United States Department of Justice

United States Attorney
District of Connecticut

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January 29, 2014

Via Email and Overnight Mail

Boyd M. Johnson III
Wilmer Cutler Pickering Hale and Dorr LLP
7 World Trade Center
250 Greenwich Street
New York, New York 10007

Re: Jefferies LLC

Dear Mr. Johnson:

On the understandings specified below, the United States Attorney's Office for the District of Connecticut (the "Office") will not criminally prosecute Jefferies LLC, f/k/a Jefferies & Co., Inc., or its parent, subsidiaries, and affiliates (collectively, "Jefferies" or the "Company"), for any actions related to Jefferies' employees' purchase and sale of residential mortgage-backed securities ("RMBS")—including to or from Legacy Securities Public-Private Investment Funds ("PPIFs") as part of the Public-Private Investment Program ("PPIP") created and partially funded by the United States Government through the Troubled Asset Relief Program—as described in Appendix A attached hereto, which is incorporated herein by reference.

The Office enters into this non-prosecution agreement based, in part, on the following factors: (a) Jefferies' timely, voluntary, and complete disclosure of the conduct, including as described in Appendix A; (b) Jefferies' extensive cooperation with the Office and the U.S. Securities and Exchange Commission ("SEC"), including conducting an internal investigation, voluntarily making employees available for interviews, collecting, analyzing and organizing voluminous evidence and information for the Office, making voluntary document disclosures and making multiple presentations on the status and findings of the internal investigation; (c) Jefferies' extensive remedial efforts already undertaken and to be undertaken, including its discipline and termination of employees, its commitment to make complete restitution to all impacted customers, its improvement of its compliance and ethics program designed to prevent and detect violations of the securities fraud statutes and/or applicable anti-fraud laws, and its agreement to engage an independent compliance consultant as further described herein; and (d) Jefferies' agreement to continue to cooperate with the Office in this or any related matters concerning alleged fraud in the purchase or sale of RMBS ("RMBS Matters").

Jefferies admits, accepts, and acknowledges that it is responsible under United States law for the acts of its officers, directors, employees, and agents set forth in the Statement of Facts attached hereto as Appendix A and incorporated by reference into this Agreement, and stipulates that the facts described in Appendix A are true and accurate. Jefferies expressly agrees that it shall not, through present or future attorneys, officers, directors, employees, agents or any other person authorized to speak for Jefferies, make any public statement in litigation or otherwise contradicting the acceptance of responsibility by Jefferies set forth above or the facts described in the Statement of Facts attached hereto as Appendix A. Provided, however, that nothing in this paragraph precludes Jefferies from taking good-faith positions in any other litigation or regulatory proceeding. Provided further that this paragraph does not apply to any statement made by any officer, director, employee, or agent of the Company in the course of any criminal, regulatory, or civil case initiated against such individual, unless such individual is speaking on behalf of the Company.

This Agreement does not provide any protection against prosecution for any actions except as set forth above and applies only to Jefferies and not to any other entities or to any individuals. Jefferies expressly understands that the protections provided under this Agreement shall not apply to any acquirer or successor entity unless and until such acquirer or successor formally adopts and executes this Agreement.

This Agreement shall have a term of one year from the date that this Agreement is executed, except as specifically provided herein. However, Jefferies shall continue to cooperate fully with the Office, the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") and all law enforcement and regulatory agencies in this or related RMBS Matters, subject to applicable law and regulations, until the date upon which all investigations and prosecutions arising out of the conduct described in this Agreement are concluded, whether or not those investigations are concluded within one year. At the request of the Office, Jefferies shall also cooperate fully with other domestic or foreign law enforcement authorities and agencies in any investigation of Jefferies relating to RMBS Matters. Jefferies agrees that its cooperation pursuant to this paragraph shall include, but is not limited to, the following:

a. Jefferies shall truthfully disclose, consistent with applicable law and regulations including data protection and privacy laws, all information not protected by a valid claim of privilege or work product with respect to its activities, and those of its present and former directors, officers, employees and agents, about which the Office may inquire. This obligation of truthful disclosure includes the obligation of Jefferies to provide to the Office, upon request, any document, record, or other tangible evidence relating to RMBS Matters about which the Office may inquire.

