

JEFFERIES GROUP INC /DE/

Form 10-Q

May 08, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a 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 the registrant's class of common stock, as of the latest practicable date. 171,081,538 shares as of the close of business May 1, 2009.

**JEFFERIES GROUP, INC. AND SUBSIDIARIES
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MARCH 31, 2009**

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

	March 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 539,026	\$ 1,294,329
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	1,085,514	1,151,522
Financial instruments owned, including securities pledged to creditors of \$614,705 and \$361,765 in 2009 and 2008, respectively:		
Corporate equity securities	1,153,653	945,747
Corporate debt securities	2,146,640	1,851,216
U.S. Government, federal agency and other sovereign obligations	1,061,919	447,233
Mortgage- and asset-backed securities	1,372,792	1,035,996
Loans	172,114	34,407
Derivatives	291,092	298,144
Investments at fair value	71,348	75,059
Total financial instruments owned	6,269,558	4,687,802
Investments in managed funds	92,616	100,245
Other investments	144,902	140,012
Securities borrowed	7,518,895	9,011,903
Securities purchased under agreements to resell	3,014,454	1,247,002
Receivable from brokers, dealers and clearing organizations	964,446	710,199
Receivable from customers	552,225	499,315
Premises and equipment	137,388	139,390
Goodwill	359,405	358,837
Other assets	613,397	638,129
Total assets	\$ 21,291,826	\$ 19,978,685

See accompanying unaudited notes to consolidated financial statements.

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

	March 31, 2009	December 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
Financial instruments sold, not yet purchased:		
Corporate equity securities	\$ 1,394,326	\$ 739,166
Corporate debt securities	1,574,635	1,578,395
U.S. Government, federal agency and other sovereign obligations	769,562	211,045
Derivatives	189,690	220,738
Loans and other receivables	58,681	
Other	313	223
Total financial instruments sold, not yet purchased	3,987,207	2,749,567
Securities loaned	3,197,413	3,259,575
Securities sold under agreements to repurchase	6,591,715	6,727,390
Payable to brokers, dealers and clearing organizations	686,547	291,291
Payable to customers	1,978,781	1,736,971
Accrued expenses and other liabilities	350,060	634,618
	16,791,723	15,399,412
Long-term debt	1,748,708	1,764,274
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries	275,620	280,923
Total liabilities	18,941,051	17,569,609
STOCKHOLDERS EQUITY		
Common stock, \$.0001 par value. Authorized 500,000,000 shares; issued 183,316,506 shares in 2009 and 171,167,666 shares in 2008	18	17
Additional paid-in capital	1,861,679	1,870,120
Retained earnings	456,782	418,445
Less:		
Treasury stock, at cost, 14,121,605 shares in 2009 and 7,951,628 shares in 2008	(193,982)	(115,190)
Accumulated other comprehensive loss:		
Currency translation adjustments	(47,170)	(43,675)
Additional minimum pension liability	(8,446)	(8,446)
Total accumulated other comprehensive loss	(55,616)	(52,121)
Total common stockholders equity	2,068,881	2,121,271
Noncontrolling interests	281,894	287,805
Total stockholders equity	2,350,775	2,409,076

Total liabilities and stockholders' equity	\$ 21,291,826	\$ 19,978,685
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See accompanying unaudited notes to consolidated financial statements.

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

	Three Months Ended	
	March 31, 2009	March 31, 2008
Revenues:		
Commissions	\$ 101,851	\$ 113,651
Principal transactions	152,345	54
Investment banking	37,086	99,207
Asset management fees and investment (loss) from managed funds	(37)	(27,796)
Interest	102,087	204,891
Other	12,572	6,480
Total revenues	405,904	396,487
Interest expense	63,947	195,291
Net revenues	341,957	201,196
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	(5,303)	(20,951)
Net revenues, less mandatorily redeemable preferred interest	347,260	222,147
Non-interest expenses:		
Compensation and benefits	213,381	259,951
Floor brokerage and clearing fees	14,780	12,948
Technology and communications	30,785	30,916
Occupancy and equipment rental	16,296	17,257
Business development	9,445	12,900
Other	13,391	20,481
Total non-interest expenses	298,078	354,453
Earnings (loss) before income taxes	49,182	(132,306)
Income tax expense (benefit)	16,756	(57,892)
Net earnings (loss)	32,426	(74,414)
Net (loss) to noncontrolling interests	(5,911)	(13,877)
Net earnings (loss) to common shareholders	\$ 38,337	\$ (60,537)
Earnings (loss) per common share:		
Basic	\$ 0.19	\$ (0.45)
Diluted	\$ 0.19	\$ (0.45)
Weighted average common shares:		

Basic	203,310	141,784
Diluted	203,326	141,784

See accompanying unaudited notes to consolidated financial statements.

