	14,916	37,248	(69,077)	4,257
Net revenues, less mandatorily redeemable preferred interest	2,545,191	2,177,334	2,126,013	1,083,063	1,563,488
Non-interest expenses:					
Compensation and benefits	1,482,604	1,282,644	1,195,971	1,522,157	946,309
Floor brokerage and clearing fees	126,313	110,835	80,969	64,834	66,967
Technology and communications	215,940	160,987	141,233	127,357	103,763
Occupancy and equipment rental	84,951	68,085	72,824	76,255	76,765
Business development	93,645	62,015	37,614	49,376	56,594
Professional services	66,305	49,080	41,125	46,948	41,133
Other	56,099	47,017	48,530	84,296	30,843
Total non-interest expenses	2,125,857	1,780,663	1,618,266	1,971,223	1,322,374
Earnings (loss) before income taxes	419,334	396,671	507,747	(888,160)	241,114
Income tax expense (benefit)	132,966	156,404	195,928	(293,359)	93,032
Net earnings (loss)	286,368	240,267	311,819	(594,801)	148,082
Net earnings (loss) to noncontrolling interest	1,750	16,601	36,537	(53,884)	3,634
Net earnings (loss) to common shareholders	$ 284,618	$ 223,666	$ 275,282	$ (540,917)	$ 144,448
Earnings per common share:					
Basic earnings (loss) per common share	$ 1.28	$ 1.10	$ 1.36	$ (3.30)	$ 0.93
Diluted earnings (loss) per common share	$ 1.28	$ 1.09	$ 1.35	$ (3.30)	$ 0.92
Weighted average common shares:					
Basic	211,056	196,393	200,446	166,163	141,515
Diluted	215,171	200,511	204,572	166,163	141,903
Cash dividends per common share	$ 0.30	$ 0.30	—	$ 0.25	$ 0.50

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

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

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

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

- the description of our business contained in this report under the caption "Business";
- the risk factors contained in this report under the caption "Risk Factors";
- the discussion of our analysis of financial condition and results of operations contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- the discussion of our risk management policies, procedures and methodologies contained in this report under the caption "Risk Management" included within Management's Discussion and Analysis of Financial Condition and Results of Operations;
- the notes to the consolidated financial statements contained in this report; and
- cautionary statements we make in our public documents, reports and announcements.

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

Consolidated Results of Operations

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

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

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

Executive Summary

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

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

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

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

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

Revenues by Source

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

For presentation purposes, the remainder of "Results of Operations" is presented on a detailed product and expense basis rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective sales and trading activities, which is a function of the mix of each business's associated assets and liabilities and the related funding costs. Prior to the first quarter of 2010, we separately presented revenues attributed from our high yield business within our "Revenues by Source" statement. As our firm has continued to expand, particularly geographically, we began to integrate our high yield platforms within our overall fixed income business and now present our high yield net revenue within Fixed Income Net revenue as of the first quarter of 2010. Additionally, prior to the first quarter of 2011, we presented revenues attributed from our convertibles business in Fixed Income Net revenue. Revenues from our convertibles business as of the first quarter of 2011 are presented within Equities Net revenue. Reclassifications have been made to our previous presentation of "Revenues by Source" for the eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009 to conform to the current presentation.

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

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

Net Revenues

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

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

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

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

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

Equities Revenue

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

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

Declines in client stock volumes negatively impacted our U.S. cash equities trading revenues, while net revenues from U.S. derivatives grew slightly. International equities revenue benefited from the development of our Asia cash equities business, expansion of our Europe sales force and improved international electronic product capabilities. Prime brokerage and securities finance revenues benefited from new clients and higher balances, as well as transaction volumes with existing clients. A gain was also recognized related to our ownership of LME shares consistent with recent sales of shares of the exchange. These increases in equities revenue were partially offset by reduced net revenues from our equity joint ventures as increased interest expense was incurred in supporting these ventures. In November 2010, the Company entered into an agreement to sell certain correspondent broker accounts and assign the related clearing arrangements. The purchase price was dependent on the number and amount of client accounts that convert to the purchaser's platform. During fiscal 2011, proceeds amounted to $11.0 million were received, of which revenues of $9.1 million was recognized and included within Other income on the Consolidated Statement of Earnings. Equities revenue for the eleven months ended November 30, 2010 does not include any significant gain from transaction and revenue from our correspondent clearing business.

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

Fixed Income Revenue

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

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

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

The decrease in fixed income revenue from these businesses was partially offset by revenue increases from our government and agency sales and trading revenues in the U.S., Europe and Asia. Fixed income revenue reflects the continued growth of our fixed income platform in Europe with strong performance from our Euro rates platform, as well as improved performance from our U.S. government and agency business due to increased customer flow from ample liquidity and, to a lesser extent, inventory appreciation as spreads tightened in the earlier part of the period. Stronger performance from our municipal trading activities benefited overall fixed income revenue as a result of recent strengthening of our trading effort and new products offered, partially offset by trading losses and widening credit spreads that impacted the municipal trading business in the latter part of 2011. Fixed income revenue for fiscal 2011 also includes revenue contributions from Jefferies Bache for a five month period as a result of the acquisition from Prudential on July 1, 2011.

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

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

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

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

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

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

Other Revenue

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

Investment Banking Revenue

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

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

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

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

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

Asset Management Fees and Investment Income from Managed Funds

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

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

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

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

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

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

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

Assets under Management

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

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

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

Change in Assets under Management

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

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

Managed Accounts

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

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

Change in Managed Accounts

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

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

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

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

(1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statement of Financial Condition.

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

Non-interest Expenses

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
		(in thousands)	
Compensation and benefits	$1,482,604	$1,282,644	$1,195,971
Floor brokerage and clearing fees	126,313	110,835	80,969
Technology and communications	215,940	160,987	141,233
Occupancy and equipment rental	84,951	68,085	72,824
Business development	93,645	62,015	37,614
Professional services	66,305	49,080	41,125
Other	56,099	47,017	48,530
Total non-compensation expenses	$ 643,253	$ 498,019	$ 422,295
Non-interest expenses	$2,125,857	$1,780,663	$1,618,266

Compensation and Benefits

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

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

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

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

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

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

Non-Compensation Expenses

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

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

Earnings Before Income Taxes

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

Income Taxes

The provision for income taxes was a tax expense of $133.0 million, an effective tax rate of 31.7%, for the twelve months ended November 30, 2011, compared with $156.4 million, an effective tax rate of 39.4%, for the eleven months ended November 30, 2010 and $195.9 million, an effective tax rate of 38.6%, for the twelve months ended December 31, 2009. The decrease in our effective tax rate for the twelve months ended November 30, 2011 as compared to the prior period is primarily attributable to the impact of the bargain purchase gain of $52.5 million, which is non-taxable, arising on the acquisition of the Global Commodities Group from Prudential in the third quarter of 2011 and, to a lesser extent, a change in the mix of taxable profits by business line and region. Excluding the effect of the bargain purchase gain, $11.8 million in compensation and benefits costs, $7.8 million in intangible asset amortization and professional fees associated with the acquisition, and the gain on extinguishment of debt of $20.2 million related to transactions in our own debt by our broker-dealer's market-making desk, our effective tax rate for the twelve months ended November 30, 2011 was 36.2%.

Earnings per Common Share

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

Recent Accounting Developments

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

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

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

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

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

Critical Accounting Policies

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

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

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

Valuation of Financial Instruments

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

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

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

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

Fair Value Hierarchy

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

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 5, Financial Instruments, in our consolidated financial statements.

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

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

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

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

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

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

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

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

Goodwill

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

Compensation and Benefits

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

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

Liquidity, Financial Condition and Capital Resources

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

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

Analysis of Financial Condition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leverage Ratios

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

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

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

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

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

Liquidity Management

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

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

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

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

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

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

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

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

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

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

- Liquidity needs over a 30-day scenario.

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

- No support from government funding facilities.

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

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

The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

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

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

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

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

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

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

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

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

- Other upcoming large cash outflows, such as tax payments.

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

Sources of Liquidity

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

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

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

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

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

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

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

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

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

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been.

Average liquid financial instruments for the three months ended November 30, 2011 were approximately $18.6 billion.

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

Sources of Funding and Capital Resources

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

Secured Financing

We rely principally on secured and readily available funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short term secured funding, primarily through securities financing transactions. We do not use or rely on “wholesale funding,” a catch-all term typically used to refer to unsecured short-term funding, such as brokered deposits, foreign deposits or commercial paper. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively "repos"), respectively. Approximately 87% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

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

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

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

Short-term Borrowings

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

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

Long-term Debt and Long-term Capital

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

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

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

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

Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility terminates on August 26, 2014. Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. Borrowings outstanding under the Credit Facility at November 30, 2011 were $100.0 million. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group, Inc. to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis, a financial officer of Jefferies Group, Inc. provides a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At November 30, 2011, the minimum tangible net worth requirement was $2,015.1 million and the minimum liquidity requirement was $411.0 million for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred. We expect to remain in compliance both in the near term and long term given our current liquidity, anticipated additional funding requirements given our business plan and profitability expectations. While our subsidiaries are restricted under the Credit Facility from incurring additional indebtedness beyond trade payable and derivative liabilities in the normal course of business, we do not believe that these restrictions will have a negative impact on our liquidity.

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

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

Our long-term debt ratings are as follows:

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

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

We rely upon our cash holdings and external sources to finance a significant portion of our day to day operations. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including our debt ratings. Our current debt ratings are dependent upon many factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trend and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings thereby increasing the cost of obtaining funding and impacting certain trading revenues, particularly where collateral agreements are referenced to our external credit ratings. In connection with certain OTC derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties in the event of a credit rating downgrade. At November 30, 2011, the amount of additional collateral that could be called by counterparties under the terms of such agreements in the event of a one-notch downgrade of our long-term credit rating was $20.2 million and $77.5 million could be called in the event of a two-notch downgrade.

Contractual Obligations and Commitments

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

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

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

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

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

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

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

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

Equity Capital

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

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

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

(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.

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

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

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

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

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

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

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

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

Net Capital

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

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

	Net Capital	Excess Net Capital
Jefferies	$931,336	$883,528
Jefferies Execution	$ 16,226	$ 15,976
Jefferies High Yield Trading	$519,967	$519,717

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	$264,392	$112,350

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

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

Risk Management

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

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

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

Governance and Risk Management Structure

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

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

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

- *Market Risk Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.
- *Independent Price Verification Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.
- *Operational Risk Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.
- *Credit Risk Policy* — This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

Risk Management Key Metrics

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

Market Risk

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

Value at Risk

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

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

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

The VaR numbers below are shown separately for interest rate, equity, currency and commodity products, as well as for our overall trading positions, excluding corporate investments in asset management positions, using the past 365 days of historical date. The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated. The following table illustrates the VaR for each component of market risk.

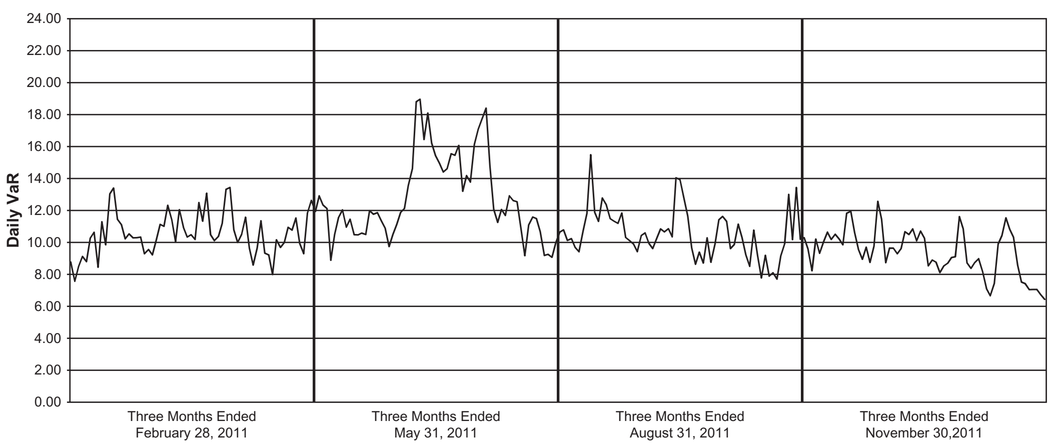
	Daily VaR(1) Value at Risk in trading portfolios							
	November 30,		Twelve Months Ended November 30, 2011			Eleven Months Ended November 30, 2010		
Risk Categories	**2011**	**2010**	**Average**	**High**	**Low**	**Average**	**High**	**Low**
				(In Millions)				
Interest Rates	$ 6.17	$ 4.24	$ 8.41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

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

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

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

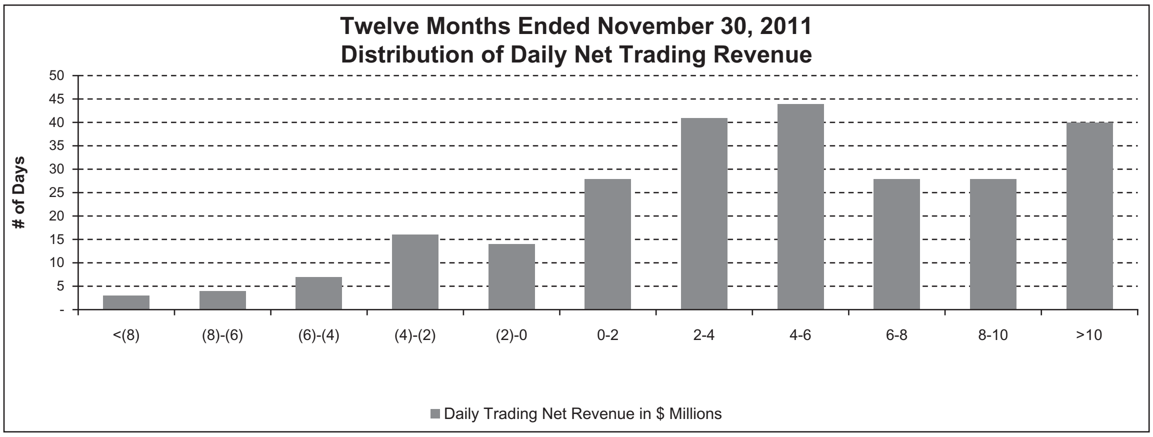
Daily VaR Trend ($MM)



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

Daily Net Trading Revenue
($ in millions)

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



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

Scenario Analysis and Stress Tests

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

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

Counterparty Credit Risk and Issuer Country Exposure

Counterparty Credit Risk

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

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

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

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

- defining credit limit guidelines and credit limit approval processes;
- providing a consistent and integrated credit risk framework across the enterprise;
- approving counterparties and counterparty limits with parameters set by the Risk Management Committee;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- delivering credit limits to all relevant sales and trading desks;
- maintaining credit reviews for all active and new counterparties;
- operating a control function for exposure analytics and exception management and reporting;
- determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- actively managing daily exposure, exceptions, and breaches;
- monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and
- setting the minimum global requirements for systems, reports, and technology.

Credit Exposures

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

- Loans and lending arise in connection with our capital markets activities and represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding at November 30, 2011.
- Securities and margin finance includes credit exposure arising on securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements) to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.

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

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

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

Counterparty Credit Exposure by Credit Rating

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

Counterparty Credit Exposure by Region

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

Counterparty Credit Exposure by Industry

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

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

Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk at the country of legal jurisdiction or domicile of the obligor's ultimate group parent. The following table reflects our top exposure at November 30, 2011 to the sovereign governments, corporations, and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (the second table reflects our exposure to those same countries at November 30, 2010 year end):

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

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

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

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

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

	Sovereigns	Corporations	Financial Institutions	Total
		(in millions)		
Financial instruments owned — Debt securities				
Portugal	$ 7.7(5)	$ —	$ 4.8(5)	$ 12.5
Ireland	103.0(5)	11.4(1)	13.0(5)	127.4
Italy	358.6(5)	15.0(1)	8.7(5)	382.3
Greece	—(5)	0.5	0.4(5)	0.9
Spain	23.0(5)	21.7	195.5(5)	240.2
Total fair value of long debt securities(2)	492.3(5)	48.6	222.4(5)	763.3
Financial instruments sold — Debt securities				
Portugal	4.7	—	5.2	9.9
Ireland	74.8	5.7	0.4	80.9
Italy	424.9	10.3	23.8	459.0
Greece	—	0.6	0.3	0.9
Spain	39.7	18.4	78.9	137.0
Total fair value of short debt securities(3)	544.1	35.0	108.6	687.7
Total net fair value of debt securities	(51.8)	13.6	113.8	75.6
Derivative contracts — long notional exposure				
Portugal	—	—	—	—
Ireland	—	1.8	—	1.8
Italy	16.5(7)	8.8	7.7	33.0
Greece	5.0(6)	—	—	5.0
Spain	—	13.5	—	13.5
Total notional amount — long	21.5	24.1	7.7	53.3
Derivative contracts — short notional exposure				
Portugal	—	—	—	—
Ireland	10.0(8)	6.0	—	16.0
Italy	77.6(7)	20.2	74.0	171.8
Greece	5.0(6)	—	—	5.0
Spain	—	5.3	26.9	32.2
Total notional amount — short	92.6	31.5	100.9	225.0
Total net derivative notional exposure(4)	(71.1)	(7.4)	(93.2)	(171.7)
Total net exposure to select European countries	$(122.9)	$ 6.2	$ 20.6	$ (96.1)

(1) Includes long mortgage backed security exposure of $0.1 million and $2.6 million to Ireland and Italy, respectively.

(2) Long securities represent the fair value of debt securities and are presented within Financial instruments owned — corporate debt securities and government, federal agency and other sovereign obligations on the face of the balance sheet and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

(3) Short securities represent the fair value of debt securities sold short and are presented within Financial instruments sold, not yet purchased — corporate debt securities and government, federal agency and other sovereign obligations on the face of the balance sheet and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

(4) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.

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

(6) These offsetting positions contain no material net market risk.

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

(8) This position represents purchased protection executed with an investment grade multi-national bank.

	Portugal	Ireland(1)	Italy(2)	Greece	Spain	Total
			(in millions)			
Financial instruments owned:						
Long sovereign debt securities(3)	$ 7.7	$103.0	$ 358.6	$ —	$ 23.0	$ 492.3
Long non-sovereign debt securities(3)	4.8	24.4	23.7	0.9	217.2	271.0
Total long debt securities	12.5	127.4	382.3	0.9	240.2	763.3
Financial instruments sold, not yet purchased:						
Short sovereign debt securities	4.7	74.8	424.9	—	39.7	544.1
Short non-sovereign debt securities	5.2	6.1	34.1	0.9	97.3	143.6
Total short debt securities	9.9	80.9	459.0	0.9	137.0	687.7
Net fair value — debt securities	2.6	46.5	(76.7)	—	103.2	75.6
Net derivatives (notional amount)	—	(14.2)	(138.8)	—	(18.7)	(171.7)
Total net exposure to select European countries	$ 2.6	$ 32.3	$(215.5)	$ —	$ 84.5	$ (96.1)

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

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

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

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

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

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

	Portugal	Ireland	Italy	Greece	Spain	Total
Derivative contracts — long assets						
Credit default swaps	$—	$ —	$ —	$2.7	$ —	$ 2.7
Futures	—	—	—	—	—	—
Equity	—	0.4	5.3	—	0.9	6.6
Total long	—	0.4	5.3	2.7	0.9	9.3
Derivatives contracts — short liabilities						
Credit default swaps	—	1.2	6.9	2.5	0.6	11.2
Futures	—	—	—	—	—	—
Equity	—	0.5	2.6	—	3.0	6.1
Total short	—	1.7	9.4	2.5	3.6	17.3
Net derivative asset (liability)	$—	$(1.3)	$(4.1)	$0.2	$(2.7)	$ (8.0)

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

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

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

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

Operational Risk

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

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

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

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

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

Legal and Compliance Risk

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

New Business Risk

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

Reputational Risk

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

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

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

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

New York, NY

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

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

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

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

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

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

/s/ Deloitte & Touche LLP

New York, New York
January 27, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Jefferies Group, Inc.:

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

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

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

/s/ KPMG LLP

New York, New York
February 26, 2010
(February 2, 2011 as to Note 1 of the consolidated financial statements included in the Company's 2010 Transition Report on Form 10-K which describes the effects of correcting the 2009 consolidated financial statements)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Jefferies Group, Inc. and subsidiaries at November 20, 2011 and 2010, and the results of their operations and their cash flows for the year ended November 30, 2011 and the eleven month period ended November 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

/s/ Deloitte & Touche LLP

New York, New York
January 27, 2012

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Dollars in thousands, except per share amounts)

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

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION — CONTINUED
(Dollars in thousands, except per share amounts)

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

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION — CONTINUED
(Dollars in thousands)

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

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

See accompanying notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

(In thousands, except per share amounts)

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

See accompanying notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share amounts)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Common stock, par value $0.0001 per share			
Balance, beginning of period	$ 20	$ 19	$ 17
Issued	2	1	2
Retired	(2)	—	—
Balance, end of period	20	20	19
Additional paid-in capital			
Balance, beginning of period	2,218,123	2,036,087	1,870,120
Benefit plan share activity(1)	31,176	19,230	16,499
Share-based expense, net of forfeitures and clawbacks	134,076	149,799	125,127
Proceeds from exercise of stock options	95	108	69
Acquisitions and contingent consideration	419	419	(2,710)
Tax benefit (deficiency) for issuance of share-based awards	32,200	2,965	(14,606)
Equity component of convertible debt, net of tax	(217)	—	41,588
Dividend equivalents on share-based plans	8,883	9,515	—
Issuance of treasury stock	97,770	—	—
Retirement of treasury stock	(315,115)	—	—
Balance, end of period	2,207,410	2,218,123	2,036,087
Retained earnings			
Balance, beginning of period	850,654	688,039	412,757
Net earnings to common shareholders	284,618	223,666	275,282
Dividends	(67,414)	(61,051)	—
Balance, end of period	1,067,858	850,654	688,039
Treasury stock, at cost			
Balance, beginning of period	(539,530)	(384,379)	(115,190)
Purchases	(152,827)	(140,071)	(263,794)
Returns / forfeitures	(20,368)	(15,080)	(8,105)
Issued	397,122	—	2,710
Retirement of treasury stock	315,117	—	—
Balance, end of period	(486)	(539,530)	(384,379)
Accumulated other comprehensive (loss) income			
Balance, beginning of period	(51,278)	(41,626)	(52,121)
Currency adjustment	3,339	(8,490)	9,306
Pension adjustment, net of tax	(2,551)	(1,162)	1,189
Balance, end of period	(50,490)	(51,278)	(41,626)
Total common stockholders' equity	3,224,312	2,477,989	2,298,140
Noncontrolling interests			
Balance, beginning of period	332,976	321,538	287,805
Net earnings to noncontrolling interests	1,750	16,601	36,537
Contributions	1,713	12,433	2,860
Distributions	(22,056)	(15,177)	(5,664)
Deconsolidation of asset management entity	(1,720)	(5,477)	—
Adoption of accounting changes to ASC 810	—	3,058	—
Balance, end of period	312,663	332,976	321,538
Total stockholders' equity	3,536,975	$2,810,965	$2,619,678

(1) Includes grants related to the Incentive Plan, Deferred Compensation Plan, and Directors' Plan.

See accompanying notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)

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

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

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

See accompanying notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Cash flows from operating activities:			
Net earnings	$ 286,368	$ 240,267	$ 311,819
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	68,522	42,087	40,662
Bargain purchase gain	(52,509)	—	—
Gain on repurchase of long-term debt	(21,107)	—	(7,673)
Fees related to assigned management agreements	(3,724)	(3,590)	—
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	3,622	14,916	37,248
Accruals related to various benefit plans and stock issuances, net of estimated forfeitures	144,886	153,950	133,523
Deferred income taxes	30,177	4,389	10,147
Decrease (increase) in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	1,417,107	(546,793)	61,620
Decrease (increase) in receivables:			
Brokers, dealers and clearing organizations	1,652,426	(1,062,106)	(752,108)
Customers	385,686	(321,008)	(474,181)
Fees, interest and other	3,856	(57,482)	(21,566)
Decrease in securities borrowed	3,014,442	52,634	764,577
Decrease (increase) in financial instruments owned	299,558	(6,434,698)	(4,781,858)
Increase in loans to and investments in related parties	(375,031)	(27,443)	(53,616)
Decrease (increase) in investments in managed funds	60,855	(9,833)	(15,529)
Decrease (increase) in securities purchased under agreements to resell	372,470	266,132	(2,268,338)
(Increase) decrease in other assets	(122,568)	(123,933)	22,516
Increase (decrease) in payables:			
Brokers, dealers and clearing organizations	880,998	1,001,155	506,073
Customers	(2,324,839)	467,164	1,476,096
(Decrease) increase in securities loaned	(1,428,852)	(455,750)	333,261
(Decrease) increase in financial instruments sold, not yet purchased	(2,892,462)	3,685,421	2,664,934
(Decrease) increase in securities sold under agreements to repurchase	(1,083,191)	2,444,802	1,511,871
(Decrease) increase in accrued expenses and other liabilities	(599,677)	218,255	373,602
Net cash used in operating activities	(282,987)	(451,464)	(126,920)
Cash flows from investing activities:			
Net payments on premises and equipment	(77,330)	(38,426)	(37,483)
Deconsolidation of asset management entity	—	(407)	—
Cash paid for acquisition, net of cash acquired	(320,697)	—	(38,760)
Purchase of mortgage servicing rights	—	—	(8,628)
Cash received from contingent consideration	3,733	2,930	—
Cash paid for contingent consideration	(754)	(8,332)	(28,653)
Net cash used in investing activities	(395,048)	(44,235)	(113,524)

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED
(Dollars in thousands)

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

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

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

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

See accompanying notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

Organization

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

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

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

Change in Year End

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

Basis of Presentation

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

Consolidation

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

Intercompany accounts and transactions are eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

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

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

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

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

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

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

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

Cash Equivalents

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

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

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

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, if any, are included in Other comprehensive income. Gains or losses resulting from foreign currency transactions are included in Principal transactions in the Consolidated Statements of Earnings.

Financial Instruments

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

Fair Value Hierarchy

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

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

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

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

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

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

Valuation Process for Financial Instruments

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

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

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

Investments in Managed Funds

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

Loans to and Investments in Related Parties

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

Receivable from, and Payable to, Customers

Receivable from and payable to customers includes amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the accompanying consolidated financial statements. Receivable from officers and directors included within this financial statement line item represents balances arising from their individual security transactions. These transactions are subject to the same regulations as customer transactions and are provided on substantially the same terms.

Securities Borrowed and Securities Loaned

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

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

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

Premises and Equipment

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

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

Goodwill and Intangible Assets

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

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

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

Income Taxes

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

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

Legal Reserves

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

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

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

Share-based Compensation

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

Earnings per Common Share

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

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

Securitization Activities

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

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

Accounting Developments

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

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

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

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

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

Note 3. Acquisition of the Global Commodities Group

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

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

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

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

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

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

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

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):

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	13,611
Indefinite-lived intangible exchange memberships and licences(1)	11,219
Finite-lived intangible customer relationships(1)(2)	5,800
Trade names(1)(3)	1,300
Other assets	32,076
Total assets	$4,703,560
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
Total liabilities	$4,229,011
Fair value of net assets acquired	$ 474,549
Purchase price:	
Cash	$ 422,040
Total purchase price	$ 422,040
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 results of operation for the twelve months ended November 30, 2011 include the operations of the acquired entities for the period from July 1, 2011 to November 30, 2011. The Consolidated Statement of Earnings for the twelve months ended November 30, 2011, include $96.7 million of Net revenues and $31.8 million of Net earnings contributed by Jefferies Bache.

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

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

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

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

a) the bargain purchase gain of $52.5 million has been included in Net revenues and Net earnings for the eleven months ended November 30, 2010;

b) an adjustment to reflect Global Commodities Group's physical commodities at market value;

c) acquisition costs totaling $4.4 million recognized in Professional services has been included in the eleven months ended November 30, 2010;

d) additional amortization expense on the acquired intangible assets and internally developed software of $0.8 million and $0.8 million for the twelve months ended November 30, 2011 and $0.9 million and $1.0 million for the eleven months ended November 30, 2010;

e) the recording of income tax expense resulting from the pro forma adjustments before tax at an effective rate of 32.1% and 35.0% for the twelve months and eleven months ended November 30, 2011 and 2010.

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

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

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

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

Note 5. Financial Instruments

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

	As of November 30, 2011				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$1,088,358	$ 133,232	$ 13,489	$ —	$ 1,235,079
Corporate debt securities	1,521	2,818,643	48,140	—	2,868,304
Collateralized debt obligations	—	102,209	47,988	—	150,197
U.S. government and federal agency securities	5,443,721	266,460	—	—	5,710,181
Municipal securities	—	582,497	6,904	—	589,401
Sovereign obligations	737,082	434,759	140	—	1,171,981
Residential mortgage-backed securities	—	2,961,682	149,965	—	3,111,647
Commercial mortgage-backed securities	—	582,974	52,407	—	635,381
Other asset-backed securities	—	22,794	3,284	—	26,078
Loans and other receivables	—	278,855	97,291	—	376,146
Derivatives	632,148	2,344,625	124	(2,451,004)	525,893
Investments at fair value	—	27,259	78,326	—	105,585
Physical commodities	—	172,668	—	—	172,668
Total financial instruments owned	$7,902,830	$10,728,657	$498,058	$(2,451,004)	$16,678,541
Level 3 financial instruments for which the firm does not bear economic exposure(4)			$ (45,901)		
Level 3 financial instruments for which the firm bears economic exposure			$452,157		
Investments in Managed Funds	$ —	$ —	$ 70,740	$ —	$ 70,740
Cash and securities segregated and on deposit for regulatory purposes(3)	$ 115,000	$ —	$ —	$ —	$ 115,000
Securities received as collateral	$ 21,862	$ —	$ —	$ —	$ 21,862
Total Level 3 assets for which the firm bears economic exposure			$522,897		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$1,266,096	$ 64,000	$ —	$ —	$ 1,330,096
Corporate debt securities	—	1,614,419	74	—	1,614,493
U.S. government and federal agency securities	2,032,091	9,685	—	—	2,041,776
Municipal securities	—	90	—	—	90
Sovereign obligations	790,568	377,279	—	—	1,167,847
Residential mortgage-backed securities	—	50,517	—	—	50,517
Loans	—	140,960	10,157	—	151,117
Derivatives	535,503	2,289,759	9,409	(2,585,634)	249,037
Total financial instruments sold, not yet purchased	$4,624,258	$ 4,546,709	$ 19,640	$(2,585,634)	$ 6,604,973
Obligation to return securities received as collateral	$ 21,862	$ —	$ —	$ —	$ 21,862

(1) There were no significant transfers between Level 1 and Level 2 for the twelve-months ended November 30, 2011.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

(3) Consists of U.S. government securities segregated for regulatory purposes and measured at fair value.

(4) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

	As of November 30, 2010				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
Assets:					
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
Total financial instruments owned	$5,656,546	$10,049,708	$ 571,930	$(336,612)	$15,941,572
Level 3 financial instruments for which the firm does not bear economic exposure(3)			$(204,139)		
Level 3 financial instruments for which the firm bears economic exposure			$ 367,791		
Investments in managed funds	$ —	$ —	$ 131,585	$ —	$ 131,585
Securities received as collateral	$ 48,616	$ —	$ —	$ —	$ 48,616
Total Level 3 assets for which the firm bears economic exposure			$ 499,376		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$1,554,489	$ 83,845	$ 38	$ —	$ 1,638,372
Corporate debt securities	—	2,375,925	—	—	2,375,925
U.S. government and federal agency securities	1,688,684	51,604	—	—	1,740,288
Municipal securities	—	170	—	—	170
Sovereign obligations	2,180,667	814,163	—	—	2,994,830
Residential mortgage-backed securities	—	127,547	—	—	127,547
Commercial mortgage-backed securities	—	1,837	—	—	1,837
Loans	—	124,050	47,228	—	171,278
Derivatives	241,860	240,866	2,346	(425,520)	59,552
Total financial instruments sold, not yet purchased	$5,665,700	$ 3,820,007	$ 49,612	$(425,520)	$ 9,109,799
Obligation to return securities received as collateral	$ 48,616	$ —	$ —	$ —	$ 48,616

(1) There were no significant transfers between Level 1 and Level 2 for the eleven-months ended November 30, 2010.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

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

At November 30, 2011 and November 30, 2010, $-0- million and $85.7 million, respectively, in secured financings, are included within Other liabilities on the Consolidated Statement of Financial Position, are accounted for at fair value and are classified as Level 3 liabilities.

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

Corporate Equity Securities

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

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

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

Corporate Debt Securities

- *Corporate Bonds:* Corporate bonds are measured primarily using pricing service data from external providers and broker quotations, where available, prices observed for recently executed market transactions of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are classified within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

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

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

Collateralized Debt Obligations

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

U.S. Government and Federal Agency Securities

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

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

Municipal Securities

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

Sovereign Obligations

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

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

Residential Mortgage-Backed Securities

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

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

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

Commercial Mortgage-Backed Securities

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

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

Other Asset-Backed Securities

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

Loans and Other Receivables

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

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

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

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

Derivatives

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

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

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

Physical Commodities

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

Investments at Fair Value and Investments in Managed Funds

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

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

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

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

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

(b) This category includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. At November 30, 2011 and November 30, 2010, these investments are currently in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.

(c) This category includes investments in fund of funds that invest in various private equity funds. At November 30, 2011 and November 30, 2010, approximately 95% and 41%, respectively, of the fair value of investments in this category is managed by us and has no redemption provisions. Distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to three years. At November 30, 2011 we requested redemption for investments representing approximately 5% of fair value at November 30, 2011, however we are unable to estimate when these funds will be returned. At November 30, 2010, investments representing approximately 59% of the fair value were approved for redemption and the funds' net asset values were received in the first quarter of 2011.

(d) At November 30, 2011 and November 30, 2010, investments representing approximately 96% and 91% respectively, include investments in equity funds that invest in the equity of various private companies in the energy, technology, internet service and telecommunication service industries including acquired or restructured companies. These investments cannot be redeemed; distributions are received through the liquidation of the underlying assets of the funds and are expected to liquidate in one to ten years. At November 30, 2011, a fund that invests in Croatian companies represents approximately 4% of the total investment in equity funds. At November 30, 2010, funds that invest in Croatian and Vietnamese companies represent approximately 9% of the total investment in equity funds.

(e) This category includes an investment in an open-ended investment company that invests primarily in convertible bonds. This investment is redeemable with 5 days prior written notice.

(f) This category includes an investment in an open-ended investment company that invests in commodity-related equity securities and commodity futures-linked derivative instruments. This investment is redeemable with 7 days prior notice.

(g) Other investments at November 30, 2011 included investments in funds that invest in commodities futures and options contracts. Other Investments at November 30, 2010 included investments in closed-ended funds that invested in Vietnamese equity and debt instruments.

