JEFFERIES GROUP INC /DE/
Form 424B2
April 13, 2011

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Maximum Offering Price per Share	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Common Stock, par value $.0001	20,618,557 shares	$24.25	$500,000,007	$58,050

(1) Pursuant to Rule 457(p) under the Securities Act, registration fees of $35,650.01, $28,520.00 were paid with respect to the respective Registration Statements on Form S-1 filed by Jefferies Commodities Real Return ETF on February 9, 2010, as amended on June 29, 2010 (Registration No. 333-164811) and Jefferies S&P 500 VIX Short-Term Futures ETF on April 23, 2010, as amended on June 18, 2010 (Registration No. 333-166283). Each of Jefferies Commodities Real Return ETF and Jefferies S&P 500 VIX Short-Term Futures ETF is a majority-owned subsidiary of the registrant. Pursuant to Rule 457(p), $64,170.01 of prepaid registration fees is presently available for offset. The $58,050.00 registration fee associated with the instant offering is hereby offset against the prepaid registration fees made in connection with the securities available for issuance under Registration Statement Nos. 333-164811 and 333-166283.

Filed pursuant to Rule 424(b)(2) / 424(b)(8)
Registration No. 333-160214

Prospectus Supplement
(To prospectus dated October 20, 2009)

20,618,557 Shares
Jefferies Group, Inc.
Common Stock

We are offering 20,618,557 shares of our common stock. Leucadia National Corporation, which prior to the offering owned approximately 27.8% of our outstanding common stock, has confirmed its intention to purchase 5,154,639 shares of the common stock offered hereby. Our common stock is listed on the New York Stock Exchange under the symbol JEF . The last reported sale price of our common stock on the New York Stock Exchange on April 7, 2011 was $24.71 per share.

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page S-5 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$ 24.25	$500,000,007
Underwriting Discounts and Commissions	$ 0.485	$ 10,000,000
Proceeds to Jefferies Group, Inc. (Before Expenses)	$23.765	$490,000,007

Delivery of the shares of common stock is expected to be made on or about April 13, 2011.

Joint Book-Running Managers

Jefferies **Citi** **J.P. Morgan** **Natixis**

Senior Co-Managers

BMO Capital Markets **BNY Mellon Capital Markets, LLC**

Co-Manager

Rabo Securities

Prospectus supplement dated April 8, 2011.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying

prospectus is accurate as of any date later than the date on the front of this prospectus supplement.

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Important Notice About Information in this Prospectus Supplement and the Accompanying Prospectus

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of the offering. The second part, the base prospectus, gives more general information, some of which may not apply to the offering. Generally, when we refer only to the prospectus, we are referring to both parts combined, and when we refer to the accompanying prospectus, we are referring to the base prospectus.

If the description of the offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in the prospectus supplement.

Special Note on Forward-Looking Statements

This prospectus supplement and the accompanying prospectus contain or incorporate 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. These forward-looking statements are not statements of historical fact and represent only our belief as of the date such statements are made. There are a variety of factors, many of which are beyond our control, which affect our operations, performance, business strategy and results and could cause actual reported results and performance to differ materially from the performance and expectations expressed in these forward-looking statements. These factors include, but are not limited to, financial market volatility, actions and initiatives by current and future competitors, general economic conditions, controls and procedures relating to the close of the quarter, the effects of current, pending and future legislation or rulemaking by regulatory or self-regulatory bodies, regulatory actions, and the other risks and uncertainties that are outlined in our Transition Report on Form 10-K for the eleven month transition period ended November 30, 2010 filed with the U.S. Securities and Exchange Commission, or the SEC, on February 2, 2011 and in our Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2011 filed with the SEC on April 6, 2011. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date of the forward-looking statements.

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Prospectus Supplement Summary

In this prospectus supplement, we refer to our subsidiaries Jefferies & Company, Inc. as Jefferies, Jefferies Execution Services, Inc. as Jefferies Execution, Jefferies Financial Products LLC as JFP, Jefferies International Limited as JIL and Jefferies High Yield Trading, LLC as JHYT.