b. Jefferies shall bring to the Office's attention any and all conduct by Jefferies, its present and former directors, officers, employees and agents that violates federal law acting within the scope of their employment by Jefferies, or any investigation of any such conduct, that comes to the attention of Jefferies' board, management, or legal or compliance personnel, as well as any administrative proceeding or civil action brought by any governmental authority that alleges fraud or corruption by or against Jefferies.

c. Upon request of the Office, with respect to any issue relevant to its investigation of RMBS Matters, Jefferies shall designate knowledgeable employees, agents, or attorneys to provide to the Office the information and materials described above on behalf of Jefferies. Jefferies must at all times provide complete, truthful, and accurate information.

d. With respect to any issue relevant to the Office's investigation of RMBS Matters, Jefferies shall make available to the Office all current and, to the extent possible, former directors, officers, employees and agents of Jefferies for interviews and testimony in the United States. This obligation includes, but is not limited to, sworn testimony before a federal grand jury or in federal trials, as well as interviews with federal law enforcement and regulatory authorities. Cooperation under this paragraph shall include identification of witnesses who, to the knowledge of Jefferies, may have material information regarding the matters under investigation.

e. With respect to any information, testimony, documents, records or other tangible evidence provided to the Office pursuant to this Agreement, Jefferies consents to any and all disclosures, subject to applicable law and regulations, to other governmental authorities, including United States authorities and those of a foreign government, of such materials as the Office, in its sole discretion, shall deem appropriate. Before making any disclosures, the Office will notify Jefferies of such proposed disclosures. Any disclosures made by Jefferies pursuant to this Agreement are intended to remain and shall remain non-public, except as otherwise agreed to by the parties in writing.

Jefferies represents that it has improved and will continue to improve its compliance and ethics program reasonably designed to prevent and detect violations of the securities fraud statutes and other applicable anti-fraud laws in the operations of Jefferies' Mortgage and Asset-Backed Securities Trading group, including, but not limited to, the minimum elements set forth in Appendix B, which is incorporated by reference into this Agreement. It is an additional condition of this Agreement that Jefferies will retain and pay an independent individual or entity to consult with respect to Jefferies' compliance and ethics program (the "Independent Compliance Consultant"), as set forth in the separate Order Instituting Administrative Proceedings Pursuant to Section 15(b)(4) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions ("Order Instituting Administrative Proceedings") imposed by the SEC, and that Jefferies will disclose to the Office any documents concerning the Independent Compliance Consultant, its recommendations or actions undertaken by Jefferies to implement such recommendations, including but not limited to any agreements, reports, correspondence, affidavits and certifications required by the Order Instituting Administrative Proceedings imposed by the SEC.

Jefferies agrees to pay a monetary penalty in the amount of twenty-five million dollars ($25,000,000), inclusive of (a) any restitution paid or to be paid to victims, up to eleven million dollars ($11,000,000), and (b) any monetary penalty imposed by the SEC, up to four million two hundred thousand four hundred and two dollar ($4,200,402). Jefferies will pay $9,799,598 of this monetary penalty to the United States Treasury within thirty (30) days of the execution of this Agreement, and pay any remaining portion of this monetary penalty due to the United States Treasury no later than the date of the expiration of this Agreement. Jefferies acknowledges that no United States tax deduction may be sought in connection with the payment of any part of this $25,000,000 penalty.