(h) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.

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

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

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

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

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

	Twelve Months Ended November 30, 2011						
	Balance, November 30, 2010	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances, net	Transfers into Level 3	Transfers out of Level 3	Balance, November 30, 2011	Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2011 (1)
Assets:							
Financial instruments owned:							
Corporate equity securities	$ 22,619	$ 4,132	$ (2,271)	$ 816	$(11,807)	$ 13,489	$ 439
Corporate debt securities	73,408	1,048	(31,158)	6,304	(1,462)	48,140	(4,478)
Collateralized debt obligations	31,121	70	44,009	779	(27,991)	47,988	(270)
Municipal securities	472	(10,133)	11,182	5,383	—	6,904	(8,931)
Sovereign obligations	—	12	128	—	—	140	12
Residential mortgage-backed securities	132,359	(16,727)	45,845	35,726	(47,238)	149,965	(31,846)
Commercial mortgage-backed securities	6,004	(9,910)	46,685	9,628	—	52,407	(11,583)
Other asset-backed securities	567	(715)	2,947	1,052	(567)	3,284	(691)
Loans and other receivables	227,596	(356)	(120,544)	3,875	(13,280)	97,291	(3,478)
Investments, at fair value	77,784	6,283	(2,627)	—	(3,114)	78,326	1,036
Investments in managed funds	$131,585	$ 12,030	$ (72,875)	$ —	$ —	$ 70,740	$ 12,030
Liabilities:							
Financial instruments sold, not yet purchased:							
Corporate equity securities	$ 38	$ —	$ —	$ —	$ (38)	$ —	$ —
Corporate debt securities	—	—	74	—	—	74	—
Net derivatives(2)	2,346	6,550	389	—	—	9,285	6,645
Loans	47,228	—	(37,071)	—	—	10,157	—

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

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

Analysis of Level 3 Assets and Liabilities for the Twelve Months Ended November 30, 2011

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

- Non-agency residential mortgage-backed securities and commercial mortgage-backed securities due to a tightening in the historical trading period used for corroborating market data and a greater scrutiny of vendor prices;
- Corporate debt securities due to lack of observable market transactions;
- Municipal securities due to a lack of recent market transactions for certain bonds; and
- Loans and other receivables due to a lower number of contributors comprising vendor quotes to support classification in Level 2 as less market interest likely existed for the specific loans during the period.

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

- Non-agency residential mortgage-backed securities for which market trades were observed in the period for either identical or similar securities or for which vendor prices were corroborated to actual market transactions;
- Collateralized debt obligations and Loans and other receivables due to a greater number of contributors for certain vendor quotes supporting classification into Level 2 as greater market interest likely existed for the specific loans during the period; and
- Corporate equity securities due to announced market transactions or more observable market data on comparable securities used as a benchmark.

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

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

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 eleven months ended November 30, 2010 (in thousands):

	Eleven Months Ended November 30, 2010						
	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	Balance, November 30, 2010	Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2010 (1)
Assets:							
Financial instruments owned:							
Corporate equity securities	$ 43,042	$(17,644)	$ (3,099)	$ 1,272	$ (952)	$ 22,619	$(17,377)
Corporate debt securities	116,648	416	(34,262)	285	(9,679)	73,408	(1,115)
Collateralized debt obligations	9,570	10,291	11,260	—	—	31,121	9,614
U.S. issued municipal securities	420	52	—	—	—	472	52
Sovereign obligations	196	—	—	—	(196)	—	—
Residential mortgage-backed securities	136,496	40,238	(48,812)	11,721	(7,284)	132,359	3,815
Commercial mortgage-backed securities	3,215	15,862	(12,012)	—	(1,061)	6,004	(62)
Other asset-backed securities	110	(175)	632	—	—	567	(205)
Loans and other receivables	506,542	40,464	(178,877)	739	(141,272)	227,596	15,648
Investments at fair value	65,564	18,042	(6,432)	4,039	(3,429)	77,784	13,946
Investments in managed funds	$115,774	$ 961	$ 14,850	$ —	$ —	$131,585	$ 961
Liabilities:							
Financial instruments sold, not yet purchased:							
Corporate equity securities	$ —	$ —	$ —	$ 38	$ —	38	$ —
Net derivatives(2)	3,017	(2,533)	—	—	1,862	2,346	(2,533)
Loans	352,420	232	(210,267)	—	(95,157)	47,228	—

(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 Eleven Months Ended November 30, 2010

During the eleven months ended November 30, 2010, transfers of assets of $18.0 million from Level 2 to Level 3 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 and

- Certain investments at fair value which have little to no transparency in trade activity.

During the eleven months ended November 30, 2010, transfers of assets of $163.9 million from Level 3 to Level 2 are 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.

Transfers of liabilities for the eleven months ended November 30, 2010 from Level 2 to Level 3 were $0.04 million and transfers of liabilities from Level 3 to Level 2 were $93.3 million, which 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 $108.5 million and net gains on Level 3 liabilities were $2.3 million for the eleven months ended November 30, 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.

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

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our investment banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned- derivatives and Financial instruments sold, not yet purchased — derivatives on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities. Such affiliate loans are entered into as part of ongoing, strategic business ventures, are included within Other investments and accounted for on an amortized cost basis. We also have elected the fair value option for certain investments held by subsidiaries that are not registered broker-dealers. Investments at fair value are included in Financial instruments owned. The fair value option was elected for investments held by subsidiaries that are not registered broker-dealers because they are risk managed by us on a fair value basis. We have also elected the fair value option for secured financings that arise in connection with our securitization activities. 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 summary of (losses) due to changes in instrument specific credit risk for loans and other receivables and loan commitments measured at fair value under the fair value option (in thousands):

	Twelve Months Ended November 30, 2011
Financial Instruments Owned:	
Loans and other receivables	$(19,400)
Financial Instruments Sold:	
Loans	$ (1,463)
Loan commitments	$ (4,329)

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

	As of November 30, 2011
Financial Instruments Owned:	
Loans and other receivables(2)	$277,336
Loans greater than 90 days past due(1)(2)	$ 2,253

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

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

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

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 Note 5, Financial Instruments and Note 20, Commitments, Contingencies and Guarantees, for additional disclosures about derivative instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. 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.

The following table presents the fair value and related number of derivative contracts at November 30, 2011 and November 30, 2010 categorized by predominant risk exposure. A majority of the increase in the number of derivative contracts from 2010 to 2011 reflected in the table is due to our acquisition of the Global Commodities Group from Prudential on July 1, 2011. 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):

	November 30, 2011			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	$ 542,221	63,751	$ 636,692	66,027
Foreign exchange contracts	1,009,765	102,578	1,015,900	119,780
Equity contracts	638,228	2,364,390	548,195	2,119,165
Commodity contracts	725,927	434,428	598,166	421,330
Credit contracts	60,756	59	35,718	39
Total	2,976,897	2,965,206	2,834,671	2,726,341
Counterparty/cash-collateral netting	(2,451,004)		(2,585,634)	
Total per Consolidated Statement of Financial Condition	$ 525,893		$ 249,037	

	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
Total	455,880	1,312,276	485,072	1,212,083
Counterparty/cash-collateral netting	(336,612)		(425,520)	
Total per Consolidated Statement of Financial Condition	$ 119,268		$ 59,552	

The following table presents unrealized and realized gains and (losses) on derivative contracts for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in thousands):

	Twelve Months Ended November 30, 2011 Gains (Losses)	Eleven Months Ended November 30, 2010 Gains (Losses)	Twelve Months Ended December 31, 2009 Gains (Losses)
Interest rate contracts	$(204,403)	$(122,898)	$ (11,581)
Foreign exchange contracts	2,243	1,194	663
Equity contracts	(279,488)	(87,084)	(202,091)
Commodity contracts	74,282	15,454	(2,571)
Credit contracts	17,621	(52,049)	3,057
Total	$(389,745)	$(245,383)	$(212,523)

The following tables set forth the remaining contract maturity of the fair value of OTC derivative assets and liabilities as of November 30, 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	$202,723	$ 8,200	$ —	$ (1,152)	$209,771
Credit default swaps	—	12,474	21,793	(1,751)	32,516
Total return swaps	23	—	—	—	23
Foreign currency forwards, swaps and options	163,668	38,919	—	(15,162)	187,425
Fixed income forwards	5,078	—	—	—	5,078
Interest rate swaps and caps	19,572	24,224	109,936	(34,275)	119,457
Total	$391,064	$83,817	$131,729	$(52,340)	554,270
Cross product counterparty netting					(28,036)
Total OTC derivative assets included in Financial instruments owned					$526,234

(1) At November 30, 2011, we held exchange traded derivative assets and other credit enhancements of $124.1 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 November 30, 2011, cash collateral received was $124.4 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.

	OTC derivative liabilities(1)(2)(4)				
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross-Maturity Netting(3)	Total
Commodity swaps, options and forwards	$ 94,255	$ 8,645	$ —	$ (1,152)	$101,748
Equity options	—	5,256	—	—	5,256
Credit default swaps	352	2,053	1,546	(1,751)	2,200
Total return swaps	—	1,004	—	—	1,004
Foreign currency forwards, swaps and options	176,369	36,388	—	(15,162)	197,595
Interest rate swaps and caps	29,321	84,971	138,075	(34,275)	218,092
Total	$300,297	$138,317	$139,621	$(52,340)	525,895
Cross product counterparty netting					(28,036)
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					$497,859

(1) At November 30, 2011, we held exchange traded derivative liabilities and other credit enhancements of $10.2 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 November 30, 2011, cash collateral pledged was $259.1 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 November 30, 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	$267,265
B to BBB	252,484
Lower than B	206
Unrated	6,279
Total	$526,234

(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 November 30, 2011 and November 30, 2010, is $141.2 million and $51.8 million, respectively, for which we have posted collateral of $129.8 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 November 30, 2011 and November 30, 2010, we would have been required to post an additional $19.5 million and $6.5 million, respectively, of collateral to our counterparties.

Note 7. Collateralized Transactions

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We manage our exposure to credit risk associated with these transactions by entering into master netting agreements. We also monitor the fair value of the securities loaned and borrowed on a daily basis and request additional collateral or return of excess collateral, as appropriate.

We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provision allowing the counterparty 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 parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. In many instances, we are permitted by contract or custom to rehypothecate the 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 November 30, 2011 and 2010, the approximate fair value of securities received as collateral by us that may be sold or repledged was approximately $17.9 billion and $20.4 billion, respectively. The fair value of securities received as collateral at November 30, 2011 pertains to our securities financing activities presented on our Consolidated Statement of Financial Condition at November 30, 2011 as follows (in thousands):

Carrying amount:	
Securities purchased under agreements to resell	$ 2,893,043
Securities borrowed	5,169,689
Securities received as collateral	21,862
Total assets on Consolidated Statement of Financial Condition	8,084,594
Netting of securities purchased under agreements to resell	7,498,439(1)
	15,583,033
Fair value of collateral received in excess of contract amount	2,386,921(2)
Fair value of securities received as collateral	$17,969,954

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

(2) Includes collateral received from customers for margin balances unrelated to arrangements for securities purchased under agreements to resell or securities borrowed.

At November 30, 2011 and 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 the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At November 30, 2011 and 2010, $21.9 million and $48.6 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

Additionally, 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

We engage in securitization activities related to mortgage loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities ("SPEs") and act as the placement or structuring agent for the beneficial interests issued to investors by the SPE. A significant portion of our securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. Our securitization vehicles generally meet the criteria of variable interest entities; however we generally do not consolidate our securitization vehicles as we are not considered the primary beneficiary for these vehicles. See Note 9, Variable Interest Entities for further discussion on variable interest entities and our determination of the primary beneficiary.

We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other liabilities. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues prior to securitization. Net underwriting revenues are recognized in connection with the securitization activities.

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

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
Transferred assets	$12,539.6	$11,311.1
Proceeds on new securitizations	$12,611.0	$11,409.7
Net revenues	$ 82.7	$ 65.4
Cash flows received on retained interests	$ 103.6	$ 32.9

Assets received as proceeds in the form of mortgage-backed-securities issued by the securitization vehicles have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies, and Note 5, Financial Instruments. We have no explicit or implicit arrangements to provide additional financial support to these securitization vehicles and have no liabilities related to these securitization vehicles at November 30, 2011 and 2010. Although not obligated, we may make a market in the securities issued by these securitization vehicles in connection with secondary market-making activities. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities subsequently 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.

The following tables summarizes our retained interests in SPEs where we transferred assets and have continuing involvement and received sale accounting treatment.

	As of November 30, 2011	
Securitization Type	**Total Assets**	**Retained Interests**
	(in millions)	
U.S. government agency residential mortgage-backed securities	$7,968.0	$517.9(1)
U.S. government agency commercial mortgage-backed securities	$2,574.3	$ 49.9(1)
Military housing loans	$ 127.4	$ 0.3(2)

(1) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of January 13, 2012, we continue to hold approximately $248.3 million and $27.6 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

(2) Initial fair value of servicing rights received on transferred project loans.

	As of November 30, 2010	
Securitization Type	**Total Assets**	**Retained Interests**
	(in millions)	
U.S. government agency residential mortgage-backed securities	$6,549.5	$684.7(1)
U.S. government agency commercial mortgage-backed securities	$2,005.4	$ 40.4(1)
Military housing loans	$ 107.8	$ 0.1(2)

(1) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of January 13, 2012, we continue to hold approximately $30.2 million and $27.6 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

(2) Represents amortized servicing rights on transferred project loans.

We do not have any derivative contracts executed in connection with these securitization activities. Total assets represent the unpaid principal amount of assets in the securitization vehicles in which we have continued involvement and is presented solely to provide information regarding the size of the securitization and the size of the underlying assets supporting our retained interests, and is not considered representative of the risk of potential loss associated with the securitizations.

Assets retained in connection with securitization represent the fair value of the securities of one or more tranches of the securitization, including senior and subordinated tranches. Our risk of loss to these securitization vehicles is limited to this fair value amount which is included within total Financial instruments owned — Mortgage- and asset-backed securities on our Consolidated Statement of Financial Condition.

Note 9. Variable Interest Entities

Variable interest entities ("VIEs") are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

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

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

- Purchases of mortgage-backed securities in connection with our trading and secondary market making activities,
- Retained interests held as a result of securitization activities as part of primary market making activities, including the resecuritizations of mortgage-backed securities,
- Servicing of military housing mortgage loans held by VIEs,
- Ownership of debt, equity and partnership interests in Jefferies High Yield Holdings, LLC and related entities,
- Management and performance fees in the Jefferies Umbrella Fund, and
- Loans to and investments in investment fund vehicles.

We have not executed any derivative contracts with VIEs and have not provided any liquidity facilities to VIEs, other than Jefferies Employees Partners IV, LLC, as discussed below.

Consolidated VIEs

The following tables present information about the assets and liabilities of our consolidated VIEs which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of November 30, 2011 and November 30, 2010. 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.

	November 30, 2011			November 30, 2010		
	High Yield	Mortgage- and Asset-backed Securitizations	Other	High Yield	Mortgage- and Asset-backed Securitizations	Other
	(in millions)					
Cash	$ 345.7	$ —	$0.3	$ 202.6	$ —	$ —
Financial instruments owned	693.3	12.2	7.2	889.8	101.4	21.0
Securities borrowed	195.3	—	—	455.8	—	—
Receivable from brokers and dealers	150.6	—	—	195.5	—	—
Other	8.5	—	—	11.6	0.1	—
	$1,393.4	$12.2	$7.5	$1,755.3	$101.5	$21.0
Financial instruments sold, not yet purchased	$ 326.2	$ —	$ —	$ 602.6	$ —	$ —
Payable to brokers and dealers	105.2	—	—	157.1	—	—
Mandatorily redeemable interests(1)	943.4	—	—	960.2	—	—
Promissory note(2)	—	—	4.2	—	—	4.4
Secured financing(3)	—	12.2	—	—	101.4	—
Other	20.7	—	0.2	36.3	0.1	—
	$1,395.5	$12.2	$4.4	$1,756.2	$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 was approximately $310.5 million and $315.9 million at November 30, 2011 and November 30, 2010, respectively. These amounts represent the portion of the mandatorily redeemable preferred interests held by our joint venture partner.

(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. Approximately $8.4 million and $15.7 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at November 30, 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 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. We have determined that JHYH, JSOP and JESOP meet the definition of a variable interest entity. We are the primary beneficiary of JHYH, JSOP and JESOP and accordingly consolidate JHYH (and the assets, liabilities and results of operations of its wholly owned subsidiaries JHYT, JHYF and JLCP), JSOP and JESOP.

At November 30, 2011 and November 30, 2010, the carrying amount of our variable interests was $322.0 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 securities issued by the securitization vehicle. Our variable interests in this vehicle consist of the securities and a contractual servicing fee. The asset of this VIE consists of a project loan, which is available for the benefit of the vehicles' beneficial interest holders. The creditors of this VIE do not have recourse to our general credit.

During the year, we sold beneficial interests in a military housing 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 the military housing securitization vehicle during the year.

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.

Nonconsolidated VIEs

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 twelve months ended November 30, 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 November 30, 2011 and November 30, 2010.

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

	November 30, 2011		
	Variable Interests		
	Financial Statement Carrying Amount	Maximum exposure to loss	VIE Assets
	(in millions)		
Collateralized loan obligations	$ 48.2(2)	$ 48.2(4)	$ 1,768.4
Agency mortgage- and asset-backed securitizations(1)	1,410.9(2)	1,410.9(4)	6,523.0
Non-agency mortgage- and asset-backed securitizations(1)	583.9(2)	583.9(4)	41,939.4
Asset management vehicle	2.8(3)	2.8(4)	903.9
Private equity vehicles	64.5(3)	131.3	84.2
Total	$2,110.3	$2,177.1	$51,218.9

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2011 and represent the underlying assets that provide the cash flows supporting our variable interests.

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

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

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

Mortgage- and Asset-Backed Vehicles. In connection with our trading and market making activities, we buy and sell mortgage- and asset backed securities. Mortgage- and asset backed securities issued by securitization entities are generally considered variable interests in VIEs. A substantial portion of our variable interests in mortgage- and asset-backed VIEs are sponsored by unrelated third parties. The variable interests consist entirely of mortgage- and asset-backed securities and are accounted for at fair value and included Financial instruments owned on our Consolidated Statements of Financial Condition. In addition to the agency mortgage- and asset backed securities of $1,410.9 million and non-agency mortgage- and asset-backed securities of $583.9 million at November 30, 2011 presented in the above table, we owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with our secondary market making activities and our securitization activities. Total securities issued by securitization SPEs at November 30, 2011 consist of the following (in millions):

	Nonagency	Agency	Total
Variable interests in collateralized loan obligations	$ 48.2	$ —	$ 48.2
Variable interests in agency mortgage- and asset backed	—	1,410.9	1,410.9
Variable interests in nonagency mortgage- and asset backed	583.9	—	583.9
Additional securities in connection with trading and market Residential mortgage-backed securities	67.9	1,256.7	1,324.6
Commercial mortgage-backed securities	7.0	526.1	533.1
Collateralized debt obligations	8.8	—	8.8
Other asset-backed securities	13.8	—	13.8
Total mortgage- and asset-backed securities on the Consolidated Statement of Financial Condition	$729.6	$3,193.7	$3,923.3

	November 30, 2010		
	Financial Statement Carrying Amount	Maximum exposure to loss	VIE Assets
Collateralized loan obligations	$ 35.3(2)	$ 35.3(4)	$ 1,937.8
Agency mortgage- and asset-backed securitizations(1)	1,840.9(2)	1,840.9(4)	7,464.8
Non-agency mortgage- and asset-backed securitizations(1)	852.1(2)	852.1(4)	91,285.1
Asset management vehicle	18.1(3)	18.1(4)	760.4
Private equity vehicles	49.7(3)	131.0	63.9
Total	$2,796.1	$2,877.4	$101,512.0

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

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

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

(4) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which represents our purchased or retained interests.

Collateralized Loan Obligations. We own variable interests in collateralized loan obligations ("CLOs") previously managed by us. These CLOs have assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. We consolidated these CLOs upon the adoption of accounting changes to ASC Topic 810, Consolidation, on January 1, 2010. 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 carrying amount of the debt securities was $14.1 million and $8.8 million at November 30, 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. Our exposure to loss is limited to our investments in the debt securities.

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

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 November 30, 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. The carrying amount of our equity investment was $17.4 million and $9.1 million at November 30, 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. The carrying amount of our equity investment was $2.8 million and $1.8 million at November 30, 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 November 30, 2011 and November 30, 2010, we funded approximately $44.3 million and $38.8 million, respectively, of the aggregate principal balance, which is included in Loans to and investments in related parties. Our exposure to loss is limited to our equity investment and the aggregate amount of our loan commitment.

Note 10. Equity Method Investments

Investments accounted for under the equity method are included in Loans to and investments in related parties in the Consolidated Statements of Financial Condition. Equity method gains and losses are included in

Other income in the Consolidated Statements of Earnings. Our significant investments accounted for under the equity method are Jefferies Finance, LLC and Jefferies LoanCore LLC.

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 November 30, 2011, we have funded $107.5 million of our aggregate $500.0 million commitment, leaving $392.5 million unfunded.

In addition, on March 1, 2011, we and MassMutual entered into a $1.0 billion Secured Revolving Credit Facility, to be funded equally, to support loan underwritings by JFIN. The Secured Revolving Credit Facility bears interest based 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 November 30, 2011, we have funded $155.0 million of our $500.0 million commitment. During the twelve months ended November 30, 2011, $6.4 million of interest income is included in the Consolidated Statement of Earnings related to the Secured Revolving Credit Facility.

Prior to the $1.0 billion Secured Revolving Credit Facility, we provided a revolving line of credit to JFIN in the amount of $150.0 million, originally scheduled to mature on September 4, 2011. On March 1, 2011 the $500 million revolving line of credit to JFIN was terminated. As of November 30, 2010, our commitment under this revolving line of credit with was $150.0 million and no amounts were funded. During the twelve months ended November 30, 2011, $0.2 million of interest income is included in the Consolidated Statement of Earnings related to the revolving credit line.

The following is a summary of selected financial information for JFIN as of November 30, 2011, November 30, 2010 and December 31, 2009 (in millions):

	November 30, 2011	November 30, 2010	December 31, 2009
Total assets	$1,457.8	$890.4	$944.1
Total liabilities	1,044.3	566.4	691.2
Total equity	413.5	324.0	252.9
Our total equity balance	206.8	162.0	126.4

JFIN's net earnings were $88.3 million, $71.7 million and $67.5 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively.

We 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 $60.8 million and $35.1 million during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010, respectively in Investment banking on the Consolidated Statement of Earnings. In addition, in relation to these transactions we paid fees to JFIN of $21.5 million and $10.8 million during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010, respectively recognized within Business development expenses on the Consolidated Statement of Earnings.

During the twelve months ended November 30, 2011, we purchased participation certificates in loans originated by JFIN of $477.2 million, which were subsequently redeemed in full during the same period. There were no equivalent transactions during the eleven months ended November 30, 2010.

Under a service agreement, we provide JFIN with certain administrative services for which we were reimbursed costs totaling $20.9 million for the twelve months ended November 30, 2011. Receivables from JFIN, included within Other assets on the Consolidated Statements of Financial Condition were $16.6 million and $4.3 million at November 30, 2011 and 2010, respectively.

Jefferies LoanCore LLC

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore LLC ("LoanCore"), a commercial real estate finance company. LoanCore originates commercial real estate loans with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. LoanCore is currently solely capitalized with equity and has aggregate equity commitments of $600.0 million. As of November 30, 2011, we have funded $168.4 million of our $291.0 million equity commitment and have a 48.5% voting interest in LoanCore.

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

	November 30, 2011
Total assets	$761.4
Total liabilities	427.4
Total equity	334.0
Our total equity balance	162.0

LoanCore's net earnings were $2.1 million loss for the period ended November 30, 2011.

Under a service agreement, we provide LoanCore with certain administrative services. We recharged LoanCore $0.3 million for these administrative services during fiscal 2011. At November 30, 2011, $0.3 million was included in Other assets on the Consolidated Statement of Financial Condition relating to receivables from LoanCore.

Note 11. Goodwill and Other Intangible Assets

Goodwill

The following table is a summary of the changes to goodwill for the twelve months ended November 30, 2011 and November 30, 2010 (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
Balance, at beginning of period	$364,964	$364,795
Add: Contingent consideration	825	1,013
Add: Translation adjustments	(215)	(844)
Balance, at end of period	$365,574	$364,964

Contingent consideration recorded during the twelve months ended November 30, 2011 relates to the lapse of certain conditions as specified in the purchase agreements associated with the acquisition of LongAcre Partners in 2007. During the twelve months ended November 30, 2011, a payment of $754,000 for contingent consideration was made to the selling owners of LongAcre Partners, which was previously accrued to goodwill in 2007.

We completed our annual test of goodwill impairment as of June 1, 2011. No goodwill impairment was identified. Due to the volatility in the financial services sector and equity markets in general, the global economic outlook and our common shares trading below book value during the fourth quarter of fiscal 2011, we performed additional testing for goodwill impairment at November 30, 2011, which did not result in any goodwill impairment. The computation of fair value for our Capital Markets reporting unit did not significantly exceed its carrying value. Adverse market or economic events could result in impairment charges in future periods.

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

Intangible Assets

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

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

	November 30, 2010			
	Gross cost	Accumulated amortization	Net carrying amount	Weighted average 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 twelve months ended November 30, 2011 and eleven months ended November 30, 2010 was $1.4 million and $0.7 million, respectively. Amortization expense is included in Other expenses on the Consolidated Statements of Earnings. The estimated future amortization expense for the next five fiscal years are as follows (in thousands):

Fiscal year	Estimated future amortization expense
2012	$2,203
2013	1,243
2014	853
2015	695
2016	695

Mortgage Servicing Rights

In the normal course of business we originate military housing mortgage loans and sell such loans to investors. In connection with these activities we may retain the mortgage servicing rights that entitle us to a future stream of cash flows based on contractual serving fees. Mortgage servicing rights to military housing mortgage loans are accounted for as an intangible asset and included within Other assets in the Consolidated Statements of Financial Condition. The mortgage servicing rights are amortized over the period of the estimated net servicing income, which is reported in Other 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 $4.1 million and $3.5 million during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010, respectively.

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
Balance, beginning of period	$8,263	$8,500
Add: Acquisition	347	87
Less: Amortization	(408)	(324)
Balance, end of period	$8,202	$8,263

We estimate the fair value of these servicing rights was $15.6 million and $16.1 million at November 30, 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 12. 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 November 30, 2011 and 2010. Average daily bank loans for the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010 were $12.0 million and $23.8 million, respectively.

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 contained financial covenants that significantly restricted the ability of the borrowers to pay dividends and make other payments or advances to Jefferies Group, Inc. or our other subsidiaries. On September 16, 2011, the credit facility with Prudential was repaid in full and terminated. The average borrowings under this facility during the period from July 1, 2011 to September 16, 2011 were $195.7 million.

At November 30, 2011, an obligation to deliver long-term debt securities of $52.7 million was reported as Short-term borrowings on the Consolidated Statement of Financial Condition for debt securities sold as part of our U.S. broker-dealer's market making in our long-term debt securities. Refer to Note 13, Long-Term Debt, for further details on market making in our long-term debt securities.

Note 13. Long-Term Debt

Our long-term debt is accounted for on an amortized cost basis. The following summarizes our long-term debt carrying values (including unamortized discounts and premiums) at November 30, 2011 and 2010 (in thousands):

	November 30,	
	2011	2010
Unsecured Long-Term Debt		
7.75% Senior Notes, due 2012 (effective interest rate of 8.08%)(1)	$ 254,926	$ 305,969
5.875% Senior Notes, due 2014 (effective interest rate of 6.00%)	249,298	249,048
3.875% Senior Notes, due 2015 (effective interest rate of 3.92%)	499,187	499,000
5.5% Senior Notes, due 2016 (effective interest rate of 5.57%)	349,045	348,854
5.125% Senior Notes, due 2018 (effective interest rate of 5.18%)	782,598	—
8.5% Senior Notes, due 2019 (effective interest rate of 8.31%)	707,787	708,529
6.875% Senior Notes, due 2021 (effective interest rate of 6.99%)	545,816	545,510
6.45% Senior Debentures, due 2027 (effective interest rate of 6.55%)	346,664	346,544
3.875% Convertible Senior Debentures, due, 2029 (effective interest rate of 7.20%)	280,832	282,577
6.25% Senior Debentures, due 2036 (effective interest rate of 6.37%)	492,773	492,650
	$4,508,926	$3,778,681
Secured Long-Term Debt		
Credit facility, due 2014	100,000	—
	$4,608,926	$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.

During November 2011, we repurchased $50.0 million principal amount of our 7.75% Senior Notes due 2012, resulting in a gain on debt extinguishment of $0.9 million, which was recognized in Other revenues on the Consolidated Statement of Earnings. Additionally, our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases of our debt have been treated as debt extinguishments and sales have been treated as reissuances of debt. As a result, we recognized a gain of $20.2 million as a gain on debt extinguishment reported in Other revenues for the twelve months ended November 30, 2011. Additionally, the balance of Long-term debt was reduced by $23.8 million as a result of this activity. At November 30, 2011, an obligation to deliver long-term debt securities of $52.7 million is outstanding for debt securities sold and accordingly treated as reissuances of debt securities, which are reported as Short-term borrowings on the Consolidated Statement of Financial Condition.

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 26.2251 shares of our common stock (equivalent to a conversion price of approximately $38.13 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 exceed $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, which is being amortized as a reduction in Interest expense of approximately $1.9 million per year over the remaining life of the notes. As of November 30, 2011, approximately $498,000 remained to be amortized.

Secured Long-Term Debt — On August 26, 2011 we entered into a committed senior secured revolving credit facility ("Credit Facility") with a group of commercial banks in Dollars, Euros and Sterling, in aggregate totaling $950.0 million, of which $250.0 million can be borrowed unsecured. Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants 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. At November 30, 2011, U.S. dollar denominated borrowings outstanding under the Credit Facility amounted to $100.0 million and are secured by assets included in the borrowing base amount, as defined in the Credit Facility agreement. There were no non-U.S. dollar borrowings at November 30, 2011. We were in compliance with debt covenants under the Credit Facility at November 30, 2011.

Note 14. Mandatorily Redeemable Convertible Preferred Stock

In February 2006, MassMutual purchased 125,000 shares of our Series A Cumulative Convertible Preferred Stock at a price of $1,000 per share, or $125.0 million in the aggregate, in a private placement. Our Series A Cumulative Convertible Preferred stock has a 3.25% annual, cumulative cash dividend and is currently convertible into 4,110,128 shares of our common stock at an effective conversion price of approximately $30.41 per share. The preferred stock is callable beginning in 2016 at a price of $1,000 per share plus accrued interest and will mature in 2036. As of November 30, 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 15. Noncontrolling Interest and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries

Noncontrolling Interests

Noncontrolling interests represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to us (i.e., minority interests). Noncontrolling interests includes the minority equity holders' proportionate share of the equity of JSOP, JESOP and other consolidated entities. The following table presents noncontrolling interests at November 30, 2011 and 2010 (in thousands):

	November 30, 2011	November 30, 2010
JSOP	$276,800	$282,469
JESOP	31,979	32,645
Other(1)	3,884	17,862
Noncontrolling interests	$312,663	$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 the Consolidated Statements of Financial Condition. Revenues, expenses, net earnings or loss, and other comprehensive income or loss are reported in the consolidated financial statements at the consolidated amounts, which includes amounts 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 twelve months ended November 30, 2011 and eleven months ended November 30, 2010, respectively, because all other comprehensive income or loss is attributed to us.

Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries

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

JHYH are reported in Net revenues and are reflected as Interest on mandatorily redeemable preferred interest of consolidated subsidiaries on our Consolidated Statements of Earnings. The carrying amount of the Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately $310.5 million and $315.9 million at November 30, 2011 and 2010, respectively.

Note 16. Benefit Plans

U.S. 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. Under the plan, benefits to participants are based on years of service and the employee's career average pay. As a minimum, amortization of a net gain or loss included in accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets, Effective December 31, 2005, benefits under the pension plan were frozen. Accordingly, there are no further benefit accruals for future service after December 31, 2005.

Employer Contributions — Our funding policy is to contribute to the plan at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. For the twelve months ended November 30, 2011, we contributed $2.0 million to the plan which is included in Compensation and Benefits on the Consolidated Statement of Earnings. We expect to contribute $2.0 million to the plan in the year ended November 30, 2012.

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	$ 45,535	$ 43,750
Service cost	175	183
Interest cost	2,366	2,233
Actuarial losses	4,630	2,222
Administrative expenses paid	(201)	(154)
Benefits paid	(2,018)	(2,699)
Projected benefit obligation, end of period	$ 50,487	$ 45,535
Change in plan assets		
Fair value of assets, beginning of period	$ 35,086	$ 35,892
Employer contributions	2,000	—
Benefit payments made	(2,018)	(2,699)
Administrative expenses paid	(201)	(154)
Actual return on plan assets	1,590	2,047
Fair value of assets, end of period	$ 36,457	$ 35,086
Funded (deficit) at end of period	$(14,030)	$(10,449)

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

	November 30, 2011	November 30, 2010
Accumulated benefit obligation	$ 50,487	$ 45,535
Projected benefit obligation for service rendered to date	50,487	45,535
Plan assets, at fair value	36,457	35,086
Funded deficit	(14,030)	(10,449)
Unrecognized net loss	18,649	13,925
Prepaid benefit cost	4,619	3,476
Accumulated other comprehensive loss, before taxes	(18,649)	(13,925)
Pension liability	$(14,030)	$(10,449)

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Components of Net Periodic Pension Cost			
Service cost	$ 175	$ 183	$ 200
Interest cost on projected benefit obligation	2,366	2,233	2,586
Expected return on plan assets	(2,578)	(2,382)	(2,417)
Net amortization	894	635	906
Settlement losses(1)	—	—	835
Net periodic pension cost	$ 857	$ 669	$ 2,110

(1) Of the $2.1 million in net periodic pension cost for the twelve months ended December 31, 2009, $0.8 million is due to previously unrecognized losses associated with the projected pension obligation as the cost of all settlements in 2009 for terminated employees exceeded current year interest and service costs.

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Amounts Recognized in Other Comprehensive Income			
Net loss (gain) arising during the period	$5,618	$2,556	$ (271)
Settlements during the period	—	—	(835)
Amortization of net loss	(894)	(635)	(906)
Total recognized in Other Comprehensive Income	$4,724	$1,921	$(2,012)
Net amount recognized in net periodic benefit cost and Other Comprehensive Income	$5,581	$2,590	$ 98

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

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Discount rate	4.75%	5.25%	5.75%
Expected long-term rate of return on plan assets	7.0%	7.5%	7.5%

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost include $18.6 million and $13.9 million as of November 30, 2011 and 2010, respectively. During 2012, we expect to recognize an amortization of net loss of $1.3 million as a component of net periodic benefit cost.