The Company

Jefferies Group, Inc. and its subsidiaries (we or us) operate as a major global securities and investment banking firm serving companies and their investors. We provide investors fundamental research and trade execution in equity, equity-linked and fixed income securities, including investment grade corporate bonds, high yield and distressed securities, government and agency securities, mortgage- and asset-backed securities, municipal securities, bank loans, leveraged loans, and emerging markets debt, as well as derivatives and engage in securities financing and commodities derivative trading activities. We offer companies capital markets, merger and acquisition, restructuring and other financial advisory services. We also provide certain asset management services and products to institutions and other investors.

Our principal operating subsidiary, Jefferies, was founded in 1962 and our principal international operating subsidiary, JIL, was established in the U.K. in 1986. Since 2000, we have pursued a strategy of continued growth and diversification, whereby we have sought to increase our share of the business in each of the markets we serve, while at the same time expanding the breadth of our activities in an effort to mitigate the cyclical nature of the financial markets in which we operate. Our growth plan has been achieved through internal growth supported by the ongoing addition of experienced personnel in targeted areas, as well as the acquisition from time to time of complementary businesses.

As of February 28, 2011, we had 3,082 employees. We maintain offices in more than 25 cities throughout the world and have our executive offices located at 520 Madison Avenue, New York, New York 10022. Our telephone number is (212) 284-2550.

Recent Developments

Global Commodities Group Acquisition

We have agreed to acquire the Prudential Bache Global Commodities Group (Global Commodities Group) from Prudential Financial, Inc. (Prudential Financial). The Global Commodities Group offers brokerage and clearing services in listed derivatives on all major futures and options exchanges around the world. The Global Commodities Group also offers over-the-counter trading in foreign exchange, base and precious metals and energy and agricultural swap transactions.

The acquisition will include Prudential Bache Commodities LLC, Prudential Bache Securities LLC in the U.S., Bache Commodities Limited in the U.K. and Bache Commodities (Hong Kong) Ltd. in Hong Kong, as well as other assets and liabilities of the Global Commodities Group. The acquired businesses will operate globally as Jefferies Bache after closing of the transaction, which is expected to occur during our third fiscal quarter. Jefferies Bache will have over 400 employees in New York, Chicago, London, Hong Kong and Hamburg.

The purchase price will equal the closing date tangible book value of the businesses acquired, which is estimated to be $430 million. We will also assume specified liabilities of the Global Commodities Group, including those that are reflected on the closing date balance sheet. We will also agree to pay, or reimburse and indemnify, those affiliates of Prudential Financial Inc. 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. Prudential Financial will maintain certain guarantees and credit support that are in place as of the closing date for up to 18 months. If the exposure under these guarantees and credit support exceeds stipulated amounts for certain periods, we will be required to post collateral in respect of the excess.

Senior Notes Offering

On April 8, 2011, we priced an offering (the Senior Notes Offering) of $800 million aggregate principal amount of unsecured 5.125% senior notes due 2018, which will result in estimated net proceeds to us of $793.6 million. We expect to issue the senior notes and receive the proceeds on April 13, 2011.

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The Offering

Common stock offered by us	20,618,557 shares
Common stock to be outstanding immediately after this offering	197,686,267 shares(1)
Use of proceeds	We estimate the net proceeds of the offering will be $489,711,457. We intend to use these proceeds, together with the net proceeds of the Senior Notes Offering, for general corporate purposes, including the acquisition of the Global Commodities Group and the further development and diversification of our businesses. Please read Use of Proceeds.
New York Stock Exchange symbol	Our common stock is listed on the New York Stock Exchange under the symbol JEF.
Conflict of interest	Jefferies & Company, Inc., our broker-dealer subsidiary, is a member of FINRA and will participate in the distribution of the shares of common stock being offered hereby. Also, we intend to use more than 5% of the net proceeds from this offering to acquire the Global Commodities Group from Prudential Financial. This acquisition will include Prudential Bache Securities LLC, a FINRA member, among other assets. Accordingly, the offering is subject to the provisions of FINRA Rule 5121 relating to conflicts of interests and will be conducted in accordance with the requirements of Rule 5121. See Conflict of Interest.

(1) This amount is based on 177,067,710 shares outstanding as of February 28, 2011, excluding 8,936,018 shares reserved for issuance upon conversion of our 3.875% Convertible Senior Debentures due 2029 (which are not currently convertible), 4,105,138 shares reserved for issuance upon conversion of our 3.25% Series A Cumulative Convertible Preferred Stock, and an additional 30,647,333 shares reserved for issuance pursuant to awards under our share-based compensation plans.