The Office agrees that, except as provided herein, it will not bring any criminal or civil case against Jefferies related to the conduct described in the attached Statement of Facts or relating to information that Jefferies disclosed to the Office prior to the date of this Agreement. The Office, however, may use any information related to the conduct described in the attached Statement of Facts against Jefferies: (a) in a prosecution for perjury or obstruction of justice; (b) in a prosecution for making a false statement; (c) in a prosecution or other proceeding relating to any crime of violence; or (d) in a prosecution or other proceeding relating to a violation of any provision of Title 26 of the United States Code; provided, however, that any such prosecution or other proceeding does not relate to any potentially obstructive conduct disclosed by Jefferies to the Office prior to the date of this agreement. This paragraph does not provide any protection against prosecution for any future conduct by Jefferies. In addition, this Paragraph does not provide any protection against prosecution of any present or former directors, officers, employees and agents of Jefferies for any violations committed by them.

If, during the term of this Agreement, the Office determines, in its sole discretion, that Jefferies has materially breached the Agreement by (a) committing any felony under federal law subsequent to the signing of this Agreement, (b) at any time providing in connection with this Agreement deliberately false, incomplete, or misleading information, (c) failing to cooperate as set forth in this Agreement, (d) failing to maintain or, to the extent necessary, implement a compliance program as set forth in this Agreement and Appendix B , or (e) otherwise failing specifically to perform or to fulfill completely each and every one of Jefferies' obligations under the Agreement, Jefferies shall thereafter be subject to prosecution for any federal criminal violation of which the Office has knowledge. Any such prosecution may be premised on information provided by Jefferies. Any such prosecution that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against Jefferies notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the expiration of the term of this Agreement plus one year. Thus, by signing this Agreement, Jefferies agrees that the statute of limitations with respect to any such prosecution that is not time-barred on the date of the signing of this Agreement shall be tolled for the term of this Agreement plus one year.

In the event that the Office determines that Jefferies has materially breached this Agreement, the Office agrees to provide Jefferies with written notice of such breach prior to instituting any prosecution resulting from such breach. Within fourteen (14) days of receipt of such notice, Jefferies shall have the opportunity to respond to the Office in writing to explain the nature and circumstances of such material breach, as well as the actions Jefferies has taken to address and remediate the situation. The Office shall consider Jefferies' written submission in determining whether to institute any prosecution.

In the event that the Office determines that Jefferies has materially breached this Agreement: (a) all statements made by or on behalf of Jefferies to the Office or to the Court, including the attached Statement of Facts, and any testimony given by Jefferies before a grand jury, a court, or any tribunal, or at any legislative hearings, whether prior or subsequent to this Agreement, and any leads derived from such statements or testimony, shall be admissible in evidence in any and all criminal proceedings brought by the Office against Jefferies; and (b) Jefferies shall not assert any claim under the United States Constitution, Rule 11(f) of the Federal Rules of Criminal Procedure, Rule 410 of the Federal Rules of Evidence, or any other federal rule that statements made by or on behalf of Jefferies prior or subsequent to this Agreement, or any leads derived therefrom, should be suppressed or are otherwise inadmissible. The decision whether conduct or statements of any current director or employee, or any person acting on behalf of, or at the direction of, Jefferies will be imputed to Jefferies for the purpose of determining whether Jefferies has violated any provision of this Agreement shall be in the sole discretion of the Office. The Office agrees that in the event of a material breach and prosecution, it will recommend to the Court that the amount of penalty paid by Jefferies to the United State Treasury pursuant to this Agreement be offset against whatever fine the Court shall impose as part of its judgment. Jefferies understands that such a recommendation will not be binding on the Court.

This Agreement is binding on Jefferies and the Office but specifically does not bind any other federal agencies, or any state, local or foreign law enforcement or regulatory agencies, or any other authorities, although the Office will bring the cooperation of Jefferies and its compliance with its other obligations under this Agreement to the attention of such agencies and authorities if requested to do so by Jefferies.

It is further understood that Jefferies and the Office may disclose this Agreement to the public at a time to be determined in the sole discretion of the Office.

This Agreement sets forth all the terms of the agreement between Jefferies and the Office. No amendments, modifications or additions to this Agreement shall be valid unless they are in writing and signed by the Office, the attorneys for Jefferies, and a duly authorized representative of Jefferies.