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

2012	$ 2,534
2013	1,460
2014	1,883
2015	1,777
2016	3,741
2017 through 2021	13,097

Plan Assets — The following table presents the fair value of plan assets as of November 30, 2011 and 2010 by level within the fair value hierarchy (in thousands):

	As of November 30, 2011		
	Level 1	Level 2	Total
Plan assets(1):			
Cash and cash equivalents	$ 795	$ —	$ 795
Listed equity securities(2)	17,974	—	17,974
Fixed income securities:			
Corporate debt securities	—	5,969	5,969
Foreign corporate debt securities	—	927	927
U.S. government securities	4,325	—	4,325
Agency mortgage-backed securities	—	3,809	3,809
Commercial mortgage-backed securities	—	2,093	2,093
Asset-backed securities	—	547	547
Other	—	18	18
	$23,094	$13,363	$36,457

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

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

	As of November 30, 2010		
	Level 1	Level 2	Total
Plan assets(1):			
Cash and cash equivalents	$ 539	$ —	$ 539
Listed equity securities(2)	17,804	—	17,804
Fixed income securities:			
Corporate debt securities	—	5,841	5,841
Foreign corporate debt securities	—	1,017	1,017
U.S. government securities	4,607	—	4,607
Agency mortgage-backed securities	—	3,234	3,234
Commercial mortgage-backed securities	—	1,385	1,385
Asset-backed securities	—	582	582
Other	—	77	77
	$22,950	$12,136	$35,086

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

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

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

- Cash equivalents are valued at cost, which approximates fair value and are categorized in Level 1 of the fair value hierarchy;
- Listed equity securities are valued using the quoted prices in active markets for identical assets;
- Fixed income securities:
  - Corporate debt, mortgage- and asset-backed securities and other securities valuations use data readily available to all market participants and use inputs available for substantially the full term of the security. Valuation inputs include benchmark yields, reported trades, broker dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers, reference data, and industry and economic events;
  - U.S. government and agency securities valuations generally include quoted bid prices in active markets for identical or similar assets.

Investment Policies and Strategies — Assets in the plan are invested under guidelines adopted by the Administrative Committee of the Plan. Because the Plan exists to provide a vehicle for funding future benefit obligations, the investment objectives of the portfolio take into account the nature and timing of future plan liabilities. The policy recognizes that the portfolio's long-term investment performance and its ability to meet the plan's overall objectives are dependent on the strategic asset allocation which includes adequate diversification among assets classes.

The target allocation of plan assets for 2012 is approximately 50% equities and 50% fixed income securities. The target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve the plan's investment objective and to minimize any concentration of investment risk. The Administrative Committee evaluates the asset allocation strategy and adjusts the allocation if warranted based upon market conditions and the impact of the investment strategy on future contribution requirements. The expected long-term rate of return assumption is based on an analysis of historical experience of the portfolio and the summation of prospective returns for each asset class in proportion to the fund's current asset allocation.

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

German Pension Plan

In connection with the acquisition of the Global Commodities Group from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the "German Pension Plan") for the benefit of eligible employees of Bache in that territory. As part of purchase accounting, a liability of $21.8 million was recognized on July 1, 2011 as a pension obligation within Accrued expenses and other liabilities. The German Pension Plan has no plan assets and is therefore unfunded, however, the 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 is not a part of plan assets and is included in Financial instruments owned – Investments at fair value in the Consolidated Statement of Financial Condition and have a fair value of $18.9 million at November 30, 2011. We expect to pay to the pension liability of $19.8 million from cash flows available to us under the reinsurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) must be paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

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

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

	Five Months Ended November 30, 2011
Change in Projected Benefit Obligation	
Projected benefit obligation, July 1, 2011	$21,840
Service cost	15
Interest cost	434
Actuarial gain	(414)
Benefits paid	(471)
Currency adjustment	(1,605)
Projected benefit obligation, November 30, 2011	$19,799

	Five Months Ended November 30, 2011
Components of Net Periodic Pension Cost	
Service cost	$ 15
Interest cost on projected benefit obligation	434
Net periodic pension cost	$449

The Accumulated Benefit Obligation at November 30, 2011 is $19.8 million. The amount in accumulated other comprehensive income at November 30, 2011 is a credit of $287,000. The following are assumptions used to determine the actuarial present value of the projected benefit obligation and net periodic pension benefit cost for the five month period ended November 30, 2011:

	Projected benefit obligation	Net periodic pension benefit cost
Discount rate	5.60%	5.30%
Rate of compensation increase	3.00%	3.00%

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

2012	$1,176
2013	1,198
2014	1,271
2015	1,310
2016	1,349
2017 through 2021	6,743

Note 17. 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 $136.0 million, $151.1 million and $126.7 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. The net tax benefit (deficiency) related to share-based compensation plans recognized in additional paid-in capital was $32.2 million, $3.0 million and ($14.6) million during the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, 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 $34.6 million, $2.4 million and $12.4 million related to share-based compensation in cash flows from financing activities for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. Effective for the eleven months 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 $19.7 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. Additionally, we expect to recognize a net tax benefit of $21.4 million related to share-based compensation awards that vested during January through November 2011 in additional paid-in capital during the three month period ending February 29, 2012.

As of November 30, 2011, we had $199.3 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 twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009:

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. For the twelve months ended November 30, 2011, we recognized compensation expense of $64.0 million related to restricted stock and restricted stock units of approximately 6,339,000 and 16,000, respectively, granted as part of our 2011 year end compensation. For the eleven months ended November 30, 2010, we recognized compensation expense of $114.7 million related to restricted stock and restricted stock units of approximately 5,062,000 and 127,000, respectively, granted as part of our 2010 year end compensation. For the twelve months ended December 31, 2009, we recognized compensation expense of $126.5 million related to restricted stock and restricted stock units of approximately 5,384,000 and 215,000, respectively, granted as part of our 2009 year end compensation.

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

In addition to year end compensation awards, we grant restricted stock and 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 $134.1 million, $149.8 million and $125.1 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. Total compensation cost includes year-end compensation and the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

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

	Twelve Months Ended November 30, 2011	Weighted Average Grant Date Fair Value
Restricted stock		
Balance, beginning of period	4,918	$22.82
Grants(1)	12,222	$13.75
Forfeited	(92)	$23.30
Fulfillment of service requirement(1)	(8,016)	$13.23
Balance, end of period(2)	9,032	$19.05

(1) Includes approximately 6.8 million shares of restricted stock granted with no future service requirements during the twelve months ended November 30, 2011. These shares are shown as granted and vested during the period. The weighted average grant date fair value of these shares was approximately $11.60.

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

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

	Twelve Months Ended November 30, 2011		Weighted Average Grant Date Fair Value	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Restricted stock units				
Balance, beginning of period	3,998	24,730	$24.04	$14.74
Grants	1,377	480(1)	$20.97	$18.40
Distribution of underlying shares	—	(6,315)	$ —	$17.00
Forfeited	(15)	(293)	$16.54	$19.07
Fulfillment of service requirement	(392)	392	$20.04	$20.04
Balance, end of period	4,968	18,994	$23.53	$14.12

(1) Includes approximately 441,000 dividend equivalents declared on restricted stock units during the twelve months ended November 30, 2011. The weighted average grant date fair value of these dividend equivalents was approximately $18.42.

The aggregate fair value of restricted stock and restricted stock units granted with a service requirement that vested during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010 was $32.7 million and $11.4 million, respectively. There were no restricted stock and restricted stock units granted with a service requirement that vested during 2009. In addition, we granted restricted stock and restricted stock units with no future service requirements (excluding dividend equivalents) with an aggregate fair value of $79.7 million, $120.2 million and $137.0 million during the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, 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 twelve months ended November 30, 2011 is presented below (amounts in thousands, except per share data):

	Twelve Months Ended November 30, 2011	
	Options	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 twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 was $161,000, $449,000 and $94,000, respectively. Cash received from the exercise of stock options during the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 totaled $95,000, $108,000 and $69,000, respectively. We did not realize a tax benefit related to stock options exercised during the twelve months ended November 30, 2011, and expect to realize a tax benefit of $61,000 related to these exercises during the first quarter 2012. During the twelve months ended November 30, 2011, we realized a tax benefit of $169,000 related to stock option exercises that occurred during the eleven months ended November 30, 2010 (see above for discussion on the timing of certain deductions as a result of our change in year-end). There was no tax benefit related to stock option exercises realized during the eleven months ended November 30, 2010. The tax benefit realized during the twelve months ended December 31, 2009 related stock options exercised was $38,000.

The table below provides additional information related to stock options outstanding at November 30, 2011:

November 30, 2011	Outstanding, Net of Expected Forfeitures	Options Exercisable
	Dollars and shares in thousands, except per share data	
Number of options	14	14
Weighted-average exercise price	11.44	11.44
Aggregate intrinsic value	0	0
Weighted-average remaining contractual term, in years	0.86	0.86

At November 30, 2011, we do not expect to recognize a tax benefits in equity upon exercise of vested options.

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 $1.6 million, $1.2 million and $1.0 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively.

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, 2010 and 2009, 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 $0.3 million, $0.1 million and $0.6 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. As of November 30, 2011, there were approximately 2,417,000 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 twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009.

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 $6.0 million, $5.0 million and $4.5 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, 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 November 30, 2011 and November 30, 2010, the remaining unamortized amount of these awards was $211.4 million and $104.1 million, respectively. In addition, as part of 2011 year end compensation, deferred cash awards were granted that will be disbursed and amortized subsequent to November 30, 2011.

Note 18. 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 twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in thousands, except per share amounts):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Earnings for basic earnings per common share:			
Net earnings	$286,368	$240,267	$311,819
Net earnings to noncontrolling interests	1,750	16,601	36,537
Net earnings to common shareholders	284,618	223,666	275,282
Less: Allocation of earnings to participating securities(1)	13,822	8,069	2,272
Net earnings available to common shareholders	$270,796	$215,597	$273,010
Earnings for diluted earnings per common share:			
Net earnings	$286,368	$240,267	$311,819
Net earnings to noncontrolling interests	1,750	16,601	36,537
Net earnings to common shareholders	284,618	223,666	275,282
Add: Convertible preferred stock dividends	4,063	3,724	4,063
Less: Allocation of earnings to participating securities(1)	13,823	8,084	2,260
Net earnings available to common shareholders	$274,858	$219,306	$277,085
Shares:			
Average common shares used in basic computation	211,056	196,393	200,446
Stock options	7	13	21
Mandatorily redeemable convertible preferred stock	4,108	4,105	4,105
Convertible debt	—	—	—
Average common shares used in diluted computation	215,171	200,511	204,572
Earnings per common share:			
Basic	$ 1.28	$ 1.10	$ 1.36
Diluted	$ 1.28	$ 1.09	$ 1.35

(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 10,667,000, 7,285,000 and 1,668,000 for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. Dividends declared on participating securities during the twelve months ended November 30, 2011 and eleven months ended November 30, 2010 amounted to approximately $3.4 million and $2.3 million, respectively. No dividends were declared during 2009. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Restrictions on our present ability to pay dividends on our common stock are the dividend preference terms of our Series A convertible preferred stock, certain financial covenants associated with the $950.0 million Credit Facility as described in Note 13, Long-Term Debt, and the governing provisions of the Delaware General Corporation Law.

Dividends per Common Share (declared):

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

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

Note 19. Income Taxes

Total income taxes for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 were allocated as follows (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Income tax expense	$132,966	$156,404	$195,928
Stockholders' equity, for compensation expense for tax purposes (in excess of)/ less than amounts recognized for financial reporting purposes	(32,200)	(2,965)	14,606
	$100,766	$153,439	$210,534

Income tax expense (benefit) for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 consists of the following (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Current:			
Federal	$ 65,702	$123,352	$128,506
State and local	28,644	36,379	34,191
Foreign	8,443	(7,716)	23,084
	102,789	152,015	185,781
Deferred:			
Federal	7,637	(15,275)	17,032
State and local	(694)	388	8,018
Foreign	23,234	19,276	(14,903)
	30,177	4,389	10,147
	$132,966	$156,404	$195,928

Income taxes differed from the amounts computed by applying the Federal statutory income tax rate of 35% for 2011, 2010 and 2009 as a result of the following (in thousands):

	Twelve Months Ended November 30, 2011		Eleven Months Ended November 30, 2010		Twelve Months Ended December 31, 2009	
	Amount	Percent	Amount	Percent	Amount	Percent
Computed expected income taxes	$146,767	35.0%	$138,835	35.0%	$177,711	35.0%
Increase (decrease) in income taxes resulting from:						
State and city income taxes, net of Federal income tax benefit	18,168	4.3	23,899	6.0	27,436	5.4
Bargain purchase gain on the acquisition of the Global Commodities Group	(18,363)	(4.4)	—	—	—	—
Noncontrolling interest, not subject to tax	(613)	(0.1)	(5,810)	(1.5)	(12,788)	(2.5)
Foreign income	(11,736)	(2.8)	525	0.1	388	0.1
Other, net	(1,257)	(0.3)	(1,045)	(0.2)	3,181	0.6
Total income taxes	$132,966	31.7%	$156,404	39.4%	$195,928	38.6%

The following table presents a reconciliation of gross unrecognized tax benefits for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Balance at beginning of period	$52,852	$24,153	$13,485
Increases based on tax positions related to the current period	14,159	22,198	10,769
Increases based on tax positions related to prior periods	14,696	6,753	1,136
Decreases based on tax positions related to prior periods	(1,808)	(252)	—
Decreases related to settlements with taxing authorities	(120)	—	(969)
Decreases related to a lapse of applicable statute of limitations	—	—	(268)
Balance at end of period	$79,779	$52,852	$24,153

The total amount of unrecognized benefits that, if recognized, would affect the effective tax rate was $52.3 million, $34.3 million and $15.7 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. Interest related to income tax liabilities is recognized in Interest expense. Penalties, if any, are recognized in Other expenses. Net, interest expense related to income tax liabilities was $4.4 million, $2.0 million, and $0.7 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively. In addition to the liability for unrecognized tax benefits, we had interest accrued of approximately $10.8 million, $6.4 million and $4.4 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions. We do not expect that resolution of these examinations will have a material effect on our consolidated financial position, but could have a material impact on the consolidated results of operations for the period in which resolution occurs. It is reasonably possible that, within the next twelve months, various tax examinations will be concluded and statutes of limitation will expire. These events could have the combined effect of reducing the November 30, 2011 balance of unrecognized tax benefits by $22.5 million, whether resolution results in payment or recognition. It is also reasonably possible that the balance of unrecognized tax benefits could increase significantly during the next twelve months for tax positions related to that period.

We are subject to U.S. Federal income tax as well as income tax in multiple state and foreign jurisdictions. 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
California	2004
Connecticut	2000
Massachusetts	2006
New Jersey	2007
New York State	2001
New York City	2003

The cumulative tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at November 30, 2011 and 2010 are presented below (in thousands):

	November 30,	
	2011	2010
Deferred tax assets:		
Compensation	$390,831	$386,702
Net operating loss	12,384	19,074
Other	31,732	34,707
Sub-total	434,947	440,483
Valuation allowance	(11,950)	(8,326)
Total deferred tax assets	422,997	432,157
Deferred tax liabilities:		
Long-term debt	31,727	30,889
Amortization of intangibles	52,623	45,663
Other	27,575	16,759
Total deferred tax liabilities	111,925	93,311
Net deferred tax asset, included in other assets	$311,072	$338,846

A valuation allowance of $12.0 million and $8.3 million was recorded at November 30, 2011 and 2010, respectively, and represents the portion of our deferred tax assets for which it is more likely than not that the benefit of such items will not be realized. Such valuation allowances increased by approximately $3.7 million for the twelve months ended November 30, 2011. We believe that the realization of the net deferred tax asset of $311.0 million is more likely than not based on expectations of future taxable income in the jurisdictions in which we operate.

At November 30, 2011, we had loss carryforwards in Japan and the United Kingdom of approximately $23.1 million. The Japanese losses begin to expire in the year 2013 while the United Kingdom losses have an unlimited carryforward period. The deferred tax assets related to these losses have been fully offset by a valuation allowance.

There is a current tax receivable (net) of $68.9 million and a current tax payable of $25.5 million at November 30, 2011 and 2010, respectively.

At November 30, 2011, we had approximately $85.3 million of earnings attributable to foreign subsidiaries for which no U.S. Federal income tax provision has been recorded because these earnings are permanently invested abroad. It is not practicable to determine the amount of U.S. income tax that would be due if all foreign earnings were repatriated.

Note 20. Commitments, Contingencies and Guarantees

Commitments

The following table summarizes our commitments associated with our capital market and asset management business activities at November 30, 2011 (in millions):

	Expected Maturity Date					
	2012	2013	2014 and 2015	2016 and 2017	2018 and Later	Maximum Payout
Equity commitments	$ 0.7	$ 1.3	$ 8.4	$ —	$585.1	$ 595.5
Loan commitments	44.7	76.7	418.3	19.9	42.8	602.4
Mortgage-related commitments	437.6	—	990.2	—	—	1,427.8
Forward starting repos	424.3	—	—	—	—	424.3
	$907.3	$78.0	$1,416.9	$19.9	$627.9	$3,050.0

The table below presents our credit exposure from our lending commitments, including funded amounts, summarized by period of expiration as of November 30, 2011. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	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	$ 0.5	$ 29.5
BBB	15.0	42.2	—	57.2	3.8	53.4
Non-investment grade	32.6	69.6	40.0	142.2	27.4	114.8
Unrated	—	638.6	—	638.6	233.9	404.7
Total	$57.6	$750.4	$60.0	$868.0	$265.6	$602.4

(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 $265.6 million of funded loans included in Financial instruments owned — Loans and a $4.8 million credit related to lending commitments recorded in Financial instruments sold — Derivatives in the Consolidated Statement of Financial Condition as of November 30, 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. At November 30, 2010, the total committed equity capital of JFIN was $500.0 million, to be funded equally by each partner. On March 1, 2011, we and MassMutual increased our equity commitments to JFIN, with an incremental $250.0 million to be committed by each partner. As of November 30, 2011, we have funded $107.5 million of our aggregate $500.0 million commitment leaving $392.5 million unfunded.

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation to form LoanCore, a commercial real estate finance company with $600.0 million in initial equity commitments. As of November 30, 2011, we have funded $168.4 million of our $291.0 million equity commitment in LoanCore.

At November 30, 2011, we have committed to invest $5.9 million in Jefferies Capital Partners LLC, the manager of Jefferies Capital Partners V L.P., Jefferies Capital Partners IV L.P. and the USA Fund. As of November 30, 2011, we have funded approximately $1.0 million of our commitment to Jefferies Capital Partners LLC.

We have committed to invest in aggregate 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 November 30, 2011, we have funded approximately $17.9 million of our 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 November 30, 2011, we have funded $2.4 million of this commitment.

We have committed to invest up to $45.9 million in Jefferies Capital Partners IV L.P.. As of November 30, 2011, we have funded approximately $41.4 million of this commitment. We have also committed to invest up to $3.1 million in JCP IV LLC, the General Partner, of Jefferies Capital Partners IV L.P. As of November 30, 2011, we have funded approximately $2.1 million of this commitment.

As of November 30, 2011, we had other equity commitments to invest up to $5.0 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 November 30, 2011, we had $247.8 million of loan commitments outstanding to clients. The fair value of loan commitments recorded as derivatives in the Consolidated Statement of Financial Condition was a liability of $4.8 million at November 30, 2011.

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 November 30, 2011, we have funded $155.0 million of the aggregate principal balance and $345.0 million of our commitment remained unfunded.

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 November 30, 2011, we funded approximately $44.3 million of the aggregate principal balance, which is included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition and $9.7 million of our commitment remained unfunded.

The unfunded loan commitments to JFIN and Jefferies Employee Partners IV, LLC of $354.7 million are unrated and are included in the total unrated lending commitments of $404.7 million presented in the table above.

Mortgage-Related Commitments. We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statement of Financial Condition was $77.1 million at November 30, 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.

Leases. As lessee, we lease certain premises and equipment under noncancelable agreements expiring at various dates through 2022 which are operating leases. At November 30, 2011, future minimum aggregate lease payments for all noncancelable operating leases for fiscal years ended November 30, 2012 through 2016 and the aggregate amount thereafter, are as follows (in thousands):

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

Rental expense, net of subleases, amounted to $44.3 million, $36.2 million and $44.6 million for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and the twelve months ended December 31, 2009, respectively.

Guarantees

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

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at November 30, 2011 (in millions).

	Expected Maturity Date					
Guarantee Type	2012	2013	2014 and 2015	2016 and 2017	2018 and Later	Notional/ Maximum Payout
Derivative contracts — non-credit related	$32,826.7	$1,154.7	$47,140.2	$ —	$ —	$81,121.6
Derivative contracts — credit related	—	—	5.0	270.3	40.0	315.3
Total derivative contracts	$32,826.7	$1,154.7	$47,145.2	$270.3	$40.0	$81,436.9

At November 30, 2011 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating					
	AAA/ Aaa	AA/ Aa	A	Below Investment Grade	Unrated	Notional/ Maximum Payout
Credit related derivative contracts:						
Index credit default swaps	$20.0	$10.0	$235.0	$10.0	$40.3	$315.3

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or "one-sided" component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At November 30, 2011, the fair value of derivative contracts meeting the definition of a guarantee is approximately $128.2 million.

Other Guarantees. We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote.

Note 21. Net Capital Requirements

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"), Jefferies, Jefferies Execution and Jefferies High Yield Trading are subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. Jefferies, Jefferies Execution and Jefferies High Yield Trading have elected to use the alternative method permitted by Rule 15c3-1. Jefferies Bache Securities, LLC (formerly Prudential Bache Securities LLC) merged with Jefferies and withdrew its registration with the SEC during the twelve months ended November 30, 2011. Jefferies and Jefferies Bache, LLC are also registered as Futures Commission Merchants and subject to Rule 1.17 of the Commodities Futures Trading Commission ("CFTC"). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

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

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

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies

Bache Limited (formerly Bache Commodities Limited) which are subject to the regulatory supervision and requirements of the Financial Services Authority in the United Kingdom.

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

Note 22. 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 and reporting unit that provides the sales, trading and origination support for various fixed income, equity and advisory products and services. The Asset Management segment provides investment management services to investors in the U.S. and overseas.

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

- Net revenues and expenses directly associated with each reportable business segment are included in determining earnings before taxes.
- Net revenues and expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment's net revenues, headcount and other factors.
- Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment's capital utilization.

Our net revenues and expenses by segment are summarized below for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in millions):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Capital Markets:			
Net revenues	$2,502.6	$2,175.5	$2,127.4
Expenses	$2,095.0	$1,751.4	$1,587.5
Asset Management:			
Net revenues	$ 46.2	$ 16.8	$ 35.9
Expenses	$ 30.9	$ 29.3	$ 30.8
Total:			
Net revenues	$2,548.8	$2,192.3	$2,163.3
Expenses	$2,125.9	$1,780.7	$1,618.3

Our total assets by segment are summarized below as of November 30, 2011 and 2010 and December 31, 2009 (in millions):

	November 30, 2011	November 30, 2010	December 31, 2009
Segment Assets:			
Capital Markets	$34,946.1	$36,510.5	$27,947.3
Asset Management	25.4	216.0	173.7
Total assets	$34,971.4	$36,726.5	$28,121.0

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 twelve months ended November 30, 2011, eleven months ended November 30, 2010 and twelve months ended December 31, 2009 (in thousands):

	Twelve Months Ended November 30, 2011	Eleven Months Ended November 30, 2010	Twelve Months Ended December 31, 2009
Americas(1)	$2,027,887	$1,882,764	$1,895,479
Europe(2)	494,917	300,405	266,440
Asia (including Middle East)	26,009	9,081	1,342
Net revenues	$2,548,813	$2,192,250	$2,163,261

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

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

Note 23. Related Party Transactions

Jefferies Capital Partners Related Funds. We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee (“JCP Related Funds”). At November 30, 2011 and 2010, loans to and/ or equity investments in JCP Related Funds were $128.1 million and $104.2 million, respectively. Interest income earned on loans to JCP related funds was $3.1 million and $4.8 million for the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010, respectively. Other income and investment income related to net gains and losses on our investment in JCP Related Funds was $9.2 million gain and $0.3 million loss for the twelve months ended November 30, 2011 and eleven months ended November 30, 2011, respectively. For further information regarding our commitments and funded amounts to JCP Related Funds see Note 20, Commitments, Contingencies and Guarantees.

Berkadia Commercial Mortgage, LLC. At November 30, 2011, we have commitments to purchase $272.7 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Officers, Directors and Employees. At November 30, 2011 and November 30, 2010, we had $59.2 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. At November 30, 2011 and 2010, receivables from officers and directors included within Customer receivables was $0.0 and $9.1 million, respectively, which represents standard margin loan balances arising from individual security transactions. Historically, employees, officers and directors could maintain brokerage accounts with us and such accounts were subject to the same terms and conditions as customer transactions. During 2011, these accounts were transferred to a third-party broker and we no longer maintain brokerage accounts for our employees, officers or directors.

During the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010, we received commissions and commission equivalents for conducting brokerage services on behalf of Leucadia and its affiliates of $7,198,000 and $17,000, respectively. These revenues are recorded in Commission income on the Consolidated statements of earnings. During the twelve months ended November 30, 2011, we distributed to Leucadia approximately $9.0 million related to earnings associated with their investment in our high yield joint venture.

For information on transactions with our equity method investees, see Note 10, Equity Method Investments.

Note 24. Selected Quarterly Financial Data (Unaudited)

The following is a summary of unaudited quarterly statements of earnings for the twelve months ended November 30, 2011 and the eleven months ended November 30, 2010 (in thousands, except per share amounts):

	Three Months Ended			
	February 28, 2011	May 31, 2011	August 31, 2011	November 30, 2011
Total revenues	$966,676	$970,117	$794,104	$798,740
Net revenues	758,382	727,165	509,282	533,983
Earnings before income taxes	162,931	130,484	55,238	70,680
Earnings to common shareholders	87,341	80,616	68,275	48,386
Earnings per common share:				
Basic	$ 0.42	$ 0.36	$ 0.30	$ 0.21
Diluted	$ 0.42	$ 0.36	$ 0.30	$ 0.21

	Three Months Ended			
	March 31, 2010(1)(2)	May 31, 2010(1)(2)	August 31, 2010(2)	November 30, 2010
Total revenues	$725,368	$832,040	$693,030	$851,913
Net revenues	580,055	667,536	517,269	679,812
Earnings before income taxes	122,456	143,680	76,498	123,578
Earnings to common shareholders	72,144	83,826	44,754	62,717
Earnings per common share:				
Basic	$ 0.35	$ 0.41	$ 0.22	$ 0.31
Diluted	$ 0.35	$ 0.41	$ 0.22	$ 0.31

(1) The three months ended March 31, 2010 and May 31, 2010 both include the Total revenues and earnings for the month ended March 31, 2010.

(2) As reported in Transition Report on Form 10-K for the eleven months ended November 30, 2010, adjustments were made to amounts presented for the quarters of 2010 and 2009 relating to differences between our records and the final statement of our clearing bank involving a portion of our fixed income business that we are now self-clearing. The fourth quarter of 2010 includes $13.8 million relating to a difference between our records and the final statement of our clearing bank the cause and period of origin remained unidentified; the amount was written off as a reduction in Principal revenue in the fourth quarter of 2010. The adjustments to Net earnings, on an after tax basis, to that previously reported for the quarters in 2010 are set forth below:

Increase (decrease) in Net earnings to common shareholders	Three Months Ended March 31, 2010	May 31, 2010	August 31, 2010
		(in thousands)	
Previously reported Net earnings to common shareholders	$74,066	$84,832	$46,256
Differences with clearing bank	(1,288)	(766)	(1,738)
Other items(1)	(634)	(240)	236
Total adjustments	(1,922)	(1,006)	(1,502)
Adjusted Net earnings to common shareholders	$72,144	$83,826	$44,754

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

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

None

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

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of November 30, 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 fourth quarter on our fiscal year ended November 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Our Chief Executive Officer and Chief Financial Officer filed with the SEC as exhibits to our Form 10-K for the year ended November 30, 2010 and are filing as exhibits to this Form 10-K, the certifications required by Rules 13a-14(a)/15d-14(a) and 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934.

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

None

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance.***

Information with respect to this item will be contained in the Proxy Statement for the 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

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

Information with respect to this item will be contained in the Proxy Statement for the 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information with respect to this item will be contained in the Proxy Statement for the 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Information with respect to this item will be contained in the Proxy Statement for the 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services.***

Information with respect to this item will be contained in the Proxy Statement for the 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a)1. *Financial Statements*

(a)2. *Financial Statement Schedules*

All Schedules are omitted because they are not applicable or because the required information is shown in the Consolidated Financial Statements or notes thereto.

(a)3. *Exhibits*

3.1 Registrant's Amended and Restated Certificate of Incorporation is incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on May 26, 2004.

3.2 Registrant's Certificate of Designations of 3.25% Series A Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on February 21, 2006.

3.3 Registrant's By-Laws as amended and restated on December 3, 2007 are incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on December 4, 2007.

4 Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.

10.1 Jefferies Group, Inc. 2003 Incentive Compensation Plan, as Amended and Restated as of May 19, 2008 is incorporated herein by reference to Appendix 1 of Registrant's proxy statement filed on April 16, 2008.

10.2 Jefferies Group, Inc. Deferred Compensation Plan, as Amended and Restated as of January 1, 2009 is incorporated by reference to Exhibit 10.4 of Registrant's Form 10-K filed on February 27, 2009.

10.3 Jefferies Group, Inc. 1999 Directors' Stock Compensation Plan, as Amended and Restated as of January 1, 2009 is incorporated by reference to Exhibit 10.5 of Registrant's Form 10-K filed on February 27, 2009.

10.4 Summary of the 2011 and 2012 Executive Compensation Program for Messrs. Handler and Friedman is incorporated by reference to Exhibit 10 of Registrant's Form 8-K filed on January 20, 2010.

10.5 Summary of the 2011 Executive Compensation Program for Messrs. Broadbent and Hendrickson is incorporated herein by reference to Exhibit 10.2 of Registrant's Form 10-Q filed on April 6, 2011.

10.6 Agreement between Jefferies Group, Inc. and Michael J. Sharp dated July 12, 2010 is incorporated by reference to Exhibit 10.11 of Registrant's Form 10-K filed on February 2, 2011.

10.7 Purchase Agreement dated April 8, 2011 among Jefferies Group, Inc., Jefferies & Company, Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Natixis Securities North America Inc., BMO Capital Markets Corp., BNY Mellon Capital Markets, LLC, Deutsche Bank Securities Inc., Rabo

Securities USA, Inc., SunTrust Robinson Humphrey, Inc., Keefe, Bruyette & Woods, Inc., BNP Paribas Securities Corp., HSBC Securities (USA) Inc., JMP Securities LLC, Oppenheimer & Co. Inc., U.S. Bancorp Investments, Inc., Rochdale Securities LLC and Sandler O'Neill & Partners, L.P. is incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed on April 13, 2011.

10.8 Underwriting Agreement dated April 8, 2011 among Jefferies Group, Inc., Jefferies & Company, Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Natixis Securities North America Inc., BMO Capital Markets Corp., BNY Mellon Capital Markets, LLC and Rabo Securities USA, Inc. is incorporated herein by reference to Exhibit 10.1 of Registrant's Form 8-K filed on April 13, 2011.

10.9 Stock and Asset Purchase Agreement dated as of April 6, 2011 between Jefferies Group, Inc. and Prudential Financial, Inc. is incorporated herein by reference to Exhibit 2.1 of Registrant's Form 8-K filed on April 7, 2011.

21* List of Subsidiaries.

23.1* Consent of Deloitte & Touche LLP.

23.2* Consent of KPMG LLP.

31.1* Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.

31.2* Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.

32* Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.

101** Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of November 30, 2011 and November 30, 2010; (ii) the Consolidated Statements of Earnings for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009; (iii) the Consolidated Statements of Changes in Stockholders' Equity for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009; (iv) the Consolidated Statements of Comprehensive Income for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009; (v) the Consolidated Statements of Cash Flows for the twelve months ended November 30, 2011, eleven months ended November 30, 2010 and for the twelve months ended December 31, 2009; and (vi) the Notes to Consolidated Financial Statements.

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* Filed herewith.

** Furnished herewith.

Exhibits 10.1 through 10.6 are management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JEFFERIES GROUP, INC.

/s/ RICHARD B. HANDLER

Richard B. Handler
Chairman of the Board of Directors,
Chief Executive Officer

Dated: January 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ RICHARD B. HANDLER Richard B. Handler	Chairman of the Board of Directors, Chief Executive Officer	January 27, 2012
/s/ PEREGRINE C. BROADBENT Peregrine C. Broadbent	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	January 27, 2012
/s/ BRIAN P. FRIEDMAN Brian P. Friedman	Director and Chairman, Executive Committee	January 27, 2012
/s/ W. PATRICK CAMPBELL W. Patrick Campbell	Director	January 26, 2012
/s/ IAN M. CUMMING Ian M. Cumming	Director	January 27, 2012
/s/ RICHARD G. DOOLEY Richard G. Dooley	Director	January 26, 2012
/s/ ROBERT E. JOYAL Robert E. Joyal	Director	January 26, 2012
/s/ MICHAEL T. O'KANE Michael T. O'Kane	Director	January 26, 2012
/s/ JOSEPH S. STEINBERG Joseph S. Steinberg	Director	January 27, 2012

Exhibit 21

Subsidiaries of Jefferies Group, Inc.

(excludes certain subsidiaries pursuant to Item 601 of Regulation S-K)

Name	*Jurisdiction of Incorporation/Organization*
Jefferies & Company, Inc.	Delaware
Jefferies Asset Management, LLC	Delaware
Jefferies Execution Services, Inc.	California
Jefferies Finance, LLC	Delaware
Jefferies Financial Products, LLC	Delaware
Jefferies High Yield Holdings, LLC	Delaware
Jefferies High Yield Trading, LLC	Delaware
Jefferies Bache, LLC	Delaware
Jefferies International Limited	England & Wales
Jefferies International (Holdings) Limited	England & Wales
Jefferies Investment Management Limited	England & Wales
Jefferies Bache Limited	England & Wales
Jefferies Hong Kong Limited	Hong Kong
Jefferies India Private Ltd.	India
Jefferies Japan Ltd.	Japan
Jefferies Switzerland Ltd.	Switzerland
Jefferies Bache (Hong Kong) Limited	Hong Kong

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Jefferies Group, Inc. and subsidiaries ("Jefferies") of our reports dated January 27, 2012 relating to the consolidated financial statements of Jefferies (which report expresses an unqualified opinion) and the effectiveness of Jefferies' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Jefferies for the twelve months ended November 30, 2011.

