

JEFFERIES GROUP INC /DE/

Form 10-Q

October 07, 2011

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended August 31, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-14947

JEFFERIES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-4719745

(State or other jurisdiction of
incorporation or organization)

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

520 Madison Avenue, 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. 199,716,925 shares as of the close of business on September 28, 2011.

**JEFFERIES GROUP, INC. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT ON FORM 10-Q
AUGUST 31, 2011**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition (unaudited) - August 31, 2011 and November 30, 2010</u>	3
<u>Consolidated Statements of Earnings (unaudited) - Three and Nine Months Ended August 31, 2011 and Three and Eight Months Ended August 31, 2010</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) - Nine Months Ended August 31, 2011 and Year Ended November 30, 2010</u>	6
<u>Consolidated Statements of Comprehensive Income (unaudited) - Three and Nine Months Ended August 31, 2011 and Three and Eight Months Ended August 31, 2010</u>	7
<u>Consolidated Statements of Cash Flows (unaudited) - Nine Months Ended August 31, 2011 and Eight Months Ended August 31, 2010</u>	8
<u>Notes to Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	67
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	94
<u>Item 4. Controls and Procedures</u>	97
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	97
<u>Item 1A. Risk Factors</u>	97
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	98
<u>Item 6. Exhibits</u>	99
<u>Signature</u>	100
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

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

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

Continued on next page.

Page 3 of 100

Table of Contents

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

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

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

See accompanying unaudited notes to consolidated financial statements.

Page 4 of 100

Table of Contents

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

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

Earnings per common share:

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

Weighted average common shares:

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

See accompanying unaudited notes to consolidated financial statements.

Page 5 of 100

Table of Contents

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

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

Accumulated other comprehensive (loss) income

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

Total common stockholders equity

3,174,735 2,477,989

Noncontrolling interests

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

Total stockholders equity

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

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

Page 6 of 100

Table of Contents

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

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

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

See accompanying unaudited notes to consolidated financial statements.

Page 7 of 100

Table of Contents

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

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

Net cash used in investing activities	(376,492)	(30,852)
---------------------------------------	-----------	----------

Continued on next page.

Page 8 of 100

Table of Contents

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

	Nine Months Ended August 31, 2011	Eight Months Ended August 31, 2010
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 33,311	\$ 2,148
Gross proceeds from short-term borrowings	2,881,000	2,296,000
Gross payments on short-term borrowings	(2,829,027)	(2,296,000)
Net proceeds from (payments on):		
Issuance of common shares	494,895	
Issuance of senior notes, net of issuance costs	794,587	543,510
Mandatorily redeemable preferred interest of consolidated subsidiaries	(8,973)	(17,077)
Noncontrolling interest	(20,343)	(12,577)
Repurchase of common stock	(96,929)	(114,893)
Dividends	(43,417)	(38,709)
Exercise of stock options, not including tax benefits	95	108