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

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
Common stock, par value \$0.0001 per share		
Balance, beginning of period	\$ 17	\$ 16
Issued	1	1
Balance, end of period	18	17
Additional paid in capital		
Balance, beginning of period	1,870,120	1,115,011
Benefit plan share activity (1)	9,728	52,912
Share-based expense	683	561,661
Proceeds from exercise of stock options	69	840
Acquisitions and contingent consideration		5,647
Tax (deficiency) benefit for issuance of share-based awards	(18,921)	6,233
Issuance of treasury stock		90,160
Dividend equivalents on restricted stock units		37,656
Balance, end of period	1,861,679	1,870,120
Retained earnings		
Balance, beginning of period	418,445	1,031,764
Net earnings (loss) to common shareholders	38,337	(536,128)
Dividends		(76,477)
Acquisition adjustments		(714)
Balance, end of period	456,782	418,445
Treasury stock, at cost		
Balance, beginning of period	(115,190)	(394,406)
Purchases	(75,549)	(21,765)
Returns / forfeitures	(3,243)	(42,438)
Issued		343,419
Balance, end of period	(193,982)	(115,190)
Accumulated other comprehensive (loss) income		
Balance, beginning of period	(52,121)	9,159

Currency adjustment, net of tax	(3,495)	(54,661)
Pension adjustment, net of tax		(6,619)
Balance, end of period	(55,616)	(52,121)
Total common stockholders equity	2,068,881	2,121,271
Noncontrolling interests		
Balance, beginning of period	287,805	249,380
Net (loss) to noncontrolling interests	(5,911)	(53,884)
Contributions		99,725
Distributions		(11,553)
Consolidation of asset management entity		4,137
Balance, end of period	281,894	287,805
Total stockholders equity	\$ 2,350,775	\$ 2,409,076

(1) Includes grants related to the Incentive Plan, Deferred Compensation Plan and Directors Plan.

See accompanying unaudited notes to consolidated financial statements.

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

	Three Months Ended	
	March 31, 2009	March 31, 2008
Net earnings (loss) to common shareholders	\$ 38,337	\$ (60,537)
Other comprehensive (loss) income:		
Currency translation adjustments	(3,495)	2,250
Total other comprehensive (loss) income (1)	(3,495)	2,250
Comprehensive (loss)	\$ 34,842	\$ (58,287)

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

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	March 31, 2009	March 31, 2008
Cash flows from operating activities:		
Net earnings (loss)	\$ 32,426	\$ (74,414)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	7,148	13,844
Gain on repurchase of long-term debt	(5,946)	
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	(5,303)	(20,951)
Accruals related to various benefit plans, stock issuances, net of forfeitures	7,169	45,974
Decrease (increase) in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	65,956	(497,216)
Decrease (increase) in receivables:		
Securities borrowed	1,494,964	4,743,141
Brokers, dealers and clearing organizations	54,268	(139,992)
Customers	(58,171)	82,009
(Increase) decrease in financial instruments owned	(1,549,463)	83,887
(Increase) decrease in other investments	(4,890)	282
Decrease in investments in managed funds	7,629	52,219
(Increase) decrease in securities purchased under agreements to resell	(1,767,452)	1,540,619
Decrease (increase) in other assets	27,090	(180,334)
(Decrease) increase in payables:		
Securities loaned	(62,162)	15,450
Brokers, dealers and clearing organizations	92,619	143,946
Customers	252,122	(2,701)
Increase in financial instruments sold, not yet purchased	1,236,556	732,660
Decrease in securities sold under agreements to repurchase	(135,675)	(6,502,923)
Decrease in accrued expenses and other liabilities	(311,486)	(148,725)
Net cash used in operating activities	(622,601)	(113,225)
Cash flows from investing activities:		
Purchase of premises and equipment	(5,516)	(17,579)
Business acquisition	(38,760)	
Cash paid for contingent consideration	(8,163)	(30,329)
Net cash used in investing activities	(52,439)	(47,908)

Continued on next page.

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

	Three Months Ended	
	March 31, 2009	March 31, 2008
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 4,299	\$ 5,374
Net (payments on) proceeds from:		
Repurchase of long-term debt	(9,515)	
Bank loans		(263,375)
Mandatorily redeemable preferred interest of consolidated subsidiaries		(4,257)
Noncontrolling interest		712
Repurchase of treasury stock	(75,549)	(6,326)
Dividends		(16,533)
Exercise of stock options, not including tax benefits	69	120
Net cash used in financing activities	(80,696)	(284,285)
Effect of foreign currency translation on cash and cash equivalents	433	377
Net decrease in cash and cash equivalents	(755,303)	(445,041)
Cash and cash equivalents at beginning of year	1,294,329	897,872
Cash and cash equivalents at end of year	\$ 539,026	\$ 452,831
Supplemental disclosures of cash flow information:		
Cash paid (received) during the year for:		
Interest	\$ 73,524	\$ 218,510
Income taxes	(1,061)	(19,702)
Acquisitions:		
Fair value of assets acquired, including goodwill	53,104	
Liabilities assumed	14,344	
Cash paid for acquisition	38,760	

See accompanying unaudited notes to consolidated financial statements.

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

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(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The accompanying unaudited consolidated financial statements include the accounts of Jefferies Group, Inc. and all its subsidiaries (together, we or us), including Jefferies & Company, Inc. (Jefferies), Jefferies Execution Services, Inc., (Jefferies Execution), Jefferies International Limited, Jefferies Asset Management, LLC, Jefferies Financial Products, LLC 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). The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. All adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008.

On April 21, 2008, we issued 26,585,310 shares of common stock and made a cash payment to Leucadia National Corporation (Leucadia) of approximately \$100 million. In exchange, we received from Leucadia 10,000,000 common shares of Leucadia. During the second quarter of 2008, we sold the 10,000,000 common shares of Leucadia and thus realized approximately \$433.6 million in net cash from the issuance of our shares.

Reclassifications

Certain reclassifications have been made to previously reported balances to conform to the current presentation.

Summary of Significant Accounting Policies

Principles of 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, in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)), as revised, we consolidate entities which lack characteristics of an operating entity or business for which we are the primary beneficiary. Under FIN 46(R), the primary beneficiary is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, direct or implied. 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 form