Growth is our mission

Jefferies Group, Inc. 2006 Annual Report

Jefferies

Opportunity is our mandate

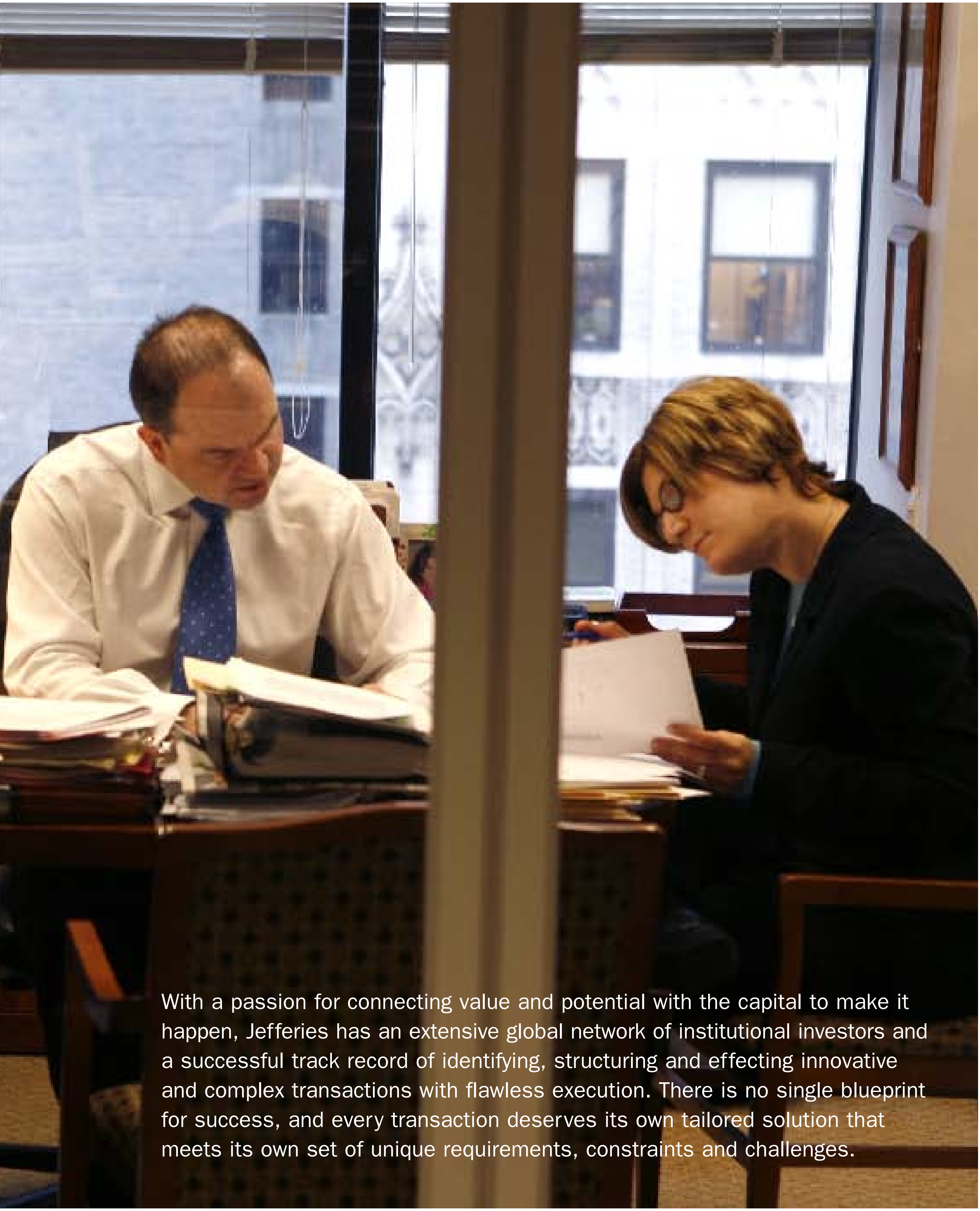
Financial solutions are our business

We are a growing investment bank and institutional securities firm focused on growing companies and their investors. We combine broad product capabilities with deep industry insight and established market acumen to foster growth and create opportunities for our clients, shareholders and colleagues around the globe. Our core businesses include investment banking, research, sales & trading, and asset management.

A Jefferies investment banker is inherently an advisor, and knowledge is at the core of everything we do. We have a thorough understanding of our clients and their objectives, as well as their industries and challenges. We seek to apply our expertise and experience to find the best strategic approach, structure the best possible solutions, and negotiate the best terms for our clients.


Architects of growth

Engineers of opportunity



With a passion for connecting value and potential with the capital to make it happen, Jefferies has an extensive global network of institutional investors and a successful track record of identifying, structuring and effecting innovative and complex transactions with flawless execution. There is no single blueprint for success, and every transaction deserves its own tailored solution that meets its own set of unique requirements, constraints and challenges.

Agents of innovation

Thought leadership is in our DNA. We do not rely on existing solutions, but continually strive to find new and creative ways of solving the challenges and opportunities that growing companies and their investors experience in a constantly evolving and increasingly competitive and global marketplace. Our professionals are both pioneers and stewards of the products and services we provide, and the industries we serve.

With nearly 45 years in the US equity markets, Jefferies has expanded its reach into virtually all global securities markets. With exchange memberships and electronic connectivity throughout North America, Europe and Asia, Jefferies is a leading provider of execution in small- and mid-cap stocks, facilitating liquidity and offering a full suite of trading methods and vehicles.

Partner for the markets

Equity market capitalization up 30% to a record

$4 billion

Net revenues up 21% to a record

$1.5 billion

Net earnings up 31% to a record

$206 million

Earnings per share up 22% to a record

$1.42

Employee-partners at year-end

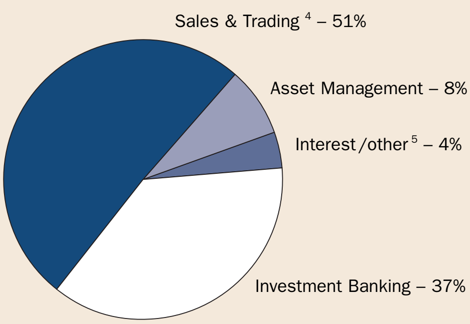
2,254

Financial Highlights

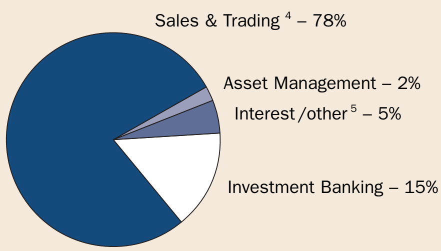
(in millions, except per share amounts)	At or for the year ended December 31, **2006**	2005	Change
Net Revenues	**$ 1,457.6**	$ 1,204.7	+ 21%
Operating Income	**348.7**	268.4	+ 30%
Net Earnings	**205.8**	157.4	+ 31%
Earnings Per Share (diluted) [1]	**1.42**	1.16	+ 22%
Book Value Per Share [1 2]	**13.23**	11.07	+ 20%
Stockholders' Equity [2]	**1,581.1**	1,286.9	+ 23%
Closing Stock Price [1]	**26.82**	22.49	+ 19%
Equity Market Capitalization [3]	**4,039.1**	3,102.7	+ 30%

Diversified Net Revenues

2006 – $1,458 million



2000 – $617 million



[1] All per share information has been restated to retroactively reflect the effect of the 2-for-1 stock split declared by the Board of Directors on April 18, 2006 and effected as a stock dividend on May 15, 2006. [2] Almost 85 percent of book value is tangible. [3] Fully diluted. [4] Includes commissions and principal transaction revenues. [5] includes net interest and other revenues.

Fellow Shareholders:

An active year in the markets

With a strong M&A market fueled by robust private equity activity, 2006 was a broadly active year for the markets we serve. Globalization meant markets around the world participated in the heightened activity levels. Investment banking experienced a favorable environment for transactions, particularly M&A and leveraged finance. Secondary trading was active in all product areas, but spreads and commissions continued to tighten, with greater transparency and increased pressures on the buy-side.

The year began with strong positive currents in all markets, and then trended downward after mid-May signals from the Federal Reserve that interest rates might continue to move upward. In the fourth quarter, the markets regained their equilibrium and moved to record highs toward the end of the year. Jefferies ended the year with a solid performance across all fronts and an active start to 2007.

Seven years of record results

2006 was another year of record results and tremendous progress for Jefferies. Net revenues increased 21 percent to a record $1.46 billion, net income rose 31 percent to a record $205.8 million and EPS was up 22 percent to a record $1.42. Stockholders' equity increased 23 percent from $1.29 billion to $1.58 billion, and our total book capitalization of equity, preferred stock and long-term debt (much of which matures in 2036) is over $2.9 billion. Jefferies' stock experienced its fourth 2-for-1 split since our initial public offering in 1983. We also announced an increase in our quarterly dividend to $0.125 per post-split share, which represents a 67 percent increase from the previous dividend. Over the past five years, our compound annual growth rate of cash dividends per common share is nearly 60 percent.

Continued expansion

In 2006, we effected a substantial expansion and significant improvements in our sales and trading platforms, continued the building of a major investment bank focused primarily on growing companies, expanded the breadth and scale of our asset management activities, and made considerable strides in establishing ourselves as a truly global, full-service firm. We further solidified our long-term capital base, invested in our internal support structure, realized increased efficiencies in operating expenses and achieved greater financial flexibility for future scalability.

Through voluntary investment plans and the inclusion of long-term, stock-based grants as part of our compensation system, we have sought to make all Jefferies employees partners in our strategy and value creation. Integration efforts of our various acquisitions and the addition of new partners and teams over the past few years have proven highly successful and are bearing fruit. We are acting as "One Firm," building our human capital and our businesses in tandem to represent leadership and quality in delivering for all our clients.

Since 2000, we have been steadfast in our strategy of driving the growth, diversification and value of Jefferies through our expanding team of extremely talented individuals, and our ability to serve growing companies and their investors in the US and increasingly around the world. We can say with pride and confidence that we enter 2007 with every business at Jefferies focused on executing defined growth and profitability initiatives.

A focus on our businesses

After a thorough review of our sales and trading platforms in the second half of 2005, we focused in 2006 on further diversifying our product offering for institutional investors. We recruited nearly 200 new employees to our equity, convertible, high yield and fixed income efforts, increasing the total headcount in these groups to over 800. For the most part, these partners represented new or meaningfully expanded initiatives that leverage our historic strength as a capital markets-based firm and position us well for 2007 and beyond.