Filed on Form S-3 and Form S-3ASR:

Debt securities, warrants, preferred stock, depositary shares and/or common stock:

Registration Statement No. 333-81354

Registration Statement No. 333-107032

Registration Statement No. 333-130325

Registration Statement No. 333-160214

Filed on Form S-8:

Registration Statement No. 333-84079 (1999 Incentive Compensation Plan, 1999 Directors' Stock Compensation Plan, Employee Stock Purchase Plan, Supplemental Stock Purchase Plan)

Registration Statement No. 333-107014 (2003 Incentive Compensation Plan, Amended and Restated 1999 Incentive Compensation Plan, Amended and Restated Deferred Compensation Plan)

/s/ Deloitte & Touche LLP
New York, New York
January 27, 2012

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Jefferies Group, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-84079 and 333-107014) on Form S-8, (Nos. 333-81354 and 333-107032) on Form S-3, and (Nos. 333-130325 and 333-160214) on Form S-3ASR of Jefferies Group, Inc. of our report dated February 26, 2010 (February 2, 2011 as to Note 1 of the consolidated financial statements included in the Company's 2010 Transition Report on Form 10-K which describes the effects of correcting the 2009 consolidated financial statements), with respect to the consolidated statements of earnings, changes in stockholders' equity, comprehensive income, and cash flows for the year ended December 31, 2009 of Jefferies Group, Inc., which report appears in the 2011 Annual Report on Form 10-K of Jefferies Group, Inc.

/s/ KPMG LLP

New York, New York
January 27, 2012

Exhibit 31.1

RULE 13a-14(a)/15d-14(a)
CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Peregrine C. Broadbent, certify that:

1. I have reviewed this annual report on Form 10-K of Jefferies Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 27, 2012

By: /s/ Peregrine C. Broadbent

Peregrine C. Broadbent
Chief Financial Officer

Exhibit 31.2

RULE 13a-14(a)/15d-14(a)
CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Richard B. Handler, certify that:

1. I have reviewed this annual report on Form 10-K of Jefferies Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 27, 2012

By: /s/ Richard B. Handler
Richard B. Handler
Chief Executive Officer

Exhibit 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

I, Richard B. Handler, Chief Executive Officer, and I, Peregrine C. Broadbent, Chief Financial Officer, of Jefferies Group, Inc, a Delaware corporation (the "Company"), each hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Company's periodic report on Form 10-K for the year ended November 30, 2011 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

CHIEF EXECUTIVE OFFICER

/s/ Richard B. Handler
Richard B. Handler

Date: January 27, 2012

CHIEF FINANCIAL OFFICER

/s/ Peregrine C. Broadbent
Peregrine C. Broadbent

Date: January 27, 2012

A signed original of this written statement has been provided to Jefferies Group, Inc. and will be retained by Jefferies Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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 February 29, 2012

OR

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

For the transition period from __________ to __________

Commission file number 1-14947

JEFFERIES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4719745**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
520 Madison Avenue, 10th 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. 205,917,515 shares as of the close of business on March 21, 2012.

JEFFERIES GROUP, INC.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

February 29, 2012

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(In thousands)

	February 29, 2012	November 30, 2011
ASSETS		
Cash and cash equivalents	$ 2,589,193	$ 2,393,797
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,636,531	3,344,960
Financial instruments owned, at fair value, including securities pledged of $11,614,619 and $12,452,970 at February 29, 2012 and November 30, 2011, respectively:		
Corporate equity securities	1,486,405	1,235,079
Corporate debt securities	3,087,846	2,868,304
Government, federal agency and other sovereign obligations	5,052,529	7,471,563
Mortgage- and asset-backed securities	3,423,647	3,923,303
Loans and other receivables	427,134	376,146
Derivatives	312,156	525,893
Investments, at fair value	105,719	105,585
Physical commodities	205,112	172,668
Total financial instruments owned, at fair value	14,100,548	16,678,541
Investments in managed funds	73,015	70,740
Loans to and investments in related parties	547,893	594,538
Securities borrowed	5,036,447	5,169,689
Securities purchased under agreements to resell	4,434,611	2,893,043
Securities received as collateral	984	21,862
Receivables:		
Brokers, dealers and clearing organizations	1,720,976	1,235,393
Customers	857,654	1,116,982
Fees, interest and other	206,864	163,092
Premises and equipment	173,446	175,139
Goodwill	365,508	365,574
Other assets	820,070	748,072
Total assets	$34,563,740	$34,971,422

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION — CONTINUED (UNAUDITED)
(In thousands)

	February 29, 2012	November 30, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowing	$ 100,000	$ 52,721
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	1,517,197	1,330,096
Corporate debt securities	1,893,280	1,614,493
Government, federal agency and other sovereign obligations	4,279,673	3,209,713
Mortgage- and asset-backed securities	16,712	50,517
Loans	93,606	151,117
Derivatives	201,245	249,037
Total financial instruments sold, not yet purchased, at fair value	8,001,713	6,604,973
Securities loaned	1,829,111	1,706,308
Securities sold under agreements to repurchase	8,576,917	9,620,663
Obligation to return securities received as collateral	984	21,862
Payables:		
Brokers, dealers and clearing organizations	1,316,673	2,816,877
Customers	5,305,110	4,763,364
Accrued expenses and other liabilities	609,856	803,219
Long-term debt	4,746,077	4,608,926
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries	332,378	310,534
Total liabilities	30,943,819	31,434,447
STOCKHOLDERS' EQUITY		
Common stock, $.0001 par value. Authorized 500,000,000 shares; issued 209,061,653 shares at February 29, 2012 and 197,197,848 shares at November 30, 2011	21	20
Additional paid-in capital	2,253,641	2,207,410
Retained earnings	1,128,120	1,067,858
Less:		
Treasury stock, at cost, 3,242,869 shares at February 29, 2012 and 37,842 shares at November 30, 2011	(49,106)	(486)
Accumulated other comprehensive loss:		
Currency translation adjustments	(34,029)	(39,520)
Additional minimum pension liability	(10,970)	(10,970)
Total accumulated other comprehensive loss	(44,999)	(50,490)
Total common stockholders' equity	3,287,677	3,224,312
Noncontrolling interests	332,244	312,663
Total stockholders' equity	3,619,921	3,536,975
Total liabilities and stockholders' equity	$34,563,740	$34,971,422

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION — CONTINUED (UNAUDITED)
(In thousands)

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

	February 29, 2012	November 30, 2011
Assets		
Cash and cash equivalents	$ 455,673	$ 345,959
Financial instruments owned, at fair value		
Corporate equity securities	83,009	61,670
Corporate debt securities	255,110	326,549
Mortgage- and asset-backed securities	39,457	41,004
Loans and other receivables	274,679	281,416
Derivatives	191	569
Investments, at fair value	1,570	1,570
Total financial instruments owned, at fair value	654,016	712,778
Receivables:		
Brokers, dealers and clearing organizations	82,452	150,592
Fees, interest and other	5,849	7,396
Other assets	304	385
Total assets	1,198,294	1,217,110
Liabilities		
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	7,648	7,122
Corporate debt securities	268,184	200,223
Loans	76,365	117,958
Derivatives	665	935
Total financial instruments sold, not yet purchased, at fair value	352,862	326,238
Payables:		
Brokers, dealers and clearing organizations	79,587	105,165
Accrued expenses and other liabilities	11,376	9,740
Mandatorily redeemable preferred interest of consolidated subsidiaries	332,378	310,534
Total liabilities	$ 776,203	$ 751,677

See accompanying unaudited notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended February 29, 2012	Three Months Ended February 28, 2011
Revenues:		
Commissions	$ 117,499	$ 119,921
Principal transactions	280,835	290,151
Investment banking	285,795	239,059
Asset management fees and investment income from managed funds	5,634	23,868
Interest	274,708	273,216
Other	42,340	20,461
Total revenues	1,006,811	966,676
Interest expense	226,845	208,294
Net revenues	779,966	758,382
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	21,844	16,438
Net revenues, less mandatorily redeemable preferred interest	758,122	741,944
Non-interest expenses:		
Compensation and benefits	446,462	442,892
Floor brokerage and clearing fees	27,838	28,132
Technology and communications	61,450	43,675
Occupancy and equipment rental	22,565	17,979
Business development	22,247	19,938
Professional services	13,693	13,276
Other	14,998	13,121
Total non-interest expenses	609,253	579,013
Earnings before income taxes	148,869	162,931
Income tax expense	52,152	60,886
Net earnings	96,717	102,045
Net earnings to noncontrolling interests	19,581	14,704
Net earnings to common shareholders	$ 77,136	$ 87,341
Earnings per common share:		
Basic	$ 0.33	$ 0.42
Diluted	$ 0.33	$ 0.42
Weighted average common shares:		
Basic	218,049	199,141
Diluted	222,162	203,257

See accompanying unaudited notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended February 29, 2012	Twelve Months Ended November 30, 2011
Common stock, par value $0.0001 per share		
Balance, beginning of period	$ 20	$ 20
Issued	1	2
Retired	—	(2)
Balance, end of period	21	20
Additional paid-in capital		
Balance, beginning of period	2,207,410	2,218,123
Benefit plan share activity(1)	1,791	31,176
Share-based expense, net of forfeitures and claw backs	23,885	134,076
Proceeds from exercise of stock options	—	95
Acquisitions and contingent consideration	—	419
Tax benefit for issuance of share-based awards	19,713	32,200
Equity component of convertible debt, net of tax	(427)	(217)
Dividend equivalents on share-based plans	1,269	8,883
Issuance of treasury stock	—	97,770
Retirement of treasury stock	—	(315,115)
Balance, end of period	2,253,641	2,207,410
Retained earnings		
Balance, beginning of period	1,067,858	850,654
Net earnings to common shareholders	77,136	284,618
Dividends	(16,874)	(67,414)
Balance, end of period	1,128,120	1,067,858
Treasury stock, at cost		
Balance, beginning of period	(486)	(539,530)
Purchases	(47,930)	(152,827)
Returns / forfeitures	(690)	(20,368)
Issued	—	397,122
Retirement of treasury stock	—	315,117
Balance, end of period	(49,106)	(486)
Accumulated other comprehensive loss		
Balance, beginning of period	(50,490)	(51,278)
Currency adjustment	5,491	3,339
Pension adjustment, net of tax	—	(2,551)
Balance, end of period	(44,999)	(50,490)
Total common stockholders' equity	3,287,677	3,224,312
Noncontrolling interests		
Balance, beginning of period	312,663	332,976
Net earnings to noncontrolling interests	19,581	1,750
Contributions	—	1,713
Distributions	—	(22,056)
Deconsolidation of asset management entity	—	(1,720)
Balance, end of period	332,244	312,663
Total stockholders' equity	$3,619,921	$ 3,536,975

(1) Includes grants related to the Incentive Plan, Deferred Compensation Plan, and Directors' Plan.

See accompanying unaudited notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Net earnings to common shareholders	$ 77,136	$ 87,341
Other comprehensive income:		
Currency translation adjustments	5,491	14,512
Total other comprehensive income(1)	5,491	14,512
Comprehensive income	$ 82,627	$ 101,853

(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.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Cash flows from operating activities:		
Net earnings	$ 96,717	$ 102,045
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,693	12,841
Bargain purchase gain	(3,368)	—
Gain on repurchase of long-term debt	(9,898)	—
Fees related to assigned management agreements	(739)	(740)
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	21,844	16,438
Accruals related to various benefit plans and stock issuances, net of forfeitures	24,987	16,230
Increase in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(290,223)	(157,690)
(Increase) decrease in receivables:		
Brokers, dealers and clearing organizations	(482,230)	(1,110,309)
Customers	260,225	(537,179)
Fees, interest and other	(43,498)	(73,977)
Decrease in securities borrowed	135,129	43,413
Decrease (increase) in financial instruments owned	2,591,767	(2,198,779)
Decrease (increase) in loans to and investments in related parties	46,441	(167,169)
Increase in investments in managed funds	(2,275)	(5,142)
Increase in securities purchased under agreements to resell	(1,537,111)	(130,021)
Increase in other assets	(76,800)	(195,096)
(Decrease) increase in payables:		
Brokers, dealers and clearing organizations	(1,501,144)	1,179,043
Customers	538,234	546,704
Increase (decrease) in securities loaned	120,968	(101,186)
Increase in financial instruments sold, not yet purchased	1,387,536	834,651
(Decrease) increase in securities sold under agreements to repurchase	(1,047,485)	1,232,264
Decrease in accrued expenses and other liabilities	(199,438)	(306,560)
Net cash provided by (used in) operating activities	47,332	(1,000,219)
Cash flows from investing activities:		
Net payments on premises and equipment	(11,642)	(14,104)
Cash received from contingent consideration	741	748
Net cash used in investing activities	(10,901)	(13,356)

Continued on next page.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — CONTINUED (UNAUDITED)
(In thousands)

	Three Months Ended	
	February 29, 2012	February 28, 2011
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	$ 29,316	$ 33,763
Proceeds from short-term borrowings	109,513	907,000
Payments on short-term borrowings	(67,007)	(907,000)
Proceeds from secured credit facility	160,000	—
Payments on secured credit facility	(10,000)	—
Payments on repurchase of long-term debt	(1,435)	—
Payments on mandatorily redeemable preferred interest of consolidated subsidiaries	—	(65)
Payments on repurchase of common stock	(47,930)	(37,761)
Payments on dividends	(15,605)	(13,395)
Net proceeds from noncontrolling interest	—	928
Net cash provided by (used in) financing activities	156,852	(16,530)
Effect of foreign currency translation on cash and cash equivalents	2,113	5,440
Net increase (decrease) in cash and cash equivalents	195,396	(1,024,665)
Cash and cash equivalents at beginning of period	2,393,797	2,188,998
Cash and cash equivalents at end of period	$2,589,193	$ 1,164,333
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 214,800	$ 195,739
Income taxes, net of refunds	(1,785)	55,263

See accompanying unaudited notes to consolidated financial statements.

JEFFERIES GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Index

Note 1. Organization and Basis of Presentation

Organization

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

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

On February 1, 2012, we acquired the corporate broking business of Hoare Govett from The Royal Bank of Scotland Group plc (“RBS”). Total cash consideration paid by us to RBS for the acquisition was £1. In addition, RBS agreed to pay us under the terms of the purchase agreement a portion of any retention payments made to certain employees, up to a maximum amount of approximately £1.9 million, which constitutes a reduction of the final purchase price. The business acquired represents the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprises corporate broking advice and services. On July 1, 2011, we acquired Prudential Bache’s Global Commodities Group (“Global Commodities Group” or “Jefferies Bache”) from Prudential Financial Inc. (“Prudential”). The Global Commodities Group 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, Acquisitions for further details.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. 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 U.S. GAAP for complete financial statements and should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2011.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, goodwill 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 meet the definition of a variable interest entity for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. In situations where we have significant influence but not control of an entity that does not qualify as a variable interest entity, we apply the equity method of accounting or fair value accounting. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies. We act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or "kick-out" rights.

Intercompany accounts and transactions are eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

Commissions. All customer securities transactions are reported on the Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Soft dollar expenses amounted to $8.2 million and $10.5 million for the three months ended February 29, 2012 and February 28, 2011, 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, securities pledged and Financial instruments sold, but not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in Principal transactions in the Consolidated Statements of Earnings on a trade date basis.

Investment Banking. Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is otherwise concluded. Out-of-pocket expenses are recorded net of client reimbursements. Revenues are presented net of related out-of-pocket unreimbursed expenses. Unreimbursed out-of-pocket expenses with no related revenues are included in Business development and Professional services expenses in the Consolidated Statements of Earnings.

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

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

Cash Equivalents

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

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

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

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.

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 inputs 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.

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

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

Investments in Managed Funds

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

Loans to and Investments in Related Parties

Loans to and investments in related parties includes investments entered into where we exercise significant influence over operating and capital decisions in private equity and other operating entities in connection with our capital market activities and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other income in the Consolidated Statements of Earnings. See Note 10, Equity Method Investments, for additional information regarding certain of these investments.

Receivable from, and Payable to, Customers

Receivable from and payable to customers includes amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the accompanying consolidated financial statements. Receivable from officers and directors included within this financial statement line item represents balances arising from their individual security transactions. These transactions are subject to the same regulations as customer transactions and are provided on substantially the same terms.

Securities Borrowed and Securities Loaned

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

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

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

Premises and Equipment

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

Goodwill and Intangible Assets

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

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

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

Income Taxes

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

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

Legal Reserves

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

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

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

Share-based Compensation

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

Earnings per Common Share

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

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

Securitization Activities

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

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

Accounting Developments

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

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

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

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

Note 3. Acquisitions

Global Commodities Group

On July 1, 2011, we acquired Prudential Bache's Global Commodities Group from Prudential. Total cash payments made as consideration for the acquisition were $422.0 million. The acquisition included 100% of the equity interests in Prudential Bache Commodities LLC, a US-based full-service futures commission merchant; Prudential Bache Securities LLC, a US-based registered broker dealer, which has since merged with Jefferies; Bache Commodities Limited, a UK-based global commodities and financial derivatives broker; Prudential Bache 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 contracts used by the Global Commodities Group.

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

The fair values of the net assets acquired, including identifiable intangible assets, 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 recognized in July 2011. The business of the Global Commodities Group is included within the Capital Markets business segment.

For further information on the acquisition of the Global Commodities Group see Note 3, Acquisition of the Global Commodities Group to the consolidated financial statements for the year ended November 30, 2011 included in our Annual Report on Form 10-K.

Hoare Govett

On February 1, 2012, we acquired the corporate broking business carried under the name of Hoare Govett from RBS. Total cash consideration paid by us to RBS for the acquisition was £1. In addition, RBS agreed to pay us under the terms of the purchase agreement a portion of any retention payments made to certain employees, up to a maximum amount of approximately £1.9 million, which constitutes a reduction of the final purchase price. The business acquired represents the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprises corporate broking advice and services. The acquisition included the Hoare Govett trade name, domain name, client agreements and exclusive right to carry on the business in succession to RBS. The acquisition of Hoare Govett provides us with the opportunity to continue our growth in corporate broking and significantly expand the capabilities and reach of our established European Investment Banking and Equities businesses.

We accounted for the acquisition under the acquisition method of accounting. Accordingly, the assets acquired, including identifiable intangible assets, and liabilities assumed were recorded at their respective fair values as of the date of acquisition. The fair values of the net assets acquired, including identifiable intangible assets, was approximately $0.3 million, which exceeded the negative purchase price of $3.1 million (cash consideration paid of £1 less remittance from RBS of £1.9 million), resulting in a bargain purchase gain of approximately $3.4 million. The bargain purchase gain is included within Other Revenues in the Consolidated Statement of Earnings and is presented within the Capital Market's business segment. Approximately $0.4 million was recognized at the date of acquisition as the fair value of the Hoare Govett trade name. See Note 11, Goodwill and Other Intangible Assets for further details. The fair value of the intangible asset will be amortized on a straight line basis over a useful life of 5 years. Additionally, we recognized a deferred tax liability of approximately $0.1 million, recorded within Accrued expenses and other liabilities on the Consolidated Statement of Financial Condition.

Our results of operations for the three months ended February 29, 2012 include the results of operations of Hoare Govett for the period from February 1, 2012 to February 29, 2012. There were no material revenues contributed by Hoare Govett for the three months ended February 29, 2012 and net earnings amounted to an immaterial loss, primarily as a result of compensation costs. The effect on our results for the quarters ended February 29, 2012 and February 28, 2011, had the acquisition Hoare Govett been completed on December 1, 2010 is not considered material. The acquisition closed on February 29, 2012.

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

We generally invest our excess cash in money market funds and in other short-term instruments. Cash equivalents include highly liquid investments not held for resale and with original maturities of three months or less. The following are financial instruments, classified as cash and cash equivalents, that are deemed by us to be generally readily convertible into cash as of February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012	November 30, 2011
Cash and cash equivalents:		
Cash in banks	$ 636,452	$ 846,990
Money market investments	1,952,741	1,546,807
Total cash and cash equivalents	$2,589,193	$2,393,797
Cash and securities segregated(1)	$3,636,531	$3,344,960

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

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 February 29, 2012 and November 30, 2011 by level within the fair value hierarchy (in thousands):

	As of February 29, 2012				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$1,353,650	$ 102,486	$ 30,269	$ —	$ 1,486,405
Corporate debt securities	—	3,054,240	33,606	—	3,087,846
Collateralized debt obligations	—	92,437	72,576	—	165,013
U.S. government and federal agency securities	1,733,090	149,347	—	—	1,882,437
Municipal securities	—	550,652	1,176	—	551,828
Sovereign obligations	1,722,093	896,031	140	—	2,618,264
Residential mortgage-backed securities	—	2,773,880	128,751	—	2,902,631
Commercial mortgage-backed securities	—	309,009	35,792	—	344,801
Other asset-backed securities	—	5,813	5,389	—	11,202
Loans and other receivables	—	322,685	104,449	—	427,134
Derivatives	421,790	1,603,348	120	(1,713,102)	312,156
Investments at fair value	—	27,609	78,110	—	105,719
Physical commodities	—	205,112	—	—	205,112
Total financial instruments owned	$5,230,623	$10,092,649	$490,378	$(1,713,102)	$14,100,548
Level 3 financial instruments for which the firm does not bear economic exposure(4)			$ (55,510)		
Level 3 financial instruments for which the firm bears economic exposure			$434,868		
Investments in managed funds	$ —	$ —	$ 73,015	$ —	$ 73,015
Cash and securities segregated and on deposit for regulatory purposes(3)	$ 189,783	$ —	$ —	$ —	$ 189,783
Securities received as collateral	$ 984	$ —	$ —	$ —	$ 984
Total Level 3 assets for which the firm bears economic exposure			$507,883		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$1,485,750	$ 19,936	$ 11,511	$ —	$ 1,517,197
Corporate debt securities	—	1,893,206	74		1,893,280
U.S. government and federal agency securities	1,971,525	—	—	—	1,971,525
Sovereign obligations	1,429,098	879,050	—	—	2,308,148
Residential mortgage-backed securities	—	16,540	—	—	16,540
Commercial mortgage-backed securities	—	172	—	—	172
Loans	—	93,606	—	—	93,606
Derivatives	384,282	1,622,580	8,430	(1,814,047)	201,245
Total financial instruments sold, not yet purchased	$5,270,655	$ 4,525,090	$ 20,015	$(1,814,047)	$ 8,001,713
Obligation to return securities received as collateral	$ 984	$ —	$ —	$ —	$ 984

(1) There were no significant transfers between Level 1 and Level 2 for the three months ended February 29, 2012.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

(3) Consists of U.S. government securities segregated for regulatory purposes and measured at fair value.

(4) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

	As of November 30, 2011				
	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting(2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$1,088,358	$ 133,232	$ 13,489	$ —	$ 1,235,079
Corporate debt securities	1,521	2,818,643	48,140	—	2,868,304
Collateralized debt obligations	—	102,209	47,988	—	150,197
U.S. government and federal agency securities	5,443,721	266,460	—	—	5,710,181
Municipal securities	—	582,497	6,904	—	589,401
Sovereign obligations	737,082	434,759	140	—	1,171,981
Residential mortgage-backed securities	—	2,961,682	149,965	—	3,111,647
Commercial mortgage-backed securities	—	582,974	52,407	—	635,381
Other asset-backed securities	—	22,794	3,284	—	26,078
Loans and other receivables	—	278,855	97,291	—	376,146
Derivatives	632,148	2,344,625	124	(2,451,004)	525,893
Investments at fair value	—	27,259	78,326	—	105,585
Physical commodities	—	172,668	—	—	172,668
Total financial instruments owned	$7,902,830	$10,728,657	$498,058	$(2,451,004)	$16,678,541
Level 3 financial instruments for which the firm does not bear economic exposure(4)			$ (45,901)		
Level 3 financial instruments for which the firm bears economic exposure			$452,157		
Investments in managed funds	$ —	$ —	$ 70,740	$ —	$ 70,740
Cash and securities segregated and on deposit for regulatory purposes(3)	$ 115,000	$ —	$ —	$ —	$ 115,000
Securities received as collateral	$ 21,862	$ —	$ —	$ —	$ 21,862
Total Level 3 assets for which the firm bears economic exposure			$522,897		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$1,266,096	$ 64,000	$ —	$ —	$ 1,330,096
Corporate debt securities	—	1,614,419	74	—	1,614,493
U.S. government and federal agency securities	2,032,091	9,685	—	—	2,041,776
Municipal securities	—	90	—	—	90
Sovereign obligations	790,568	377,279	—	—	1,167,847
Residential mortgage-backed securities	—	50,517	—	—	50,517
Loans	—	140,960	10,157	—	151,117
Derivatives	535,503	2,289,759	9,409	(2,585,634)	249,037
Total financial instruments sold, not yet purchased	$4,624,258	$ 4,546,709	$ 19,640	$(2,585,634)	$ 6,604,973
Obligation to return securities received as collateral	$ 21,862	$ —	$ —	$ —	$ 21,862

(1) There were no significant transfers between Level 1 and Level 2 for the twelve-months ended November 30, 2011.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

(3) Consists of U.S. government securities segregated for regulatory purposes and measured at fair value.

(4) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.

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 within Level 1 of the fair value hierarchy.

- Non-exchange Traded Equity Securities: Non-exchange traded equity securities are measured primarily using broker quotations, pricing 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 within 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 categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

Corporate Debt Securities

- Corporate Bonds: Corporate bonds are measured primarily using pricing 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 using alternative valuation techniques are categorized 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 categorized 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 categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer's subsequent financings or recapitalizations, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

- 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 categorized 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 categorized 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 within Level 1 of the fair value hierarchy.

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

Municipal Securities

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

- *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 categorized within Level 2 of the fair value hierarchy.

Residential Mortgage-Backed Securities

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

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

- *Non-Agency Residential Mortgage-Backed Securities:* Fair values are determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses.

Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields.

Commercial Mortgage-Backed Securities

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

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

Other Asset-Backed Securities

Other asset-backed securities include, but are not limited to, securities backed by auto loans, credit card receivables and student loans and are categorized within Level 2 and Level 3 of the fair value hierarchy. Valuations are determined using pricing data obtained from 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 of the fair value hierarchy, are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.

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

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

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

Derivatives

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

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

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

Physical Commodities

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

Investments at Fair Value and Investments in Managed Funds

Investments at fair value and Investments in managed funds include investments in hedge funds, fund of funds, private equity funds, convertible bond funds and commodity funds, which are measured based on the net asset value of the funds provided by the fund managers and categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our German defined benefits pension plan and shares in non-US exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and are categorized within Level 3 of the fair value hierarchy. Fair value for the shares in non-US exchanges and clearing houses is determined based on recent transactions or third party model valuations and are categorized within Level 2 or Level 3 of the fair value hierarchy. The following tables provide further information about our investments in entities that have the characteristics of an investment company at February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012		
	Fair Value (7)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds(1)	$ 28,009	$ —	Monthly, Quarterly
High Yield Hedge Funds(2)	898	—	—
Fund of Funds(3)	772	126	—
Equity Funds(4)	88,903	65,386	—
Convertible Bond Funds(5)	2,985	—	At Will
Other Investments(6)	20	—	Bi-Monthly
Total(8)	$121,586	$ 65,512	

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

(1) 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 February 29, 2012 and November 30, 2011, investments representing approximately 98%, of the fair value in this category are redeemable with 30 — 65 days prior written notice. At February 29, 2012 and November 30, 2011, investments representing approximately 2%, 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 February 29, 2012 and November 30, 2011, 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.

(2) This category includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. At February 29, 2012 and November 30, 2011, these investments are currently in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.

(3) This category includes investments in fund of funds that invest in various private equity funds. At February 29, 2012 and November 30, 2011, approximately 99% and 95%, 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 two years. At February 29, 2012 and at November 30, 2011, we requested redemption for investments representing approximately 1% and 5% of fair value, respectively, however we are unable to estimate when these funds will be returned.

(4) At February 29, 2012 and November 30, 2011, investments representing approximately 96%, include investments in equity funds that invest in the equity of various private companies in the energy, technology, internet service and telecommunication service industries including acquired or restructured companies. At February 29, 2012 and November 30, 2011, a fund that invests in Croatian companies represents approximately 4% of the total investment in equity funds. 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 eight years.

(5) This category includes an investment in an open-ended investment company that invests primarily in convertible bonds. This investment is redeemable with 5 days prior written notice.

(6) Other investments at February 29, 2012 and November 30, 2011 included investments in funds that invest in commodities futures and options contracts.

(7) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.

(8) Investments at fair value in the Consolidated Statements of Financial Condition at February 29, 2012 and November 30, 2011 include $57.1 million and $55.9 million, respectively, of direct investments which are not investment companies and therefore are not part of this disclosure table.

At February 29, 2012 and November 30, 2011, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation basis as follows:

	February 29, 2012		November 30, 2011	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	7%	14%	7%	19%
Recently observed transaction prices	4%	2%	2%	1%
Data providers/pricing services	78%	81%	77%	75%
Broker quotes	1%	0%	1%	0%
Valuation techniques	10%	3%	13%	5%
	100%	100%	100%	100%

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

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 29, 2012 (in thousands):

	Three Months Ended February 29, 2012(3)							
	Balance, November 30, 2011	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, February 29, 2012	Change in unrealized gains/ (losses) relating to instruments still held at February 29, 2012 (1)
Assets:								
Financial instruments owned:								
Corporate equity securities	$ 13,489	$ 1,684	$ 14,184	$ —	$ —	$ 912	$ 30,269	$ 1,685
Corporate debt securities	48,140	671	271	(22,300)	(1,276)	8,100	33,606	(737)
Collateralized debt obligations	47,988	(796)	—	(14,063)	(3,328)	42,775	72,576	(1,488)
Municipal securities	6,904	(71)	—	(740)	—	(4,917)	1,176	12
Sovereign obligations	140	—	—	—	—	—	140	—
Residential mortgage-backed securities	149,965	(6,492)	10,497	(44,282)	(6,881)	25,944	128,751	(5,995)
Commercial mortgage-backed securities	52,407	(1,655)	—	(3,593)	(44)	(11,323)	35,792	(1,419)
Other asset-backed securities	3,284	(104)	—	(197)	(40)	2,446	5,389	(76)
Loans and other receivables	97,291	1,899	48,309	(21,733)	(25,729)	4,412	104,449	643
Investments, at fair value	78,326	1,378	480	(1,797)	(277)	—	78,110	1,378
Investments in managed funds	70,740	(6,212)	8,499	(12)	—	—	73,015	(6,212)
Liabilities:								
Financial instruments sold, not yet purchased:								
Corporate equity securities	$ —	$ —	$ —	$ 11,511	$ —	$ —	$ 11,511	$ —
Corporate debt securities	74	—	—	—	—	—	74	—
Net derivatives(2)	9,285	1,512	(295)	—	—	(2,192)	8,310	2,736
Loans	10,157	—	(10,157)	—	—	—	—	—

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

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

(3) There were no issuances during the three months ended February 29, 2012.

Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 29, 2012

During the three months ended February 29, 2012, transfers of assets of $109.9 million from Level 2 to Level 3 are attributed to:

- Collateralized debt obligations of $42.8 million which have little to no transparency in trade activity;
- Non-agency residential mortgage-backed securities of $32.5 million, Other asset-backed securities of $4.7 million, and Commercial mortgage-backed securities of $1.5 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of $18.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2 as less market interest likely existed for the specific loans during the period; and
- Corporate debt securities of $8.6 million, Corporate equity securities of $0.9 million, and Municipal securities of $0.5 million due to lack of observable market transactions.

During the three months ended February 29, 2012, transfers of assets of $41.5 million from Level 3 to Level 2 are attributed to:

- Loans and other receivables of $13.9 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2 as greater market interest likely existed for the specific loans during the period;

- Commercial mortgage-backed securities of $12.8 million, Non-agency residential mortgage-backed securities of $6.6 million, and $2.3 million of Other asset-backed securities for which market trades were observed in the period for either identical or similar securities or for which vendor prices were corroborated to actual market transactions; and

- Municipal securities of $5.4 million and Corporate debt securities of $0.5 million due to increased observability of trades in certain bonds.

During the three months ended February 29, 2012 there were no transfers of liabilities from Level 2 to Level 3 and there were $2.2 million transfers of net derivative liabilities from Level 3 to Level 2 due to available broker quotes for the significant inputs used in valuing the derivative contracts.

Net losses on Level 3 assets were $9.7 million and net losses on Level 3 liabilities were $1.5 million for the three months ended February 29, 2012. Net losses on Level 3 assets were primarily due to decreased valuations of certain residential mortgage-backed securities and investments in managed funds. Net losses on Level 3 liabilities were primarily due to decreased valuations of certain derivative instruments.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 28, 2011 (in thousands):

	Three Months Ended February 28, 2011						
	Balance, November 30, 2010	Total gains/ losses (realized and unrealized) (1)	Purchases, sales, settlements, and issuances	Transfers into Level 3	Transfers out of Level 3	Balance, February 28, 2011	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2011 (1)
Assets:							
Financial instruments owned:							
Corporate equity securities	$ 22,619	$ 5,167	$ 6,772	$ —	$ (1,277)	$ 33,281	$ 4,581
Corporate debt securities	73,408	2,283	(293)	106	(520)	74,984	816
Collateralized debt obligations	31,121	10,310	60,299	1,216	—	102,946	10,087
Municipal securities	472	19	308	—	—	799	19
Residential mortgage-backed securities	132,359	16,205	(64,301)	12,886	(40)	97,109	(2,745)
Commercial mortgage-backed securities	6,004	222	2,804	—	(2,729)	6,301	(824)
Other asset-backed securities	567	(215)	617	11,050	(567)	11,452	(469)
Loans and other receivables	227,596	5,974	(17,025)	1,574	(368)	217,751	3,021
Investments at fair value	77,784	108	(7,010)	—	(3,048)	67,834	626
Investments in managed funds	131,585	8,726	(3,584)	—	—	136,727	8,350
Liabilities:							
Financial instruments sold, not yet purchased:							
Corporate equity securities	$ 38	$ —	$ —	$ —	$ —	38	$ —
Net derivatives(2)	2,346	2,611	—	—	—	4,957	2,611
Loans	47,228	—	(29,452)	—	—	17,776	—

(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 February 28, 2011

During the three months ended February 28, 2011, transfers of assets of $26.8 million from Level 2 to Level 3 are primarily attributed to:

- Non-agency residential mortgage-backed securities and other asset-backed securities for which no recent trade activity was observed for purposes of determining observable inputs.

During the three months ended February 28, 2011, transfers of assets of $8.5 million from Level 3 to Level 2 are primarily attributed to:

- Commercial mortgage-backed securities, for which market trades were observed in the period for either identical or similar securities; and

- Corporate equity securities, for which market transactions were announced or market data on comparable securities used as a benchmark became more observable.

During the three months ended February 28, 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 $48.8 million and net losses on Level 3 liabilities were $2.6 million for the three months ended February 28, 2011. Net gains on Level 3 assets were primarily due to increased valuations of various collateralized debt obligations, loans and other receivables and corporate equity securities and sales of certain residential mortgage-backed securities.