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Summary Consolidated Financial Data

The following table sets forth our summary consolidated financial data for the periods presented below. The summary consolidated financial data as of November 30, 2010 and December 31, 2009, for the eleven-month transition period ended November 30, 2010 and for each of the two years in the two-year period ended December 31, 2009 have been derived from our audited consolidated financial statements, incorporated by reference herein. The summary consolidated financial data as of and for the three months ended February 28, 2011 and March 31, 2010 have been derived from our unaudited consolidated financial statements incorporated by reference herein. Our unaudited consolidated financial statements include all adjustments, which include only normal and recurring adjustments, necessary to present fairly the data included therein.

Our historical results are not necessarily indicative of the results of operations for future periods, and our results of operations for the three-month period ended February 28, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2011. You should read the following summary consolidated financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations incorporated by reference in this prospectus supplement and the accompanying prospectus and our consolidated financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Three Months Ended		Transition Period Ended November 30,	Year Ended December 31,	
	February 28, 2011	March 31, 2010	2010	2009	2008
	(Unaudited)				
	(Dollars in thousands, except per share amounts)				
Earnings Statement Data					
Revenues:					
Commissions	$ 119,921	$ 134,438	$ 466,246	$ 512,293	$ 611,823
Principal transactions	290,151	150,380	509,070	838,396	(80,479)
Investment banking	239,059	198,337	890,334	474,315	425,887
Asset management fees and investment income (loss) from managed funds	23,868	6,599	16,785	35,887	(52,929)
Interest	273,216	218,935	852,494	732,250	741,559
Other	20,461	16,679	62,417	38,918	28,573
Total revenues	966,676	725,368	2,797,346	2,632,059	1,674,434
Interest expense	208,294	145,313	605,096	468,798	660,448
Net revenues	758,382	580,055	2,192,250	2,163,261	1,013,986
Interest on mandatorily redeemable preferred interest of consolidated subsidiaries	16,438	2,048	14,916	37,248	(69,077)
Net revenues, less mandatorily redeemable preferred interest	741,944	578,007	2,177,334	2,126,013	1,083,063
Non-interest expenses:					

Compensation and benefits	442,892	319,801	1,282,644	1,195,971	1,522,157
Floor brokerage and clearing fees	28,132	30,729	110,835	80,969	64,834
Technology and communications	43,675	40,209	160,987	141,233	127,357
Occupancy and equipment rental	17,979	19,706	68,085	72,824	76,255
Business development	19,938	13,361	62,015	37,614	49,376
Professional services	13,276	14,423	49,080	41,125	46,948
Other	13,121	17,322	47,017	48,530	84,296
Total non-interest expenses	579,013	455,551	1,780,663	1,618,266	1,971,223
Earnings (loss) before income taxes	162,931	122,456	396,671	507,747	(888,160)
Income tax expense (benefit)	60,886	46,369	156,404	195,928	(293,359)
Net earnings (loss)	102,045	76,087	240,267	311,819	(594,801)
Net earnings (loss) to noncontrolling interest	14,704	3,943	16,601	36,537	(53,884)
Net earnings (loss) to common shareholders	$ 87,341	$ 72,144	$ 223,666	$ 275,282	$ (540,917)
Earnings (loss) per common share:					
Basic	$ 0.42	$ 0.35	$ 1.10	$ 1.36	$ (3.30)
Diluted	$ 0.42	$ 0.35	$ 1.09	$ 1.35	$ (3.30)
Weighted average common shares:					
Basic	199,141	198,507	196,393	200,446	166,163
Diluted	203,257	202,630	200,511	204,572	166,163
Cash Flow Data					
Net cash (used in) provided by operating activities	$ (1,000,219)	$ (755,051)	$ (451,464)	$ (126,920)	$ 347,628
Net cash used in investing activities	$ (13,356)	$ (10,815)	$ (44,235)	$ (113,524)	$ (137,292)
Net cash (used in) provided by financing activities	$ (16,530)	$ (57,882)	$ 832,429	$ 786,051	$ 187,970