Sales and trading-related revenues jumped 26 percent to $749 million in 2006. We marked our official entry into the prime brokerage business, led by a team of outstanding professionals with extensive experience and a successful track record. We significantly expanded our securities finance team, particularly with an emphasis on opportunities beyond the US. We established a broad equity derivatives capability that has already completed some significant transactions, and is poised for continued expansion and success. We consolidated our entire US sector trading effort into our New York headquarters. We strengthened our equity sales coverage team in Boston, with key additions in sales trading and research sales that renew and expand our relationship focus in the second largest institutional market in the US. We also created a 15-person team focused on algorithmic development and trading strategies, which includes five PhDs and seven engineers, and added 20 stock indices to the Jefferies Global Family of Indices.

In our convertible securities group, we added several new sales and trading professionals, further integrated this effort with our high yield group, introduced proprietary trading, and strengthened alignment with our equity capital markets desk and new derivatives capabilities. In high yield, we promoted a new head of US high yield capital markets, cemented our international distribution capabilities with a new head of European high yield and distressed sales and trading, and successfully leveraged our high yield research professionals across all capital markets. In our fixed income group, we consolidated our leadership team and increased expansion efforts, including recruiting a

> “2006 was a year of significant investment for Jefferies in all of our businesses. The fact that we were able to achieve record results while investing so heavily for the future of our Firm is a reflection of the quality of our employee-partners and the loyalty of our clients.”
>
> Richard B. Handler, Chairman and Chief Executive Officer

team focused on the securities of emerging markets. Finally, Jefferies Financial Products continues to grow its commodity derivatives business and is an increasing contributor to sales and trading revenues.

Since year-end, we entered into an agreement with a longtime client to create a new broker-dealer to conduct our secondary business in the high yield and distressed markets. When finalized, this joint venture could potentially triple the capital available to support this business.

In securities research, we have added experienced professionals in industries of broad interest to our investor clients. We have continued to enhance the scope of the research product we offer to our buy-side clients, improved our capital markets participation and went further than ever in establishing that Jefferies stands for great investment ideas. Since year-end, we’ve added a number of new equity research analysts both in the US and internationally, and expanded our coverage of growing companies in India, China and Southeast Asia.

The Jefferies Investment Bank has grown from $91 million in revenues in 2000 to $541 million in 2006. We have accomplished this growth through a coordinated build-out of industry expertise and product knowledge, all leveraging the trademark capital markets strength that has defined Jefferies for nearly 45 years. Our goal, which we believe we are well on the way to achieving, is to be recognized as the premier provider of capital markets and financial advisory services to growing companies around the globe.

Between 2002 and 2005, Jefferies made four strategic acquisitions in the aerospace and defense, technology, energy and fund placement areas; established de novo industrial, media & communications, cleantech, and financial sponsors groups; consolidated our focus on leveraged finance into a coordinated team of origination and execution professionals; with MassMutual, established Jefferies Finance to originate loans directly; and increased the quality, scale, focus and global reach of each of our industry and product efforts.

In 2006, we furthered our efforts to unify the nearly 650 people who comprise the Jefferies Investment Bank. We continued to capitalize on the opportunities available to us, as we focused on maximizing the results of our full-service platform, coordinating across industries, products and geographies. We experienced significant growth in our presence and results in the equity capital markets, with more than 100 equity and equity-linked financings that raised over $21 billion for our clients. Similarly, we originated $15 billion in leveraged financing for our clients, including $4 billion in direct loan origination. Since making its first loan in the second quarter of 2005, Jefferies Finance, as agent, has completed over 30 transactions. As a recognized advisor, we completed a record $30 billion in mergers and acquisitions during the year, and nearly doubled our number of restructuring assignments.

As we look forward to 2007 and beyond, we see additional industries that would benefit from Jefferies’ capabilities, as well as opportunities to significantly increase our market share in our existing areas of focus. Since year-end, we added to our New York- and London-based private equity fund placement teams, as well as our energy and financial sponsors investment banking groups.

"Jefferies has never had a stronger capital base, a more diversified business platform or a more qualified group of employee-owners. After seven consecutive years of growth and record financial performance, we are excited for the future as we look to further serve growing companies and their investors."
Brian P. Friedman, Chairman of the Executive Committee

As we have said many times, building Jefferies Asset Management is an enormous long-term opportunity to capitalize on our relationships and capabilities, as well as further diversify Jefferies' business mix. In 2006, we established four new hedge funds on our platform with distinct strategies that broaden our investment opportunity and product offering. As we build this diversified and balanced platform, we continue to develop our marketing and asset-gathering capabilities, and to attract talented portfolio managers to our team.

Pursuing opportunities worldwide

Jefferies has operated successfully from our European headquarters in London for over 21 years, and we have maintained long-standing offices in Tokyo, Zurich and Paris, as well as a support office in Hong Kong. Our focus for the bulk of this time has been on global sales of US securities, exceptional global convertible bond trading and asset management efforts, and a focused effort on sales and trading of international equities and bonds. In the past four years, we have acquired or established investment banking capabilities in London, as well as in cities in the Middle East and Asia, such that today nearly 15 percent of the Jefferies Investment Bank is based outside the US.

Our goal is to expand in Europe and Asia to a capability comparable to the comprehensive sales, trading and investment banking offering that we have established in the US. We have a strong foundation in place, and believe that through prudent growth efforts we can transform Jefferies over the next few years to a full-service global firm that is the undisputed leader in the markets we serve. Since year-end, we announced the hiring of an industry veteran to lead our investment banking efforts in Europe, Asia and the Middle East.

Strengthening our platform

Growth and diversification at the pace we have pursued requires constant strengthening of our internal network of support and control functions. While our net revenues grew from $617 million in 2000 to $1.5 billion in 2006, we experienced operating leverage as our number of employee-partners grew from 1,014 to 2,254. During this time, our headcount in our legal, compliance, finance, accounting, people services, operations and technology support groups grew from 325 to 560, enhancing the backbone of our platform that allows us to best serve our clients. We employ 15 attorneys today versus 3 in 2000, and nearly 40 professionals in compliance today versus 12 in 2000. Of particular note is the 2006 addition of a new treasurer who had previously served as the Treasurer of Donaldson, Lufkin & Jenrette, Inc. for 17 years. We also made numerous other additions to strengthen our ability to support and control the expansion and increasing complexity of our business, regulatory and operating environment. We are committed to continually strengthening the functions that allow us to pursue and execute business professionally, ethically and in the best interests of our clients and our Firm.

With regard to corporate governance, we welcomed two terrific new members of our Board of Directors: Bob Joyal, former President of Babson Capital Management LLC, and Mike O'Kane, former Senior Managing Director of TIAA-CREF. Our five independent directors provide us valuable guidance and objectivity, and are a tremendous resource as a sounding board for our strategy and in embracing our challenges and opportunities.

A solid capital base

We increased our long-term capital base substantially in 2006. We raised $125 million in preferred equity from our strategic partner, MassMutual, and issued $500 million in 30-year fixed cost (6.25 percent) debt. At year-end, our balance sheet included over $1 billion in cash, cash equivalents and short-term investments (including required deposits). We continue to focus on improving our credit standing and were pleased to receive an upgrade from Standard & Poor's to BBB+, as well as an initial BBB+ rating from Fitch Ratings, while Moody's Investment Services maintained a Baa1 rating. Preserving our liquidity and maintaining a balanced approach to risk remain priorities for our management team.

Commitment to growing companies and their investors

While many things have changed throughout our platform over the past seven years, one thing has not: Jefferies' unwavering focus on providing growing companies and their investors with specialized services and unparalleled execution on all fronts. This is the market segment that drives us. It has been a natural area of focus since our founding in 1962 and a stated goal for well over a decade. We enjoy working with these companies, and researching and trading their stocks because they tend to grow quickly and can have a great deal of complexity as well as unique challenges. Our clients are the engine of the global economy, and it is our passion to serve them and their growth-centric investors. We assisted 350 companies with their investment banking needs in 2006, and companies with a market capitalization of less than $2 billion represent 60 percent of our research coverage and 85 percent of the stocks in which we make a market.

Maintaining our momentum

Despite all that has been accomplished at Jefferies over the past 44 years, we believe the Jefferies story is still in its early chapters. We are keen to continue to build and grow our Firm, while being mindful of the competitive landscape, and the cyclical nature of the industry in which we operate. We believe continuing to attract the best professional talent, motivating and supporting our employee-partners throughout the world, and focusing all our efforts on our clients will reward Jefferies, our clients, our employees and our shareholders for years to come.

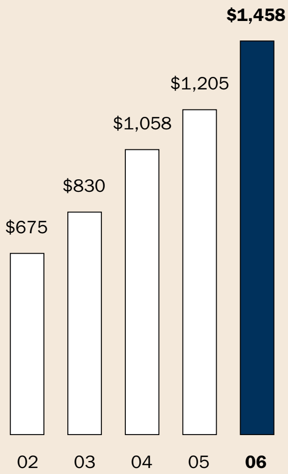
While we take great pride in our accomplishments to date, our focus is always on the future. Going forward, we will all continue fostering our "One Firm" approach, with an emphasis on ownership and above-and-beyond execution. We will conduct ourselves with humility, integrity, and a sense of optimism and urgency, while embracing change and opportunity in the marketplace.

In 2007, we will work as hard as ever in the hopes of maintaining our momentum. We believe our opportunity and potential growth remain vast, and we thank all of our constituents for their continued support.

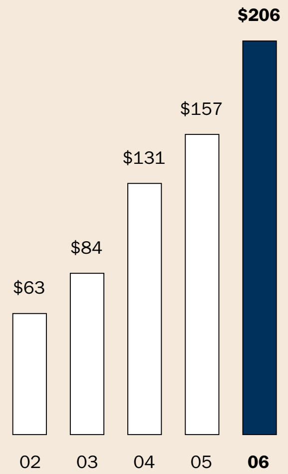
Richard B. Handler
Chairman of the Board
and Chief Executive Officer

Brian P. Friedman
Chairman,
Executive Committee

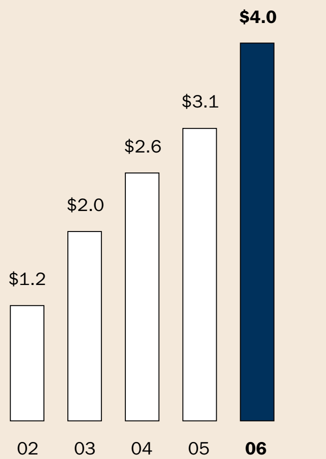
Net Revenues
(in millions)



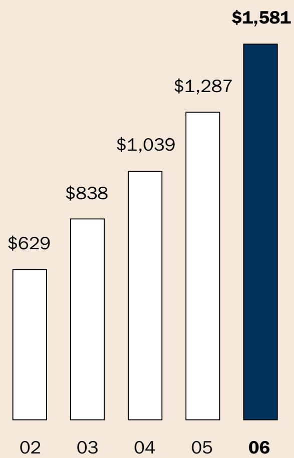
Net Earnings
(in millions)