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

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our investment banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned- derivatives and Financial instruments sold, not yet purchased — derivatives on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities. Such affiliate loans are entered into as part of ongoing, strategic business ventures, are included within Loans to and investments in related parties and accounted for on an amortized cost basis. We also have elected the fair value option for certain investments held by subsidiaries that are not registered broker-dealers. Investments at fair value are included in Financial instruments owned. The fair value option was elected for investments held by subsidiaries that are not registered broker-dealers because they are risk managed by us on a fair value basis. We have also elected the fair value option for secured financings that arise in connection with our securitization activities. 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 summary of gains and (losses) due to changes in instrument specific credit risk for loans and other receivables and loan commitments measured at fair value under the fair value option (in thousands):

	Three Months Ended February 29, 2012
Financial Instruments Owned:	
Loans and other receivables	$ 7,811
Financial Instruments Sold:	
Loans	$ 226
Loan commitments	$ (654)

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

	February 29, 2012	November 30, 2011
Financial Instruments Owned:		
Loans and other receivables(2)	$ 256,906	$ 277,336
Loans greater than 90 days past due(1)(2)	$ —	$ 2,253

(1) The aggregate fair value of loans that were 90 or more days past due was $0.8 million and $5.5 million at February 29, 2012 and November 30, 2011.

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

There were no loans or other receivables on nonaccrual status at February 29, 2012 and November 30, 2011.

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 Note 5, Financial Instruments and Note 20, Commitments, Contingencies and Guarantees for additional disclosures about derivative instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. 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 firm wide risk management policies. In connection with our derivative activities, we may enter into master netting agreements and collateral arrangements with counterparties. These agreements provide us with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

The following table presents the fair value and related number of derivative contracts at February 29, 2012 and November 30, 2011 categorized by predominant risk exposure. The fair value of assets/liabilities related to derivative contracts represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged (in thousands, except contract amounts):

	February 29, 2012			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	$ 661,432	70,211	$ 761,325	91,670
Foreign exchange contracts	568,890	95,875	509,077	103,197
Equity contracts	430,378	2,290,852	375,577	1,532,515
Commodity contracts	343,201	398,344	346,624	403,997
Credit contracts	21,357	41	22,689	39
Total	2,025,258	2,855,323	2,015,292	2,131,418
Counterparty/cash-collateral netting	(1,713,102)		(1,814,047)	
Total per Consolidated Statement of Financial Condition	$ 312,156		$ 201,245	

	November 30, 2011			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	$ 542,221	63,751	$ 636,692	66,027
Foreign exchange contracts	1,009,765	102,578	1,015,900	119,780
Equity contracts	638,228	2,364,390	548,195	2,119,165
Commodity contracts	725,927	434,428	598,166	421,330
Credit contracts	60,756	59	35,718	39
Total	2,976,897	2,965,206	2,834,671	2,726,341
Counterparty/cash-collateral netting	(2,451,004)		(2,585,634)	
Total per Consolidated Statement of Financial Condition	$ 525,893		$ 249,037	

The following table presents unrealized and realized gains and (losses) on derivative contracts for the three months ended February 29, 2012 and February 28, 2011 (in thousands):

	Three Months Ended	
	February 29, 2012 Gains (Losses)	February 28, 2011 Gains (Losses)
Interest rate contracts	$ (16,235)	$ 6,808
Foreign exchange contracts	1,161	(5,025)
Equity contracts	(30,112)	(60,917)
Commodity contracts	20,680	20,531
Credit contracts	(15,227)	(2,441)
Total	$ (39,733)	$ (41,044)

The following tables set forth the remaining contract maturity of the fair value of OTC derivative assets and liabilities as of February 29, 2012 (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	$ 66,715	$ 3,098	$ —	$ (524)	$ 69,289
Credit default swaps	—	9,300	7,155	(386)	16,069
Equity swaps and options	1,357	—	—	—	1,357
Total return swaps	473	—	152	—	625
Foreign currency forwards, swaps and options	168,188	34,270	—	(480)	201,978
Fixed income forwards	2,261	—	—	—	2,261
Interest rate swaps and options	14,838	31,688	127,825	(44,217)	130,134
Total	$ 253,832	$78,356	$ 135,132	$ (45,607)	421,713
Cross product counterparty netting					(18,033)
Total OTC derivative assets included in Financial instruments owned					$403,680

(1) At February 29, 2012, we held exchange traded derivative assets and other credit enhancements of $69.0 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 February 29, 2012, cash collateral received was $160.5 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.

	OTC derivative liabilities(1)(2)(4)				
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross-Maturity Netting(3)	Total
Commodity swaps, options and forwards	$ 63,984	$ 5,630	$ —	$ (524)	$ 69,090
Equity swaps and options	307	7,372	—	—	7,679
Credit default swaps	386	5,627	9,502	(386)	15,129
Total return swaps	571	—	—	—	571
Foreign currency forwards, swaps and options	114,715	27,934	—	(480)	142,169
Interest rate swaps and options	29,164	95,693	155,837	(44,217)	236,477
Total	$ 209,127	$142,256	$ 165,339	$ (45,607)	471,115
Cross product counterparty netting					(18,033)
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					$453,082

(1) At February 29, 2012, we held exchange traded derivative liabilities and other credit enhancements of $9.5 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 February 29, 2012, cash collateral pledged was $261.4 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 February 29, 2012, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

Counterparty credit quality(1):	
A- or higher	$253,270
BBB- to BBB+	54,596
BB+ or lower	89,835
Unrated	5,979
Total	$403,680

(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 February 29, 2012 and November 30, 2011, is $111.9 million and $141.2 million, respectively, for which we have posted collateral of $82.0 million and $129.8 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on February 29, 2012 and November 30, 2011, we would have been required to post an additional $35.3 million and $19.5 million, respectively, of collateral to our counterparties.

Note 7. Collateralized Transactions

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We manage our exposure to credit risk associated with these transactions by entering into master netting agreements. We also monitor the fair value of the securities loaned and borrowed on a daily basis and request additional collateral or return of excess collateral, as appropriate.

We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provision allowing the counterparty 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 parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. In many instances, we are permitted by contract or custom to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending or derivative transactions or cover short positions. At February 29, 2012 and November 30, 2011, the approximate fair value of securities received as collateral by us that may be sold or repledged was approximately $18.6 billion and $17.9 billion, respectively. The fair value of securities received as collateral at February 29, 2012 and November 30, 2011, pertains to our securities financing activities presented on our Consolidated Statements of Financial Condition at February 29, 2012 and November 30, 2011 as follows (in thousands):

	February 29, 2012	November 30, 2011
Carrying amount:		
Securities purchased under agreements to resell	$ 4,434,611	$ 2,893,043
Securities borrowed	5,036,447	5,169,689
Securities received as collateral	984	21,862
Total assets on Consolidated Statement of Financial Condition	9,472,042	8,084,594
Netting of securities purchased under agreements to resell(1)	8,129,978	7,498,439
	17,602,020	15,583,033
Fair value of collateral received in excess of contract amount(2)	971,817	2,386,921
Fair value of securities received as collateral	$ 18,573,837	$ 17,969,954

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

(2) Includes collateral received from customers for margin balances unrelated to arrangements for securities purchased under agreements to resell or securities borrowed.

At February 29, 2012 and November 30, 2011, 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 the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At February 29, 2012 and November 30, 2011, $1.0 million and $21.9 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

Additionally, 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

We engage in securitization activities related to commercial mortgage loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities ("SPEs") and act as the placement or structuring agent for the beneficial interests issued to investors by the SPE. A significant portion of our securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. Our securitization vehicles generally meet the criteria of variable interest entities; however we generally do not consolidate our securitization vehicles as we are not considered the primary beneficiary for these vehicles. See Note 9, Variable Interest Entities for further discussion on variable interest entities and our determination of the primary beneficiary.

We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other liabilities. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues prior to securitization. Net underwriting revenues are recognized in connection with the securitization activities.

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

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

	Three Months Ended	
	February 29, 2012	February 28, 2011
Transferred assets	$ 2,036.8	$ 2,141.7
Proceeds on new securitizations	$ 2,046.9	$ 2,153.3
Net revenues	$ 8.0	$ 8.3
Cash flows received on retained interests	$ 15.8	$ 19.4

Assets received as proceeds in the form of mortgage-backed-securities issued by the securitization vehicles have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies, and Note 5, Financial Instruments. 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 February 29, 2012 and November 30, 2011. Although not obligated, we may make a market in the securities issued by these securitization vehicles in connection with secondary market-making activities. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities subsequently 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.

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

	As of February 29, 2012	
Securitization Type	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	$ 7,455.3	$ 156.1(1)
U.S. government agency commercial mortgage-backed securities	1,962.6	27.8(1)
Military housing loans	68.0	0.2(2)

(1) A portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of March 23, 2012, we continue to hold approximately $99.8 million and $27.3 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

(2) Initial fair value of servicing rights received on transferred project loans.

	As of November 30, 2011	
Securitization Type	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	$ 7,968.0	$ 517.9(1)
U.S. government agency commercial mortgage-backed securities	2,574.3	49.9(1)
Military housing loans	127.4	0.3(2)

(1) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of March 23, 2012, we continue to hold approximately $87.8 million and $27.3 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

(2) Initial fair value of servicing rights received on transferred project loans.

We do not have any derivative contracts executed in connection with these securitization activities. Total assets represent the unpaid principal amount of assets in the securitization vehicles in which we have continued involvement and are presented solely to provide information regarding the size of the securitization and the size of the underlying assets supporting our retained interests, and are not considered representative of the risk of potential loss associated with the securitizations.

Assets retained in connection with securitization represent the fair value of the securities of one or more tranches of the securitization, including senior and subordinated tranches. Our risk of loss to these securitization vehicles is limited to this fair value amount which is included within total Financial instruments owned — Mortgage- and asset-backed securities on our Consolidated Statements of Financial Condition.

Note 9. Variable Interest Entities

Variable interest entities ("VIEs") are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

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

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

- Purchases of mortgage-backed securities in connection with our trading and secondary market making activities,
- Retained interests held as a result of securitization activities as part of primary market making activities, including the resecuritizations of mortgage-backed securities,
- Servicing of military housing mortgage loans held by VIEs,
- Ownership of debt, equity and partnership interests in Jefferies High Yield Holdings, LLC and related entities,
- Management and performance fees in the Jefferies Umbrella Fund, and
- Loans to and investments in investment fund vehicles.

We have not executed any derivative contracts with VIEs and have not provided any liquidity facilities to VIEs, other than Jefferies Employees Partners IV, LLC, as discussed below.

Consolidated VIEs

The following tables present information about the assets and liabilities of our consolidated VIEs which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of February 29, 2012 and November 30, 2011. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. We have aggregated our consolidated VIEs based upon principal business activity.

(in millions)	February 29, 2012			November 30, 2011		
	High Yield	Mortgage- and Asset-backed Securitizations	Other	High Yield	Mortgage- and Asset-backed Securitizations	Other
Cash	$ 455.4	$ —	$ 0.3	$ 345.7	$ —	$ 0.3
Financial instruments owned	635.4	12.0	6.6	693.3	12.2	7.2
Securities borrowed	290.3	—	—	195.3	—	—
Receivable from brokers and dealers	82.5	—	—	150.6	—	—
Other	6.8	—	—	8.5	—	—
	$1,470.4	$ 12.0	$ 6.9	$1,393.4	$ 12.2	$ 7.5
Financial instruments sold, not yet purchased	$ 352.9	$ —	$ —	$ 326.2	$ —	$ —
Payable to brokers and dealers	79.6	—	—	105.2	—	—
Mandatorily redeemable interests(1)	1,016.2	—	—	943.4	—	—
Promissory note(2)	—	—	4.2	—	—	4.2
Secured financing(3)	—	12.0	—	—	12.2	—
Other	23.8	—	0.2	20.7	—	0.2
	$1,472.5	$ 12.0	$ 4.4	$1,395.5	$ 12.2	$ 4.4

(1) After consolidation, which eliminates our interests and the interests of our consolidated subsidiaries, JSOP and JESOP, the carrying amount of the mandatorily redeemable financial interests pertaining to the above VIEs included within Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately $332.4 million and $310.5 million at February 29, 2012 and November 30, 2011, respectively. These amounts represent the portion of the mandatorily redeemable preferred interests held by our joint venture partner.

(2) The promissory note represents an amount due to us and is eliminated in consolidation.

(3) Secured financing is included within Accrued expenses and other liabilities. Approximately $9.2 million and $8.4 million of the secured financing represents an amount held by us in inventory and are eliminated in consolidation at February 29, 2012 and November 30, 2011, 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 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. We have determined that JHYH, JSOP and JESOP meet the definition of a variable interest entity. We are the primary beneficiary of JHYH, JSOP and JESOP and accordingly consolidate JHYH (and the assets, liabilities and results of operations of its wholly owned subsidiaries JHYT, JHYF and JLCP), JSOP and JESOP.

At February 29, 2012 and November 30, 2011, the carrying amount of our variable interests was $352.8 million and $322.0 million, respectively, which consist of our debt, equity and partnership interests in JHYH, JSOP and JESOP, which are eliminated in consolidation. In addition, the secondary market trading activity conducted through JHYT, JHYF and JLCP is a significant component of our overall brokerage platform, and while not contractually obligated, could require us to provide additional financial support and/ or expose us to further losses of JHYH, JSOP and JESOP. The assets of these VIEs are available for the benefit of the mandatorily redeemable interest holders and equity holders. The creditors of these VIEs do not have recourse to our general credit.

There have been no changes in our conclusion to consolidate JHYH, JSOP and JESOP since formation.

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 securities issued by the securitization vehicle. Our variable interests in this vehicle consist of the securities and a contractual servicing fee. The asset of this VIE consists of a project loan, which is available for the benefit of the vehicles' beneficial interest holders. The creditors of this VIE do not have recourse to our general credit.

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.

Nonconsolidated VIEs

We also hold variable interests in VIEs in which we are not the primary beneficiary and do not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. Other than Jefferies Employees Partners IV, LLC, as discussed below, we have not provided financial or other support to these VIEs during the three months ended February 29, 2012 and the year ended November 30, 2011 and we have no explicit or implicit arrangements to provide additional financial support to these VIEs and have no liabilities related to these VIEs at February 29, 2012 and November 30, 2011.

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

	February 29, 2012		
	Variable Interests		
(in millions)	Financial Statement Carrying Amount	Maximum exposure to loss	VIE Assets
Collateralized loan obligations	$ 48.4(2)	$ 48.4(4)	$ 1,753.2
Agency mortgage- and asset-backed securitizations(1)	1,413.5(2)	1,413.5(4)	7,483.1
Non-agency mortgage- and asset-backed securitizations(1)	466.5(2)	466.5(4)	51,082.5
Asset management vehicle	3.0(3)	3.0(4)	895.8
Private equity vehicles	66.7(3)	125.3	98.0
Total	$ 1,998.1	$ 2,056.7	$61,312.6

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at February 29, 2012 and represent the underlying assets that provide the cash flows supporting our variable interests.

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

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

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

	November 30, 2011		
	Variable Interests		
(in millions)	Financial Statement Carrying Amount	Maximum exposure to loss	VIE Assets
Collateralized loan obligations	$ 48.2(2)	$ 48.2(4)	$ 1,768.4
Agency mortgage- and asset-backed securitizations(1)	1,410.9(2)	1,410.9(4)	6,523.0
Non-agency mortgage- and asset-backed securitizations(1)	583.9(2)	583.9(4)	41,939.4
Asset management vehicle	2.8(3)	2.8(4)	903.9
Private equity vehicles	64.5(3)	131.3	84.2
Total	$ 2,110.3	$ 2,177.1	$51,218.9

(1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2011 and represent the underlying assets that provide the cash flows supporting our variable interests.

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

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

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

Mortgage- and Asset-Backed Vehicles. In connection with our trading and market making activities, we buy and sell mortgage- and asset backed securities. Mortgage- and asset backed securities issued by securitization entities are generally considered variable interests in VIEs. A substantial portion of our variable interests in mortgage- and asset-backed VIEs are sponsored by unrelated third parties. The variable interests consist entirely of mortgage- and asset-backed securities and are accounted for at fair value and included Financial instruments owned on our Consolidated Statements of Financial Condition. In addition to the agency mortgage- and asset backed securities of $1,413.5 million and non-agency mortgage- and asset-backed securities of $466.5 million at February 29, 2012 presented in the above table, we owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with our secondary market making activities and our securitization activities. Total securities issued by securitization SPEs at February 29, 2012 consist of the following (in millions):

	Nonagency	Agency	Total
Variable interests in collateralized loan obligations	$ 48.4	$ —	$ 48.4
Variable interests in agency mortgage- and asset backed securitizations	—	1,413.5	1,413.5
Variable interests in nonagency mortgage- and asset backed securitizations	466.5	—	466.5
Additional securities in connection with trading and market making activities:			
Residential mortgage-backed securities	89.4	1,132.1	1,221.5
Commercial mortgage-backed securities	28.7	231.5	260.2
Collateralized debt obligations	4.4	—	4.4
Other asset-backed securities	9.1	—	9.1
Total mortgage- and asset-backed securities on the Consolidated Statement of Financial Condition	$ 646.5	$2,777.1	$3,423.6

Collateralized Loan Obligations. We own variable interests in collateralized loan obligations ("CLOs") previously managed by us. These CLOs have assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Our variable interests in the CLOs consist of debt securities and a right to a portion of the CLOs' management and incentive fees. The carrying amount of the debt securities was $14.0 million and $14.1 million at February 29, 2012 and November 30, 2011, respectively. Management and incentives fees are accrued as the amounts become realizable. Our exposure to loss in these CLOs is limited to our investments in the debt securities.

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. Our exposure to loss is limited to our investments in the debt securities.

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 February 29, 2012 and November 30, 2011 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees.

Private Equity Vehicles. On July 26, 2010, we committed to invest equity of up to $75.0 million in Jefferies-SBI USA Fund L.P. (the "USA Fund"). As of February 29, 2012 and November 30, 2011, we funded approximately $25.2 million and $17.9 million, respectively, of our commitment. The carrying amount of our equity investment was $18.8 million and $17.4 million at February 29, 2012 and November 30, 2011, respectively. Our exposure to loss is limited to our equity commitment. The USA Fund has assets consisting primarily of private equity and equity related investments.

We have variable interests in Jefferies Employees Partners IV, LLC ("JEP IV") consisting of an equity investment and a loan commitment. The carrying amount of our equity investment was $2.8 million at February 29, 2012 and November 30, 2011. During the fourth quarter of 2010, we repaid outstanding debt of JEP IV on its behalf and committed to make loans to JEP IV up to an aggregate principal amount of $54.0 million. As of February 29, 2012 and November 30, 2011, we funded approximately $45.2 million and $44.3 million, respectively, of the aggregate principal balance, which is included in Loans to and investments in related parties. Our exposure to loss is limited to our equity investment and the aggregate amount of our loan commitment. JEP IV has assets consisting primarily of private equity and equity related investments.

Note 10. Equity Method Investments

Investments accounted for under the equity method are included in Loans to and investments in related parties in the Consolidated Statements of Financial Condition. Equity method gains and losses are included in Other income in the Consolidated Statements of Earnings. Our significant investments accounted for under the equity method are Jefferies Finance, LLC and Jefferies LoanCore LLC.

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 February 29, 2012, we have funded $107.5 million of our aggregate $500.0 million commitment, leaving $392.5 million unfunded.

In addition, on March 1, 2011, we and MassMutual entered into a $1.0 billion Secured Revolving Credit Facility, to be funded equally, to support loan underwritings by JFIN. The Secured Revolving Credit Facility bears interest based 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 February 29, 2012, we have funded $79.9 million of our $500.0 million commitment. During the three months ended February 29, 2012, $3.0 million of interest income is included in the Consolidated Statement of Earnings related to the Secured Revolving Credit Facility.

The following is a summary of selected financial information for JFIN as of February 29, 2012 and November 30, 2011 (in millions):

	February 29, 2012	November 30, 2011
Total assets	$ 1,376.5	$ 1,457.8
Total liabilities	932.7	1,044.3
Total equity	443.8	413.5
Our total equity balance	221.9	206.8

JFIN's net earnings were $30.1 million and $26.4 million for the three months ended February 29, 2012 and February 28, 2011, respectively.

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 $23.7 million and $18.6 million during the three months ended February 29, 2012 and February 28, 2011, respectively, recognized within Investment banking on the Consolidated Statements of Earnings. In addition, in relation to these transactions, we paid fees to JFIN of $3.8 million and $0.6 million during the three months ended February 29, 2012 and February 28, 2011, respectively, recognized within Business development expenses on the Consolidated Statements of Earnings.

During the three months ended February 28, 2011, we purchased participation certificates in loans originated by JFIN of $477.2 million, which were subsequently redeemed in full during the same period. There were no equivalent transactions during the three months ended February 29, 2012.

Under a service agreement, we charged to JFIN $10.9 million for certain administrative services for the three months ended February 29, 2012. Receivables from JFIN, included within Other assets on the Consolidated Statements of Financial Condition, were $31.0 million and $16.6 million at February 29, 2012 and November 30, 2011, respectively.

Jefferies LoanCore LLC

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore LLC (“LoanCore”), a commercial real estate finance company. LoanCore originates commercial real estate loans with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. LoanCore is currently solely capitalized with equity and has aggregate equity commitments of $600.0 million. As of February 29, 2012 and November 30, 2011, we have funded $168.5 million and $163.3 million, respectively, of our $291.0 million equity commitment and have a 48.5% voting interest in LoanCore.

The following is a summary of selected financial information for LoanCore as of February 29, 2012 and November 30, 2011 (in millions):

	February 29, 2012	November 30, 2011
Total assets	$ 804.1	$ 761.4
Total liabilities	445.6	427.4
Total equity	358.5	334.0
Our total equity balance	173.9	162.0

LoanCore’s net earnings were $13.6 million for the three months ended February 29, 2012. LoanCore did not have material earnings or losses during the three months ended February 28, 2011.

Under a service agreement, we charged LoanCore $0.2 million for administrative services for the three months ended February 29, 2012. At February 29, 2012 and November 30, 2011, $0.2 million and $0.3 million, respectively, was included in Other assets on the Consolidated Statements of Financial Condition relating to receivables from LoanCore.

LoanCore enters into derivative transactions with us to hedge its loan portfolio. As of February 29, 2012, the aggregate fair market value of derivative transactions outstanding with LoanCore was $25.6 million and included within Financial instruments owned. During the three months ended February 29, 2012, we have recognized gains within Principal transaction revenues of $7.9 million on such transactions with LoanCore.

Note 11. Goodwill and Other Intangible Assets

Goodwill

The following table is a summary of the changes to goodwill for the three months ended February 29, 2012 (in thousands):

	Three Months Ended February 29, 2012
Balance, at beginning of period	$ 365,574
Add: Translation adjustments	(66)
Balance, at end of period	$ 365,508

At least annually, and more frequently if warranted, we assess goodwill for impairment. We completed our annual test of goodwill as of June 1, 2011 and performed additional impairment testing as of November 30, 2011. As of June 1 and November 30, 2011 no goodwill impairment was identified. 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. Further, adverse market or economic events could result in impairment charges in future periods.

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

Intangible Assets

The following table presents the gross carrying amount, accumulated depreciation and net carrying amount of identifiable intangible assets and weighted average amortization period as of February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012			
	Gross cost	Accumulated amortization	Net carrying amount	Weighted average remaining lives (years)
Exchange and clearing organization membership interests and registrations	$11,219	$ —	$ 11,219	N/A
Customer relationships	10,542	(3,128)	7,414	6.7
Trade name	1,680	(578)	1,102	1.8
Other	100	(8)	92	13.5
	$23,541	$ (3,714)	$ 19,827	

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

The aggregate amortization expense for the three months ended February 29, 2012 and February 28, 2011 was $0.6 million and $0.2 million, respectively. Amortization expense is included in Other expenses on the Consolidated Statements of Earnings.

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

Fiscal year	Estimated future amortization expense
2012 (Period from April to November)	$ 1,690
2013	1,319
2014	929
2015	771
2016	771
2017	714

Mortgage Servicing Rights

In the normal course of business we originate military housing mortgage loans and sell such loans to investors. In connection with these activities we may retain the mortgage servicing rights that entitle us to a future stream of cash flows based on contractual serving fees. Mortgage servicing rights to military housing mortgage loans are accounted for as an intangible asset and included within Other assets in the Consolidated Statements of Financial Condition. The mortgage servicing rights are amortized over the period of the estimated net servicing income, which is reported in Other 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 portfolios. We determined that the servicing rights represent one class of servicing rights based on the availability of market inputs to measure the fair value of the asset and our treatment of the asset as one aggregate pool for risk management purposes. We earned fees related to these servicing rights of $1.1 million and $0.9 million during the three months ended February 29, 2012 and February 28, 2011, respectively.

The following presents the activity in the balance of these servicing rights for the three months ended February 29, 2012 and twelve months ended November 30, 2011 (in thousands):

	Three Months Ended February 29, 2012	Twelve Months Ended November 30, 2011
Balance, beginning of period	$ 8,202	$ 8,263
Add: Acquisition	162	347
Less: Pay down	(211)	—
Less: Amortization	(97)	(408)
Balance, end of period	$ 8,056	$ 8,202

We estimate the fair value of these servicing rights was $15.5 million and $15.6 million at February 29, 2012 and November 30, 2011, 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 12. 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 February 29, 2012 and November 30, 2011. Average daily bank loans for the three months ended February 29, 2012 and the twelve months ended November 30, 2011 were $0 million and $12.0 million, respectively.

On February 3, 2012, Jefferies Group, Inc. entered into a one year, $100.0 million term-loan agreement with Prudential Financial, Inc. This loan is set to expire on February 2, 2013 and bears an annual interest rate of one-month LIBOR minus 0.11%. The borrowings under this loan are being used to provide working capital as needed for the Global Commodities Group. If a subsidiary fails to satisfy any regulatory or net capital requirement as a regulated broker-dealer or similar entity, the term loan will become due immediately. The average borrowing under this term loan during the period from February 3 to February 29, 2012 was $100.0 million.

At November 30, 2011, an obligation to deliver long-term debt securities of $52.7 million was reported as Short-term borrowings on the Consolidated Statement of Financial Condition for debt securities sold as part of our U.S. broker-dealer's market making in our long-term debt securities. This obligation was satisfied as of February 29, 2012. Refer to Note 13, Long-Term Debt for further details on market making in our long-term debt securities.

Note 13. 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 February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012	November 30, 2011
Unsecured Long-Term Debt		
7.75% Senior Notes, due 2012 (effective interest rate of 8.08%)(1)	$ 253,269	$ 254,926
5.875% Senior Notes, due 2014 (effective interest rate of 6.00%)	249,363	249,298
3.875% Senior Notes, due 2015 (effective interest rate of 3.92%)	499,235	499,187
5.5% Senior Notes, due 2016 (effective interest rate of 5.57%)	349,095	349,045
5.125% Senior Notes, due 2018 (effective interest rate of 5.18%)	768,133	782,598
8.5% Senior Notes, due 2019 (effective interest rate of 8.31%)	707,593	707,787
6.875% Senior Notes, due 2021 (effective interest rate of 6.99%)	545,895	545,816
6.45% Senior Debentures, due 2027 (effective interest rate of 6.55%)	346,695	346,664
3.875% Convertible Senior Debentures, due, 2029 (effective interest rate of 7.20%)	283,994	280,832
6.25% Senior Debentures, due 2036 (effective interest rate of 6.37%)	492,805	492,773
	$4,496,077	$4,508,926
Secured Long-Term Debt		
Credit facility, due 2014	250,000	100,000
	$4,746,077	$4,608,926

(1) Subsequent to quarter end, our 7.75% Senior Notes matured on March 15, 2012 and were repaid.

Our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November and December 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases and sales of our debt were treated as debt extinguishments and reissuances of debt, respectively. We recognized a $9.9 million gain on debt extinguishment which is reported in Other revenues for the three months ended February 29, 2012. The balance of Long-term debt has been reduced by $37.1 million as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011, which is being amortized over the remaining life of the debt using the effective yield method.

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 26.3603 shares of our common stock (equivalent to a conversion price of approximately $37.94 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 exceed $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, which is being amortized as a reduction in Interest expense of approximately $1.9 million per year over the remaining life of the notes. As of February 29, 2012, approximately $37,000 remained to be amortized.

Secured Long-Term Debt — On August 26, 2011 we entered into a committed senior secured revolving credit facility (“Credit Facility”) with a group of commercial banks in Dollars, Euros and Sterling, in aggregate totaling $950.0 million, of which $250.0 million can be borrowed unsecured. Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants 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. At February 29, 2012, U.S. dollar denominated borrowings outstanding under the Credit Facility amounted to $250.0 million and are secured by assets included in the borrowing base amount, as defined in the Credit Facility agreement. There were no non-U.S. dollar borrowings at February 29, 2012. We were in compliance with debt covenants under the Credit Facility at February 29, 2012.

Note 14. 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 February 29, 2012, 10,000,000 shares of preferred stock were authorized and 125,000 shares of preferred stock were issued and outstanding. The dividend is recorded as a component of Interest expense as the Series A Cumulative Convertible Preferred Stock is treated as debt for accounting purposes. The dividend is not deductible for tax purposes because the Series A Cumulative Convertible preferred stock is considered “equity” for tax purposes.

Note 15. Noncontrolling Interest and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries

Noncontrolling Interests

Noncontrolling interests represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to us (i.e., minority interests). Noncontrolling interests includes the minority equity holders' proportionate share of the equity of JSOP, JESOP and other consolidated entities. The following table presents noncontrolling interests at February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012	November 30, 2011
JSOP	$ 294,755	$ 276,800
JESOP	34,144	31,979
Other(1)	3,345	3,884
Noncontrolling interests	$ 332,244	$ 312,663

(1) Other includes consolidated asset management entities and investment vehicles set up for the benefit of our employees or clients.

Ownership interests in subsidiaries held by parties other than our common shareholders are presented as noncontrolling interests within stockholders' equity, separately from our own equity on the Consolidated Statements of Financial Condition. Revenues, expenses, net earnings or loss, and other comprehensive income or loss are reported in the consolidated financial statements at the consolidated amounts, which includes amounts 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 months ended February 29, 2012 and February 28, 2011, respectively, because all other comprehensive income or loss is attributed to us.

Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries

Certain interests in consolidated subsidiaries meet the definition of mandatorily redeemable financial instruments and require liability classification and remeasurement at the estimated amount of cash that would be due and payable to settle such interests under the applicable entity's organization agreement. These mandatorily redeemable financial instruments represent interests held in Jefferies High Yield Holdings, LLC ("JHYH"), which are entitled to a pro rata share of the profits and losses of JHYH and are scheduled to terminate in 2013, with an option to extend up to three additional one-year periods. Financial instruments issued by a subsidiary that are classified as equity in the subsidiary's financial statements are treated as noncontrolling interests in the consolidated financial statements. Therefore, these mandatorily redeemable financial instruments are reported within liabilities as Mandatorily redeemable preferred interests of consolidated subsidiaries on our Consolidated Statements of Financial Condition. In addition, changes to these mandatorily redeemable financial instruments of JHYH are reported in Net revenues and are reflected as Interest on mandatorily redeemable preferred interest of consolidated subsidiaries on our Consolidated Statements of Earnings. The carrying amount of the Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately $332.4 million and $310.5 million at February 29, 2012 and November 30, 2011, respectively.

Note 16. Benefit Plans

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

In connection with the acquisition of the Global Commodities Group from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the "German Pension Plan") for the benefit of eligible employees of Bache in that territory. The German Pension Plan has no plan assets and is therefore unfunded; however, the German Pension Plan is reinsured by insurance contracts held in the name of Jefferies Bache Limited with multi-national insurers. The investments in these insurance contracts are included in Financial Instruments owned — Investments at fair value in the Consolidated Statement of Financial Condition and have a fair value of $19.0 million at February 29, 2012. We expect to pay the pension liability from the cash flows available to us under the reinsurance contracts.

The following table summarizes the components of net periodic pension cost (in thousands):

	U.S. Pension Plan Three Months Ended		German Pension Plan Three Months Ended
	February 29, 2012	February 28, 2011	February 29, 2012
Components of Net Periodic Pension Cost			
Service cost	$ 44	$ 50	$ 9
Interest cost on projected benefit obligation	584	590	267
Expected return on plan assets	(616)	(647)	—
Net amortization	317	216	—
Net periodic pension cost	$ 329	$ 209	$ 276

We did not contribute to our U.S. Pension Plan and German Plan during the three months ended February 29, 2012, however, we anticipate contributing approximately $2.0 million to our U.S. Pension Plan during the remainder of the fiscal year.

Note 17. 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 $50.6 million and $58.2 million for the three months ended February 29, 2012 and February 28, 2011, respectively. The net tax benefit related to share-based compensation plans recognized in additional paid-in capital was $19.7 million and $32.4 million during the three months ended February 29, 2012 and February 28, 2011, 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 $29.3 million and $33.8 million related to share-based compensation in cash flows from financing activities for the three months ended February 29, 2012 and February 28, 2011, respectively. Due to our tax year end coinciding with our fiscal year end November 30, the timing of certain deductions related to share-based compensation are impacted such that tax benefits resulting from the vesting of awards are realized in the following fiscal year. Consequently, approximately $21.3 million of the net tax benefit recognized in additional paid-in capital during the three months ended February 29, 2012 relates to share-based compensation awards that vested during January through November 2011, and approximately $19.7 million of the net tax benefit recognized in additional paid-in capital during the three months ended February 28, 2011 relates to share-based compensation awards that vested during the eleven months ended November 30, 2010. Additionally, we expect to recognize a net tax deficiency of $12.4 million related to share-based compensation awards that vested during January and February 2012 in additional paid-in capital during the three month period ending February 28, 2013.

As of February 29, 2012, we had $184.9 million of total unrecognized compensation cost related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 3.2 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 months ended February 29, 2012 and February 28, 2011:

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 $26.1 million and $42.6 million for the three months ended February 29, 2012 and February 28, 2011, 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 $50.4 million and $58.0 million for the three months ended February 29, 2012 and February 28, 2011, respectively. Total compensation cost includes year-end compensation and the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

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

	Three Months Ended February 29, 2012	Weighted Average Grant Date Fair Value
Restricted stock		
Balance, beginning of period	9,032	$ 19.05
Grants(1)	1,110	$ 13.84
Forfeited	—	$ —
Fulfillment of service requirement(1)	(1,094)	$ 18.67
Balance, end of period(2)	9,048	$ 18.46

(1) Includes approximately 533,000 shares of restricted stock granted with no future service requirements during the three months ended February 29, 2012. These shares are shown as granted and vested during the period. The weighted average grant date fair value of these shares was approximately $14.47.