Sincerely,

DEIRDRE M. DALY
UNITED STATES ATTORNEY

JONATHAN N. FRANCIS
ASSISTANT U.S. ATTORNEY

ERIC J. GLOVER
ASSISTANT U.S. ATTORNEY

AGREED AND CONSENTED TO:
JEFFERIES LLC

Date: 1/29/14 BY: ____________________
Michael Sharp
General Counsel, Jefferies LLC

Date: 1/29/14 BY: ____________________
Boyd M. Johnson III
Wilmer Cutler Pickering Hale and Dorr LLP

APPENDIX A
STATEMENT OF FACTS

This Statement of Facts is incorporated by reference as part of the non-prosecution agreement, dated January __, 2014, between the U.S. Attorney's Office for the District of Connecticut (the "Office"), and Jefferies LLC, f/k/a Jefferies & Co., Inc. ("Jefferies"). The Office and Jefferies agree that the following facts are true and correct:

1. Jefferies is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a Financial Industry Regulatory Authority ("FINRA") member firm. Jefferies is a global securities and investment banking firm, with headquarters in New York. Jefferies also has offices in Stamford, Connecticut where members of its Mortgage and Asset-Backed Securities Trading group trade mortgage-backed securities ("MBS").

2. Jefferies' Mortgage and Asset-Backed Securities Trading group trades residential mortgage-backed securities ("RMBS"), on the secondary market by buying and selling RMBS to customers, including Legacy Securities Public-Private Investment Funds ("PPIFs").

3. The PPIFs were established by the United States Department of the Treasury's Legacy Securities Public-Private Investment Program ("PPIP"). PPIP was, and is, a part of the United States Government's Troubled Asset Relief Program ("TARP"), the Government bailout plan created in 2009 in response to the financial crisis.

4. In March 2009, the Department of the Treasury announced its creation of PPIP, the purpose of which was to purchase certain troubled real estate-related securities, including types of RMBS, from financial institutions to allow those financial institutions to free up capital and extend new credit.

5. Beginning in late 2009, the Government used more than $20 billion of bailout money from TARP to fund PPIFs, which would purchase the troubled securities. The Government matched every dollar of private investment in a PPIF with one dollar of equity and two dollars of debt. Thus, 75% of each PPIF's money consisted of taxpayer funds disbursed by the Government as part of its bailout plan through TARP.

6. Each PPIF was established and managed by a Legacy Securities PPIP fund manager (a "PPIF Manager") selected by the Department of the Treasury. Each PPIF Manager owed fiduciary duties to the investors that contributed money to its PPIF, which was primarily the Government.

7. Each PPIF received between approximately $1.4 billion to $3.7 billion of bailout money.

8. Under the rules of PPIP, as established and overseen by the Department of the Treasury, a PPIF could buy or sell only certain types of RMBS, including the types of RMBS that Jefferies' Mortgage and Asset-Backed Securities Trading group traded.

9. PPIFs' purchase and sale of MBS are and were at all times:

   a. a form of Federal assistance, including through the Troubled Asset Relief Program, an economic stimulus, recovery or rescue plan provided by the Government, or the Government's purchase of any troubled asset as defined in the Emergency Economic Stabilization Act of 2008 within the meaning of Title 18, United States Code, Section 1031, and

   b. a matter within the jurisdiction of the Department of the Treasury within the meaning of Title 18, United States Code, Section 1001.

10. RMBS are bonds comprised of large pools of residential mortgages and home equity loans, and are securities within the meaning of the federal securities laws. RMBS owners receive payments on a monthly basis based on repayments from the homeowners that took out the mortgages or loans, until the homeowners repay their debt, refinance or default. Unlike stocks, RMBS bonds are not publicly traded on an exchange, such as the New York Stock Exchange or NASDAQ, and pricing information is not publicly-available. Instead, buyers and sellers of bonds use broker-dealers, like Jefferies, to execute individually negotiated transactions.

