JEFFERIES GROUP INC /DE/
Form 424B2
November 04, 2010

Table of Contents

**Filed pursuant to Rule 424(b)(2)**
**A filing fee of $35,650 with respect**
**to $500,000,000 of debt securities has**
**been transmitted to the SEC**
**Registration No. 333-160214**

**PROSPECTUS SUPPLEMENT**
**(To prospectus dated October 20, 2009)**

**$500,000,000**

Jefferies Group, Inc.

**3.875% Senior Notes Due 2015**

We are offering $500,000,000 aggregate principal amount of our 3.875% Senior Notes due 2015. We will pay interest on the notes in cash semi-annually in arrears on May 9 and November 9 of each year, beginning May 9, 2011. The notes will mature on November 9, 2015. We may redeem some or all of the notes at any time at the redemption price described in this prospectus supplement.

The notes will be our senior unsecured obligations and will rank equally with our other senior unsecured indebtedness. The notes will be issued only in registered form in denominations of $5,000 and integral multiples of $1,000 in excess of $5,000.

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

| | PER 3.875% SENIOR NOTE DUE 2015 | TOTAL |
|---|---|---|
| Public Offering Price(1) | 99.838% | $ 499,190,000 |
| Underwriting Discounts and Commissions | 0.300% | $ 1,500,000 |
| Proceeds to Jefferies Group, Inc. (Before Expenses) | 99.538% | $ 497,690,000 |

*(1) Plus accrued interest from November 9, 2010, if settlement occurs after that date.*

**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.**

The underwriters expect to deliver the notes in book-entry form only through The Depository Trust Company, including for the accounts of Euroclear and Clearstream, against payment in New York, New York on November 9, 2010.

*Sole Book-Running Manager*

**Jefferies & Company**

*Co-Managers*

| | | |
|---|---|---|
| **BNY Mellon Capital Markets, LLC** | **Citi** | **J.P. Morgan** |

The date of this prospectus supplement is November 2, 2010.

**Table of Contents**

**Prospectus Supplement**



**Prospectus**



**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.**

Table of Contents

## 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 notes being offered. The second part, the base prospectus, gives more general information, some of which may not apply to the notes being offered. 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 notes 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 hereof. 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 Annual Report on Form 10-K for the year ended December 31, 2009 filed with the U.S. Securities and Exchange Commission, or the SEC, on February 26, 2010 and in our Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2010 filed with the SEC on July 9, 2010. 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.

## 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 August 31, 2010, we had 2,971 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.

Table of Contents

## The Offering

The summary below contains basic information about the notes. It does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this prospectus supplement entitled Description of the Notes.

| | |
|---|---|
| **Issuer** | Jefferies Group, Inc., a Delaware corporation. |
| **Securities Offered** | $500,000,000 aggregate principal amount of our 3.875% Senior Notes due 2015. |
| **Maturity** | November 9, 2015 |
| **Issue Date** | November 9, 2010 |
| **Interest** | 3.875% per year. Interest will accrue from the issue date and will be payable semi-annually in arrears on May 9 and November 9 of each year, beginning May 9, 2011. |
| **Ranking** | The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other senior unsecured indebtedness. |
| **Optional Redemption** | We may redeem some or all of the notes at any time prior to maturity at the redemption price described in this prospectus supplement. See Description of the Notes Optional Redemption. |
| **Covenants** | The indenture governing the notes contains certain covenants. See Description of the Notes Covenants. |
| **Use of Proceeds** | We intend to use these proceeds for general corporate purposes, including the further development and diversification of our businesses. |
| **Conflict of Interest** | Jefferies & Company, Inc., our broker-dealer subsidiary, is a member of FINRA and will participate in the distribution of the notes. Accordingly, the offering is subject to the provisions of NASD Rule 2720 relating to conflicts of interests and will be conducted in accordance with the requirements of Rule 2720. See Conflict of Interest. |

**Table of Contents**

## Summary Consolidated Financial Data

The following table sets forth our summary consolidated financial data for the periods presented below. The summary consolidated financial data for each of the three years in the three-year period ended December 31, 2009 have been derived from our audited consolidated financial statements, incorporated by reference herein. The summary consolidated financial data for the eight months ended August 31, 2010 and the nine months ended September 30, 2009 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.

On April 19, 2010, our Board of Directors approved a change to our fiscal year end from a calendar year basis to a fiscal year ending on November 30. Our 2010 third quarter consisted of the three months ended August 31, 2010 and our results included within our report on Form 10-Q for the third quarter included results for the three months and eight months ended August 31, 2010. Our report on Form 10-K for our 2010 fiscal year will include results for the eleven-month transition period beginning January 1, 2010 through November 30, 2010.

Our historical results are not necessarily indicative of the results of operations for future periods, and our results of operations for the eight-month period ended August 31, 2010 are not necessarily indicative of the results that may be expected for the eleven month transition period. 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.

