Jefferies LLC
520 Madison Avenue
New York, NY 10022
212.284.2300

Jefferies' Disclosure Regarding Auction Rate Securities

Auction Rate Securities ("ARS") are municipal bonds, corporate bonds, and preferred stocks with interest rates or dividend yields that are set through auctions, typically every 7, 14, 28, or 35 days. ARS are usually issued with long-term maturities or in perpetuity. From an issuer's perspective, ARS are an alternative form of variable rate financing. ARS were first issued in 1984, and the ARS market has grown to well over $200 billion. Institutions and individuals participate in the ARS market, where, typically, the minimum investment is $25,000.

The interest rate or dividend yield is set through an auction (commonly referred to as a "Dutch" auction) in which bids with successively higher rates are accepted until all of the securities in the auction are sold. The final rate at which all of the securities are sold is the "clearing rate" that applies to all of the securities in that particular auction until the next auction. ARS are auctioned at par. Thus, the return on the investment to the investor and the cost of financing to the issuer between auction dates is determined by the interest rate or dividend yield set through the auctions. In 2008, the ARS market was severely and negatively impacted when, as described below, virtually all ARS auctions failed.

When there are not enough orders at or below the maximum rate (the "Maximum Rate") to purchase all the ARS being sold, that auction is called a failed auction. In that case, the rate on the ARS is set at the Maximum Rate, which is a rate specified in the relevant documents and is often a multiple of reference rates, such as LIBOR, an index of Treasury securities or a specified percentage rate. Holders may be disadvantaged if there is a failed auction because they are not able to exit their position through the auction.

Jefferies trades ARS in the secondary market, in which holders can trade their ARS between predetermined auction periods under the authorizing documents.

Jefferies does not have an obligation to maintain a secondary trading market in ARS between predetermined auction periods. Jefferies cannot assure that a secondary market for the ARS will develop or, if it does develop, that it will provide holders the ability to resell auction securities in the secondary market on the terms or at the times desired by a holder. Holders who resell their ARS between auctions may receive an amount less than par, depending on market conditions. ARS that are purchased from Jefferies may be subject to a failed auction.

Jefferies, at its own discretion, may buy or sell ARS in the secondary market for its own account to or from others at any time and at any price, including at prices equivalent to, below, or above the par value of the ARS. Although Jefferies buys and sells ARS for its own account in the secondary market, it is not obligated to do so and may discontinue such trading at any time without notice.

The ability to resell ARS will depend on various factors affecting the market for the ARS, including news relating to the issuer, obligor, bond insurer or guarantor, as the case may be, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning ARS (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded ARS (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions or press reports, financial reporting cycles and market conditions generally. Demand for ARS may change without warning, and declines in demand may be short-lived or continue for longer periods.