11. RMBS bonds typically are sold in the secondary market in three ways:

   a. from a broker-dealer's inventory, in which the broker-dealer like Jefferies is selling a bond that it has owned for a period of time;

   b. as an order, in which the seller requests the broker-dealer to seek a buyer, or the buyer requests the broker-dealer to seek a seller, for a particular bond; or

   c. as part of a "bid list" or "BWIC" ("bids wanted in competition"), in which the seller circulates a list of specific bonds it is interested in selling so that the broker-dealer may seek potential buyers willing to negotiate terms for the trades.

12. Orders and bid list trades are considered "riskless" trades for broker-dealers like Jefferies because in those transactions broker-dealers merely act as a conduit for a bond to pass from a seller to a buyer.

13. In orders and bid list trades, the buyer and the seller do not know each other's identity, but communicate exclusively through the broker-dealer's traders and salespeople.

14. Buyers attempt to purchase bonds at the lowest price available in the market, and sellers try to sell bonds at the highest price available.

15. A broker-dealer's profit, if any, on a set of trades is the difference or "spread" between the price it pays the seller and the price it charges the buyer. In the bond industry, prices are measured in 1/32s of a dollar, commonly referred to as "ticks." For instance, if a broker-dealer buys a bond for \$65.25 (meaning \$65.25 per \$100 of current face value), the price

would be expressed as "65 dollars and 8 ticks," "65 and 8" or "65-8." If the broker-dealer then sells that bond for $65.50 (meaning $65.50 per $100 of current face value), the price would be expressed as "65 dollars and 16 ticks," "65 and 16," or "65-16." The broker-dealer's profit on this set of trades would be $0.25 per $100 of current face value, or 8 ticks.

16. A trader can potentially profit on an RMBS trade in the following ways:

a. In an "all-in" trade, the buyer agrees to a price without reference to the price the broker-dealer paid to the seller; to the extent that the amount paid by the buyer exceeds the amount paid to the seller, the broker-dealer makes a profit.

b. In an "on-top" trade, the buyer and the broker-dealer agree on a specific amount that is added to the price the broker-dealer paid to the seller; in other words, although not a commission as a matter of law, the broker-dealer's compensation is effectively a commission added to the cost of the bond.

17. Inventory trades are usually "all-in" transactions, while bid lists are "on-top" trades, and orders can be either depending on what the broker-dealer, buyer and seller negotiate.

18. Beginning in approximately 2009, on certain occasions, certain employees in Jefferies' Mortgage and Asset-Backed Securities Trading group fraudulently increased the profitability of certain RMBS trades for Jefferies in various ways, including:

a. In certain order and bid-list transactions:

i. where the buying victim-customer had agreed upon a specified amount of compensation "on-top" of the price that Jefferies had negotiated with the seller of a RMBS bond, Jefferies' employees misrepresented to the buyer the price Jefferies had paid or agreed to pay the seller, providing Jefferies with an undisclosed extra and unearned profit at the victim-customer's expense; and

ii. where the selling victim-customer had agreed upon a specified amount of compensation to be deducted from the price at which Jefferies had negotiated to sell a RMBS bond, Jefferies' employees misrepresented to the seller the price the buyer had paid or agreed to pay to Jefferies, providing Jefferies with an undisclosed extra and unearned profit at the selling victim-customer's expense.

b. In certain sales of bonds from Jefferies' inventory, Jefferies' employees misrepresented to the buying victim-customer that the transaction was an order or bid list trade requiring "on-top" compensation, providing Jefferies with an undisclosed extra and unearned profit at the buying victim-customer's expense.

19. Jefferies' employees used various means and instruments of interstate commerce and the mails in carrying out such trades, including:

a. Electronic communications with customers, including by telephone, email, instant messages and electronic group "chats";

b. Trade confirmations or tickets documenting such transactions; and

c. Funds wired to and from Jefferies.