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

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

	Three Months Ended February 29, 2012		Weighted Average Grant Date Fair Value	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Restricted stock units				
Balance, beginning of period	4,968	18,994	$ 23.53	$ 14.12
Grants	—	112(1)	$ —	$ 10.85
Distribution of underlying shares	—	(1,479)	$ —	$ 22.19
Forfeited	—	(32)	$ —	$ 20.85
Fulfillment of service requirement	(201)	201	$ 21.46	$ 21.46
Balance, end of period	4,767	17,796	$ 23.61	$ 13.54

(1) Includes approximately 110,000 dividend equivalents declared on restricted stock units during the three months ended February 29, 2012. The weighted average grant date fair value of these dividend equivalents was approximately $10.73.

The aggregate fair value of restricted stock and restricted stock units granted with a service requirement that vested during the three months ended February 29, 2012 and February 28, 2011 was $11.5 million and $14.0 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 $7.7 million and $4.2 million during the three months ended February 29, 2012 and February 28, 2011, 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 three months ended February 29, 2012 is presented below (in thousands, except per share amounts):

	Three Months Ended February 29, 2012	
	Options	Weighted Average Exercise Price
Outstanding at beginning of period	14	$ 11.44
Outstanding at end of period	14	$ 11.44
Options exercisable at end of period	14	$ 11.44

There were no stock option exercises during the three months ended February 29, 2012 and February 28, 2011. During the three months ended February 29, 2012, we realized a tax benefit of $61,000, which related to stock option exercises that occurred during the twelve months ended November 30, 2011. During the three months ended February 28, 2011, we realized a tax benefit of $181,000 related to stock options exercises that occurred during the eleven months ended November 30, 2010.

The table below provides additional information related to stock options outstanding at February 29, 2012 (in thousands, except per share amounts):

February 29, 2012	Outstanding, Net of Expected Forfeitures	Options Exercisable
Number of options	14	14
Weighted-average exercise price	$ 11.44	$ 11.44
Aggregate intrinsic value	$ 74	$ 74
Weighted-average remaining contractual term, in years	0.61	0.61

At February 29, 2012, tax benefits expected to be recognized in equity upon exercise of vested options are approximately $28,000.

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 Statements of Earnings, was $174,000 and $133,000 for the three months ended February 29, 2012 and February 28, 2011, respectively.

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 2012 and 2011, 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") 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 $40,000 and $42,000 for the three months ended February 29, 2012 and February 28, 2011, respectively. As of February 29, 2012, there were approximately 1,765,000 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 months ended February 29, 2012 and February 28, 2011.

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 $3.0 million and $3.2 million for the three months ended February 29, 2012 and February 28, 2011, 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 February 29, 2012 and November 30, 2011, the remaining unamortized amount of these awards was $288.9 million and $211.4 million, respectively.

Note 18. 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 months ended February 29, 2012 and February 28, 2011 (in thousands, except per share amounts):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Earnings for basic earnings per common share:		
Net earnings	$ 96,717	$ 102,045
Net earnings to noncontrolling interests	19,581	14,704
Net earnings to common shareholders	77,136	87,341
Less: Allocation of earnings to participating securities(1)	4,643	3,925
Net earnings available to common shareholders	$ 72,493	$ 83,416
Earnings for diluted earnings per common share:		
Net earnings	$ 96,717	$ 102,045
Net earnings to noncontrolling interests	19,581	14,704
Net earnings to common shareholders	77,136	87,341
Add: Convertible preferred stock dividends	1,016	1,016
Less: Allocation of earnings to participating securities(1)	4,639	3,907
Net earnings available to common shareholders	$ 73,513	$ 84,450
Shares:		
Average common shares used in basic computation	218,049	199,141
Stock options	3	11
Mandatorily redeemable convertible preferred stock	4,110	4,105
Convertible debt	—	—
Average common shares used in diluted computation	222,162	203,257
Earnings per common share:		
Basic	$ 0.33	$ 0.42
Diluted	$ 0.33	$ 0.42

(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 14,198,000 and 9,403,000 for the three months ended February 29, 2012 and February 28, 2011, respectively. Dividends declared on participating securities during the three months ended February 29, 2012 and February 28, 2011 amounted to approximately $959,000 and $686,000, respectively. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Restrictions on our present ability to pay dividends on our common stock are the dividend preference terms of our Series A convertible preferred stock, certain financial covenants associated with the $950.0 million Credit Facility as described in Note 13, Long-Term Debt, and the governing provisions of the Delaware General Corporation Law.

Dividends per Common Share (declared):

	1st Quarter
2012	$0.075
2011	$0.075

On March 19, 2012, a quarterly dividend was declared of $0.075 per share of common stock payable on May 15, 2012 to stockholders of record as of April 16, 2012.

Note 19. Income Taxes

As of February 29, 2012 and November 30, 2011, we had approximately $80.7 million and $79.8 million, respectively, of total gross unrecognized tax benefits. The total amount of unrecognized benefits that, if recognized, would favorably affect the effective tax rate was $52.9 million and $52.3 million (net of federal benefit of taxes) for the three months ended February 29, 2012 and November 30, 2011, respectively.

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 February 29, 2012 and November 30, 2011, we had accrued interest of approximately $12.1 million and $10.8 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued at February 29, 2012 and November 30, 2011.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions in which we have significant business operations. We do not expect that resolution of these examinations will have a material effect on our 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	2010
California	2004
Connecticut	2000
Massachusetts	2006
New Jersey	2007
New York State	2001
New York City	2003

Note 20. Commitments, Contingencies and Guarantees

Commitments

The following table summarizes our commitments associated with our capital market and asset management business activities at February 29, 2012 (in millions):

	Expected Maturity Date					
	2012	2013	2014 and 2015	2016 and 2017	2018 and Later	Maximum Payout
Equity commitments	$ 0.3	$ 0.2	$ 8.2	$ —	$569.1	$ 577.8
Loan commitments	89.3	51.9	464.6	36.1	—	641.9
Mortgage-related commitments	818.5	—	724.0	90.9	—	1,633.4
Forward starting reverse repos and repos	600.3	—	—	—	—	600.3
	$1,508.4	$52.1	$1,196.8	$127.0	$569.1	$3,453.4

The table below presents our credit exposure from our loan commitments, including funded amounts, summarized by period of expiration as of February 29, 2012. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	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	$ 30.0	$ —	$ —	$ 30.0	$ 2.9	$ 27.1
BBB	23.0	—	—	23.0	13.0	10.0
Non-investment grade	73.6	46.0	—	119.6	32.2	87.4
Unrated	—	684.6	—	684.6	167.2	517.4
Total	$126.6	$730.6	$ —	$ 857.2	$ 215.3	$ 641.9

(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 $215.3 million of funded loans included in Financial instruments owned — Loans and a $1.8 million credit related to lending commitments recorded in Financial instruments sold — Derivatives in the Consolidated Statement of Financial Condition as of February 29, 2012.

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

Equity Commitments. On October 7, 2004, we entered into an agreement with Babson Capital and MassMutual to form JFIN. At February 29, 2012, the total committed equity capital of JFIN was $1.0 million, to be funded equally by each partner. As of February 29, 2012, we have funded $107.5 million of our aggregate $500.0 million commitment leaving $392.5 million unfunded.

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation to form LoanCore, a commercial real estate finance company with an aggregate equity commitment of $600.0 million. As of February 29, 2012, we have funded $168.5 million of our $291.0 million equity commitment in LoanCore, leaving $115.0 million unfunded, net of financing charges.

At February 29, 2012, we have committed to invest $5.9 million in Jefferies Capital Partners LLC, the manager of Jefferies Capital Partners IV L.P., Jefferies Capital Partners V L.P. and a related parallel fund, the USA Fund (Jefferies Capital Partners V L.P. and the USA Fund are collectively “Fund V”). As of February 29, 2012, we have funded approximately $1.0 million of our commitment to Jefferies Capital Partners LLC., leaving $4.9 million unfunded.

We have committed to invest in aggregate up to $85.0 million in Fund V, private equity funds managed by a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee. On July 26, 2010 and on August 12, 2010, we entered into Subscription Agreements agreeing to commit up to $75.0 million in the USA Fund and $10.0 million in Jefferies Capital Partners V L.P., respectively. As of February 29, 2012, we have funded approximately $25.2 million and $3.4 million of our commitments to the USA Fund and Jefferies Capital Partners V L.P., respectively, leaving approximately $56.4 million unfunded in aggregate.

We have committed to invest up to $45.9 million in Jefferies Capital Partners IV L.P. and $3.1 million in JCP IV LLC, the General Partner, of Jefferies Capital Partners IV L.P. As of February 29, 2012, we have funded approximately $41.6 million and $2.1 million of our commitments to Jefferies Capital Partners IV L.P. and JCP IV LLC, respectively, leaving approximately $5.3 million unfunded in aggregate.

As of February 29, 2012, we had other equity commitments to invest up to $3.6 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 February 29, 2012, we had $213.0 million of loan commitments outstanding to clients. The fair value of loan commitments recorded as derivatives in the Consolidated Statements of Financial Condition was a liability of $1.8 million at February 29, 2012.

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 February 29, 2012, we have funded $79.9 million of the aggregate principal balance and $420.1 million of our commitment remained unfunded.

We entered into a credit agreement with JEP IV, a related party, whereby we are committed to extend loans up to the maximum aggregate principal amount of $54.0 million. As of February 29, 2012, we funded approximately $45.2 million of the aggregate principal balance, which is included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition and $8.8 million of our commitment remained unfunded.

The unfunded loan commitments to JFIN and JEP IV of $428.9 million in aggregate are unrated and included in the total unrated lending commitments of $517.4 million presented in the table above.

Mortgage-Related Commitments. We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statement of Financial Condition was $67.0 million at February 29, 2012.

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

Guarantees

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

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at February 29, 2012 (in millions).

	Expected Maturity Date					
Guarantee Type	**2012**	**2013**	**2014 and 2015**	**2016 and 2017**	**2018 and Later**	**Notional/ Maximum Payout**
Derivative contracts — non-credit related	$25,026.8	$3,040.8	$46,828.4	$ —	$ —	$74,896.0
Derivative contracts — credit related	—	—	5.0	350.1	44.6	399.7
Total derivative contracts	$25,026.8	$3,040.8	$46,833.4	$350.1	$44.6	$75,295.7

At February 29, 2012 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating					
	AAA/ Aaa	AA/ Aa	A	Below Investment Grade	Unrated	Notional/ Maximum Payout
Credit related derivative contracts:						
Index credit default swaps	$19.6	$10.0	$315.0	$ 14.8	$ 40.3	$ 399.7

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or "one-sided" component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At February 29, 2012, the fair value of derivative contracts meeting the definition of a guarantee is approximately $144.5 million.

Other Guarantees. We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote.

Note 21. Net Capital Requirements

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

As of February 29, 2012, Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache, LLC's net capital, adjusted net capital, and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	$ 961,360	$ 915,567
Jefferies Execution	10,470	10,220
Jefferies High Yield Trading	575,342	575,092

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	$ 230,276	$ 74,238

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

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

Note 22. 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 and reporting unit that provides the sales, trading and origination support for various fixed income, equity and advisory products and services. The Asset Management segment provides investment management services to investors in the U.S. and overseas.

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

- Net revenues and expenses directly associated with each reportable business segment are included in determining earnings before taxes.
- Net revenues and expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment's net revenues, headcount and other factors.
- Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment's capital utilization.

Our net revenues and expenses by segment are summarized below for the three months ended February 29, 2012 and February 28, 2011 (in millions):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Capital Markets:		
Net revenues	$ 774.4	$ 734.5
Expenses	$ 603.2	$ 569.6
Asset Management:		
Net revenues	$ 5.6	$ 23.9
Expenses	$ 6.1	$ 9.4
Total:		
Net revenues	$ 780.0	$ 758.4
Expenses	$ 609.3	$ 579.0

Our total assets by segment are summarized below as of February 29, 2012 and November 30, 2011 (in millions):

	February 29, 2012	November 30, 2011
Segment Assets:		
Capital Markets	$ 34,546.0	$ 34,946.1
Asset Management	17.7	25.4
Total assets	$ 34,563.7	$ 34,971.4

Net Revenues by Geographic Region

Net revenues for the Capital Market segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For Asset Management, net revenues are allocated according to the location of the investment advisor. The following table presents Net revenues by geographic region for the three months ended February 29, 2012 and February 28, 2011 (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Americas(1)	$ 662,639	$ 653,896
Europe(2)	105,397	110,225
Asia (including Middle East)	11,930	(5,739)
Net revenues	$ 779,966	$ 758,382

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

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

Note 23. Related Party Transactions

Jefferies Capital Partners and JEP IV Related Funds. We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager to the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee (“Private

Equity Related Funds”). At February 29, 2012 and November 30, 2011, loans to and/ or equity investments in Private Equity Related Funds were $131.0 million and $128.1 million, respectively. Interest income earned on loans to Private Equity Related Funds was $0.8 million and $0.7 million for the three months ended February 29, 2012 and February 28, 2011, respectively. Other income and investment income related to net gains and losses on our investment in Private Equity Related Funds was a $4.8 million loss and a $6.0 million gain for the three months ended February 29, 2012 and February 28, 2011, respectively. For further information regarding our commitments and funded amounts to Private Equity Related Funds see Note 20, Commitments, Contingencies and Guarantees.

Berkadia Commercial Mortgage, LLC. At February 29, 2012, we have commitments to purchase $207.0 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Officers, Directors and Employees. At February 29, 2012 and November 30, 2011, we had $51.4 million and $59.2 million, respectively, of loans outstanding to certain of our employees that are included in Other assets on the Consolidated Statements of Financial Condition.

Leucadia. During the three months ended February 29, 2012 and February 28, 2011, we received commissions and commission equivalents for conducting brokerage services on behalf of Leucadia and its affiliates of $8.3 million and $0, respectively. These revenues are recorded in Commission income on the Consolidated Statements of Earnings.

For information on transactions with our equity method investees, see Note 10, Equity Method Investments.

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. 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 Annual Report on Form 10-K for the year ended November 30, 2011 and filed with the SEC on January 27, 2012;
- the discussion of our analysis of financial condition and results of operations contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- the discussion of our risk management policies, procedures and methodologies contained in this report under the caption "Risk Management" included within Management's Discussion and Analysis of Financial Condition and Results of Operations;
- the notes to the unaudited consolidated financial statements contained in this report; and
- cautionary statements we make in our public documents, reports and announcements.

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

Consolidated Results of Operations

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

	Three Months Ended	
	February 29, 2012	February 28, 2011
Net revenues, less mandatorily redeemable preferred interest	$ 758,122	$ 741,944
Non-interest expenses	609,253	579,013
Earnings before income taxes	148,869	162,931
Income tax expense	52,152	60,886
Net earnings	96,717	102,045
Net earnings to noncontrolling interests	19,581	14,704
Net earnings to common shareholders	77,136	87,341
Earnings per diluted common share	$ 0.33	$ 0.42
Effective tax rate	35.0%	37.4%

Executive Summary

Net revenues, less mandatorily redeemable preferred interest, for the three months ended February 29, 2012 increased 2% to a record $758.1 million as compared to $741.9 million for the three months ended February 28, 2011 primarily driven by strong investment banking results and the Global Commodities Group business (also referred to as “Jefferies Bache”) we acquired on July 1, 2011 from Prudential Financial, Inc. (“Prudential”). We also recognized in the first quarter of 2012, a bargain purchase gain of $3.4 million on the acquisition of the corporate broking business of Hoare Govett from The Royal Bank of Scotland plc and a gain on debt extinguishment of $9.9 million. Non-interest expenses of $609.3 million for the three months ended February 29, 2012 reflect a 5% increase over the 2011 three month period primarily attributable to the inclusion of the costs of the Global Commodities Group and higher technology and communication costs. Compensation costs for the three month period ended February 29, 2012 were 57.2% of Net revenues as compared to 58.4% for the three month period ended February 28, 2011.

Our effective tax rate was 35.0% for the three months ended February 29, 2012 and 37.4% for the three months ended February 28, 2011. The decrease in our effective tax rate as compared to the comparable period in the prior fiscal year was primarily attributable to the realization of unrecognized tax benefits related to state income taxes and differences in the mix of taxable profits by business region.

At February 29, 2012, we had 3,851 employees globally, as compared to 3,082 at February 28, 2011. We added approximately 400 employees on July 1, 2011 as part of the Global Commodities Group acquisition. With the acquisition of Hoare Govett in February 2012 we added an additional 51 employees.

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

Revenues by Source

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

For presentation purposes, the remainder of “Results of Operations” is presented on a detailed product and expense basis rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective sales and trading activities, which is a function of the mix of each business’s associated assets and liabilities and the related funding costs.

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 February 29, 2012 and February 28, 2011 (in thousands):

	Three Months Ended			
	February 29, 2012		February 28, 2011	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	$136,215	17%	$177,358	23%
Fixed income	339,147	43	318,097	42
Total sales and trading	475,362	60	495,455	65
Other	13,175	2	—	—
Equity	46,187	6	49,684	7
Debt	89,695	11	62,967	8
Capital markets	135,882	17	112,651	15
Advisory	149,913	19	126,408	17
Investment banking	285,795	36	239,059	32
Asset management fees and investment income from managed funds:				
Asset management fees	11,888	2	16,117	2
Investment income from managed funds	(6,254)	—	7,751	1
Total	5,634	2	23,868	3
Net revenues	779,966	100%	758,382	100%
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	21,844		16,438	
Net revenues, less mandatorily redeemable preferred interest	$758,122		$741,944	

Net Revenues

Net revenues, before interest on mandatorily redeemable preferred interests, for the three months ended February 29, 2012 were a record $780.0 million, an increase of 3% as compared to Net revenues of $758.4 million during the three months ended February 28, 2011. The favorable results were primarily due to an increase of 20% in investment banking revenue to $285.8 million for the three months ended February 29, 2012 and the inclusion of revenues from our Jefferies Bache businesses acquired in July 2011. Net revenues for the three months ended February 29, 2012 also include a bargain purchase gain of $3.4 million recognized in connection with our acquisition of Hoare Govett in February 2011 and a gain on extinguishment of debt of $9.9 million related to transactions in our own debt by our broker-dealer's market-making desk. These increases were partially offset by a decline in equities and asset management revenues compared with the three months ended February 28, 2011.

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

Equities Revenue

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

Total equities revenue was $136.2 million and $177.4 million for the three months ended February 29, 2012 and February 28, 2011, respectively, a decrease of $41.2 million or 23%. Equities revenue is heavily driven by client transaction volumes, which is dependent in part on the overall level of activity of our clients.

U.S. equity market conditions during the first quarter of fiscal 2012 were characterized by increasing stock prices, however, on very low volumes. The New York Stock Exchange and NASDAQ exchange volumes were down 20% and 9%, respectively, compared to the three months ended February 28, 2011, resulting in reduced commission revenues from our equity cash and electronic trading desks. Partially offsetting these lower revenues was an increase in Asian equity commissions as we continue to build our client base within the region.

Equity trading revenues from block trading opportunities increased compared to the comparable prior year quarter, however revenue gains were offset by a decline in performance from certain strategic investments. Net earnings from our investments in Jefferies Finance, LLC and Jefferies LoanCore, LLC were $21.7 million for the quarter, an increase of $7.6 million compared to the comparable quarter in the prior fiscal year reflecting a full quarter of revenue contributions from Jefferies LoanCore, LLC in 2012. Revenues from our joint venture investments are partially offset by increased interest expense associated with our increased investment and commitments to these ventures.

Fixed Income Revenue

Fixed income revenue includes commissions, principal transactions and net interest revenue from investment grade corporate bonds, mortgage- and asset-backed securities, government and agency securities, municipal bonds, emerging markets debt, high yield and distressed securities, bank loans, foreign exchange and commodities trading activities.

Fixed income revenue was $339.1 million for the three months ended February 29, 2012, an increase of 7% compared to $318.1 million for the three months ended February 28, 2011, and includes a full quarter of revenue from Jefferies Bache following our acquisition of the Global Commodities Group from Prudential in July 2011. Jefferies Bache benefited from an upturn in volatility in the latter part of the quarter; however counterparty activity, while improved from the end of fiscal 2011, remained somewhat reduced from historical levels.

Our credit business benefited from credit spreads tightening considerably. In Europe, investor confidence returned in response to austerity measures taken by European governments during the quarter and helped drive the results of our European credit business. Additionally, certain high yield positions generated significant principal transaction gains. Municipal trading activities benefited from spreads tightening and price appreciation in the current quarter, offsetting a decline in municipal sales commission revenues as compared to the comparable prior year period. Mortgage revenues were robust for the three months ended February 29, 2012 as the markets rallied on tighter interest and mortgage index spreads; though revenues for the first quarter of 2012 were down as compared to an extremely strong trading result from the mortgage platform in the prior year comparable quarter.

Of the results recognized in Jefferies High Yield Holdings, LLC (our high yield and distressed securities and bank loan trading and investment business), approximately 66% of such results for the three months ended February 29, 2012 and February 28, 2011 are allocated to the minority investors and are presented within interest on mandatorily redeemable preferred interests and net earnings to noncontrolling interests in our Consolidated Statements of Earnings.

Other Revenue

Other revenue of $13.2 million for the three months ended February 29, 2012 is comprised of gains on debt extinguishment of $9.9 million in connection with the accounting treatment for certain purchases of our debt by our secondary market making corporates desk and a bargain purchase gain of $3.4 million on the acquisition of Hoare

Govett. For additional information see Note 3, Acquisitions and Note 13, Long-term Debt, respectively, in our consolidated financial statements.

Investment Banking Revenue

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

	Three Months Ended		
	February 29, 2012	February 28, 2011	% Change
Equity	$ 46,187	$ 49,684	-7%
Debt	89,695	62,967	42%
Capital markets	135,882	112,651	21%
Advisory	149,913	126,408	19%
Total	$ 285,795	$ 239,059	20%

Investment banking revenue increased 20% to $285.8 million for the three months ended February 29, 2012 as compared to revenue of $239.1 million for the three months ended February 28, 2011 and was principally driven by increased advisory and debt underwriting revenues.

In the three months ended February 29, 2012, we served as financial advisor on 22 merger and acquisition transactions having an aggregate transaction value of $24 billion, and the average transaction value of completed advisory deals increasing significantly during the quarter as compared to the comparable quarter in the prior year. Notable transactions completed in the first quarter of fiscal 2012 included acting as sole financial advisor to XLHealth Corp. in its sale to UnitedHealth Group, as joint financial advisor to Brigham Exploration Company in its $4.6 billion sale to Statoil ASA, as sole advisor to Samson Investment Company in its $7.2 billion sale to an investor group led by Kohlberg Kravis Roberts & Co. LP and as sole financial advisor to Strides Acrolab Limited on its sale of Ascent Pharmahealth Ltd. to Watson Pharmaceuticals, Inc.

Debt capital market revenues increased 42% to $89.7 million from $63.0 million in the comparable prior year quarter, as companies took advantage of cheaper borrowing costs and more favorable economic and market conditions. Equity capital market revenues totaled $46.2 million for the three months ended February 29, 2012, as compared to $49.7 million for the comparable quarter in the prior fiscal year, a decrease of $3.5 million. During the three months ended February 29, 2012, we executed 22 public equity financings, 20 of which we acted as sole or joint bookrunner.

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

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

The following summarizes the results of our Asset Management segment for the three months ended February 29, 2012 and February 28, 2011 (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Asset management fees:		
Fixed income	$ 739	$ 740
Equities	1,224	1,850
Convertibles	5,923	10,825
Commodities	4,002	2,702
	11,888	16,117
Investment (loss) income from managed funds(1)	(6,254)	7,751
Total	$ 5,634	$ 23,868

(1) Of the total investment (loss) income from managed funds, $0 and $0.07 million is attributed to noncontrolling interest holders for the three months ended February 29, 2012 and February 28, 2011, respectively.

Asset management fees decreased by $4.2 million to $11.9 million for the three months ended February 29, 2012 as compared to the three months ended February 28, 2011. Consistent with lower assets under management in our global convertible bond funds and managed accounts compared to February 28, 2011, we recorded lower management and performance fees in the current quarter, which was partially offset by increased fees from our commodity programs due to customer asset inflows and performance of the programs relative to applicable benchmark indexes.

In January 2010, we sold our contracts to manage certain collateralized loan obligations (“CLOs”) to Babson Capital Management, LLC for which we received as consideration, entitlement for the remaining life of the contracts to receive a portion of the asset management fees. These fees are presented as Fixed income asset management fees in the table above. The returns on our remaining investments in the CLOs are included within Principal transaction revenues.

Income from our investments in managed funds decreased by $14.0 million to a loss of $6.3 million for the three months ended February 29, 2012, as compared to a gain of $7.8 million for the three months ended February 28, 2011. In the current quarter, asset depreciation in portfolio companies in private equity funds managed by a related party resulted in the investment loss. This compares with gains recognized on our investments in private equity funds for the three months ended February 28, 2011.

Assets under Management

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

	February 29, 2012	February 28, 2011
Assets under management(1):		
Equities	$ 315	$ 88
Convertibles	1,583	2,376
Commodities	632	76
Total	$ 2,530	$ 2,540

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

Assets under management at February 29, 2012 include a long-short equity managed account and funds launched in May 2011 and August 2011, respectively.

Change in Assets under Management

(in millions)	Three Months Ended February 29, 2012	Three Months Ended February 28, 2011	% Change
Balance, beginning of period	$ 2,284	$ 1,964	16%
Net cash flow in	144	361	
Net market appreciation	102	215	
	246	576	
Balance, end of period	$ 2,530	$ 2,540	0%

Net cash inflows of $144 million in the three months ended February 29, 2012 were primarily into our commodity programs due to new accounts gained and additional customer inflows, net of customer outflows from our global convertible bond funds. Net market appreciation of $102 million resulted from appreciation in the underlying assets of our global convertible bond funds and, to a lesser extent, our commodity funds.

The net increase in assets under management of $576 million during the three months ended February 28, 2011 is primarily attributable to new customer investments in our global convertible fund as well as market appreciation of the underlying assets and, to a lesser extent, new investments in our commodities funds.

Managed Accounts

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

(notional account value)	February 29, 2012	February 28, 2011
Managed Accounts:		
Equities	$ —	$ 148
Commodities	2,029	916
	$ 2,029	$ 1,064

Change in Managed Accounts

(notional account value) (in millions)	Three Months Ended February 29, 2012	Three Months Ended February 28, 2011
Balance, beginning of period	$ 1,612	$ 949
Net account additions	337	(12)
Net account appreciation	80	127
Balance, end of period	$ 2,029	$ 1,064

The increase in the notional account value of our Managed Accounts as compared to February 28, 2011, is primarily due to an increase in investors as result of the acquisition of Jefferies Bache in July 2011.

Invested Capital in Managed Funds

The following table presents our invested capital in managed funds at February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012	November 30, 2011
Unconsolidated funds(1)	$ 72,496	$ 70,224
Consolidated funds(2)	9,878	10,076
Total	$ 82,374	$ 80,300

(1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statements of Financial Condition.

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

Non-interest Expenses

Non-interest expenses for the three months ended February 29, 2012 and February 28, 2011, were as follows (in thousands):

	Three Months Ended	
	February 29, 2012	February 28, 2011
Compensation and benefits	$ 446,462	$ 442,892
Floor brokerage and clearing fees	27,838	28,132
Technology and communications	61,450	43,675
Occupancy and equipment rental	22,565	17,979
Business development	22,247	19,938
Professional services	13,693	13,276
Other	14,998	13,121
Total non-compensation expenses	$ 162,791	$ 136,121
Total non-interest expenses	$ 609,253	$ 579,013

Compensation and Benefits

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

Compensation and benefits expense totaled $446.5 million for the three months ended February 29, 2012, a 1% or $3.6 million increase as compared to the three months ended February 28, 2011, primarily due to higher average headcount both domestically and internationally in the current fiscal quarter. Employee headcount increased to 3,851 employees globally at February 29, 2012 as compared to 3,082 employees at February 28, 2011. Approximately 400 employees and 51 employees were added to our firm on July 1, 2011 and on February 1, 2012 in connection with the acquisitions of the Global Commodities Group and Hoare Govett, respectively. Compensation and benefits as a percentage of net revenues decreased from 58.4% for the three months ended February 28, 2011 to 57.2% for the current quarter in fiscal 2012 reflective of the mix of revenues for the three months ended February 29, 2012.

Included within compensation and benefits expense are share-based amortization expense for senior executive awards previously granted in January 2010, non-annual share-based and cash-based awards to other employees, including replacement stock and retention awards to Jefferies Bache and former Hoare Govett employees, and prior year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to $57.6 million in the first quarter of fiscal 2012 compared to $33.6 for the comparable 2011 quarter.

For the three months ended February 29, 2012, compensation and benefits expense included $5.8 million relating to the acquisition of the Global Commodities Group on July 1, 2011 and Hoare Govett on February 1, 2012, comprising amortization of retention and stock replacement awards granted to Jefferies Bache employees as replacement awards for previous Prudential stock awards that were forfeited as a result of the acquisition, amortization of retention awards granted to Hoare Govett employees and bonuses awarded to employees as a result of the completion of the Hoare Govett acquisition in February 2012. When excluding these costs, together with the bargain purchase gain of $3.4 million and the gain on debt extinguishment of $9.9 million recognized in Other revenues, our ratio of Compensation and benefits expense to Net revenues for the three months ended February 29, 2012 was 57.4%.

Non-Compensation Expenses

Non-compensation expenses were $162.8 million for the three months ended February 29, 2012, a 20% or $26.7 million increase, as compared to expenses of $136.1 million for the three months ended February 28, 2011. The increase from the first quarter 2011 was predominantly driven by the inclusion of the costs of the Global Commodities Group and higher technology and communication costs.

Technology and communications expense increased 41%, or $17.8 million, to $61.5 million for the three months ended February 29, 2012 versus an expense of $43.7 million for the first quarter of fiscal 2011. Exclusive of the effect of the Global Commodities Group, technology and communications expenses increased due to expansion of our business platforms and support infrastructure, driven by increased headcount, continued build out of our Asia businesses and corporate projects. Floor brokerage and clearing expenses were comparable with the three months ended February 28, 2011; however, exclusive of Jefferies Bache activity, floor brokerage and clearing expenses were down commensurate with lower equity trading volumes.

Business development costs increased 12%, or $2.3 million, to $22.2 million for the three months ended February 29, 2012 as compared to the three months ended February 28, 2011, due to continued efforts to build market share and further enhance the Jefferies brand, in particular our loan origination business conducted through our Jefferies Finance joint venture and our futures business. Occupancy and equipment expense increased 26%, or $4.6 million, to $22.6 million for the three months ended February 29, 2012 primarily due to the inclusion of office costs for Jefferies Bache and our office growth in Asia and Europe. Professional services expense increased 3% for the three months ended February 29, 2012, or $0.4 million, to $13.7 million primarily driven by legal and consulting fees related to the acquisition of the Global Commodities Group.

Non-compensation expenses as a percentage of net revenues was 21% for the three months ended February 29, 2012 as compared to 18% for the three months ended February 28, 2011.

Earnings Before Income Taxes

Earnings before income taxes was $148.9 million for the three months ended February 29, 2012, down from Earnings before income taxes of $162.9 million for the three months ended February 28, 2011.

Income Taxes

The provision for income taxes was a tax expense of $52.2 million, an effective tax rate of 35.0%, for the three months ended February 29, 2012, compared with a provision of $60.9 million, an effective tax rate of 37.4%, for the three months ended February 28, 2011. The decrease in our effective income tax rate for the three months ended February 29, 2012 as compared to the comparable period in the prior fiscal year is primarily attributable to the realization of unrecognized tax benefits related to state income taxes and the differences in the mix of taxable profits by business region.

Earnings per Common Share

Diluted net earnings per common share was $0.33 for the three months ended February 29, 2012 on 222,162,000 shares, compared to diluted net earnings per common share of $0.42 for the three months ended February 28, 2011 on 203,257,000 shares. See Note 18, Earnings Per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

Recent Accounting Developments

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

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

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

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

Critical Accounting Policies

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

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

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

Valuation of Financial Instruments

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

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased, as of February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012		November 30, 2011	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	$ 1,486,405	$1,517,197	$ 1,235,079	$1,330,096
Corporate debt securities	3,087,846	1,893,280	2,868,304	1,614,493
Government, federal agency and other sovereign obligations	5,052,529	4,279,673	7,471,563	3,209,713
Mortgage- and asset-backed securities	3,423,647	16,712	3,923,303	50,517
Loans and other receivables	427,134	93,606	376,146	151,117
Derivatives	312,156	201,245	525,893	249,037
Investments	105,719	—	105,585	—
Physical commodities	205,112	—	172,668	—
	$14,100,548	$8,001,713	$16,678,541	$6,604,973

At February 29, 2012 and November 30, 211 derivative liabilities included within Financial instruments sold, not yet purchased were comprised primarily of exchange traded equity options, over-the-counter ("OTC") foreign currency forwards and options, OTC commodity forwards and options, and interest rate and commodity swaps.

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

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 5, Financial Instruments, in our consolidated financial statements.

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

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	February 29, 2012	November 30, 2011	February 29, 2012	November 30, 2011
Residential mortgage-backed securities	$ 128,751	$ 149,965	$ —	$ —
Loans and other receivables	104,449	97,291	—	10,157
Investments at fair value	78,110	78,326	—	—
Collateralized debt obligations	72,576	47,988	—	—
Commercial mortgage-backed securities	35,792	52,407	—	—
Corporate debt securities	33,606	48,140	74	74
Corporate equity securities	30,269	13,489	11,511	—
Other asset-backed securities	5,389	3,284	—	—
Municipal securities	1,176	6,904	—	—
Sovereign obligations	140	140	—	—
Derivatives	120	124	8,430	9,409
Total Level 3 financial instruments	490,378	498,058	$ 20,015	$ 19,640
Level 3 financial instruments for which the firm bears no economic exposure(1)	(55,510)	(45,901)		
Level 3 financial instruments for which the firm bears economic exposure	434,868	452,157		
Investments in managed funds	73,015	70,740		
Level 3 assets for which the firm bears economic exposure(1)	$ 507,883	$ 522,897		
Total Level 3 assets	$ 563,393	$ 568,798		
Total Level 3 financial instruments as a percentage of total financial instruments	3%	3%	0.3%	0.3%

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

While our Financial instruments sold, not yet purchased, which are included within liabilities on our Consolidated Statements of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities included with Other liabilities of approximately $2.8 million and $3.8 million at February 29, 2012 and November 30, 2011, respectively.