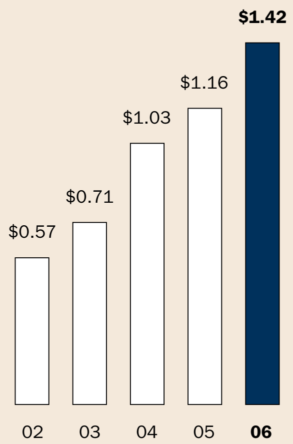
Equity Market Capitalization
(in billions, fully diluted)



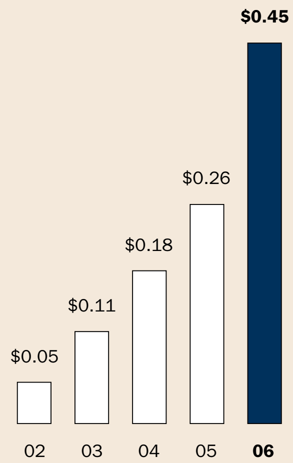
Stockholders’ Equity
(in millions)



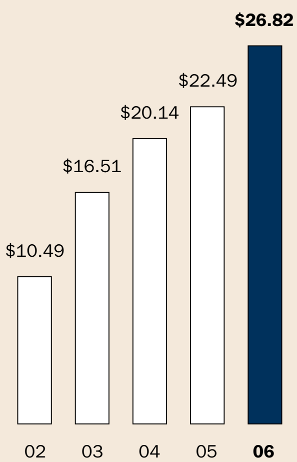
Earnings Per Share
(diluted and adjusted for stock splits)



Cash Dividends Per Common Share
(adjusted for stock splits)



Closing Stock Price
(adjusted for stock splits)



Credit Ratings

Moody's Investment Services	Baa1
Standard & Poor's	BBB+
Fitch Ratings	BBB+

Investment Banking

With a focus on identifying strategic growth opportunities and maximizing value, Jefferies' investment banking professionals continued to combine broad product knowledge with deep industry insight to provide our clients with outstanding advisory and capital raising services on more than 350 transactions valued at more than $145 billion in 2006.

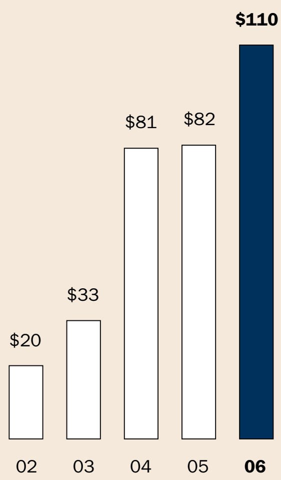
→ #1 in the performance of lead-managed equity underwritings [1]

→ #1 underwriter of single B debt under $150 million, five years running [2]

→ #2 M&A advisor for transactions less than $500 million [3]

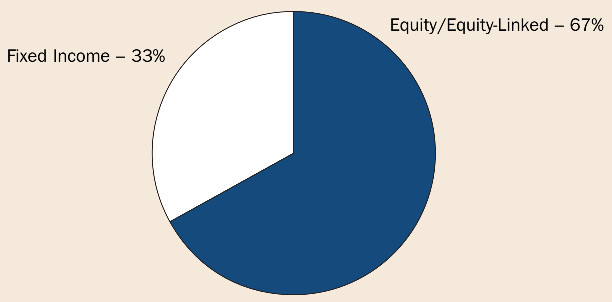
Asset Management Revenues

(in millions)



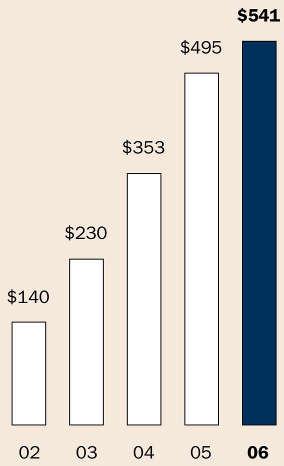
Assets Under Management

(by predominant asset strategy)

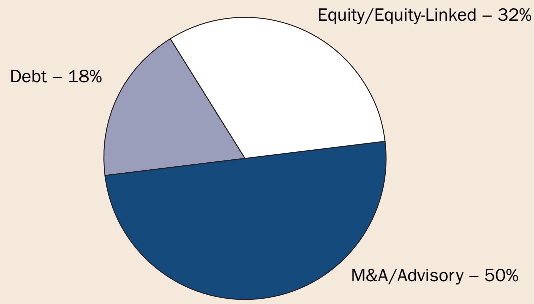


1. Dealogic 2006. Average after–market performance weighted by deal value. SEC registered and US exchange listed deals only. Firms with greater than 10 deals. 2. Thomson Financial/SDC, 2001-2006. Excludes split-rated, mortgage and asset-backed securities. Full credit to lead manager, equal if joint. 3. Thomson Financial/SDC. US transactions announced in 2006. Includes mergers, acquisitions and minority investments with disclosed and undisclosed values. Excludes Tender Offers, Exchange Offers, Self-tenders, Repurchases, Remaining Interests, Privatizations.

Investment Banking Revenues
(in millions)



Investment Banking Revenues by Product

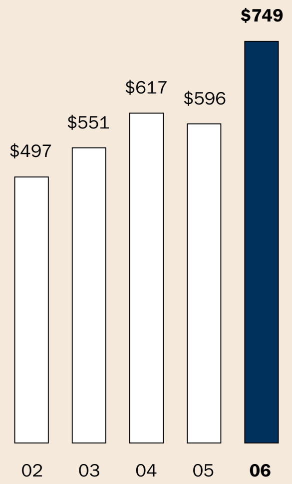


Asset Management

Pursuing a variety of strategies, Jefferies' experienced fund managers seek to both manage risk effectively and consistently deliver favorable returns in all market conditions. Revenues from asset management increased 34 percent in 2006.

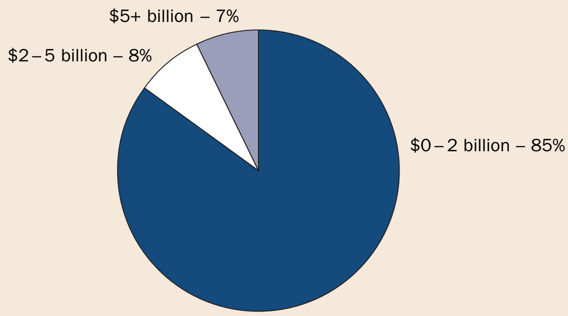
Sales & Trading Revenues

(in millions, includes commissions and principal transaction revenues)



Market Making by Market Cap

(NASDAQ Stocks)



Research

With a passion for identifying growing companies with unique value and tremendous potential, Jefferies' award-winning research team expanded coverage 20 percent to include more than 1,300 companies. Our analysts combine a natural inquisitiveness and analytical acumen to provide thought-provoking, objective research for institutional investors globally.

→ #1 research product, based on annualized return[1]

→ 21 analyst honors in North America and Europe

[1] Ranking of sell-side research firms, excluding independent research firms, covering more than 500 stocks according to the spread between their buy and sell ratings for the period of April 1, 2004–April 1, 2006 for Russell 2000 components. Source: Time Magazine, April 24, 2006; data provided by Investars.com.

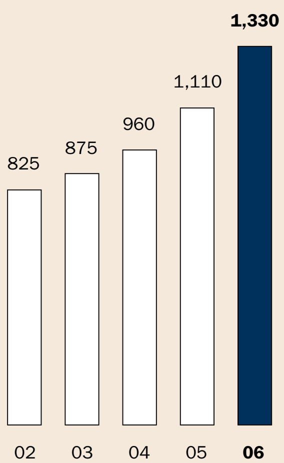
Sales & Trading

As a leading provider of best execution and liquidity in small- and mid-cap securities for institutional investors around the world, Jefferies significantly broadened its product base to address the evolving needs of its customers in an increasingly global marketplace. Revenues grew 26 percent in 2006 with an increasingly diversified revenue stream.

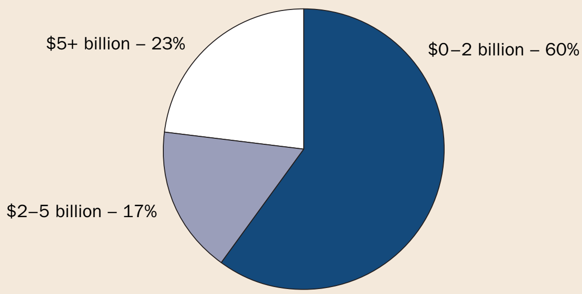
→ #2 among brokerages, based on minimizing total transaction costs[2]

→ A Top 5 Trader of more than 2,400 stocks[3]

Companies Under Research Coverage
(approximations)

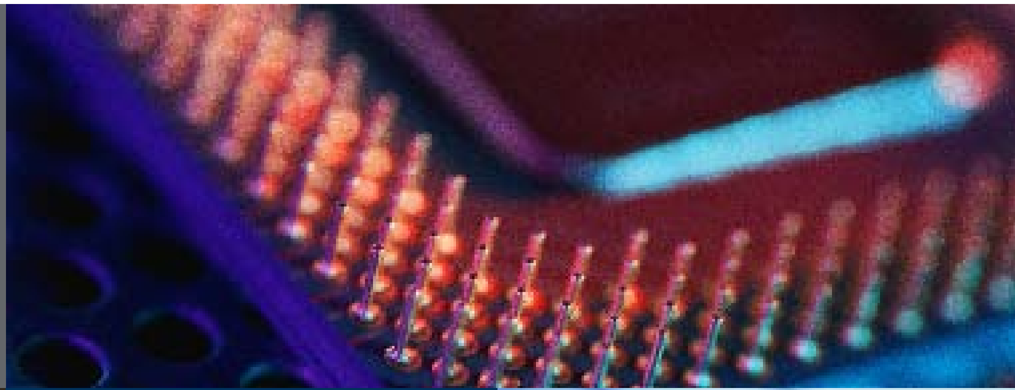


Companies Under Equity Research Coverage by Market Cap



[2] Elkins/McSherry, 7/05-6/06. Includes brokerages with greater than $250 million in principal traded. [3] AutEx®, 2006

Technology



Healthcare

Media & Communications

Clean Technology

Growth solutions

Claymont Steel

Since its mid-2005 purchase of Claymont Steel Holdings, Inc., a leading producer of custom steel plate, H.I.G. Capital, a leading private equity firm with more than $3.5 billion of equity capital under management, has relied on Jefferies for the banking needs of its portfolio company. Having previously retained Jefferies on two high yield offerings that raised nearly $250 million and demonstrated the firm's strong execution capabilities, Claymont chose the Firm as sole bookrunner for the IPO. Jefferies assisted in the selection of co-managing underwriters and leveraged its extensive institutional relationships, industrial expertise and dedicated equity capital markets team to drive an intense, targeted marketing effort to generate meaningful interest among investors. The transaction garnered intense interest and was upsized over 25 percent, with shares pricing at the high end of the range and raising more than $170 million. Jefferies Private Client Services also implemented a directed share program, working closely with Claymont's CEO. The IPO provided Claymont with capital for future growth and expansion of its services, while providing exit options for H.I.G. Capital through the public equity markets. Since year-end, Jefferies helped Claymont raise an additional $105 million as sole bookrunning manager of another successful high yield offering.

