

[Tagging Info](#)**Fitch Revises Outlook on Jefferies to Negative; Affirms IDRs at 'BBB+/F2'** [Ratings](#)

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Fitch Ratings-New York-15 April 2008: Fitch Ratings has affirmed the long- and short-term Issuer Default Ratings (IDRs) and debt ratings of Jefferies Group, Inc. (Jefferies) (NYSE: JEF) as follows:

- Long-term IDR at 'BBB+';
- Senior debt at 'BBB+';
- Subordinated debt at 'BBB-';
- Short-term IDR at 'F2';
- Short-term debt at 'F2'.

The Rating Outlook has been revised to Negative from Stable.

Approximately \$1.9 billion of long-term debt is outstanding. Liquidity is sufficient and is not expected to be impacted by the Outlook revision. No long-term debt is maturing before 2012. Jefferies' bank lines (\$1.2 billion) are currently undrawn, and the firm is not a commercial paper issuer.

Ratings for Jefferies reflect the firm's strong niche position in sales and trading, research, and investment banking serving middle-market clients and investors. The Outlook revision to Negative from Stable is based on Jefferies' increasing leverage through year-end 2007 and Fitch's expectation of weaker earnings in 2008. Weak investment banking and sales and trading revenues combined with a relatively inflexible short-term cost structure will likely lead to weak earnings in the near-term. Over the last several years, both gross and net leverage have increased with investments in principal activities; interest and debt coverage ratios have weakened as well.

Second-half 2007 financial performance was weak, driven largely by the firm's 4Q07 loss of \$24 million that was mainly attributable to proprietary trading losses and losses on investments in seeded hedge funds, as well as inflexible compensation costs. Jefferies' area of fixed-income trading expertise has always been high-yield corporate debt and the firm's ABS exposure has always been small. Thus, none of the losses experienced by Jefferies in 2007 were related to asset-backed-securities (e.g., MBS, CDOs, etc.).

Jefferies has taken steps to reduce its risk appetite and costs, and to enhance its liquidity profile since year-end 2007. For example, the firm has significantly reduced its proprietary trading activities and scaled-back its hedge fund seeding program over the last several months. The firm's repo book has also been scaled back, bank lines are currently undrawn, and the firm's cash position remains consistent with historical levels.

Negative rating actions could be triggered near-term by weakness in quarterly earnings that exceed Fitch's expectations, outsized trading losses, and/or capital erosion. Longer-term ratings considerations that could contribute to a downgrade include balance sheet growth (particularly in less liquid assets), rising leverage, deteriorating coverage ratios, and an increased risk appetite that is not supported by sufficient capital growth.

Contact: Leslie Bright +1-212-908-0622, New York or Eileen Fahey +1-312-368-5468, Chicago.

Media Relations: Kenneth Reed, New York, Tel: +1 212-908-0540.

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