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

	Three Months Ended	
	February 29, 2012	February 28, 2011
Assets:		
Transfers from Level 3 to Level 2	$ 41.5	$ 8.5
Transfers from Level 2 to Level 3	109.9	26.8
Net (losses) gains	(9.7)	40.1
Liabilities:		
Transfers from Level 3 to Level 2	$ 2.2	$ —
Transfers from Level 2 to Level 3	—	—
Net losses	(1.5)	(2.6)

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

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

Goodwill

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

Compensation and Benefits

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

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

Liquidity, Financial Condition and Capital Resources

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

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

Analysis of Financial Condition

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

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

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

	February 29, 2012	November 30, 2011	% Change
Total assets	$ 34,563.7	$ 34,971.4	-1%
Cash and cash equivalents	2,589.2	2,393.8	8%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,636.5	3,345.0	9%
Financial instruments owned	14,100.5	16,678.5	-15%
Financial instruments sold, not yet purchased	8,001.7	6,605.0	21%
Total Level 3 assets	563.4	568.8	-1%
Level 3 financial instruments for which we have economic exposure	434.9	452.2	-4%
Securities borrowed	$ 5,036.4	$ 5,169.7	-3%
Securities purchased under agreements to resell	4,434.6	2,893.0	53%
Total securities borrowed and securities purchased under agreements to resell	$ 9,471.0	$ 8,062.7	17%
Securities loaned	$ 1,829.1	$ 1,706.3	7%
Securities sold under agreements to repurchase	8,576.9	9,620.7	-11%
Total securities loaned and securities sold under agreements to repurchase	$ 10,406.0	$ 11,327.0	-8%

Total assets at February 29, 2012 were essentially unchanged from November 30, 2011 as management decided to reduce trading balances and leverage to demonstrate the underlying liquidity of our trading assets and liabilities at year end and has primarily maintained this liquidity approach. The reduction in trading balances was done across asset classes and fair value hierarchy levels. During the three months ended February 29, 2012, average total assets were approximately 22% higher than total assets at February 29, 2012.

As a futures commission merchant, Jefferies Bache, LLC (our U.S. futures commission merchant) and Jefferies Bache Limited (our U.K. commodities and financial futures broker-dealer), receive cash or securities as margin to secure customer futures trades. As a result of the acquisition of this business and the related margin requirements for such activity, the balance of cash and securities segregated increased at November 30, 2011 from prior years and remains consistent at February 29, 2012 with levels expected for this business activity. Jefferies & Company, Inc. (a U.S. broker-dealer), under SEC Rule 15c3-3, and Jefferies Bache, LLC, under CFTC Regulation 1.25, are required to maintain customer cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients. We are required to conduct customer segregation calculations to ensure the appropriate amounts of funds are segregated and that no customer funds are used to finance firm activity. Similar requirements exist with respect to our U.K.-based activities conducted through Jefferies Bache Limited and Jefferies International Limited (a U.K. broker-dealer). Customer funds received are separately segregated and “locked-up” apart from our funds. If we rehypothecate customer securities, that activity is conducted only to finance customer activity. Additionally, we do not lend customer cash to counterparties to conduct securities financing activity (i.e., we do not lend customer cash to reverse in securities). Further, we have no customer loan activity in Jefferies International Limited and we do not have any European prime brokerage operations. In Jefferies Bache Limited, any funds received from a customer are placed on deposit and not used as part of our operations. We do not transfer U.S. customer assets to our U.K. entities.

Our total financial instruments owned inventory at February 29, 2012 decreased by $2.6 billion to $14.1 billion as compared to November 30, 2011, resulting from a $3.8 billion decrease in U.S. government and agency securities partially offset by a $1.4 billion increase in Sovereign obligation securities. Our Financial instruments sold, not yet purchased increased to $8.0 billion from $6.6 billion at November 30, 2011 of which Sovereign obligation securities accounted for $1.1 billion of the increase. Sovereign inventory on our Rates desk moved from a net short position of $131.5 million at November 30, 2011 to a net long of $140.5 million at February 29, 2012, driven by increases in securities of western Europe sovereigns (excluding Portugal, Ireland, Italy, Greece and Spain).

As a Primary Dealer in the U.S. and our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. For further detail on our outstanding sovereign exposure to Portugal, Ireland, Italy, Greece and Spain as of February 29, 2012, refer to the Risk Management section within Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, within this Quarterly Report on Form 10-Q.

Our net inventory positions decreased by $4.0 billion to $6.1 billion as of February 29, 2012 from $10.1 billion as of November 30, 2011 with U.S. government and agency securities accounting for $3.8 billion of the decrease. Our net mortgage- and asset-backed securities inventory decreased by 12%, from $3.8 billion at November 30, 2011 to $3.4 billion at February 29, 2012. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets.

Of our total Financial instruments owned, approximately 80% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of our policy, a portion of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Further, our Financial instruments owned consists of high yield bonds, bank loans, investments and non-agency mortgage-backed securities that are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent than the haircuts used in the market for secured funding; and we maintain surplus capital at these maximum levels.

At February 29, 2012 and November 30, 2011, our Level 3 financial instruments owned for which we have economic exposure was 3% and 3%, respectively, of our total financial instruments owned. Level 3 mortgage- and asset-backed securities represent 5% and 5% of total mortgage- and asset-backed securities at February 29, 2012 and November 30, 2011, 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. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 17% from November 30, 2011 to February 29, 2012 due to an increase in the use of secured financing activity to support our fixed income business, specifically in connection with an overall increase in short sovereign obligation positions. The outstanding balance of our securities loaned and securities sold under agreements to repurchase decreased by 8% from November 30, 2011 to February 29, 2012, consistent with the small decline in overall long inventory for the first quarter of 2012. Additionally, during the three months ended February 29, 2012, and consistent with fiscal 2011, we utilized more repurchase agreements executed with central clearing corporations rather than bi-lateral repurchase agreements, which reduces the credit risk associated with these arrangements and results in decreased net outstanding balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the three months ended February 29, 2012, were 3% and 19% higher, respectively, than the February 29, 2012 balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the year ended November 30, 2011, were 67% and 37% higher, respectively, than the November 30, 2011 balances.

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

	Three Months Ended February 29, 2012	Twelve Months Ended November 30, 2011
Securities Purchased Under Agreements to Resell		
Period end	$ 4,435	$ 2,893
Month end average	4,584	4,780
Maximum month end	4,988	6,956
Securities Sold Under Agreements to Repurchase		
Period end	$ 8,577	$ 9,621
Month end average	10,443	13,024
Maximum month end	11,396	18,231

The decrease in securities sold under agreements to repurchase in the current quarter as compared to the prior year is as a result of, in November 2011, reducing our trading inventory as part of an overall strategy to reduce our leverage and demonstrate the liquidity of our trading positions.

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented are influenced in any given period by our clients' balances and our clients' desires to execute collateralized financing arrangements via the repurchase market or via other financing products. Average balances and period end balances will fluctuate based on market and liquidity conditions and we consider the fluctuations intraperiod to be typical for the repurchase market.

Leverage Ratios

The following table presents total assets, adjusted assets, total stockholders' equity and tangible stockholders' equity with the resulting leverage ratios as of February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012	November 30, 2011
Total assets	$34,563,740	$34,971,422
Deduct: Securities borrowed	(5,036,447)	(5,169,689)
Securities purchased under agreements to resell	(4,434,611)	(2,893,043)
Add: Financial instruments sold, not yet purchased	8,001,713	6,604,973
Less derivative liabilities	(201,245)	(249,037)
Subtotal	7,800,468	6,355,936
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(3,636,531)	(3,344,960)
Goodwill and intangible assets	(385,335)	(385,589)
Adjusted assets	$28,871,284	$29,534,077
Total stockholders' equity	$ 3,619,921	$ 3,536,975
Deduct: Goodwill and intangible assets	(385,335)	(385,589)
Tangible stockholders' equity	$ 3,234,586	$ 3,151,386
Leverage ratio(1)	9.5	9.9
Adjusted leverage ratio(2)	8.9	9.4

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

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

Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self-financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. With total assets essentially unchanged, our leverage ratio and adjusted leverage ratio decreased from November 30, 2011 to February 29, 2012 due to the reduction in our net trading inventory, partially offset by increases in securities purchased under agreements to resell and stockholders' equity.

Liquidity Management

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

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

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

Cash Capital Policy. We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of $8.3 billion as of February 29, 2012 exceeded our cash capital requirements.

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

- Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.
- Severely challenged market environment with material declines in equity markets and widening of credit spreads.
- Damaging follow-on impacts to financial institutions leading to the failure of a large bank.
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

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

- Liquidity needs over a 30-day scenario.
- A two-notch downgrade of our long-term senior unsecured credit ratings.
- No support from government funding facilities.
- A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.
- No diversification benefit across liquidity risks. We assume that liquidity risks are additive.

The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

- All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.
- Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.
- A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration.
- Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives and other outflows due to trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings.
- Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives and any increase in initial margin and guarantee fund requirements by derivative clearing houses.
- Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions.

- Liquidity outflows to clearing banks to ensure timely settlements of cash and securities transactions.
- Draws on our unfunded commitments considering, among other things, the type of commitment and counterparty.
- Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At February 29, 2012, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

Sources of Liquidity

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

	February 29, 2012	Average balance Quarter ended February 29, 2012(1)	November 30, 2011
Cash and cash equivalents:			
Cash in banks	$ 636,452	$ 764,314	$ 846,990
Money market investments	1,952,741	1,025,329	1,546,807
Total cash and cash equivalents	2,589,193	1,789,643	2,393,797
Other sources of liquidity:			
Securities purchased under agreements to resell(2)	282,465	452,212	233,887
U.K. liquidity pool(2)	386,179	274,146	303,416
Other(3)	313,294	395,483	509,491
Total other sources	981,938	1,121,841	1,046,794
Total cash and cash equivalents and other liquidity sources	$3,571,131	$ 2,911,484	$3,440,591

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

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

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

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. We have the ability to readily obtain repurchase financing for 80% of our inventory at haircuts of 10% or less, which reflects the marketability of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at February 29, 2012 and November 30, 2011 (in thousands):

	February 29, 2012		November 30, 2011	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments(2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments(2)
Corporate equity securities	$ 1,473,594	$ 140,586	$ 1,105,271	$ 297,408
Corporate debt securities	1,961,871	114,069	2,193,821	48,503
U.S. Government, agency, and municipal securities	2,238,792	68,405	6,109,749	19,003
Other sovereign obligations	2,614,505	353,431	1,166,577	336,453
Agency mortgage- and asset-backed securities(1)	2,790,284	—	3,249,366	—
Physical commodities	205,112	—	172,668	88,307
	$ 11,284,158	$ 676,491	$ 13,997,452	$ 789,674

(1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These securities include pass-through securities, securities backed by adjustable rate mortgages ("ARMs"), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been.

Average liquid financial instruments for the three months ended February 29, 2012 were approximately $17.8 billion.

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

Sources of Funding and Capital Resources

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

Secured Financing

We rely principally on secured and readily available funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short term secured funding, primarily through securities financing transactions. We do not use or rely on "wholesale funding," a catch-all term typically used to refer to unsecured short-term funding, such as brokered deposits, foreign deposits or commercial paper. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively "repos"), respectively. Approximately 89% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

During fiscal 2011, and despite the increasingly uncertain economic situation in Europe and elsewhere, we continued to gain access to additional liquidity providers and increased funding availability both in terms of asset classes being financed and the term of the financing being offered. Near the end of the third quarter, given the instability and possible credit tightening of European banks, we began to execute more of our financing of European Sovereign inventory using central clearinghouse financing arrangements rather than via bi-lateral arrangements repo agreements. For those asset classes not eligible for central clearinghouse financing, we successfully increased the term of the bi-lateral financings. The remaining 11% of our outstanding repo balances is currently contracted bi-laterally of which a significant portion is on a term basis. The following table provides detail on the composition of our outstanding repurchase agreements at February 29, 2012 (in millions):

	Repo Profile by Instrument Type				
Contract Type	**Total Contract Amount**	**Clearing Organization Eligible**	**% of Total**	**Non-Eligible**	**% of Total**
Treasury	$ 7,516	$ 7,516	100%	$ —	0%
Sovereign	2,247	2,247	100%	—	0%
Agency Debt	1,784	1,784	100%	—	0%
Agency MBS	5,459	4,470	82%	989	18%
Non-Agency MBS/ABS	375	—	0%	375	100%
Corporate Debt	805	151	19%	654	81%
Municipal	66	—	0%	66	100%
Other	4	1	25%	3	75%
	$ 18,256	$ 16,169	89%	$ 2,087	11%

This is augmented by our $937.5 million of uncommitted secured and unsecured bank lines, comprised of $925.0 million of bank lines and $12.5 million of letters of credit. Of the $925.0 million uncommitted bank lines, $775.0 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.

Short-term Borrowings

Bank loans represent temporary (usually overnight) secured and unsecured short term borrowings, which are generally payable on demand and generally bear interest at a spread over the federal funds rate. Bank loans that are unsecured are typically overnight loans used to finance financial instruments owned or clearing related balances. Average daily bank loans for the three months ended February 29, 2012 and the year ended November 30, 2011 were $0 and $12.0 million, respectively. In addition to bank loans, we have a one year $100.0 million term loan with Prudential Financial, Inc. to provide working capital as needed to the Jefferies Bache entities. Borrowings under the Prudential facility were $100.0 million at February 29, 2012.

Long-term Debt and Long-term Capital

We had total long-term capital of $8.3 billion and $8.2 billion resulting in a long-term debt to equity capital ratio of 1.30:1 and 1.33:1 at February 29, 2012 and November 30, 2011, respectively. Our total capital base as of February 29, 2012 and November 30, 2011 was as follows (in thousands):

	February 29, 2012	November 30, 2011
Long-Term Debt(1)	$4,242,808	$4,254,000
Mandatorily Redeemable Convertible Preferred Stock	125,000	125,000
Mandatorily Redeemable Preferred Interest of Consolidated Subsidiaries	332,378	310,534
Total Stockholders' Equity	3,619,921	3,536,975
Total Capital	$8,320,107	$8,226,509

(1) Long-term debt for purposes of evaluating long-term capital at February 29, 2012 and November 30 2011 excludes $253.3 million and $254.9 million, respectively, of our 7.75% Senior Notes as the notes mature in less than one year from the balance sheet date and excludes $250.0 million and $100.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility.

In ensuring a stable and adequate long-term capital base, we raised $430 million of common equity in April 2008; and in connection with our announcement of the $422 million acquisition of Prudential Bache's Global Commodities Group, in April 2011, we raised $500 million of additional common equity and $800 million in unsecured senior notes with a maturity of seven years. On August 26, 2011 we entered into a committed senior secured revolving credit facility ("Credit Facility") with a group of commercial banks in Dollars, Euros and Sterling, in aggregate totaling $950.0 million, of which $250.0 million can be borrowed unsecured. At February 29, 2012 and November 30, 2011, we had borrowings outstanding under the Credit Facility amounting to $250.0 million and $100.0 million, respectively. These long-term capital raises and the Credit Facility exceeds the needs of Jefferies Bache and provides us with additional liquidity.

Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility terminates on August 26, 2014. Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. The Credit Facility is guaranteed by Jefferies Group, Inc. and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group, Inc. to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis, a financial officer of Jefferies Group, Inc. provides a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At February 29, 2012 and November 30, 2011, the minimum tangible net worth requirement was $2,097.4 million and $2,058.8 million, respectively and the minimum liquidity requirement was $416.0 million and $411.0 million, respectively for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred and we expect to remain in compliance both in the near term and long term given our current liquidity, anticipated additional funding requirements given our business plan and profitability expectations. While our subsidiaries are restricted under the Credit Facility from incurring additional indebtedness beyond trade payable and derivative liabilities in the normal course of business, we do not believe that these restrictions will have a negative impact on our liquidity.

Our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November and December 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases and sales of our debt were treated as debt extinguishment and debt reissuance, respectively. We recognized a $9.9 million gain on debt extinguishment which is reported in Other revenues for the three months ended February 29, 2012. The balance of Long-term debt has been reduced by $37.1 million as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011, which is being amortized over the remaining life of the debt using the effective yield method.

As of February 29, 2012, our long-term debt has an average maturity exceeding 9 years, excluding the Credit Facility and the 7.75% Senior Notes due on March 15, 2012. We have no other scheduled debt maturities until the $250.0 million 5.875% Senior Note matures in 2014.

Our long-term debt ratings are as follows:

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

There were no changes to our long-term debt ratings from the previous quarter. Subsequent to November 30, 2011, Fitch Ratings and Moody's Investors Service reaffirmed our credit ratings taking into account recent events, including the bankruptcy of MF Global Holdings, Ltd., investors' heightened focus on balance sheet liquidity, the composition of our balance sheet and recent actions we have taken with regard to our balance sheet composition. On January 27, 2012, Standards and Poor's revised our outlook from Stable to Negative citing the soft market environment for investment banking and sales and trading.

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 in turn impact certain trading revenues, particularly where collateral agreements are referenced to our external credit ratings. In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties in the event of a credit rating downgrade. At February 29, 2012, the amount of additional collateral that could be called by counterparties under the terms of such agreements in the event of a one-notch downgrade of our long-term credit rating was $46.8 million and $134.3 million could be called in the event of a two-notch downgrade.

Contractual Obligations and Commitments

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of February 29, 2012. The table presents principal cash flows with expected maturity dates (in millions):

	Expected Maturity Date					
	2012	2013	2014 and 2015	2016 and 2017	2018 and Later	Total
Debt obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	$ 253.3	$ —	$ 748.6	$ 349.1	$3,145.1	$ 4,496.1
Senior secured revolving credit facility	—	—	250.0	—	—	250.0
Short-term Prudential loan	—	100.0	—	—	—	100.0
Interest payment obligations on senior notes	264.5	258.8	494.8	415.6	1,020.8	2,454.5
Mandatorily redeemable convertible preferred stock	—	—	—	—	125.0	125.0
Interest payment obligations on Mandatorily redeemable convertible preferred stock	4.1	4.1	8.1	8.1	73.6	98.0
	521.9	362.9	1,501.5	772.8	4,364.5	7,523.6
Commitments and guarantees:						
Equity commitments	0.3	0.2	8.2	—	569.1	577.8
Loan commitments	89.3	51.9	464.6	36.1	—	641.9
Mortgage-related commitments	818.5	—	724.0	90.9	—	1,633.4
Forward starting reverse repos and repos	600.3	—	—	—	—	600.3
Derivative contracts:						
Derivative contracts — non credit related	25,026.8	3,040.8	46,828.4	—	—	74,896.0
Derivative contracts — credit related	—	—	5.0	350.1	44.6	399.7
	26,535.2	3,092.9	48,030.2	477.1	613.7	78,749.1
	$27,057.1	$3,455.8	$49,531.7	$1,249.9	$4,978.2	$86,272.7

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

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

We are routinely involved with variable interest entities ("VIEs") in connection with our mortgage-backed securities securitization activities. VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. Where we are the primary beneficiary of a VIE, such as is the case with Jefferies High Yield Holdings, LLC, we consolidate the VIE. We do not generally consolidate the various VIEs related to our mortgage-backed securities securitization activities because we are not the primary beneficiary.

At February 29, 2012, we did not have any commitments to purchase assets from our securitization vehicles. At February 29, 2012, we held $184.0 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial instruments owned on our Consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 8, Securitization Activities and Note 9, Variable Interest Entities, in our consolidated financial statements.

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

Equity Capital

Common stockholders' equity increased to $3,287.7 million at February 29, 2012 from $3,224.3 million at November 30, 2011. The increase in our common stockholders' equity during the three months ended February 29, 2012 is principally attributed to 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 dividends paid during the three months ended February 29, 2012 and repurchases of approximately 3.2 million shares of our common stock during the period for $47.9 million.

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

	February 29, 2012	November 30, 2011
Common stockholders' equity	$ 3,287,677	$ 3,224,312
Less: Goodwill and intangible assets	(385,335)	(385,589)
Tangible common stockholders' equity	$ 2,902,342	$ 2,838,723
Common stockholders' equity	$ 3,287,677	$ 3,224,312
Add: Unrecognized compensation(6)	184,914	199,309
Adjusted common stockholders' equity	$ 3,472,591	$ 3,423,621
Tangible common stockholders' equity	$ 2,902,342	$ 2,838,723
Add: Unrecognized compensation(6)	184,914	199,309
Adjusted tangible common stockholders' equity	$ 3,087,256	$ 3,038,032
Shares outstanding	205,818,784	197,160,006
Outstanding restricted stock units(5)	22,563,551	23,962,020
Year-end restricted stock awards(7)	—	6,339,000
Adjusted shares outstanding	228,382,335	227,461,026
Common book value per share(1)	$ 15.97	$ 16.35
Adjusted common book value per share(2)	$ 15.21	$ 15.05
Tangible common book value per share(3)	$ 14.10	$ 14.40
Adjusted tangible common book value per share(4)	$ 13.52	$ 13.36

(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.

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

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

At February 29, 2012, we have $125.0 million of Series A convertible preferred stock outstanding, which is convertible into 4,110,128 shares of our common stock at an effective conversion price of approximately $30.41 per share and $345.0 million of convertible senior debentures outstanding, which is convertible into 9,094,304 shares of our common stock at an effective conversion price of approximately $37.94 per share.

The following table sets for the declaration dates, record dates, payment dates and per common share amounts for the dividends declared during the three months ended February 29, 2012 and twelve months ended November 30, 2011:

Declaration Date	Record Date	Payment Date	Dividend per common share
Three months ended February 29, 2012:			
December 19, 2011	January 17, 2012	February 15, 2012	$0.075
Twelve months ended November 30, 2011:			
December 17, 2010	January 27, 2011	February 15, 2011	$0.075
March 21, 2011	April 15, 2011	May 16, 2011	$0.075
June 20, 2011	July 15, 2011	August 15, 2011	$0.075
September 20, 2011	October 17, 2011	November 15, 2011	$0.075

Additionally, on March 19, 2012, a quarterly dividend was declared of $0.075 per share of common stock payable on May 15, 2012 to stockholders of record as of April 16, 2012.

Net Capital

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

As of February 29, 2012, Jefferies, Jefferies Execution, Jefferies High Yield Trading and Jefferies Bache, LLC’s net capital, adjusted net capital, and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	$ 961,360	$915,567
Jefferies Execution	10,470	10,220
Jefferies High Yield Trading	575,342	575,092

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	$ 230,276	$ 74,238

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

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

Risk Management

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

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

For discussion of liquidity and capital risk management refer to, “Liquidity, Financial Condition and Capital Resources” within Item 2. Management’s Discussion and Analysis in this Quarterly Report on Form 10-Q.

Governance and Risk Management Structure

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

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

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

- *Market Risk Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.
- *Independent Price Verification Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.
- *Operational Risk Policy* — This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.
- *Credit Risk Policy* — This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

Risk Management Key Metrics

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

Market Risk

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

Value-at-Risk

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

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

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

The VaR numbers below are shown separately for interest rate, equity, currency and commodity products, as well as for our overall trading positions, excluding corporate investments in asset management positions, using the past 365 days of historical date. The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated. The following table illustrates the VaR for each component of market risk (in millions).

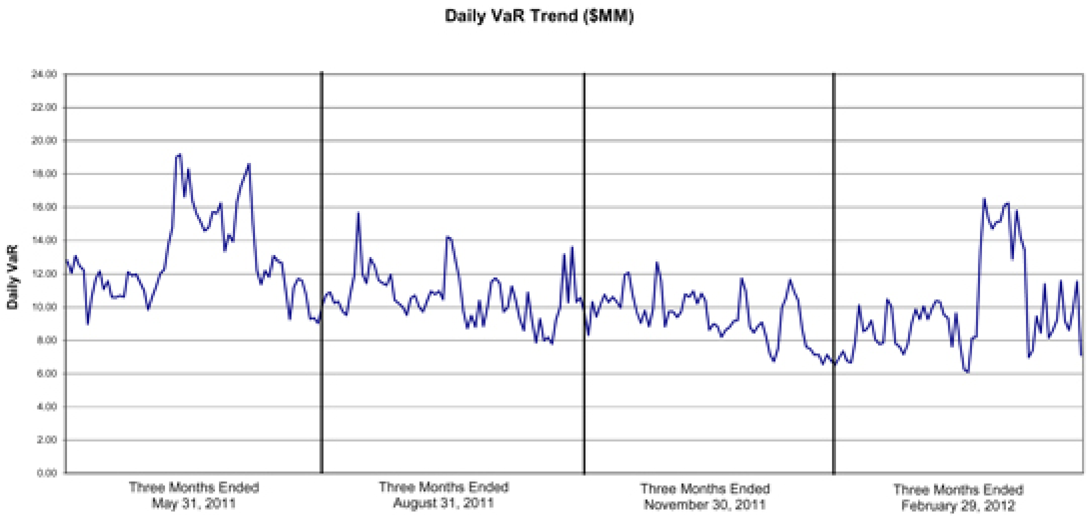
	Daily VaR(1) Value-at-Risk In Trading Portfolios							
	VaR as of		Daily VaR for the Three Months Ended					
Risk Categories	February 29, 2012	November 30, 2011	February 29, 2012			November 30, 2011		
			Average	High	Low	Average	High	Low
Interest Rates	$ 5.72	$ 6.17	$ 5.98	$ 9.84	$4.53	$ 9.25	$13.15	$6.13
Equity Prices	2.17	2.06	4.97	13.81	1.54	3.03	6.87	1.25
Currency Rates	1.15	0.32	0.68	1.16	0.29	0.69	2.07	0.15
Commodity Prices	1.23	1.25	1.13	2.01	0.45	1.32	2.30	0.69
Diversification Effect(2)	(3.16)	(3.29)	(2.86)	N/A	N/A	(4.86)	N/A	N/A
Firmwide	$ 7.11	$ 6.51	$ 9.90	$16.51	$6.10	$ 9.43	$12.71	$6.51

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

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

Average VaR of $9.9 million during the three months ended February 29, 2012 increased from the $9.43 million average during the three months ended November 30, 2011. The increase is due mainly to higher equity exposure, primarily driven by equity block trades and capital markets related positions, and reduced diversification benefits, partially offset by a decline in the average VaR attributable to interest rate risk. Average VaR value for interest rates decreased due to reduced Euro rates positions and reduced holdings of mortgage-backed securities.

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

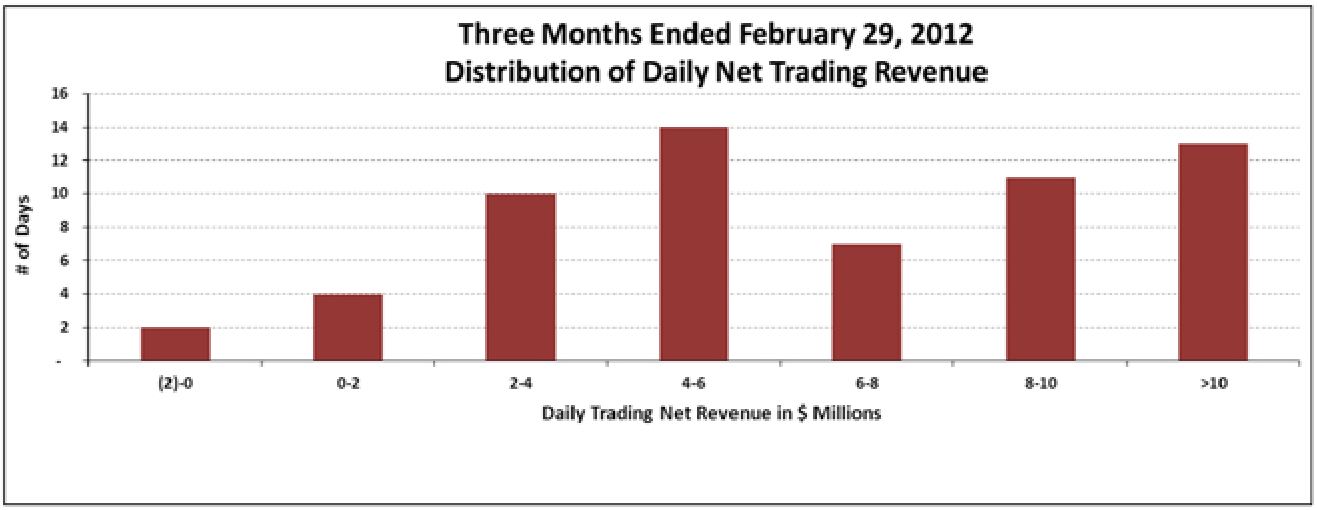


During the three months ended February 29, 2012, the significant increase in our daily VaR for a period of time resulted from higher equity exposure, primarily driven by an equity block trade. At February 29, 2012, we sold equity futures contracts that resulted in a decline in equity VaR at quarter end.

The comparison of actual daily net revenue fluctuations with the daily VaR estimate is the primary method used to test the efficacy of the VaR model. This is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. At a 95% confidence one day VaR model, net trading losses would not be expected to exceed VaR estimates more than twelve times (1 out of 20 days) on an annual basis. Trading related revenue is defined as principal transaction revenue, trading related commissions and net interest income. Results of the process at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR in the three months ended February 29, 2012.

Daily Net Trading Revenue

The chart below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the three months ended February 29, 2012 (in millions).



There were two days with trading losses out of a total of 61 trading days in the three months ended February 29, 2012.

Scenario Analysis and Stress Tests

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

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

Counterparty Credit Risk and Issuer Country Exposure

Counterparty Credit Risk

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract. We are exposed to credit risk as trading counterparty to other broker-dealers and customers, as a direct lender and through extending loan commitments, as a holder of securities and as a member of exchanges and clearing organizations.

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

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

- defining credit limit guidelines and credit limit approval processes;
- providing a consistent and integrated credit risk framework across the enterprise;
- approving counterparties and counterparty limits with parameters set by the Risk Management Committee;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- delivering credit limits to all relevant sales and trading desks;
- maintaining credit reviews for all active and new counterparties;
- operating a control function for exposure analytics and exception management and reporting;
- determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- actively managing daily exposure, exceptions, and breaches;
- monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and
- setting the minimum global requirements for systems, reports, and technology.

Credit Exposures

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

- Loans and lending arise in connection with our capital markets activities and represents the fair value of loans that have been drawn by the borrower and lending commitments that were outstanding at February 29, 2012.
- Securities and margin finance includes credit exposure arising on securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements) to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.
- Derivatives represent over-the-counter ("OTC") derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement. Derivatives are accounted for at fair value net of cash collateral received or posted under credit support agreements. In addition, credit exposures on forward settling trades are included within our derivative credit exposures.
- Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks.

Current counterparty credit exposures at February 29, 2012 and November 30, 2011 are summarized in the table below and provided by credit quality, region and industry. Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at February 29, 2012, excluding cash and cash equivalents, 80% are investment grade counterparties, compared to 82% at November 30, 2011, and are mainly concentrated in North America. Of the credit exposure in Europe, approximately 84% are investment grade counterparties, with the largest exposures arising from securities and margin financing products. When comparing our credit exposure at February 29, 2012 with credit exposure at November 30, 2011, excluding cash and cash equivalents, current exposure has declined 7% to approximately $716 million from $773 million. The decrease is primarily due to a reduction in OTC metal derivatives and foreign exchange contracts.

Counterparty Credit Exposure by Credit Rating

(in millions)	Loans and Lending As of February 29, 2012	Loans and Lending As of November 30, 2011	Securities and Margin Finance As of February 29, 2012	Securities and Margin Finance As of November 30, 2011	OTC Derivatives As of February 29, 2012	OTC Derivatives As of November 30, 2011	Total As of February 29, 2012	Total As of November 30, 2011	Cash and Cash Equivalents As of February 29, 2012	Cash and Cash Equivalents As of November 30, 2011	Total with Cash and Cash Equivalents As of February 29, 2012	Total with Cash and Cash Equivalents As of November 30, 2011
AAA Range	—	—	4.1	0.4	—	—	4.1	0.4	1,952.7	1,546.3	1,956.8	1,546.6
AA Range	—	—	85.3	80.9	46.8	116.7	132.1	197.6	198.8	211.8	330.9	409.4
A Range	—	—	219.5	227.6	133.0	149.5	352.5	377.1	436.4	634.6	788.9	1,011.7
BBB Range	7.4	—	55.8	41.5	21.2	20.3	84.4	61.8	1.2	1.7	85.6	63.5
BB or Lower	21.1	7.7	89.4	81.4	10.7	19.6	121.2	108.7	0.1	—	121.3	108.7
Unrated	19.4	21.8	—	—	2.4	6.0	21.8	27.7	—	—	21.8	27.7
Total	47.9	29.4	454.1	431.8	214.1	312.1	716.1	773.3	2,589.2	2,394.3	3,305.3	3,167.6

Counterparty Credit Exposure by Region

(in millions)	Loans and Lending As of February 29, 2012	Loans and Lending As of November 30, 2011	Securities and Margin Finance As of February 29, 2012	Securities and Margin Finance As of November 30, 2011	OTC Derivatives As of February 29, 2012	OTC Derivatives As of November 30, 2011	Total As of February 29, 2012	Total As of November 30, 2011	Cash and Cash Equivalents As of February 29, 2012	Cash and Cash Equivalents As of November 30, 2011	Total with Cash and Cash Equivalents As of February 29, 2012	Total with Cash and Cash Equivalents As of November 30, 2011
Asia/Latin America/Other	—	—	61.9	75.7	6.4	30.2	68.3	105.9	42.6	14.1	110.9	120.0
Europe	—	—	178.2	194.3	112.0	117.2	290.2	311.5	363.3	509.2	653.5	820.7
North America	47.9	29.4	214.0	161.9	95.7	164.6	357.6	355.9	2,183.3	1,871.0	2,540.9	2,226.9
Total	47.9	29.4	454.1	431.8	214.1	312.1	716.1	773.3	2,589.2	2,394.3	3,305.3	3,167.6

Counterparty Credit Exposure by Industry

(in millions)	Loans and Lending As of February 29, 2012	Loans and Lending As of November 30, 2011	Securities and Margin Finance As of February 29, 2012	Securities and Margin Finance As of November 30, 2011	OTC Derivatives As of February 29, 2012	OTC Derivatives As of November 30, 2011	Total As of February 29, 2012	Total As of November 30, 2011	Cash and Cash Equivalents As of February 29, 2012	Cash and Cash Equivalents As of November 30, 2011	Total with Cash and Cash Equivalents As of February 29, 2012	Total with Cash and Cash Equivalents As of November 30, 2011
Asset Managers	—	—	64.4	64.2	0.3	3.3	64.7	67.5	1,952.7	1,546.3	2,017.4	1,613.8
Banks, Broker-dealers	—	—	261.1	255.7	146.4	214.1	407.5	469.7	636.5	848.0	1,044.0	1,317.8
Commodities	—	—	28.4	41.5	41.5	34.2	69.9	75.8	—	—	69.9	75.8
Other	47.9	29.4	100.2	70.4	25.9	60.4	174.0	160.3	—	—	174.0	160.3
Total	47.9	29.4	454.1	431.8	214.1	312.1	716.1	773.3	2,589.2	2,394.3	3,305.3	3,167.6

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

Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk at the country of legal jurisdiction or domicile of the obligor's ultimate group parent. The following table reflects our top exposure at February 29, 2012 to the sovereign governments, corporations and financial institutions in those non-U.S. countries in which we have a net long issuer and counterparty exposure (the second table reflects our exposure to those same countries at November 30, 2011 year end) (in millions):

	As of February 29, 2012							
	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Germany	$ 635.3	$ (264.7)	$ (50.9)	$ 33.1	$ 13.9	$ 42.7	$ 366.7	$ 409.4
Great Britain	1,119.7	(895.1)	(61.3)	26.3	41.1	153.2	230.7	383.9
France	376.3	(248.4)	(2.0)	15.7	9.8	46.1	151.4	197.5
Switzerland	111.6	(100.2)	32.7	22.0	30.9	35.2	97.0	132.2
Netherlands	462.3	(383.3)	(15.1)	63.3	4.5	0.1	131.7	131.8
Canada	89.7	(70.4)	(10.2)	60.0	9.9	—	79.0	79.0
Japan	43.4	(29.7)	—	15.9	5.3	38.1	34.9	73.0
Poland	59.9	(7.7)	—	—	—	—	52.2	52.2
Panama	39.7	(0.5)	—	—	—	—	39.2	39.2
Norway	45.6	(17.4)	1.5	—	1.1	—	30.8	30.8
Total	$ 2,983.5	$ (2,017.4)	$ (105.3)	$ 236.3	$ 116.5	$ 315.4	$ 1,213.6	$ 1,529.0

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

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

At February 29, 2012, we had no meaningful exposure to the sovereign debt of Portugal, Ireland, Italy, Greece and Spain. As detailed below, our net exposure to that sovereign debt was short $123.9 million, which is approximately 3.4% of stockholders' equity. Moreover, our sovereign debt positions in the countries of Portugal, Ireland, Italy, Greece and Spain continue to be generally offset by country and maturity.