Omega Navigation

Omega Navigation Enterprises, an international provider of marine transportation services based in Greece, aimed to diversify and expand its fleet of high-quality vessels as part of its strategic growth plan. After considering several financing options, the company decided that an IPO would be the best route to raise the capital needed. Jefferies' established presence and expertise in the global maritime industry, combined with its equity capital markets and distribution capabilities, made it a natural choice to serve as global coordinator and joint bookrunning manager for Omega's IPO. Jefferies took an ambitious, multi-regional marketing approach, coordinating a dual listing in the US and Singapore. Jefferies introduced Omega's management to high-quality institutions in North America, Europe and Asia in an accelerated time frame and articulated the company's value and investment potential to deliver superior execution. The transaction raised more than $204 million in new equity capital to help fund the purchase of six modern, high-quality double-hulled product tankers. The company's IPO proved to be a pivotal event, providing Omega the flexibility to grow its fleet and diversify into the product tanker market. Omega executives rang the opening bell on the NASDAQ National Market on May 5, and Jefferies was the top trader of Omega's stock for 2006 (AutEx®).

Inverness Medical

Inverness Medical Innovations, Inc., a leading global developer of in vitro diagnostic products for the over-the-counter pregnancy and fertility/ovulation test market and the professional rapid diagnostics test market, was seeking various financing strategies to complete an important acquisition. Following the success of Inverness' Jefferies-led $83 million PIPE earlier in the year, and given Jefferies' capital markets expertise and top trading position in the stock, Inverness followed Jefferies' recommendation to pursue another PIPE financing in order to access the market quickly and capitalize on its recent stock price appreciation. With Jefferies as the lead placement agent, the resulting $151 million transaction was a complete success, notable in particular for the late August timing. The 5-million-share financing was one of the largest PIPEs executed by any investment bank in 2006 and, since year-end, Jefferies has continued to assist Inverness in the capital raising arena, acting as joint bookrunner in a $273 million registered follow-on equity offering. As a result, Inverness raised a total of over $500 million in less than one year—all with Jefferies as its banker—and was able to successfully pursue its acquisition strategy.

Capital raising expertise & commitment

FiberTower

After merging with competitor First Avenue Networks, FiberTower Corporation, a leading provider and forerunner of facilities-based backhaul services to wireless carriers, was ready to begin scaling its operations. As a dominant provider in this emerging segment of the telecommunications infrastructure market, FiberTower recognized that build-out capital could prove difficult to secure and needed the right financing partner. Jefferies proved to be the obvious choice, due to the Firm's experience in the wireless space, multi-product capital markets expertise, ability to effectively communicate growth company stories to investors and previous advisory assignment for the parties' $1.5 billion merger. As sole bookrunning manager, Jefferies structured a complex convertible instrument that spanned both high yield and pure-play convertible investors. Operating in a compressed time frame, Jefferies generated very strong demand and completed the transaction in just over four weeks. The resulting $402.5 million convertible senior secured notes offering was heavily oversubscribed, which produced a favorable result and limited dilution to existing shareholders. The transaction positioned FiberTower to maintain its first-mover status among its competitors and keep pace with increasing customer demands.

MTR Gaming Group

When new gaming legislation presented an ideal expansion opportunity for MTR Gaming Group, an owner and operator of premier US gaming properties, the company broke ground with Jefferies. With established casinos in Nevada, Minnesota, West Virginia and Michigan, MTR sought funding for a new state-of-the-art thoroughbred racetrack, on Pennsylvania's Lake Erie, a lively tourist destination attracting approximately four million visitors a year. Having chosen Jefferies as the lead manager on a previous debt transaction, MTR once again looked to the Firm for its gaming expertise and innovative financing solutions. While an obvious option was an expensive global refinancing of bank debt, Jefferies took a more creative approach, structuring a two-tranche transaction consisting of a credit facility carve-out and senior subordinated notes offering while utilizing internally generated cash flow. Jefferies acted as sole placement agent, leading a targeted and expeditious marketing process, raising $125 million, and in addition garnered consents to increase the credit facility to $85 million. The solution was more cost-effective than a refinancing, while avoiding complicated bank covenants, and proving beneficial to existing note holders. The transaction helped MTR to diversify revenues and profit sources and remain competitive by expanding its geographic reach within a new territory.

Mattress Giant

Freeman Spogli, a private equity investment firm focused on growth companies in the retail, direct marketing and distribution sectors, was keen to add Mattress Giant Corporation, one of the nation's premier bedding retailers, to its portfolio of investments. It called on Jefferies' leveraged finance team because of its lending capabilities, experience and creative approach. Jefferies recommended a complex, two-tranche structure consisting of a senior secured credit facility and senior subordinated notes offering. Jefferies Finance fully committed to both tranches and syndicated the entire capital structure, with Jefferies acting as sole lead arranger, administrative agent and syndication agent and sole placement agent. The transaction was oversubscribed, valued at a combined $115 million, and was executed seamlessly. The subsequent transfer of ownership of Mattress Giant to funds controlled by Freeman Spogli was successful. Freeman Spogli enhanced its portfolio and aligned with the talented management team of a leader in the growing specialty bedding retail sector with minimal risk. Mattress Giant gained a valuable, strategic partner and access to new capital to help maximize leverage for acquisition financing, while providing flexibility to rapidly expand its store base and improve its market share in existing regions.

Aerospace & Defense

Energy

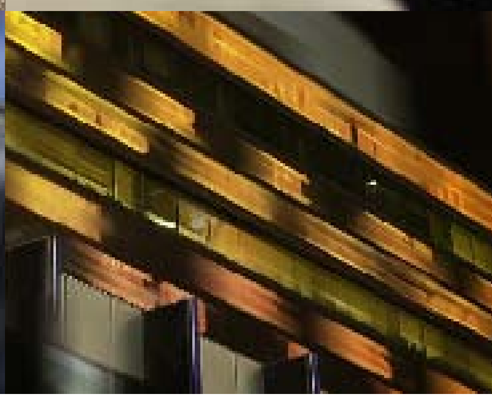
Maritime & Oil Service

Industrial

Financial Sponsors &
Private Capital

Gaming & Leisure

Retail & Consumer



Financial &
Business Services

A top advisor

Primus International

Sensing an upswing in the commercial aero-structures market, Jefferies Quarterdeck worked with private equity group Rhône Capital LLC to find the right strategic partner for portfolio company Primus International, a leading global supplier of aircraft structures with an attractive client list and facilities in the US and China. Having served as advisor during the formation and build-out of Primus, Jefferies' perspective and leadership in the A&D M&A marketplace made it a clear choice as advisor. The Firm leveraged its extensive experience in the sector, lending capabilities and knowledge of high probability buyers to structure and execute the sale, and served as co-lead arranger for a senior secured credit facility for the buyer. Jefferies led a smooth negotiation process on behalf of Primus and came to a mutually beneficial agreement with the ultimate buyer, with Jefferies Finance fully funding the credit facility. The acquisition positioned Primus for continued growth while providing a suitable exit opportunity for Rhône Capital LLC. Soon thereafter, Jefferies served as sell-side advisor to Walden's Machine, Inc., a supplier of components, kits and assemblies to the global aerospace industry, in its sale to Primus, and again provided financing to support the buyer through a senior secured credit facility.

Statoil ASA

As part of its international growth strategy, Statoil, Scandinavia's leading oil and gas company, was determined to expand its deepwater portfolio in the Gulf of Mexico—a market characterized by a large deal flow with frequent buying and selling of oil and gas assets by domestic and international oil and gas companies. Having negotiated with Jefferies Randall & Dewey on the company's acquisition of EnCana's Gulf of Mexico deepwater portfolio, and given our leadership in energy M&A, Statoil chose the Firm to identify and act on the right opportunity. Jefferies leveraged its deep knowledge, relationships and established presence in the region to negotiate a mutually beneficial agreement with Plains Exploration & Production. Statoil acquired a working interest in two Gulf of Mexico deepwater discoveries: Caesar and Big Foot. In addition, Statoil acquired one exploration prospect in which it already had an interest and a right of first negotiation for acquiring similar assets at a later stage. The transaction, valued at $706 million, was executed within an accelerated time frame and represented another important milestone for Statoil's significant and profitable Gulf of Mexico portfolio.

Brown Jordan

When the furniture industry hit a rough patch, Brown Jordan International, a leading designer and manufacturer of fine outdoor furniture, needed to recapitalize its balance sheet. Jefferies' reputation for creative financing solutions and strong retail and consumer expertise made it the obvious choice to serve as advisor. In order to offset operating and liquidity disruptions that had occurred under prior management, Jefferies orchestrated an intricate out-of-court restructuring focused on improved results and premium brand positions. The solution required negotiations with major note holders, multiple forbearance agreements with various creditor classes and a broad solicitation of financing alternatives to major lenders and hedge funds. Jefferies successfully executed a three-tranche recapitalization, including a $50 million equity investment, a $200 million debt financing and a $105 million exchange offer—obtaining a 99.8 percent acceptance on the exchange. The Company not only avoided Chapter 11, but had the flexibility and capital to acquire the intellectual property assets of Sun Isle, a Florida-based designer and manufacturer of specialty furniture and yarns, immediately after closing the recapitalization.

Cross-border dexterity

Protect Data AB

Recognizing the growing importance of information security in a mobile world and a swift trend in consolidation among providers, Jefferies Broadview developed a strong relationship with Sweden-based Pointsec Mobile Technologies, a global leader in enterprise data encryption for laptops and mobile devices. Amidst exploding enterprise demand for endpoint security solutions, Pointsec was an attractive acquisition candidate, and the company's parent company, Protect Data AB, asked Jefferies to assist it in proactively exploring strategic opportunities. Jefferies' leadership in technology M&A, access to buyers and focus on growth companies made it a natural fit for the advisory assignment. As the first significant acquisition in the data encryption segment, there was significant interest in the company, and Jefferies leveraged its global relationships and deep industry insights to find the ultimate buyer. Jefferies negotiated the agreement with Israeli-based Check Point, a leading provider of comprehensive Internet security solutions, securing a healthy premium and liquidity for shareholders. The $625 million acquisition gave Pointsec access to a global platform, strengthened Check Point's strategic position in its sector and was among the largest IT security transactions announced in 2006.

