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**Subject:** Jefferies Agrees to Sell to Leucadia for \$2.76 Billion

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HELLO IS THIS YOURS EXCELLENCEN))))))Jefferies Agrees to Sell to Leucadia for \$2.76 Billion

Jefferies Group Inc. (JEF) agreed to be acquired by its biggest shareholder, Leucadia National Corp. (LUK), in a \$2.76 billion deal the companies said would make the investment bank better able to weather market turmoil.

Investors will receive 0.81 Leucadia share for each Jefferies share they own, the companies said today in a statement, valuing the entire firm at \$3.59 billion, based on data from Jefferies's most recent 10-Q filing. Jefferies management will run the combined company.

Leucadia, which already holds about 28.6 percent of New York-based Jefferies, boosted its stake in November 2011 as Jefferies's stock slid during Europe's sovereign-debt crisis. The combined firm, to be led by Jefferies Chief Executive Officer Richard Handler, will help the investment bank guard against "market dislocations," the firms said.

"For Jefferies, the deal may allow them to grow and invest without market pressures in the short term," said Christopher Wheeler, an analyst at Mediobanca SpA in London.

The deal values Jefferies about 24 percent higher than its closing price on the New York Stock Exchange on Nov. 9. Jefferies has climbed 3.8 percent this year, after dropping 48 percent in 2011. Leucadia has declined 4.1 percent this year.

Handler, 51, will remain CEO of Jefferies after the transaction with New York-based Leucadia is completed in the first quarter, the companies said. The deal values Handler's stake, the third largest in the company, at about \$260 million, according to data compiled by Bloomberg. It was worth \$210 million on Nov. 9, the data show.

### **Book Value**

Before the announcement, Leucadia shares were trading at 1.02 times tangible book value, a measure of what investors are willing to pay for a firm's equity after removing intangible items such as goodwill and brand names that would have little value if the company went out of business, according to data compiled by Bloomberg. Jefferies was trading at 97 percent of tangible book value before the deal, the data show.

Jefferies has boosted headcount by 68 percent since 2008 to more than 3,800 as bigger rivals contracted in the wake of the financial crisis. Handler has said his firm is focusing on transparency and managing risk after the collapse of MF Global Holdings Ltd. last year fueled investor concern that Jefferies might be hurt by Europe's market turmoil.

MF Global filed for bankruptcy on Oct. 31, 2011, after revealing a \$6.3 billion bet on the bonds of some of Europe's most indebted nations, which prompted a credit rating downgrade. Following MF Global's collapse, Jefferies issued at least six statements detailing its investments in European sovereign debt to stem losses in its shares, which fell 14 percent in November 2011.

### **Moody's Downgrade**

The transaction is being undertaken less than a month after Moody's Investors Service downgraded Jefferies's senior debt to Baa3 from Baa2, citing "risks presented by institutional capital markets activities and the challenges of operating the investment banking model."

Fitch Ratings said it expects to downgrade Jefferies one level to BBB-, one grade above junk, once the deal is completed.

“After the proposed merger, Jefferies would become much more exposed to the market risk inherent in the other subsidiaries’ investments at Leucadia,” Fitch said today in a statement. “Conversely, becoming a privately-owned company may help insulate Jefferies from external market pressures similar to those experienced in November 2011.”

Leucadia had \$6.19 billion in equity as of Sept. 30 supporting \$8.74 billion in assets, according to a filing from the investment firm. It’s buying a company with \$3.71 billion of equity supporting \$34.4 billion of assets, according to Jefferies’s latest quarterly filing.

### **Warren Buffett**

Leucadia has joined in ventures with Warren Buffett’s Berkshire Hathaway Inc., including a 2001 deal to extend a \$6 billion loan to Finova Group Inc., a Scottsdale, Arizona-based lender.

Buffett praised the work of Leucadia leaders Joe Steinberg and Ian Cumming in 2010, a year after they joined with the billionaire to run Berkadia Commercial Mortgage, previously known as Capmark.

“Joe and Ian did far more than their share of the work” with Finova, Buffett wrote to shareholders of Omaha, Nebraska-based Berkshire in 2010. “I was delighted when they called me to partner again in the Capmark purchase.”

Rothschild was Leucadia’s financial adviser on the Jefferies transaction, and Weil Gotshal & Manges LLP was legal adviser. Jefferies was its own financial adviser with JPMorgan Chase & Co., and Morgan Lewis & Bockius acted as legal adviser.

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