Table of Contents

| | Eight Months Ended August 31, 2010 | Nine Months Ended September 30, 2009 | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | (Unaudited) | | | | |
| **Earnings Statement Data** | | | | | |
| Revenues: | | | | | |
| Commissions | $ 347,527 | $ 395,085 | $ 512,293 | $ 611,823 | $ 524,716 |
| Principal transactions | 324,037 | 711,165 | 843,851 | (80,192) | 221,259 |
| Investment banking | 598,450 | 280,446 | 474,315 | 425,887 | 750,192 |
| Asset management fees and investment income (loss) from managed funds | 11,804 | 21,485 | 35,887 | (52,929) | 23,534 |
| Interest | 430,902 | 413,777 | 567,438 | 749,577 | 1,174,883 |
| Other | 44,241 | 28,699 | 38,918 | 28,573 | 24,311 |
| Total revenues | 1,756,961 | 1,850,657 | 2,472,702 | 1,682,739 | 2,718,895 |
| Interest expense | 237,493 | 218,086 | 301,925 | 660,964 | 1,150,805 |
| Net revenues | 1,519,468 | 1,632,571 | 2,170,777 | 1,021,775 | 1,568,090 |
| Interest on mandatorily redeemable preferred interest of consolidated subsidiaries | (26) | 30,620 | 37,248 | (69,077) | 4,257 |
| Net revenues, less mandatorily redeemable preferred interest | 1,519,494 | 1,601,951 | 2,133,529 | 1,090,852 | 1,563,833 |
| Non-interest expenses: | | | | | |
| Compensation and benefits | 877,204 | 956,619 | 1,195,971 | 1,522,157 | 946,309 |
| Floor brokerage and clearing fees | 84,702 | 54,007 | 89,337 | 69,444 | 71,851 |
| Technology and communications | 114,189 | 104,508 | 141,233 | 127,357 | 103,763 |
| Occupancy and equipment rental | 49,448 | 52,168 | 72,824 | 76,255 | 76,765 |
| Business development | 42,405 | 29,273 | 37,614 | 49,376 | 56,594 |
| Professional services | 34,702 | 29,883 | | | |
| Other | 37,224 | 28,953 | 80,929 | 126,524 | 67,074 |
| Total non-interest expenses | 1,239,874 | 1,255,411 | 1,617,908 | 1,971,113 | 1,322,356 |
| Earnings (loss) before income taxes | 279,620 | 346,540 | 515,621 | (880,261) | 241,477 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Income tax expense (benefit) | | 112,960 | | 130,299 | | 199,041 | | (290,249) | | 93,178 |
| Net earnings (loss) | | 166,660 | | 216,241 | | 316,580 | | (590,012) | | 148,299 |
| Net earnings (loss) to noncontrolling interest | | 1,865 | | 29,718 | | 36,537 | | (53,884) | | 3,634 |
| Net earnings (loss) to common shareholders | $ | 164,795 | $ | 186,523 | $ | 280,043 | $ | (536,128) | $ | 144,665 |
| **Cash Flow Data** | | | | | | | | | | |
| Net cash (used in) provided by operating activities | $ | (92,683) | $ | (357,320) | $ | (126,920) | $ | 347,628 | $ | (429,577) |
| Net cash used in investing activities | $ | (30,852) | $ | (85,737) | $ | (113,524) | $ | (137,292) | $ | (136,050) |
| Net cash provided by financing activities | $ | 362,510 | $ | 547,464 | $ | 786,051 | $ | 187,970 | $ | 950,120 |
| **Other Data** | | | | | | | | | | |
| Fixed charge coverage ratio(1) | | 2.9x | | 4.5x | | 4.2x | | (2) | | 3.0x |

(Dollars in thousands)

(1) *The ratio of earnings to fixed charges is computed by dividing (a) income from continuing operations before income taxes plus fixed charges by (b) fixed charges. Fixed charges consist of interest expense on all long-term indebtedness and the portion of operating lease rental expense that is representative of the interest factor (deemed to be one-third of operating lease rentals).*

(2) *Earnings for the year ended December 31, 2008 were insufficient to cover fixed charges by approximately $746.2 million.*

Table of Contents

## 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 the notes.*

### 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.

**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 certain of our customers. As a result, 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 of our business practices, impose 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.**

As an investment banking and securities firm, changes in the financial markets or economic conditions in the United States and elsewhere in the world 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 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, or securities of issuers engaged in a specific industry. 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. 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

Table of Contents

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 and diversify our business.**

We expect the growth of our business to come primarily from internal expansion and through acquisitions and strategic partnering both within and without the financial services industry. As we expand and diversify 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, 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.

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

The securities industry in the United States is subject to extensive regulation under both federal and state laws. The SEC is the federal agency responsible for the administration of federal securities laws. In addition, self-regulatory organizations, principally FINRA and the securities exchanges, are actively involved in the regulation of