Thule AB

Sweden-based Thule AB, a world leader within sports utility transportation serving all major car markets in North America, Europe, Africa and Asia, wanted to expand its product portfolio of load carriers and accessories for cars, motor homes and caravans. The company and its financial sponsor, UK-based private equity firm Candover, identified an exciting opportunity and an excellent strategic fit in the towing systems of US-based Advanced Accessory Systems (AAS), a leading maker of automotive roof racks and towing systems. After careful consideration, Thule and Candover selected Jefferies as sole advisor in their negotiations with AAS based on the Firm's thoughtful approach as well as its expertise and extensive contacts within the global after-market automotive industry. Jefferies conducted a smooth negotiation process despite multiple parties, and the added complexity of two necessary tender offers. Thule acquired all of the assets of three core AAS businesses, in one of the largest transactions in the sector, valued at $203 million, and made a successful entrée into a new product segment.

US Maintenance

US Maintenance (USM), a leading single-source provider of outsourced contractor maintenance services in the US, Canada and Puerto Rico, had grown quickly and had recently completed two key acquisitions. As a result, USM and financial sponsor Sterling Investment Partners, a private equity firm with more than $1 billion under management, determined to consider strategic alternatives. In a competitive selection process, Jefferies was awarded the advisory mandate due to its business services expertise and relationships, as well as its leveraged finance and lending capabilities. After effectively articulating USM's unique value and capabilities, Jefferies initiated a highly competitive auction process that attracted over 130 financial and strategic buyers. Jefferies helped USM evaluate acquisition opportunities, identify the most appropriate buyers and maximize proposals. Australia-based Transfield Services, a leading international provider of operations, maintenance, asset and project management services, ultimately signed a definitive purchase agreement three months after Jefferies was awarded the mandate, and shortly thereafter, completed the acquisition of USM for approximately $280 million. The transaction successfully positioned USM for continued growth and profitability within a larger platform while significantly expanding Transfield's geographic footprint, and provided Sterling with an exit strategy that was in the best interests of its investors and its portfolio company.

The Jefferies Investment Bank

Product expertise

Jefferies completed more than 165 capital raising transactions in 2006, leveraging several additions to our equity capital markets team. Despite a relatively quiet US IPO market, Jefferies helped clients raise more than $21 billion, nearly 50 percent more than in 2005, through more than 100 equity and equity-linked financings. Jefferies ranked #1 in the performance of lead-managed equity underwritings[1]. With increased lending capabilities and the ability to commit capital, Jefferies' leveraged finance team helped clients raise nearly $15 billion, versus $6 billion in 2005, through nearly 60 high yield and bank loan transactions. Jefferies ranked as the #1 underwriter of single B debt under $150 million for the fifth consecutive year[2].

Jefferies provided advisory services on nearly 200 announced assignments in 2006, up significantly from one year ago. We added an experienced senior professional to lead the firm's M&A efforts and supplemented our restructuring team. With an active M&A market, Jefferies worked on nearly 160 assignments valued at more than $30 billion, and ranked as the #2 M&A advisor for deals up to $500 million, across all industries[3]. In spite of one of the lowest corporate bond default rates in the last 20 years, Jefferies' restructuring assignments nearly doubled to over 30, valued at nearly $70 billion, and included many of the highest profile corporate bankruptcies in the US.

Helix Associates, in its first full year with Jefferies, added key personnel focused on North American GPs and LPs, and completed six fund placements valued at $9 billion, including the closing of the $600 million Jefferies Capital Partners fund. In addition, our financial sponsors and private capital group made considerable strides in serving our growing client base of private equity clients, with more than 80 transactions valued at nearly $11 billion.

Industry insight

Jefferies' dedicated industry groups all performed well during the year, with key additions to our healthcare, industrial, energy and maritime & oil service groups. Our technology, energy, and aerospace & defense groups were particularly strong in their respective sectors.

→ We ranked as the #1 technology M&A advisor[4], with more than 90 technology transactions valued at over $12 billion.

→ We ranked as the #1 energy M&A advisor[4], with over 60 energy transactions (including maritime & oil service) valued at over $12 billion.

→ We ranked as the #1 aerospace & defense M&A advisor[4], with more than 40 aerospace & defense transactions valued at $8 billion.

→ Our industrial, healthcare, media & communications, retail & consumer, gaming & leisure, and financial & business services groups collectively accounted for more than 150 transactions, valued at more than $36 billion.

Global reach

Jefferies' initiatives in Europe, the Middle East and Asia are gaining traction with dedicated teams and a rising number of European and Asian underwritings and cross-border advisory assignments for growing companies. In 2006, Jefferies completed more than 80 transactions, valued at more than $23 billion, for clients in these regions. Jefferies established a physical presence in Dubai, Singapore and Shanghai, and made significant inroads in India, having raised over $1 billion in convertible bond issuances for India-based companies over the last 18 months. We also established a presence in the Nordic region through an alliance with Ness Risan & Partners AS, a Norway-based consulting firm with shipping expertise. In addition, new memberships and status on European and Asian exchanges significantly broadened our reach and capabilities. We are staunchly committed to extending the strength of our US franchise to companies around the globe.

[1] Dealogic, 2006. Average after-market performance weighted by deal value. SEC registered and US exchange listed deals only. Firms with greater than 10 deals. [2] Thomson Financial/SDC, 2001–2006. Excludes split-rated, mortgage and asset-backed securities. Full credit to lead manager, equal if joint. [3] Thomson Financial/SDC. US transactions announced in 2006. Includes mergers, acquisitions and minority investments with disclosed and undisclosed values. Excludes Tender Offers, Exchange Offers, Self-tenders, Repurchases, Remaining Interests, Privatizations. [4] Thomson Financial/SDC. Includes mergers, acquisitions and minority investments with disclosed and undisclosed values. Excludes Tender Offers, Exchange Offers, Self-tenders, Repurchases, Remaining Interests, Privatizations. Technology M&A transactions in North America and Western Europe announced 1/1/06–12/31/06. Energy M&A transactions announced 1/1/06–12/31/06. Defense-related M&A transactions in North America and Western Europe reported 1/1/06–12/31/06.

A transformational year in sales & trading

New businesses and products

→ *Prime Brokerage* Jefferies established a dedicated Prime Brokerage team to focus on growing hedge funds. With a 20-person team of industry veterans assembled by year-end and an expanding base of hedge fund clients, the group has tremendous growth potential and opportunity for Jefferies' existing trading clients with a small- and mid-cap stock focus.

→ *Derivatives* Jefferies welcomed a team of experienced equity derivatives professionals during 2006 and began offering listed options, ETFs and OTC options and swaps. The team quickly established its presence as a major player in listed equity options, averaging over 1.3 million options contracts traded per day for customers in the fourth quarter alone, attracting new accounts to the Firm and expanding existing relationships.

→ *JETS* In electronic trading, we recruited an experienced quantitative strategies team and launched our new JETS (Jefferies Electronic Trading Solutions) product, a robust front-end trading tool that enables clients to easily employ a wide variety of complex direct market access and Jefferies proprietary algorithmic trading strategies.

→ *Indices* Jefferies introduced 20 proprietary equity indices to track the performance of small- and mid-cap companies and distinct industry- and market-oriented opportunities, both domestic and global.

→ *Connectivity* Jefferies broadened connectivity with additional exchange memberships, increased our global footprint to now include London Stock Exchange (LSE), Deutsche Börse (Xetra), Euronext, Oslo Bors, Dubai International Financial Exchange (DIFX), Tokyo Stock Exchange (TSE) and JASDAQ, and added Nominated Adviser (NOMAD) status on the Alternative Investment Market (AIM) of the LSE.

Continued leadership in established businesses

In 2006, Jefferies ranked as a Top 5 trader of over 2,400 stocks[1] and #2 among brokerages[2], based on minimizing total transaction costs. We successfully executed many large block trades and distributions for our clients during the year, working closely with Jefferies' equity capital markets group to place securities. Equity research also played a large role in the success of our efforts, adding continued depth and insight to our overall offering. Year over year, revenues from total equities grew approximately 23 percent. Our US convertibles desk traded $23 billion (notional value) in bonds—a nearly 50 percent jump over 2005, with a continued focus on serving the needs of our diverse and global client base.

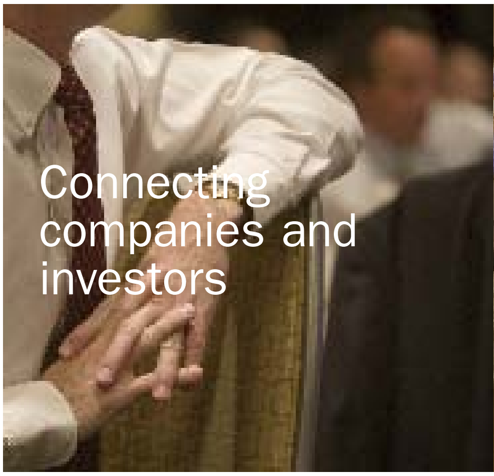
As increased globalization of the markets began impacting mid-cap companies, Jefferies' high yield sales and trading desk has responded by sourcing bonds more globally and distributing both in the US and abroad. We significantly augmented our research staff and increased the number of European companies and corporate credits under coverage. The group also provided distribution expertise in the placement of many key high yield offerings, and traded over 1,500 issues with more than 600 institutions during the year. Jefferies' Fixed Income division increased its market making capabilities more than 60 percent to 3,800 issues during the year, added an emerging markets team in New York and London, and fully established its Eastern European trading operations.

We augmented our securities finance operations in London and our correspondent clearing group continued to attract new clients and add new products. Jefferies Financial Products expanded the reach of commodity-linked products with a significant increase in European clients and the development of new products linked to the Reuters Jefferies CRB Index, including ETFs in Europe and Asia.

[1] AutEx®, 2006. [2] Elkins/McSherry, 7/05-6/06. Includes brokerages with greater than $250 million in principal traded.

Committed to providing the most sophisticated trading tools and solutions to meet the evolving needs of our institutional customers, Jefferies significantly expanded the breadth and scope of its sales and trading platform in 2006. Our established businesses continued to perform well, including our core cash equities effort, with a renewed vigor and enhanced focus on integrating our suite of offerings, leveraging our high-quality research and supporting our growing capital markets expertise.

Connecting companies and investors



FEBRUARY

→ Jefferies hosted 23 public and private companies and over 235 conference attendees at our **2nd Annual Internet Conference**, covering a variety of pertinent issues facing growth Internet companies, including local search, VoIP and wireless data, among others.

MARCH

→ Jefferies hosted 34 public and private companies and 230 conference attendees as part of its **Wireless Broadband Conference**, covering the trend of wireless broadband across multiple market segments, ranging from semiconductors to software to digital media to communications equipment.

MAY

→ Jefferies hosted 31 companies and over 365 conference attendees for an **Alternative Energy & Cleantech Conference**, addressing critical energy supply and security issues and environmental concerns with a range of technologies, including solar power, fuel cells, ultracapacitors, advanced batteries, microturbines and hydrogen generation.