20. On certain occasions, certain members of Jefferies' management in the fixed income division became aware that Jefferies' employees were making misrepresentations to customers and did nothing to stop it.

APPENDIX B
COMPLIANCE PROGRAM

In order to address and continue to address deficiencies in its internal controls, policies and procedures regarding compliance with the federal securities laws, Jefferies LLC, f/k/a Jefferies & Co., Inc., ("Jefferies") agrees to continue to conduct, in a manner consistent with all of its obligations under this Agreement, appropriate reviews of its existing internal controls, policies and procedures.

Where necessary and appropriate, Jefferies agrees to adopt new or to modify existing internal controls, policies and procedures in order to ensure that it maintains an effective compliance program. At a minimum, this should include, but not be limited to, the following elements to the extent they are not already part of Jefferies's existing internal controls, policies and procedures:

1. Jefferies will develop and promulgate a clearly articulated and visible corporate policy against violations of the federal securities laws, including its prohibitions on misrepresentations or omission of material fact in the purchase or sale of securities, including mortgage-backed securities ("MBS"), which policy shall be made part of Jefferies' Code of Ethics and its written compliance policies and procedures, including for Jefferies's Mortgage and Asset-Backed Securities Trading group.

2. Jefferies will ensure that its senior management provides strong, explicit and visible support and commitment to its corporate policy against violations of the federal securities laws, Jefferies' Code of Ethics and its written compliance policies and procedures.

3. Jefferies will develop and promulgate compliance standards and procedures designed to reduce the prospect of violations of the federal securities laws, Jefferies' Code of Ethics and its written compliance policies and procedures, and Jefferies will take appropriate measures to encourage and support the observance of ethics and compliance standards and procedures against violations of the federal securities laws by personnel at all levels of Jefferies. These standards and procedures shall apply to all directors, officers and employees and, where necessary and appropriate, outside parties acting on behalf of Jefferies. Jefferies shall notify all of its employees and representatives that ensuring compliance with the standards and procedures is the duty of individuals at all levels of Jefferies.

4. Jefferies will develop these compliance standards and procedures, including internal controls, ethics and compliance programs on the basis of a risk assessment addressing the individual circumstances of Jefferies, in particular the known instances of fraudulent transactions by employees in and associated with Jefferies's Mortgage and Asset-Backed Securities Trading group.

5. Jefferies shall review its compliance standards and procedures, including internal controls, ethics and compliance programs, no less than annually, and update them as appropriate, taking into account relevant developments in the field and evolving industry standards, and update and adapt them as necessary to ensure their continued effectiveness.

6. Jefferies will maintain, or where necessary establish, an effective system for:

   a. Providing guidance and advice to directors, officers, employees and other representatives on complying with Jefferies' compliance policies, standards and procedures, including when they need advice on an urgent basis;

   b. Internal and, where possible, confidential reporting by, and protection of, directors, officers, employees and other representatives not willing to violate professional standards or ethics under instructions or pressure from hierarchical superiors, as well as for directors, officers, employees and other representatives willing to report breaches of the law or professional standards or ethics concerning fraud occurring within Jefferies, suspected criminal conduct and/or violations of the compliance policies, standards and procedures regarding the securities laws for directors, officers, employees and other representatives; and

   c. Responding to such requests and undertaking appropriate action in response to such reports.

7. Jefferies will institute appropriate disciplinary procedures to address, among other things, violations of the securities laws and Jefferies' compliance code, policies and procedures by Jefferies' directors, officers, employees and other representatives. Jefferies shall implement procedures to ensure that where misconduct is discovered, reasonable steps are taken to remedy the harm resulting from such misconduct, and to ensure that appropriate steps are taken to prevent further similar misconduct, including assessing the internal controls, ethics and compliance program and making modifications necessary to ensure the program is effective.

8. Jefferies will conduct periodic review and testing of its compliance code, standards and procedures designed to evaluate and improve its effectiveness in preventing and detecting violations of securities laws, taking into account relevant developments in the field and evolving industry standards.