

JEFFERIES MAY TURN Q2 PROFIT -CEO

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NEW YORK (Reuters) - Jefferies Group Inc, an investment bank focusing on mid-sized companies, is seeing a lift in its stock and bond underwriting businesses, which could help the company turn a profit again this quarter, its chief executive said.

The rising demand for stock and bond underwriting could signal a broader turnaround for Wall Street, CEO Richard Handler said in an interview, adding that the firm may look at smaller acquisitions as markets improve.

"I think investment banking, not just for Jefferies but across the Street, is going to be dictated based on the recovery of the credit markets," Handler said.

"We've had a pretty good rebound in the equity markets. The credit markets are just starting to show signs of life again," he said.

Jefferies' underwriting assistance committee -- a committee at the firm that assesses the debt and equity offerings Jefferies underwrites -- has once again started to become active, Handler said.

"It's not as active as it was in 2006 and 2007, but it was virtually dormant in 2008, so we are seeing the beginnings of companies wanting to access the capital markets and the investors starting to embrace that," he added.

The bank's restructuring unit is also performing well. It is on track to turn in its best performance ever, Handler said.

Merger advisory, however, is a "second half (of 2009) story," Handler said, and revenue growth in that unit has slowed.

Last month, Jefferies reported an unexpected first-quarter profit, reversing a prior-year loss, driven by a jump in trading revenue as volatile markets presented trading opportunities, mainly for commodities and interest rates.

Now debt and equity underwriting are showing signs of growth, too, Handler said. Jefferies is well positioned for a recovery in the high-yield market, he added.

"In the last several weeks, the high-yield market has performed well and we've seen tremendous inflows

from the mutual funds industry into the high-yield marketplace," he added.

The company is gaining market share at the expense of its larger rivals as clients realize that "bigger is not necessarily better" and seek out companies that have a clean balance sheet and are not ridden with bureaucracy, Handler said.

ACQUISITION OPPORTUNITIES

Jefferies, which recently acquired municipal securities firm Depfa First Albany Securities LLC, is continuing to look at deals that "make sense," Handler said, adding that the company's capital position gives it the freedom to make acquisitions.

"At the same time, there's more competition for our capital internally because we have so diversified our business and we have such a breadth of industry expertise and professionals in various businesses," he added.

The company, which has avoided taking U.S. government funds to bolster capital levels, ended 2008 with \$1.29 billion in cash and cash equivalents.

Jefferies is among the investment banks that have gained market share at the expense of their larger rivals, in part because it has not suffered from the same toxic mortgage losses that have distracted big banks.

Smaller firms have made the most out of the problems plaguing the largest investment firms, lapping up clients and top professionals.

Speaking about capital market recovery, Handler said this is unlikely to happen soon, but that the "worst is over."

"The good news is the systemic risk appears to be off the table. Now it's just a question of time," he added.

Shares of the company were trading down 5 percent at \$18.20 in late afternoon trading on the New York Stock Exchange. Through Tuesday's close of \$19.09, shares have rallied 33 percent since the company posted a first-quarter profit. (Reporting by Tenzin Pema; Editing by Gary Hill)