→ Jefferies gathered 54 companies and over 225 conference attendees for a **Gaming, Lodging, Media & Entertainment Conference** to explore relevant themes and trends, including media and entertainment companies' increasing interests in new vertical industries as a way to leverage their existing content, as well as the movement by fast-growing gaming companies to continue their expansion of non-gaming revenues.

JUNE

→ Jefferies hosted 36 companies and over 260 conference attendees at its **3rd Annual Jefferies Specialty and Post-Acute Services Conference** to discuss a range of topics including senior living services/assisted living, skilled nursing, institutional pharmacy, behavioral health, ambulatory surgery and home healthcare industries.

→ Jefferies hosted 113 companies and over 615 conference attendees for its **Life Sciences Conference** to explore recent scientific developments and the challenges that emerging growth and more mature life sciences companies face, including meeting unmet medical needs, increased regulatory hurdles, and escalating healthcare costs with innovative new products and therapies.

SEPTEMBER

→ Jefferies hosted 41 companies and 310 conference attendees at its **4th Annual Communications Conference** to discuss the unprecedented changes the industry has undergone as incumbent service providers, equipment suppliers and competitive carriers consolidate and what role emerging technologies will play, among other topics.

→ Jefferies hosted 19 companies and over 275 conference attendees at its **3rd Annual Shipping Conference** to explore issues and opportunities facing crude tanker product tanker, and dry bulk companies.

OCTOBER

→ Jefferies gathered 16 expert panelists and over 375 conference attendees for its **2nd Annual Automotive Conference** to explore various industry pressures, such as rising raw material prices and increasing legacy costs and a distressed company valuation panel to provide unique perspectives to valuing the entire capital structure of companies both in and out of bankruptcy.

→ Jefferies hosted 28 companies and 255 conference attendees for its **1st Annual European Alternative Energy & Cleantech Conference**, addressing today's critical energy supply and security issues and environmental concerns with a range of technologies, including solar power, fuel cells, ultracapacitors, advanced batteries, microturbines and hydrogen generation.

NOVEMBER

→ Jefferies hosted a **Medical Devices & Diagnostics Mini-Conference** discussing some of the issues facing companies and unique investment ideas.

An industrious year in research & analysis

Award-winning research

Jefferies' research effort provided valuable insight for our institutional investors in 2006, increasing the number of companies under coverage by 20 percent, and continuing to gain recognition for the accuracy and objectivity of its analysts. Jefferies' equity research ranked #1 among investment banks for annualized return on analysts' stock picks among the Russell 2000[1]. Equity analysts also earned five awards in *The Wall Street Journal* "Best on the Street 2006 Analysts Survey" and a total of 14 honors in the Fifth Annual Forbes.com / StarMine analyst awards for North America, the UK and Ireland, France, Pan Europe and the Nordic region[2].

During the year companies under equity research coverage grew to a total of 867, including more than 750 US-based companies and well over 100 European and Asian companies. We launched equity research coverage of US restaurants; electronics manufacturing services & electronics supply chain; managed care; and UK gaming & leisure, as well as regional coverage of the Japanese technology sector. We also enhanced our coverage of clean technology, healthcare, energy, shipping and technology, in both the US and Europe. Since year-end, we've added a number of new equity research analysts both in the US and internationally, including global transportation and logistics and regional coverage of India, China and Southeast Asia.

Jefferies hosted 11 industry conferences focusing on topical issues facing companies in such industries as technology, alternative energy/clean technology, gaming, lodging, media, entertainment, healthcare, communications, shipping and automotive. Analysts hosted 390 non-deal corporate road shows, numerous investor tours and field trips, and a weekly conference call series, and logged the equivalent of more than 800 days marketing to institutional buy-side clients.

Outside of equities, Jefferies augmented its high yield research efforts with a 30 percent increase in companies under coverage, now following nearly 400 issues, and our metals and mining analyst ranked #2 in the sector once again in *Institutional Investor*'s "2006 All-America Fixed Income Research Team." During the year, our high yield analysts conducted quarterly road shows, visiting key cities in the US to meet with investors and introduce them to new ideas and companies, with a focus on the early identification of market opportunities, and a thorough understanding of complex structures and special situations. Jefferies' convertible research efforts continued coverage of the US, European and Asian markets, assessing convertible structures and offering valuable investing advice to clients, as well as financial statement analysis for the non-investment-grade universe.

Global Family of Indices

Jefferies now has a Global Family of Indices comprised of specialized stock, convertible and commodity-linked indices, adding another layer of insight to the types of securities we trade and cover. In December 2006, Jefferies launched a series of 20 stock indices to provide performance benchmarks for specific asset classes, sectors and company characteristics, including performance benchmarks of IPOs, companies that have recently repurchased shares or emerged from bankruptcy, and companies in the clean technology and energy sectors, among others. In its 13th year of tracking convertibles, the Jefferies Active Convertible Index, a leading barometer of the global convertible bond universe, continued to serve as a dependable benchmark for the convertibles market. The Reuters/Jefferies CRB Index serves as a leading global benchmark for commodities as an asset class. ETFs linked to the CRB Index are currently available in European and Asian markets. In addition, Jefferies' proprietary indices, which include the JCPI and JCPI-HE, have gained considerable investor interest since launching in 2003.

1. Ranking of sell-side research firms, excluding independent research firms, covering more than 500 stocks according to the spread between their buy and sell ratings for the period of April 1, 2004–April 1, 2006 for Russell 2000 components. Source: Time Magazine, April 24, 2006; data provided by Investars.com. 2. North America: Forbes.com "Special Report," May 2, 2006. UK & Ireland: The Sunday Times and StarMine, "Top Analysts of 2005 for the United Kingdom and Ireland" Annual Survey. France: Les Echos and StarMine "Top Analysts of 2005 for France" Annual Survey. Pan Europe: Thomson Extel/StarMine "Pan Europe's Top Analysts of 2005" Annual Survey. Nordic region: Dagens industri and StarMine "Nordic Region's Top Analysts of 2005" Annual Survey.

A balanced & diversified platform

Asset Management

Jefferies' asset management efforts continues to add valuable portfolio managers and expand its suite of strategies. This business represents the foundation of a third leg to the Jefferies platform and is well-positioned to grow significantly in the coming years. Revenues from asset management comprised 8 percent of total net revenues in 2006, up from 2 percent in 2000. The group brings an important level of balance to our overall platform and unique opportunities for a select group of sophisticated investors.

During the year, Jefferies Asset Management, LLC (JAM) registered with the SEC as an investment adviser, an important step in the ongoing efforts to establish a solid and scalable infrastructure.

The majority of our funds experienced strong performance over the year. Assets under management for our convertible bond funds experienced an increase of 50 percent to $2.5 billion. Collectively, assets under management now total $4.4 billion.

Since 2000, revenues from our asset management activities have grown almost eightfold and involve various strategies including fixed income securities, equities, convertible securities, distressed and merger arbitrage. We continue to align our interests with those of our clients, and had an average investment in managed funds of $305 million during the year. We have remained true to our strategy and our goal continues to include expanding into new asset classes and strategies, recruiting talented managers and achieving favorable returns in all market conditions.

Private Client Services

Jefferies Private Client Services (PCS) increased its revenues in 2006 and grew its professional staff by 20 percent, expanding its regional presence in the United States with additional account executives in three key markets: New York, Boston and Chicago.

During the year, PCS enhanced its platform technology to provide a more comprehensive suite of wealth management and trading services for its high net worth clients. Leveraging its open architecture philosophy, PCS also continued to add unique products and services, including select private equity and hedge fund offerings.

As part of Jefferies' "One Firm" approach, PCS also continued to provide valuable post-transaction support and services to the Firm's investment banking clients, including Claymont Steel Holdings and BlackSand Energy LLC, among others.

Corporate Governance

Jefferies is deeply committed to maintaining the highest of ethical standards and complying with our regulatory and legal obligations. Primarily comprised of independent directors, the Board of Directors guides the Firm in establishing best practices in accordance with evolving legal requirements and governance practices, always acting in the long-term interests of the shareholders and integrity of the Firm, as well as recognizing the valid interests of the Firm's clients and employees.

Members of the Board bring a deep understanding of the Firm's business and industry, a reputation for integrity, and extensive experience in positions requiring the demonstration of responsibility and leadership.

Employee Ownership

At Jefferies, we believe that ownership alignment is the best motivator for long-term success. Employee ownership is up significantly in the past five years, with the Jefferies family owning a significant portion of the outstanding equity of the Firm. Through various stock ownership programs, all Jefferies employee-partners are encouraged to take part in the firm that we are building and the value we are creating together.

With nearly every individual at Jefferies being a stock owner, the employee-partners of this company treat the hiring, capital allocation, risk management, cost control and compliance decisions very seriously and personally. We believe that ownership by this group is one of the fundamental reasons why our Firm has thrived in both favorable and challenging times, and has contributed to high staff retention, as well as attracting new partners.

Social Responsibility & Diversity

Together with the help of clients and vendors, our Firm and its employees have contributed over $40 million in donations toward a broad range of important causes including relief efforts for natural disasters in the US and abroad, terrorist attacks, cancer research and underprivileged youth. In addition, the Firm's scholarship program, now in its 26th year, supports the education of the children of Jefferies employees, and has granted 725 scholarships, totaling more than $5 million.

With an expanding global network of nearly 30 offices in seven countries spanning three continents, promoting a diverse work force is important to us. We believe that every employee is one-of-a-kind, with a unique perspective and outlook. We seek to enrich our Firm by recruiting individuals from diverse cultures and backgrounds with wide-ranging experience and academic achievement from all over the world.

Condensed Consolidated Statements of Earnings

The financial information presented in this Annual Report should be read in conjunction with our complete Consolidated Financial Statements (including the notes) contained in our Form 10-K for the year ended December 31, 2006. Our Form 10-K for the year ended December 31, 2006 was filed with the SEC on March 1, 2007 and is also available on our website at www.jefferies.com.