The table below reflects not only our exposure to the sovereign debt of Portugal, Ireland, Italy, Greece and Spain at February 29, 2012 but also includes our exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries. This table is presented in a manner consistent with how management views and monitors these exposures as part of our risk management framework. Our issuer exposure to these European countries arises primarily in the context of our market making activities and our role as a major dealer in the debt securities of these countries. Accordingly, our issuer risk arises due to holding securities as long and short inventory, which does not carry counterparty credit exposure. While the economic derivative hedges are presented on a notional basis, we believe this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of the hedges. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities. Additional information relating to the derivative contracts, including the fair value of the derivative positions, is included in the following pages.

(in millions)	Sovereigns	Corporations	Financial Institutions	Mortgage- and Asset-Backed Securities	Total
Financial instruments owned — Debt securities					
Portugal	$ 5.0(4)	$ 6.0	$ 4.4(4)	$ 17.1	$ 32.5
Ireland	113.4(4)	4.8	9.4(4)	—	127.6
Italy	508.7(4)	12.2	9.8(4)	7.3	538.0
Greece	—(4)	11.4	0.3(4)	2.5	14.2
Spain	50.4(4)	14.3	95.8(4)	36.6	197.1
Total fair value of long debt securities(1)	677.5(4)	48.7	119.7(4)	63.5	909.4
Financial instruments sold — Debt securities					
Portugal	6.0	3.4	6.2	—	15.6
Ireland	89.4	25.4	3.7	—	118.5
Italy	581.0	21.3	26.8	—	629.1
Greece	—	0.7	0.2	—	0.9
Spain	114.8	35.6	88.9	—	239.3
Total fair value of short debt securities(2)	791.2	86.4	125.8	—	1,003.4
Total net fair value of debt securities	(113.7)	(37.7)	(6.1)	63.5	(94.0)
Derivative contracts — long notional exposure					
Portugal	—	—	—	—	—
Ireland	—	8.7	—	—	8.7
Italy	20.4(6)	5.2	—	—	25.6
Greece	5.0(5)	0.2	—	—	5.2
Spain	—	11.8	0.3	—	12.1
Total notional amount — long	25.4	25.9	0.3	—	51.6
Derivative contracts — short notional exposure					
Portugal	—	—	—	—	—
Ireland	10.0(7)	3.0	—	—	13.0
Italy	20.6(6)	9.1	73.4	—	103.1
Greece	5.0(5)	0.6	—	—	5.6
Spain	—	2.0	26.7	—	28.7
Total notional amount — short	35.6	14.7	100.1	—	150.4
Total net derivative notional exposure(3)	(10.2)	11.2	(99.8)	—	(98.8)
Total net exposure to select European countries	$ (123.9)	$ (26.5)	$ (105.9)	$ 63.5	$ (192.8)

(1) Long securities represent the fair value of debt securities and are presented within Financial instruments owned — corporate debt securities and government, federal agency and other sovereign obligations and mortgage- and asset-backed securities on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

(2) Short securities represent the fair value of debt securities sold short and are presented within Financial instruments sold, not yet purchased — corporate debt securities and government, federal agency and other sovereign obligations on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

(3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.

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

(5) These offsetting positions contain no material net market risk.

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

(7) This position represents purchased protection executed with an investment grade multi-national bank.

(in millions)	Portugal	Ireland	Italy	Greece	Spain	Total
Financial instruments owned:						
Long sovereign debt securities(1)	$ 5.0	$113.4	$ 508.7	$ —	$ 50.4	$ 677.5
Long non-sovereign debt securities(1)	27.5	14.2	29.3	14.2	146.7	231.9
Total long debt securities	32.5	127.6	538.0	14.2	197.1	909.4
Financial instruments sold, not yet purchased:						
Short sovereign debt securities	6.0	89.4	581.0	—	114.8	791.2
Short non-sovereign debt securities	9.6	29.1	48.1	0.9	124.5	212.2
Total short debt securities	15.6	118.5	629.1	0.9	239.3	1,003.4
Net fair value — debt securities	16.9	9.1	(91.1)	13.3	(42.2)	(94.0)
Net derivatives (notional amount)	—	(4.3)	(77.5)	(0.4)	(16.6)	(98.8)
Total net exposure to select European countries	$ 16.9	$ 4.8	$(168.6)	$12.9	$ (58.8)	$ (192.8)

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

The table below provides further information regarding the type of derivative contracts executed as economic hedges of issuer exposure to the countries of Portugal, Ireland, Italy, Greece and Spain as of February 29, 2012. The information is presented based on the notional amount of the contracts and the credit to either the sovereign or non-sovereign domiciled in the respective European counterparty rather than by the domicile of the derivative counterparty. For credit default swaps, we have immaterial issuer risk to counterparties domiciled Portugal, Ireland, Italy, Greece and Spain.

(in millions)	Portugal	Ireland	Italy	Greece	Spain	Total
Derivative contracts — long notional exposure						
Credit default swaps	$ —	$ —	$ —	$ 5.0	$ —	$ 5.0
Bond future contracts	—	—	20.4	—	—	20.4
Listed equity options	—	8.7	5.2	0.2	12.1	26.2
Total notional amount — long	—	8.7	25.6	5.2	12.1	51.6
Derivative contracts — short notional exposure						
Credit default swaps	—	10.0	73.4	5.0	26.7	115.1
Bond future contracts	—	—	20.6	—	—	20.6
Listed equity options	—	3.0	9.1	0.6	2.0	14.7
Total notional amount — short	—	13.0	103.1	5.6	28.7	150.4
Net derivatives (notional amount)	$ —	$ (4.3)	$ (77.5)	$ (0.4)	$(16.6)	$ (98.8)

The following table provides the fair value of the above derivative contracts at February 29, 2012 (in millions):

	Portugal	Ireland	Italy	Greece	Spain	Total
Derivative contracts — long fair value						
Credit default swaps	$ —	$ —	$ —	$ (3.6)	$ —	$(3.6)
Bond future contracts	—	—	—	—	—	—
Listed equity options	—	2.5	0.8	—	0.6	3.9
Total fair value — long	—	2.5	0.8	(3.6)	0.6	0.3
Derivative contracts — short fair value						
Credit default swaps	—	(0.8)	(2.0)	(3.4)	0.5	(5.7)
Bond future contracts	—	—	—	—	—	—
Listed equity options	—	1.3	0.1	—	0.9	2.3
Total fair value — short	—	0.5	(1.9)	(3.4)	1.4	(3.4)
Net derivatives fair value	$ —	$ 2.0	$ 2.7	$ (0.2)	$(0.8)	$ 3.7

In addition, our non-U.S. sovereign obligations recorded in financial instruments owned and financial instruments sold, not yet purchased are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion are executed with central clearing organizations. Accordingly, we utilize foreign sovereign obligations as underlying collateral for our repurchase financing arrangements. At February 29, 2012, repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Portugal, Ireland, Italy, Greece and Spain as follows (in millions):

	Reverse Repurchase Agreements(1)	Repurchase Agreements(1)	Net
Portugal	$ 8.8	$ 10.8	$ (2.0)
Ireland	101.4	46.1	55.3
Italy	1,041.8	1,112.6	(70.8)
Greece	—	—	—
Spain	112.8	187.0	(74.2)
Total	$ 1,264.8	$ 1,356.5	$(91.7)

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

Our collateral management of the risk due to exposure from these sovereign obligations is subject to our overall collateral and cash management risk framework. For further discussion regarding our cash and liquidity management framework and processes, see "Liquidity, Financial Condition and Capital Resources" within Item 2. Management's Discussion and Analysis in this Quarterly Report on Form 10-Q.

Operational Risk

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

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

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

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

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

Legal and Compliance Risk

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

New Business Risk

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

Reputational Risk

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

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

Quantitative and qualitative disclosures about market risk are set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management" in Part I, Item 2 of this Form 10-Q.

Item 4. ***Controls and Procedures***

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of February 29, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of February 29, 2012 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance 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 February 29, 2012 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 and regulatory 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, including exams, investigations and similar reviews, arising out of the conduct of our business. Based on currently available information, we do not believe that any matter will have a material adverse effect on our financial condition.

Item 1A. ***Risk Factors***

Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended November 30, 2011 filed with the SEC on January 27, 2012. 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.

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 three months ended February 29, 2012:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
December 1 — December 31, 2011	240,552	13.43	200,000	14,700,000
January 1 — January 31, 2012	197,735	14.98	50,000	14,650,000
February 1 — February 29, 2012	2,721,232	15.34	250,000	14,400,000
Total	3,159,519		500,000	

(1) We repurchased an aggregate of 2,659,519 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 and 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 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.

Item 6. *Exhibits*

3.1 Registrant's Amended and Restated Certificate of Incorporation is incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on May 26, 2004.

3.2 Registrant's Certificate of Designations of 3.25% Series A Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on February 21, 2006.

3.3 Registrant's By-Laws as amended and restated on December 3, 2007 are incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on December 4, 2007.

4 Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.

10.1 Summary of 2012 Executive Compensation Program for Messrs. Handler and Friedman is incorporated herein by reference to Exhibit 10 of Registrant's Form 8-K filed on January 20, 2010.

10.2* Summary of the 2012 Executive Compensation Program for Messrs. Broadbent and Sharp.

10.3* Agreement between Jefferies Group, Inc. and John Stacconi dated October 11, 2011.

31.1* Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.

31.2* Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.

32* Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.

101** Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of February 29, 2012 and November 30, 2011; (ii) the Consolidated Statements of Earnings for the three months ended February 29, 2012 and February 28, 2011; (iii) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended February 29, 2012 and the year ended November 30, 2011; (iv) the Consolidated Statements of Comprehensive Income for the three months ended February 29, 2012 and February 28, 2011; (v) the Consolidated Statements of Cash Flows for the three months ended February 29, 2012 and February 28, 2011; and (vi) the Notes to Consolidated Financial Statements.

* Filed herewith.
** Furnished herewith

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: April 5, 2012

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

Exhibit 10.2

The following summarizes the fiscal year 2012 Executive Compensation Program approved by the Subcommittee of the Compensation Committee of the Board of Directors of Jefferies Group, Inc. for the following executive officers:

Peregrine C. Broadbent	
Executive Vice President and Chief Financial Officer	
Salary:	$ 1,000,000
Bonus Range*:	Discretionary
Michael J. Sharp	
Executive Vice President, Secretary and General Counsel	
Salary:	$ 1,000,000
Bonus Range*:	$0 - $2.05 million**

* The Compensation Committee may choose to pay all or a portion of the bonus, if any, in cash, restricted stock or restricted stock units.

** Mr. Sharp's bonus will be dependent on earnings per share, return on equity and pre-tax profit margin for fiscal year 2012. These financial measures are to be calculated using consolidated results from continuing operations of Jefferies Group, Inc. Financial results will be adjusted to add back the negative effect of extraordinary transactions (e.g. mergers, acquisitions, or divestitures), if any, occurring during the year. A Formula was approved which will provide for no annual bonus if minimum threshold levels of performance are not achieved and maximum bonus if performance equals or exceeds the top performance threshold level. In all, six threshold levels of performance and corresponding bonus amounts were approved. Company performance falling between set threshold levels of performance are expected to result in an amount of bonus interpolated between such set threshold levels of performance. The Compensation Committee reserved the right to take into consideration additional performance measures in determining whether to reduce the calculated bonus award. The Compensation Committee does not have discretion to increase the bonus award above the maximum amount provided.

Exhibit 10.3

October 11, 2011

John Stacconi
3 Messenger Lane
Sands Point, NY 11050

Dear John:

I am pleased to offer you the position of Managing Director and Global Treasurer of Jefferies Group, Inc. ("Jefferies"), in which you will report to me and have the authority, functions, duties, powers and responsibilities, normally associated with the foregoing position and such additional authority, functions, duties, powers and responsibilities as may be assigned to you from time to time. The terms of our offer are conditioned only on your commencing employment with us no later than ninety days after you tender your resignation to Nomura Holdings America ("Nomura") (that is, following the 90-day period I understand to be your garden leave), but in no event later than January 15, 2012 (the "Starting Date") and your successfully passing our normal background investigation and drug-screening test. This agreement (the "Agreement") will govern the terms of our relationship.

I. REPRESENTATIONS AND WARRANTIES

A. You represent and warrant to Jefferies that:

1. As of the date you sign this Agreement, you have resigned as Managing Director-International Treasurer at Nomura.

2. You have not breached any contract or other agreement relating to your employment with Nomura or its subsidiaries or affiliates.

3. You are not the subject of any investigation, whether by any prior employer, any governmental or regulatory authority or any self-regulatory organization.

4. You are not subject to any agreement with or policy of any previous employer that would prevent or restrict you from engaging in activities competitive with the activities of your previous employers or from directly or indirectly soliciting employees to leave the employ of such previous employers, or from directly or indirectly soliciting any clients or customers of such previous employers to transfer its business away from such previous employers or, if you are subject to such an agreement or policy, you have complied and will comply with it.

5. To the best of your current knowledge and belief, your performance of all the terms of this Agreement and as an employee of Jefferies does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by you in

confidence or in trust prior to your employment hereunder, and that you will not disclose to Jefferies or induce Jefferies or any of its affiliates to use any confidential or proprietary information or material belonging to any previous employer or others.

6. You have not requested, solicited or encouraged, and you will not request, solicit or encourage, any employees, customers or clients of your previous employers to join Jefferies or to leave your previous employers in violation of any common law duties or other obligations to your previous employers.

7. You are not subject to any employment agreement with or policy of your previous employer that would require you to give notice to such previous employer of your resignation in order for such resignation to become effective, unless you have given, or will give, such notice, and any period of time required to elapse before such resignation becomes effective will have elapsed before you commence your employment with Jefferies.

8. You have not taken or retained (and will not take or retain) any documents or files, whether in hard copy or electronic form, which were created, collected or received by you in connection with your previous employment, except for documents and files relating solely to your compensation and benefits.

B. Jefferies represents and warrants to you that this Agreement is legal, valid and binding upon Jefferies and the person signing this Agreement has authority to sign it.

II. COMPENSATION

A. You will receive an annual salary of $400,000, to be paid in 24 equal installments on approximately the 15th and 30th day of each month.

B. To recompense you for certain periods prior to your joining Jefferies, you will receive a cash payment in the amount of $350,000 that will, subject to applicable tax and other withholding, be paid no later than four weeks after the Starting Date ("Restricted Payment"). If you resign or Jefferies terminates your employment for Cause prior to the second anniversary of the Starting Date, you must, according to the terms contained in the following table, repay Jefferies the gross amount of the Restricted Payment even though you will have only received a net, after-tax and after-withholding Restricted Payment.

If termination date is:	**Restricted Payment Payback will be:**
At any date prior to the first anniversary of the Starting Date	100% of the gross amount
At any date prior the second anniversary of the Starting Date	50% of the gross amount
At any date on or after the second anniversary of the Starting Date	Zero

C. You have represented to us that you have approximately $131,250 in deferred, unvested Nomura shares that you will forfeit upon your resignation from Nomura. Subject to the provision of adequate documentation reflecting that amount, we shall pay you $131,250 subject to applicable tax and other withholdings by no later than four weeks after the Starting Date ("Restricted Cash"). If you resign or Jefferies terminates your employment for Cause prior to the fourth anniversary of the Starting Date, you must, according to the terms contained in the following table, repay to Jefferies the gross amount of the Restricted Cash even though you will have only received a net, after-tax and after-withholding Restricted Cash payment.

If termination date is:	Restricted Bonus Payback will be:
At any date prior to the first anniversary of the starting date	100% of the gross amount
At any date prior to the second anniversary of the starting date	75% of the gross amount
At any date prior to the third anniversary of the starting date	50% of the gross amount
At any date prior to the fourth anniversary of the starting date	25% of the gross amount
At any date on or after the fourth anniversary of the starting date	Zero

D. As an executive officer of Jefferies, you will also be eligible to receive performance based bonus compensation upon achievement of objective established by the Compensation Committee of the Board of Directors. The criteria are the 162m grid and the performance criteria and are the same for the other executive officers of Jefferies. Bonus compensation will be split between cash and equity or equity equivalents pursuant to the percentages set forth in the compensation matrix employed by Jefferies for the relevant year.

III. TERMINATION

During the period you are employed by Jefferies, you agree that you shall give Jefferies six months' notice of your intent to terminate your employment (the "Notice Period"). During the Notice Period, you will continue to be entitled to receive your salary (but not any bonus) at the regular payroll dates except in cases in which the six-month delay applies under Section 409A of the Internal Revenue Code ("409A") as provided below in this Section III, your fiduciary duties and your obligations to Jefferies as an employee of Jefferies will continue, and you will cooperate in the transition of your responsibilities. Jefferies shall have the right, in its sole discretion, to direct that you no longer come in to the office during the Notice Period or, to shorten the Notice Period. In determining whether to exercise this right, Jefferies will act solely in its own best interests, and under no circumstances will it take into consideration any request by you that Jefferies direct you to cease coming into the office or shorten the Notice Period.

This agreement may also be terminated by Jefferies for Cause without further obligation hereunder. “Cause” shall mean your:

A. Gross neglect, willful failure or willful refusal to timely perform the duties of your employment (other than by reason of a physical or mental illness or impairment), or your gross negligence in the performance of your duties; provided, however, that you shall be given written notice of any such gross neglect, willful failure or willful refusal to perform your duties and no Cause shall exist if you have corrected such gross neglect, willful failure or willful refusal to perform your duties within thirty days of such notice;

B. Material breach of any agreements, covenants or representations made in any employment agreement or other agreement with Jefferies or any subsidiary or affiliate of Jefferies or material and willful violation of Jefferies internal policies or procedures as are in effect as of the date such action is taken or violation of Jefferies’ Code of Ethics, as amended from time to time; provided however, that you shall be given written notice of any such breach or violation and no Cause shall exist if you have corrected, if correctable, such breach or violation within thirty days of such notice. For purposes of the definition of “Cause” set forth in subsections A. and B. hereof, no act or failure to act, on your part shall be considered “willful” if done, or omitted to be done, by you in good faith and with the reasonable belief that such action or omission was in the best interest of Jefferies.

C. Conviction of, or plea of guilty or nolo contendere to, a crime involving moral turpitude, dishonesty, fraud or unethical business conduct, or any felony of any nature whatsoever; or

D. Failure to obtain or maintain any registration, license or other authorization or approval that you are required to maintain or that Jefferies or any affiliate of Jefferies reasonably believes is required in order for you to perform your duties; provided, however, that Jefferies shall give you at least ninety days written notice of any such registration, license or other authorization or approval that you are required to obtain.

You agree that, if Jefferies terminates your employment for Cause or you voluntarily leave Jefferies’ employ without Good Reason prior to the date any payment which is due hereunder is made, Jefferies shall have no obligation whatsoever to make any further payments to you hereunder.

For purposes of this Agreement, “Good Reason” means (i) a material diminution in your job titles, authority, duties or responsibilities, (ii) without your consent, you no longer report directly to Jefferies’ Chief Financial Officer, (iii) without your consent, relocation outside the greater New York metropolitan area, it being understood that in the normal course of your activities, you may be require to travel and to spend periods of time away from your office in

New York City, or (iv) a breach by Jefferies of any of its material obligations under this Agreement, provided, however, that (a) you must give notice of the existence of the Good Reason condition within 90 days of its initial existence, by providing written notice to the Chief Executive Officer of Jefferies, (b) Jefferies shall have 60 days during which it may remedy or "cure" the circumstances giving rise to Good Reason and no Good Reason shall exist if Jefferies has remedied or cured the Good Reason during such time period. You must terminate your employment for Good Reason within one year of the initial existence of the Good Reason.

Each amount or benefit payable under this Section III shall be deemed a separate payment for purposes of 409A, and such amounts or benefits shall be paid at the times specified above in this Section III to the maximum extent permissible under 409A without resulting in tax penalties to you. For this purpose, however, *if all three of the following conditions are met*, those portions of such amounts and benefits constituting a "deferral of compensation" as specified below will be paid on the first business day of the seventh fiscal month after your "separation from service" as defined in Treasury Regulation § 1.409A-1(h) (this is referred to as the "six-month delay" below):

(i) At the time of your separation from service you were a "specified employee" as defined under 409A (including Treasury Regulation § 1.409A-1(i))

(ii) At the time of your separation from service, the stock of the Company was publicly traded on an established securities market or otherwise

(iii) A portion of the payments or benefits constitutes a "deferral of compensation" subject to 409A. For this purpose:

- Any portion of the payments or benefits deemed payable solely due to involuntary separation from service that qualifies as a "short-term deferral" under Treasury Regulation § 1.409A-1(b)(4) will not be deemed a "deferral of compensation" and will be paid without the six-month delay
- Any portion of the payments or benefits deemed payable solely due to involuntary separation from service up to the limit specified in Treasury Regulation § 1.409A-1(b)(9)(iii) will not be deemed a "deferral of compensation" and will be paid without the six-month delay
- Any portion of the payments or benefits, whether or not separation from service is involuntary, up to the limit specified in Treasury Regulation § 1.409A-1(b)(9)(v)(D) (if this limited exclusion is not applied to payments apart from this Agreement) will not be deemed a "deferral of compensation" and will be paid without the six-month delay
- Any portion of the payments or benefits that may be excluded from being deemed a "deferral of compensation" under any other applicable Treasury Regulation or Internal Revenue Service guidance will be paid without the six-month delay.

If the six-month delay is applicable to any payment, the payment shall be accelerated upon your death during the six-month delay period but not for any other reason (except that acceleration is permitted under Treasury Regulation § 1.409A-3(j)(4)(ii), (iii) and (iv)). For purposes of this Agreement, any payment that is not excluded from being deemed a "deferral of compensation" under 409A and is payable upon a "termination of employment" shall be payable only upon a "separation from service" as defined in Treasury Regulation § 1.409A-1(h) or, if the above rules apply, the specified date at least six months after such separation from service. Any other payments or benefits under this Agreement shall be paid at the times specified herein.

You understand and agree that the Company does not make any representations and is not providing any advice regarding the taxation of the payments hereunder, including but not limited to taxes, interest and penalties under 409A and similar liabilities under state tax laws. No indemnification or gross-up is payable under this Agreement with respect to any such tax, interest, penalty or similar liability, and no interest is payable on any payment or benefit which is subject to a six-month delay hereunder.

The terms of this Agreement relating to a deferral of compensation or compensation excluded from being a deferral under 409A, including any authority of the Company and your rights with respect thereto, shall be limited to those terms permitted under 409A, and any terms not permitted under 409A shall be modified and limited to the extent necessary to conform with 409A but only to the extent that such modification or limitation is permitted under 409A and the regulations and guidance issued thereunder.

IV. ADDITIONAL OBLIGATIONS

A. Confidential Information. During and after your employment by Jefferies, you will not, directly or indirectly in one or a series of transactions, disclose to any person, or use or otherwise exploit for your own benefit or for the benefit of anyone outside of Jefferies without the consent of Jefferies, any Confidential Information of Jefferies (as such term is defined in Exhibit A hereto), whether or not reduced to writing or physical embodiment and whether prepared by you or not; provided however that (i) you shall have no such obligation to the extent such matters are or become publicly known other than as a result of your breach of your obligations hereunder and (ii) you may, after giving notice to Jefferies to the extent practicable under the circumstances, disclose such matters to the extent required by applicable laws or governmental regulations or judicial or regulatory process. The terms of this Section IV.A shall survive the termination of your employment with Jefferies, regardless of who terminates your employment, or the reasons therefor.

B. Non-Competition. While you are an employee of Jefferies, you shall not engage in Competitive Activity (as such term is defined in Exhibit A hereto).

C. Non-Solicitation. (i) While you are an employee of Jefferies and for a period of one year following any termination of your employment, you shall not, directly or indirectly, solicit any employees, contractors, or other persons who have rendered services to Jefferies and (ii) while you are an employee of Jefferies and for a period of three months following any termination of your employment, you shall not, directly or indirectly, solicit any customers or clients of Jefferies, all as more fully set forth in Exhibit A hereto.

D. If you willfully breach your obligations in any material respect under this Section IV, Jefferies, in addition to pursuing all available remedies, at law or otherwise, and without limiting its right to pursue the same, may cease all payments to you under this Agreement. For purposes of this subsection D, “willfully’ shall have the same meaning set forth in Section IV hereof.

E. Indemnification. You shall be entitled to the benefit of the indemnification provisions contained on the date hereof in the Certificate of Incorporation, as amended, and By-Laws of Jefferies (not including any amendments or additions after you commence employment hereunder that limit or narrow the protection afforded to you by those provisions).

V. MISCELLANEOUS

Nothing contained herein shall destroy your employee-at-will status at Jefferies. You, as all employees of the Firm, will be an employee-at-will and your employment with the Firm may be terminated at any time with or without notice, with or without cause or for no reason at all.

You will be entitled to a benefits package commensurate with that received by all other similarly situated executives of Jefferies during your employment, including, without limitation, four weeks of vacation, participation in the 401(k)plan, or other profit-sharing plan or program, group life insurance, hospitalization, medical, dental, accident, disability or similar plan or program of Jefferies now existing.

If you are terminated without Cause, for a period of three months thereafter, you shall continue to receive your medical coverage in effect immediately prior to your termination without Cause.

The amounts referred to above are gross amounts and will be subject to all statutory and any voluntary deductions.

All notices, requests, consents and other communications required or permitted to be given under this Agreement shall be effective only if given in writing and shall be deemed to have been duly given if delivered personally (by hand or by e-mail), or sent by a nationally recognized overnight delivery service, or mailed first-class, postage prepaid, by registered or certified mail, as follows (or to such other or additional address as either party shall designate by notice in writing to the other in accordance herewith):
(i) Jefferies Group, Inc., 520 Madison Ave., New York, New York 10022, Attention: General Counsel; and (ii) to you at your residence address as set forth in this Agreement.

This agreement, together with Exhibit A hereto, constitutes the entire agreement of you and Jefferies with respect to the subject matters referred to herein, and supersedes all prior or contemporaneous negotiations, promises, covenants, agreements and representations of every kind or nature with respect thereto, all of which have become merged and finally integrated into this agreement.

This agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to its principles or rules of conflicts of laws, to the extent that such principles or rules would require or permit the application of the law of another jurisdiction. You hereby consent that any arbitration proceeding brought by you with respect to matters related to your employment or this agreement shall be brought before FINRA in the Borough of Manhattan in the State of New York, or if you are permitted to bring such action in a state or federal court, then you hereby consent to the personal jurisdiction of the state and federal courts sitting in the City and State of New York with respect to matters related to your employment or this agreement, and agree that any action with respect thereto shall be brought in such courts.

In the event of a conflict between any term of this Agreement and any of the terms of the agreements or documents referred to herein, the terms of this Agreement shall supersede and govern.

This Agreement and your rights and obligations hereunder may not be assigned by you and except as specifically contemplated in this Agreement, neither you, your legal representative nor any beneficiary designated by you shall have any right, without the prior written consent of Jefferies, to assign, transfer, pledge, hypothecate, anticipate or commute to any person or entity any payment due in the future pursuant to any provision of this Agreement, and any attempt to do so shall be void and shall not be recognized by Jefferies.

This Agreement may be amended, modified, superseded, cancelled, renewed or extended and the terms or covenants hereof may be waived only by written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect such party's right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

Neither you nor Jefferies shall have any right to offset any amounts owed by one party hereunder against amounts owed or claimed to be owed to such party, whether pursuant to this Agreement or otherwise, and you and Jefferies shall make all the payments provided for in this Agreement in a timely manner.

If the above terms are acceptable to you, I request that you signify your acceptance of the terms of this letter by signing and dating the copy enclosed and returning it to me.

Sincerely,

/s/ Peregrine C. Broadbent
Chief Financial Officer

AGREED TO AND ACCEPTED BY:

/s/ John Stacconi
John Stacconi

Dated: 10/12/11

EXHIBIT A

1. CONFIDENTIAL INFORMATION

"Confidential Information" means research, processes, procedures, marketing techniques, marketing and business development plans, client data and financial information. Confidential Information may be disclosed in good faith by you in connection with the performance of your duties under this Agreement. You shall have no obligation hereunder to keep any Confidential Information confidential if and to the extent disclosure of any thereof is specifically required by law; provided, however, that in the event disclosure is required by law, you shall provide Jefferies with prompt notice of such requirement, prior to making the disclosure, so that Jefferies may seek an appropriate protective order. The term "Confidential Information" shall not be deemed to include information publicly known in the trade at the time you first learn of the information or which later becomes commonly known in the trade (other than as a result of a disclosure by you); nor shall the term include general knowledge or general trade information which you independently learn nor information already in your possession prior to your employment by Jefferies.

2. COMPETITIVE ACTIVITY

"Competitive Activity" means that you, whether acting alone or in conjunction with others, directly or indirectly

A. Are rendering services for any organization or engaging (either as owner, investor, partner, stockholder, employer, employee, consultant, advisor, or director) directly or indirectly, in any business which is or becomes competitive with the business of Jefferies, its subsidiaries or affiliates; or

B. Are inducing any customer or client of Jefferies, its subsidiaries or affiliates with whom you have had contacts or relationships, directly or indirectly, during and within the scope of your employment with Jefferies or any of its subsidiaries or affiliates, to curtail, limit, or cancel their business with Jefferies, its subsidiaries or affiliates.

Notwithstanding the foregoing, following the termination of your employment with Jefferies, you shall be free to purchase stock or other securities of an organization or business so long as it is listed upon a recognized securities exchange or traded over-the-counter and such investment does not represent a greater than five percent equity interest in the organization or business.

3. NON-SOLICITATION

A. While you are an employee of Jefferies and for a period of one year following any termination of your employment, you shall not, directly or indirectly:

   i. Solicit, induce, or attempt to influence, any employee of Jefferies, its subsidiaries or affiliates to terminate their employment with Jefferies, its subsidiaries or affiliates; or

   ii. Solicit, hire or retain as an employee or independent contractor, or assist any third party in the solicitation, hiring, or retention as an employee or independent contractor, any person who during the previous 12 months was an employee of

Jefferies, or any of its subsidiaries or affiliates.

B. While you are an employee of Jefferies and for a period of three months following any termination of your employment, you shall not, directly or indirectly, solicit any customer or client of Jefferies, its subsidiaries or affiliates with whom you have had contacts or relationships, directly or indirectly, during and within the scope of your employment with Jefferies or any of its subsidiaries or affiliates, for the purpose or with the intent of encouraging or inducing such customer or client to curtail, limit, or cancel their business with Jefferies, its subsidiaries or affiliates.

4. ACKNOWLEDGMENTS AND REPRESENTATIONS

You acknowledge and agree that the time periods referred to in the paragraphs above are reasonable and valid in duration and scope and in all other respects. You also represent that your financial resources, experience and capabilities are such that the enforcement of the foregoing covenants will not prevent you from earning a livelihood, and acknowledge that it would cause Jefferies serious and irreparable injury and cost if you were to use your ability and knowledge in competition with Jefferies or to otherwise breach the obligations contained in this Agreement. If the scope of any of the restrictions set forth above are deemed by any arbitration panel, court or other tribunal to be too broad to permit enforcement of such restriction to its full extent, then such restriction shall be enforced to the maximum extent permitted by law, and you hereby consent and agree that such scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

5. WORKS FOR HIRE

You acknowledge and agree that all copyrightable material and other intellectual property developed or prepared for Jefferies by you during your employment by Jefferies, including without limitation (a) all computer software and all elements thereof and (b) all inventions, improvements, discoveries, designs, documents, and other data (whether or not patentable or copyrightable) made, developed, or first reduced to practice by you for Jefferies, whether solely or jointly with others, during the period of your employment by Jefferies, are deemed to be developed and prepared for the sole and exclusive benefit of Jefferies, and all copyrightable material shall constitute works for hire. Jefferies shall have all right, title, and interest in such material and shall be the author thereof for all purposes under the copyright laws. In the event that any copyrightable material is deemed not to be works for hire, you hereby assign such works to Jefferies and agree, without further compensation or consideration, to immediately take such actions to effect such assignment as may be requested by Jefferies.

Exhibit 31.1

RULE 13a-14(a)/15d-14(a)
CERTIFICATION BY THE CHIEF FINANCIAL OFFICER

I, Peregrine C. Broadbent, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jefferies Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 5, 2012

By: /s/ Peregrine C. Broadbent
Peregrine C. Broadbent
Chief Financial Officer

Exhibit 31.2

RULE 13a-14(a)/15d-14(a)
CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I, Richard B. Handler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jefferies Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 5, 2012

By: /s/ Richard B. Handler
Richard B. Handler
Chief Executive Officer

Exhibit 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

I, Richard B. Handler, Chief Executive Officer, and I, Peregrine C. Broadbent, Chief Financial Officer, of Jefferies Group, Inc, a Delaware corporation (the "Company"), each hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Company's periodic report on Form 10-Q for the period ended February 29, 2012 (the "Form 10-Q") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

* * *

CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER
/s/ Richard B. Handler	/s/ Peregrine C. Broadbent
Richard B. Handler	Peregrine C. Broadbent
Date: April 5, 2012	Date: April 5, 2012

A signed original of this written statement required by Section 906 has been provided to Jefferies Group, Inc. and will be retained by Jefferies Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

THE ISSUER

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