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	As of			
	February 28, 2011	**March 31, 2010**	**November 30, 2010**	**December 31, 2009**
Balance Sheet Data				
Cash and cash equivalents (including $282,491, $138,429, and $202,565 from VIEs at February 28, 2011, March 31, 2010 and November 30, 2010, respectively)	$ 1,164,333	$ 1,025,388	$ 2,188,998	$ 1,853,167
Total assets (including $1,290,369, $1,590,788, and $1,410,626 from VIEs at February 28, 2011, March 31, 2010 and November 30, 2010, respectively)	$ 40,428,150	$ 34,023,441	$ 36,726,543	$ 28,121,023
Total stockholders equity	$ 2,926,311	$ 2,632,912	$ 2,810,965	$ 2,619,678

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Risk Factors

In addition to the other information contained and incorporated by reference in this prospectus supplement and the accompanying prospectus, you should consider carefully the following factors before deciding to purchase our common stock.

Risks Associated with 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 factors mentioned in this report, we may also be affected by changes in general economic and business conditions, acts of war, terrorism and natural disasters.

Our expansion in the commodities business presents various risks.

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

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

Recent market and economic conditions have led to new 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, 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.

We cannot fully predict the impact of U.K. bank regulation reform on our business.

On June 17, 2010, the U.K. government announced the breakup of its chief financial regulator, the Financial Services Authority, into three separate agencies, including a bank regulating subsidiary inside the Bank of England. It is unclear what effect this reform will have on our business in the U.K. This reform may result in calls to increase capital and to impose new liquidity requirements, and may impose other additional obligations and taxes on our U.K. operations. As a result, these changes could affect our revenue, limit our ability to pursue business opportunities, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our U.K. businesses. Accordingly, we cannot provide assurance that such reform would not have an adverse effect on our business, results of operations, cash flows or financial condition.

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

Our net revenues and profits were adversely affected in 2008 by the equity and credit market turmoil. As a global securities and investment banking firm, global 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.

- 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.

- Increases in credit spreads, as well as 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.

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. Although a significant portion of our principal trading is riskless principal in nature, we may incur trading losses relating to the purchase, sale or short sale of high yield, international, convertible, and equity securities and futures and commodities for our own account. In any period, we may experience losses 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 and profitability.

All aspects of our business are intensely competitive. We compete directly with numerous other brokers and dealers, investment banking firms and commercial banks. 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. Recent changes, such as financial institution consolidations and the U.S. government s involvement with financial institutions through the Emergency Economic Stabilization Act of 2008 and other transactions, may provide a competitive advantage for some of our competitors. 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 execute our business plan.

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 accounts, and investment income from our investments in these funds and accounts. These revenues are dependent upon the amount of assets under management and the performance of the funds and accounts. If these funds or accounts do not perform as well as our asset management clients expect, our clients may withdraw their assets from these funds and accounts, which would reduce our revenues. Some of our revenues are derived from our own investments in these funds and accounts. 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, such as futures trading and the securitization of varying asset classes, 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, including the recent expansion of our business in Asia. As we operate in foreign countries, we are subject to legal, regulatory, political, economic and other inherent risks. The laws and regulations applicable to the securities and investment banking industries in these foreign countries differ. 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 securities industry is subject to extensive laws, rules and regulation in every country in which we operate. In addition, self-regulatory organizations and the securities exchanges, are actively involved in the regulation of broker-dealers. Securities firms are also subject to regulation by myriad regulatory bodies, securities commissions and attorneys general in those foreign jurisdictions and 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. Broker-dealers that engage in commodities and futures transactions are also subject to regulation by related agencies. All such regulatory agencies may conduct administrative proceedings that can result in censure, fine, suspension, expulsion of a broker-dealer or its officers or employees, or revocation of broker-dealer licenses. 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. Continued efforts by market regulators to increase transparency and reduce transaction costs for investors has affected and could continue to affect our trading revenue.

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. Jefferies Wealth Management involves an aspect of the business that has historically had more risk of litigation than our institutional business. Additionally, the expansion of our business, including increases in the number and size of investment banking transactions and our expansion into new areas, such as the municipal securities business, imposes 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.

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

We are party to a large 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.

Risks Associated with the Offering

Our share price may fluctuate.