	Year Ended December 31,		
(in thousands, except per share amounts)	**2006**	2005	2004
Revenues:			
Commissions	**$ 280,681**	$ 246,943	$ 258,838
Principal transactions	**468,002**	349,489	358,213
Investment banking	**540,596**	495,014	352,804
Asset management fees and investment income from managed funds	**109,550**	82,052	81,184
Interest	**528,882**	304,053	134,450
Other	**35,497**	20,322	13,150
Total revenues	**1,963,208**	1,497,873	1,198,639
Interest expense	**505,606**	293,173	140,394
Revenues, net of interest expense	**1,457,602**	1,204,700	1,058,245
Non-interest expenses:			
Compensation and benefits	**791,255**	669,957	595,887
Floor brokerage and clearing fees	**62,564**	46,644	52,922
Technology and communications	**80,840**	67,666	64,555
Occupancy and equipment rental	**59,792**	47,040	39,553
Business development	**48,634**	42,512	35,006
Other	**65,863**	62,474	43,333
Total non-interest expenses	**1,108,948**	936,293	831,256
Earnings before income taxes, minority interest and cumulative effect of change in accounting principle	**348,654**	268,407	226,989
Income taxes	**137,541**	104,089	83,955
Earnings before minority interest and cumulative effect of change in accounting principle	**211,113**	164,318	143,034
Minority interest in earnings of consolidated subsidiaries, net	**6,969**	6,875	11,668
Earnings before cumulative effect of change in accounting principle, net	**$ 204,144**	$ 157,443	$ 131,366
Cumulative effect of change in accounting principle, net	**1,606**	—	—
Net earnings	**$ 205,750**	$ 157,443	$ 131,366
Earnings per share of Common Stock:*			
Basic:			
Earnings before cumulative effect of change in accounting principle, net	**$ 1.53**	$ 1.27	$ 1.14
Cumulative effect of change in accounting principle, net	**0.01**	—	—
Net earnings	**$ 1.54**	$ 1.27	$ 1.14
Diluted:			
Earnings before cumulative effect of change in accounting principle, net	**$ 1.41**	$ 1.16	$ 1.03
Cumulative effect of change in accounting principle, net	**0.01**	—	—
Net earnings	**$ 1.42**	$ 1.16	$ 1.03
Weighted average shares of Common Stock:*			
Basic	**133,898**	123,646	114,906
Diluted	**147,531**	135,569	127,815

* All share and per share information has been restated to retroactively reflect the effect of the 2-for-1 stock split declared by the Board of Directors on April 18, 2006 and effected as a stock dividend on May 15, 2006.

Condensed Consolidated Statements of Financial Condition

	December 31,	
(in thousands)	**2006**	2005
Assets		
Cash and cash equivalents	**$ 513,041**	$ 255,933
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	**525,911**	629,360
Short-term bond funds	**—**	7,037
Investments	**134,278**	107,684
Investments in managed funds	**364,124**	278,116
Securities borrowed	**9,711,894**	8,143,478
Receivable from brokers, dealers and clearing organizations	**254,580**	389,994
Receivable from customers	**663,552**	457,839
Financial instruments owned including securities pledged to creditors of $1,481,098 and $178,686 in 2006 and 2005, respectively	**4,698,578**	1,828,766
Securities purchased under agreements to resell	**226,176**	—
Premises and equipment	**91,375**	69,821
Goodwill	**257,321**	220,607
Other assets	**459,052**	392,296
	$ 17,899,882	$ 12,780,931
Liabilities and Stockholders' Equity		
Securities loaned	**$ 6,794,554**	$ 7,729,544
Payable to brokers, dealers and clearing organizations	**669,196**	303,480
Securities sold under agreements to repurchase	**2,092,838**	—
Payable to customers	**1,010,486**	813,896
Financial instruments sold, not yet purchased	**3,619,004**	1,300,317
Accrued expenses and other liabilities	**707,264**	530,477
	14,893,342	10,677,714
Long-term debt	**1,268,543**	779,873
Mandatorily redeemable convertible preferred stock	**125,000**	—
Minority interest	**31,910**	36,494
	16,318,795	11,494,081
Stockholders' Equity:		
Preferred stock	**—**	—
Common stock	**14**	7
Additional paid-in capital	**876,393**	709,447
Retained earnings	**952,263**	803,262
Less:		
Treasury stock	**(254,437)**	(220,703)
Currency translation adjustments	**9,764**	962
Additional minimum pension liability	**(2,910)**	(6,125)
Net stockholders' equity	**1,581,087**	1,286,850
	$ 17,899,882	$ 12,780,931

Condensed Consolidated Statements of Cash Flows

(in thousands)	**2006**	2005	2004
Cash flows from operating activities:			
Net earnings	**$ 205,750**	$ 157,443	$ 131,366
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change, net	**(1,606)**	—	—
Depreciation and amortization	**19,891**	15,556	14,544
Accruals related to various benefit plans, stock issuances, net of forfeitures	**109,505**	118,276	117,720
Deferred income taxes	**(37,982)**	(23,475)	(31,532)
(Increase) decrease in cash and securities segregated	**103,254**	(75,640)	(371,079)
(Increase) decrease in receivables:			
Securities borrowed	**(1,568,414)**	2,089,418	(1,864,593)
Brokers, dealers and clearing organizations	**149,026**	(92,263)	(20,370)
Customers	**(186,651)**	(105,113)	(88,251)
Increase in financial instruments owned	**(2,868,747)**	(545,364)	(337,857)
Increase in securities purchased under agreements to resell	**(226,176)**	—	—
Increase in other assets	**(29,493)**	(71,318)	(68,114)
Increase (decrease) in payables:			
Securities loaned	**(934,990)**	(1,601,436)	1,244,397
Brokers, dealers and clearing organizations	**347,797**	(58,856)	263,386
Customers	**183,265**	127,959	211,503
Increase in financial instruments sold, not yet purchased	**2,318,687**	140,392	446,951
Increase in securities sold under agreements to repurchase	**2,092,838**	—	—
Increase in accrued expenses and other liabilities	**159,926**	222,027	90,810
Increase (decrease) in minority interest	**(4,584)**	1,408	(14,834)
Net cash (used in) provided by operating activities	**(168,704)**	299,014	(275,953)
Cash flows from investing activities:			
(Increase) decrease in short-term bond funds	**7,037**	(176)	208,929
(Increase) decrease in investments	**(26,407)**	(9,277)	(11,623)
Increase in investments in managed funds	**(86,008)**	(82,134)	(68,796)
Purchase of premises and equipment	**(39,342)**	(27,186)	(17,012)
Business acquisitions, net of cash received	**(19,944)**	(61,955)	(9,994)
Net cash flows (used in) provided by investing activities	**(164,664)**	(180,728)	101,504
Cash flows from financing activities:			
Tax benefits from the issuance of stock-based awards	**32,906**	—	—
Net proceeds from (payments on):			
Bank loans	**—**	(70,000)	70,000
Issuance of long-term debt	**492,155**	—	347,809
Issuance of mandatorily redeemable convertible preferred stock	**125,000**	—	—
Retirement of long-term debt	**—**	—	(300)
Payments on:			
Repurchase of treasury stock	**(23,972)**	(76,291)	(59,492)
Dividends paid	**(56,749)**	(31,645)	(21,534)
Proceeds from exercise of stock options	**17,543**	33,661	10,184
Common shares	**—**	—	—
Net cash (used in) provided by financing activities	**586,883**	(144,275)	346,667
Effect of currency translation on cash	**3,593**	(2,189)	4,017
Net (decrease) increase in cash and cash equivalents	**257,108**	(28,178)	176,235
Cash and cash equivalents at beginning of year	**255,933**	284,111	107,876
Cash and cash equivalents at end of year	**$ 513,041**	$ 255,933	$ 284,111

Condensed Consolidated Statements of Cash Flows (Continued)

(in thousands, except share data)	**2006**	2005	2004
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**$ 492,179**	$ 283,318	$ 121,444
Income taxes	**198,294**	87,013	91,954
Randall & Dewey acquisition:			
Fair value of assets acquired, including goodwill		$ 53,503	
Liabilities assumed		(8,769)	
Stock issued (456,442 shares)		(17,500)	
Cash paid for acquisition		27,234	
Cash acquired in acquisition		1,435	
Net cash paid for acquisition		$ 25,799	
Helix acquisition:			
Fair value of assets acquired, including goodwill		$ 41,615	
Liabilities assumed		(5,085)	
Stock issued (315,597 shares)		(9,498)	
Cash paid for acquisition		27,032	
Cash acquired in acquisition		—	
Net cash paid for acquisition		$ 27,032	
Bonds Direct acquisition:			
Fair value of assets acquired, including goodwill			$ 20,643
Liabilities assumed			(863)
Stock issued (311,842 shares)			(10,886)
Cash paid for acquisition			8,894
Cash acquired in acquisition			11
Net cash paid for acquisition			$ 8,883

Supplemental disclosure of non-cash financing activities:

In 2004, the additional minimum pension liability included in stockholders' equity of $6,868 resulted from a decrease of $596 to accrued expenses and other liabilities and an offsetting increase in stockholders' equity. In 2005, the additional minimum pension liability included in stockholders' equity of $6,125 resulted from a decrease of $743 to accrued expenses and other liabilities and an offsetting increase in stockholders' equity. In 2006, the additional minimum pension liability included in stockholders' equity of $2,910 resulted from a decrease of $3,215 to accrued expenses and other liabilities and an offsetting increase in stockholders' equity.

Selected Quarterly Data (Unaudited)

(in thousands, except per share and percentage data)	March	June	September	December	Year
2006					
Earnings Statement Data					
Revenues	$ 524,077	$ 457,119	$ 468,664	$ 513,348	$ 1,963,208
Interest expense	108,663	129,776	128,054	139,113	505,606
Revenues, net of interest expense	415,414	327,343	340,610	374,235	1,457,602
Non-interest expenses	318,007	246,628	264,273	280,040	1,108,948
Earnings before income taxes, minority interest and cumulative effect of change in accounting principle	97,407	80,715	76,337	94,195	348,654
Income taxes	38,432	31,357	29,734	38,018	137,541
Minority interest, net	2,134	3,778	663	394	6,969
Cumulative effect of change in accounting principle, net	1,606	—	—	—	1,606
Net earnings	$ 58,447	$ 45,580	$ 45,940	$ 55,783	$ 205,750
Earnings per share of Common Stock:					
Basic:					
Earnings before cumulative effect of change in accounting principle, net	$ 0.44	$ 0.34	$ 0.34	$ 0.41	$ 1.53
Cumulative effect of change in accounting principle, net	0.01	—	—	—	0.01
Net earnings	$ 0.45	$ 0.34	$ 0.34	$ 0.41	$ 1.54
Diluted:					
Earnings before cumulative effect of change in accounting principle, net	$ 0.40	$ 0.32	$ 0.32	$ 0.38	$ 1.41
Cumulative effect of change in accounting principle, net	0.01	—	—	—	0.01
Net earnings	$ 0.41	$ 0.32	$ 0.32	$ 0.38	$ 1.42
Weighted average shares of Common Stock:					
Basic	130,358	133,621	135,140	136,438	133,898
Diluted	142,942	147,605	148,908	150,599	147,531
Other Selected Data					
Total assets	$ 15,944,897	$ 15,303,436	$ 15,484,724	$ 17,899,882	$ 17,899,882
Long-term debt	$ 1,266,304	$ 1,263,476	$ 1,268,582	$ 1,268,543	$ 1,268,543
Mandatorily redeemable convertible preferred stock	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000
Total stockholders' equity	$ 1,374,168	$ 1,434,050	$ 1,493,413	$ 1,581,087	$ 1,581,087
Book value per share of Common Stock	$ 11.60	$ 12.10	$ 12.56	$ 13.23	$ 13.23
Common Stock shares outstanding	118,502	118,540	118,876	119,547	119,547
Annualized return on equity	17.6%	13.1%	12.6%	14.6%	14.5%
2005					
Earnings Statement Data					
Revenues	$ 343,893	$ 344,163	$ 378,084	$ 431,733	$ 1,497,873
Interest expense	57,883	67,605	78,804	88,881	293,173
Revenues, net of interest expense	286,010	276,558	299,280	342,852	1,204,700
Non-interest expenses	223,837	216,248	231,743	264,465	936,293
Earnings before income taxes and minority interest	62,173	60,310	67,537	78,387	268,407
Income taxes	23,445	23,621	26,143	30,880	104,089
Minority interest, net	2,056	1,252	2,799	768	6,875
Net earnings	$ 36,672	$ 35,437	$ 38,595	$ 46,739	$ 157,443
Earnings per share of Common Stock:					
Basic	$ 0.30	$ 0.29	$ 0.31	$ 0.37	$ 1.27
Diluted	$ 0.28	$ 0.26	$ 0.28	$ 0.34	$ 1.16
Weighted average shares of Common Stock:					
Basic	121,139	122,937	124,447	125,971	123,646
Diluted	131,994	134,844	136,225	137,959	135,569
Other Selected Data					
Total assets	$ 13,570,684	$ 12,729,233	$ 13,601,570	$ 12,780,931	$ 12,780,931
Long-term debt	$ 780,988	$ 788,765	$ 781,443	$ 779,873	$ 779,873
Total stockholders' equity	$ 1,121,386	$ 1,170,872	$ 1,201,860	$ 1,286,850	$ 1,286,850
Book value per share of Common Stock	$ 9.65	$ 10.14	$ 10.35	$ 11.07	$ 11.07
Common Stock shares outstanding	116,180	115,518	116,166	116,220	116,220
Annualized return on equity	13.7%	13.1%	13.1%	15.3%	13.7%

