

[Tagging Info](#)**Correction: Fitch Downgrades Jefferies' L-T IDR to 'BBB'; Maintains Negative Outlook**

Ratings

23 Apr 2008 11:52 AM (EDT)

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Fitch Ratings-New York-23 April 2008: (This is an amended version of a press release issued earlier today. This contains corrected information on the short-term IDR.)

Fitch Ratings has downgraded the long-term Issuer Default Rating (IDR) and senior debt rating of Jefferies Group, Inc. (Jefferies) as follows:

- Long-term IDR to 'BBB' from 'BBB+';
- Short-term IDR remains at 'F2';
- Senior debt to 'BBB' from 'BBB+';
- Short-term debt remains at 'F2';
- Subordinated debt to 'BB+' from 'BBB-'.

The Rating Outlook remains Negative.

Approximately \$1.9 billion of long-term debt is outstanding. No long-term debt is maturing before 2012. Jefferies' bank lines (\$1.2 billion) are currently undrawn. The firm is not a commercial paper issuer.

Fitch revised Jefferies' Rating Outlook to Negative from Stable on April 15, 2008 based on expectations of weaker earnings in 2008, Jefferies' increasing gross and net leverage and decreasing coverage ratios through year-end 2007. Fitch's downgrade was driven largely by Jefferies' first quarter 2008 (1Q08) net loss of \$61 million. This loss exceeded Fitch's expectations. Losses in the firm's high yield trading business and investments in seeded hedge funds are largely responsible for 1Q08 results, following weak performance in 4Q07. Earnings were further pressured by weak investment banking fee revenues and high compensation expense. Fitch expects ongoing market volatility to remain with potential adverse results. Management disagrees with this conclusion.

Fitch recognizes that 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 reduced its proprietary trading activities and scaled-backed its hedge fund seeding program. However, Fitch remains concerned about the potential for additional trading losses, continued weak investment banking fee revenues, the firm's seemingly inflexible compensation structure, and the inherent risks of its Leucadia monetization strategy.

Fitch views positively the expected increase in Jefferies' equity capital of approximately \$433 million resulting from the sale of approximately 26.6 million shares of common equity and \$100 million cash to Leucadia. In exchange, Jefferies received 10 million Leucadia common shares. The unique structure of the deal results in Jefferies having to monetize a concentrated position in order to receive the liquidity benefits of the transaction. Successful sale of the shares may positively impact the Rating Outlook.

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