The market price of our common stock could be subject to significant fluctuations due to a change in sentiment in the market regarding our operations or business prospects, future transaction to which we are a party, this offering, or future sales of our securities. Such risks may be affected by:

- operating results that vary from the expectations of management, securities analysts, and investors;
- developments in our business or in the financial sector generally;
- regulatory, legislative and governmental policy changes affecting our industry generally or our business and operations;
- the operating and securities price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions, and other material events by us or our competitors;
- changes in the credit, mortgage, and real estate markets, including the market for mortgage-related and other asset-backed securities; and
- changes in global financial and commodities markets, global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Stock markets, in general, have experienced since late 2007, and continue to experience, significant price and volume volatility, and the market price of our common stock may continue to be subject to similar market fluctuations that may be unrelated to our operating performance or prospects. Increased volatility could result in a decline in the market price of our common stock.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

Except as described under Underwriting, we are not restricted from issuing additional common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of additional shares of our common stock or securities convertible or exchangeable into shares of our common stock may dilute the ownership interest of our common stockholders adversely. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

You may not receive dividends on the common stock.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are incorporated in Delaware and governed by the Delaware General Corporation Law. Delaware law allows a corporation to pay dividends only out of surplus, as determined under Delaware law or, if there is no surplus, out of net profits for the fiscal year in which the dividend was declared and for the preceding fiscal year. Under Delaware law, however, we cannot pay dividends out of net profits if, after we pay the dividend, our capital would be less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. During times of financial or market stress, which may adversely impact earnings or alternative methods of raising capital, we may be required or may deem it prudent to reduce dividends on our common stock in order to build or conserve capital. In addition, there may be legislative or regulatory developments resulting in enhanced supervisory standards that could impact our dividend policies in the future. Furthermore, holders of our common stock are subject to the prior dividend rights of holders of our preferred stock or the depositary shares representing such preferred

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stock then outstanding. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future.

Certain provisions of Delaware law and our certificate of incorporation and by-laws may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interest, including offers or attempts that might result in a premium being paid over the market price for its shares.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in certain business combinations with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, subject to certain exceptions. In addition, our by-laws provide that special meetings of stockholders may be called by our Secretary only at the request of a majority of our board of directors or by any person authorized by the board of directors to call a special meeting. Written notice of a special meeting stating the place, date and hour of the meeting and the purposes for which the meeting is called must be given between 10 and 60 days before the date of the meeting, and only business specified in the notice may come before the meeting. In addition, our by-laws provide that directors be elected by a plurality of votes cast at an annual meeting and do not include a provision for cumulative voting for directors. Under cumulative voting, a minority stockholder holding a sufficient percentage of a class of shares may be able to ensure the election of one or more directors.

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Use of Proceeds

We estimate that the net proceeds from the issuance and sale of the shares, after deducting the underwriting discounts and commissions, and the expenses relating to the offering, will be approximately $489.7 million. We intend to use the proceeds of this offering, together with the net proceeds of the Senior Notes Offering, for general corporate purposes, including the acquisition of the Global Commodities Group and the further development and diversification of our businesses. We currently anticipate raising additional capital through the issuance of debt securities which we would use for the same general corporate purposes. We consistently review and consider opportunities to expand our business, including possible acquisitions of complementary businesses. We are currently pursuing a number of business initiatives; however, we are not currently a party to any letter of intent or binding agreement to acquire any assets or business other than as described herein.

Capitalization

The following table sets forth our cash position and our capitalization as of February 28, 2011 on an actual basis and as adjusted to give effect to the sale of the shares of common stock in this offering and to the Senior Notes Offering. The following table does not give effect to the acquisition of the Global Commodities Group or the application of the proceeds of this offering.

	As of February 28, 2011	
(Unaudited, in thousands)	**Actual**	**As Adjusted**
Cash:		
Cash and cash equivalents (including $282,491 from VIEs)	$ 1,164,333	$ 2,447,619
Capitalization:		
Total long-term debt	3,780,304	4,577,520
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interest of consolidated subsidiaries (including $332,258 from VIEs)	332,258	332,258
Stockholders equity(1)		
Common stock, $0.0001 par value, 500,000,000 shares authorized; 177,067,710 shares outstanding, actual, and		
197,686,267 shares outstanding, as adjusted	21	21
Additional paid-in capital	2,275,107	2,368,041
Retained earnings	922,478	922,478
Total stockholders equity	2,926,311	3,416,022

Total Capitalization	$ 7,163,873	$ 8,450,800

(1) The shares offered by us will consist entirely of treasury shares. Accordingly, we will reflect an increase