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND STOCKHOLDERS

Jefferies Group, Inc.:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Jefferies Group, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006 (not presented herein); and in our report dated February 28, 2007, we expressed an unqualified opinion on those consolidated financial statements.

As more fully described in note 1 to the consolidated financial statements, referred to above, in 2006 the Company changed its method of accounting for share-based payments.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements on pages 38–41 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

KPMG LLP

KPMG LLP

New York, New York
February 28, 2007

Board of Directors

Richard B. Handler (45)
16 years with Jefferies
Chairman of the Board,
CEO (JG)(JC)

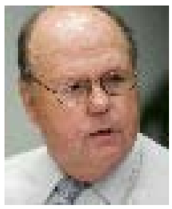
Brian P. Friedman (51)
Board member
since July 2005
6 years with Jefferies
Chairman of the
Executive Committee (JG)(JC)

W. Patrick Campbell (61)*
7 years on Board
Independent Consultant

Richard G. Dooley (77)*
13 years on Board
Retired Chief Investment Officer,
Massachusetts Mutual Life
Insurance Company

Robert E. Joyal (62)*
Board member
since January 2006
Retired President of
Babson Capital
Management LLC

Frank J. Macchiarola (65)*
15 years on Board
President, St. Francis College



Michael T. O'Kane (61)*
Board Member
since May 2006
Former Senior
Managing Director,
TIAA-CREF

(JG) – Jefferies Group, Inc.
(JC) – Jefferies & Company, Inc.

*Member of the Audit Committee, Member of the Compensation Committee,
Member of the Corporate Governance and Nominating Committee

Shareholder Information

Corporate Counsel
Morgan, Lewis & Bockius LLP

Transfer Agent, Registrar
American Stock Transfer & Trust Company

Independent Registered Public Accounting Firm
KPMG LLP

Form 10-K
Additional supporting detail to the financial statements is provided annually to the Securities and Exchange Commission on Form 10-K. Copies may be obtained without charge, upon request.

Common Stock
Jefferies Group, Inc.'s Common Stock is listed on the New York Stock Exchange under the symbol JEF.

Shareholder Inquiries
(203) 708 5975

Website
www.jefferies.com

MEMBERSHIPS

Jefferies & Company, Inc.
Member NASD, NASDAQ, PHLX, CME, BSE, ISE, NYSE Arca, SIPC, BOX, MSRB, NSCC

Jefferies Execution Services, Inc.
Member NYSE, AMEX, NASDAQ, BSE, CSE, NYSE Arca, PHLX, ISE, BeX, NASD, TSX, SIPC

Jefferies International Ltd.
Authorized and regulated by Financial Services Authority, has Nominated Adviser (NOMAD) status on the Alternative Investment Market (AIM) of the London Stock Exchange. Member of London Stock Exchange, Deutsche Börse (Xetra), Euronext, Oslo Bors and Dubai International Financial Exchange (DIFX)

Jefferies (Japan) Ltd., Tokyo Branch
Member of TSE and JASDAQ

CLIENT PROFILES
Client profiles may not be representative of other clients or indicative of future performance or success.

FORWARD-LOOKING STATEMENTS
This summary annual report contains statements that may constitute "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 may contain expectations regarding revenues, earnings, operations and other financial projections, and may include statements of future performance, positioning, plans and objectives. These forward-looking statements usually include the words "become," "continue," "intend," "may," "plan," "will" and other similar expressions. These forward-looking statements represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. Actual results could differ materially from those projected in these forward-looking statements. Please refer to our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission and other filings we make with the Securities and Exchange Commission for a discussion of important factors that could cause actual results to differ materially from those projected in these forward-looking statements. We do not assume any obligation to update any forward-looking statement we make.

North America

Europe

Asia

Corporate Directory

Primary offices of Jefferies Group, Inc. & Subsidiaries

NORTH AMERICA

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+65 6551 3950

1. Jefferies International Limited, Dubai Branch is authorized and regulated by the Dubai Financial Services Authority. 2. A representative office of Jefferies & Company, Inc. 3. Registration for Jefferies India (Private) Limited targeted for 2007. 4. License pending for Jefferies Singapore Limited.

Products and Services

INVESTMENT BANKING

Equity & Equity-Linked
IPOs
Follow-on Offerings
Direct Placements
PIPEs
Private Equity
Convertible Securities
Bought Deals and Block Trades

Leveraged Finance
High Yield Bonds
First & Second Lien Term Loans
Revolving Credit Facilities
Bridge Loans
Mezzanine Debt

Mergers & Acquisitions Advisory
Exclusive Sale & Divestiture
Acquisitions
Merger Advisory
Tender Offers
Joint Ventures/Strategic Alliance
Takeover Defense
Fairness Opinions
Private Equity Fund Raising
Going Privates

Restructuring & Recapitalization
Restructuring Advice
Exchange Offers
Consent Solicitations
Distressed Capital Raising
Recapitalization
Distressed M&A

SALES & TRADING

Global Equities
Cash Equities
Listed Block Trading
NASDAQ Market Making
Bulletin Board Trading
Event-Driven Trading
NYSE Floor Brokerage

Electronic Trading Solutions
Portfolio Trading
Algorithmic Trading
Direct Market Access
Correspondent Clearing

Equity Financial Products
Derivatives (Options, ETFs)
Structured Products
Prime Brokerage
Securities Finance

Convertibles
Traditional and Mandatory
Capital Markets/Origination
US/International Proprietary Trading
Closed-End Funds
Jefferies Active Convertible Index

High Yield
Sales/Trading of High Yield Bonds
Distressed and Special Situations
Bank Debt Trading

Fixed Income
Corporate Bonds
Government Agency Bonds
Treasury Notes and Bonds
Mortgage-Backed Securities
Municipal Bonds
Emerging Markets

Jefferies Financial Products
Commodities Indexes
Commodities-Linked Financial Products
Commodity Derivatives

RESEARCH

US & International Equity
Distressed Securities
Special Situations
Post-Reorganization Equity
US & International High Yield
US & International Convertible
Industry Conferences
Company Management Meetings
Site Tours
Proprietary Channel Checks

ASSET MANAGEMENT

Long/Short Equity
Collateralized Debt Obligations
Long/Short Convertible Bonds
Convertible Securities Arbitrage
Long-Only Strategies
High Yield
Distressed
Special Situations

PRIVATE CLIENT SERVICES

Wealth Management
Restricted Stock Sales
Corporate Services
Venture Services
Equity Sales
Corporate Cash Management

INDUSTRIES/AREAS OF FOCUS

Aerospace & Defense
Clean Technology
Energy
Financial & Business Services
Financial Sponsors & Private Capital
Gaming & Leisure
Industrials
Healthcare
Maritime & Oil Service
Media & Communications
Retail & Consumer
Technology

Our clients are our lifeblood.

Without exception, their interests come first. Our mandate is to provide them with the very best, from thought to finish. And for one simple reason: if we get it right for our clients, we get it right for everyone connected to the Firm.

We build relationships.

Whether it’s a brokerage client or an investment banking client, our goal is to help them develop and grow their business. For years, our Firm has fostered long-term, deep-seated relationships based on trust, integrity and mutual respect.

Growth is our mission.

Growing companies and their investors comprise the most dynamic, thriving sector of the economy. And their businesses and opportunities are as unique as their needs. Often overlooked and underserved, they find in us a firm dedicated to their success, with every resource and capability to match.

Our product is our people.

We have the financial expertise that enables our clients to succeed. As such, our people are our greatest asset. We prize intellect, passion, dedication, creativity, integrity and teamwork, seeking and retaining the brightest minds on Wall Street. We give those bright minds the opportunities to match, and pool our talent to create the best solutions for our clients.

We approach every situation with integrity.

We are honest, fair and direct–with our clients, with one another and with our competition. We let the situation dictate the most appropriate solution, product or service that is in the best interests of our clients.

Opportunity is our mandate.

We see opportunity in everything we do. Difficult market conditions, shifting industry trends or geographic boundaries do not dissuade us. We are inspired when others claim that a trade or transaction is not possible. We will not give up until we have exhausted every avenue and explored every option to find an ethical and optimal way to achieve our clients’ goals.

We are a firm of shareholders.

We are vested deeply in the success of our Firm and the success of our clients. This alignment makes us unique. We think like owners, because we are owners. And we are always looking out for the best interests of the Firm.

We never rest on our laurels.

We do not take success for granted, nor do we rely on existing solutions. The global markets are constantly evolving, creating new opportunities for our clients and different ways of doing business. Complacency equals mediocrity. Innovation is king.

DESIGN: Jennifer Spencer Design PHOTOGRAPHY: Bill Gallery, Eric Myer (pg. 8-9), US Air Force (pg. 27) LITHOGRAPHY: Lithographix, Inc.

Where there's growth and opportunity,
there's Jefferies.

Jefferies

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