To Our Clients:

Wide Open For Business, Always.

We remain focused, while also keeping our eyes wide open.

Our recently announced solid second quarter results reflect a world that is open for business and abundant in opportunity. More significantly, every one of us at Jefferies can see, feel and hear the many good things that are occurring across our firm: our Equities business globally is getting stronger, better and bigger; Investment Banking has terrific momentum, with much opportunity for further expansion; and Fixed Income continues to strengthen, with our team focused on filling the void left by others. The two of us are in the race with all of our team, regularly meeting with clients, and doing everything possible to recruit additional talent and strengthen our platform globally.

Despite a punch in the gut with the Greek volatility, indexes of stocks in the U.S. and several other major markets are at or near all-time highs. Interest rates, while up slightly, are still close to zero. Unemployment is down considerably. Productivity, thanks to the amazing innovations in technology, seems to be improving daily. Mortgage rates are still highly attractive, and financial institutions globally have mostly cleaned up their balance sheets. Capital markets across asset classes and geographies are wide open, mergers and acquisitions are happening daily, and even the market for private companies to access equity and debt capital is readily accessible from a variety of buyers. The declining price of oil has created a windfall for transportation companies and consumers alike. The Chinese stock market, while corrected from a probably unsustainable high, still has generated meaningful wealth creation. Japan continues its transformation. And back to Greece for a moment—while we hate to see people in pain in any country, to us the situation does not appear as systemically dangerous as it was just a few years ago.

During our professional careers, the two of us have lived through challenging market dislocations of various proportions in 1980, 1987, 1990, 1994, 1998, 2001, 2008 and 2011. There are only three things that are 100% certain:

1. There will be another period of extremely painful, scary and expensive volatility.
2. Nobody knows when it will happen. It could be tomorrow or a decade away.
3. The cause likely will be something only a very few people will see coming.
We are not saying that good times are over and it is time to panic and prepare for calamity. We have no clue when/how/where/why the next real problem will occur. However, we do try to live by two fundamental philosophies throughout our business careers:

1. Remain humble and do our best to do nothing stupid or arrogant during the good times,
2. Which will allow us to be in the best spot possible to take advantage of all the opportunity that is readily available during the bad times.

These two simple thoughts may sound very obvious, but in reality they are really hard to live by. When things are good, it is very easy to forget how bad things can get. When things are bad, it feels good times will never return. Good times have people reaching for yield in places they don’t understand.

Good times often wrongly means more leverage because perceived risk is so low. Good times can lull you into thinking you can do less work, make quicker decisions, and not worry so much because the odds are stacked in your favor. Liquidity is abundant and, if something goes wrong, you can just sell the position, division, or company because there are many exits at your disposal—we know how that one goes! You can justify overpaying for people or even businesses because on a pro forma basis, everything can be justified. Bad times have people tossing (sometimes puking) out good investments, people, divisions or companies. It is almost impossible to pull the trigger on any new investment because the daily fear and pain make it almost impossible to step back and have a long-term perspective. Relative values are nearly impossible to assess because everything seems to correlate and who wants to take any chances in times like these anyway?!

This relatively good period may last for years, and hopefully it will, but we have to make the smart decisions that will allow us to remain robust and well-positioned when the climate eventually does change. We must only take smart risk in support of our clients and avoid being too aggressive by following the herd. We do not have to supersize any risk—anywhere. That doesn’t mean we aren’t fully engaged, playing offense, supporting our clients, and actively planning for the future. We just need to accept the world for what it is today and preserve our wonderful liquidity, use our capital intelligently, make only the smartest hires or acquisitions, and in the case of Leucadia, only make investments that stand out uniquely in a world where true value is elusive.

Periods like this can be great ones for our clients and for companies such as Jefferies and Leucadia. Investors can make money, companies can grow, returns can be reasonable and people can smile. Keep smiling, but everyone should have their eyes wide open and make sure we are all protecting our foundations.

Happy July,

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Economics and Strategy

U.S. Economic Outlook: On the Threshold of Improved Wage Growth

The U.S. economy will embark on the sixth consecutive year of growth in July. It has been five years since the labor market recovery began, and one and one half years since the labor market crossed the threshold into the expansion phase of the cycle.

Nonetheless, the lack of U.S. wage growth continues to be problematic. Despite periodic signs of life in the average hourly earnings (AHE) series in the monthly employment data and some encouraging signs from the Employment Costs Index (ECI), there has yet to be a sustained cyclical upturn in any of the primary measures of U.S. wages. It is very late in the cycle for wage growth to be so weak, and the lack of wage growth has been one of the frustrating characteristics of this cycle to-date.

Over the past 30 years, the behavior of U.S. wage growth has tended to be cyclical. For example, wages have run as low as a little under 2% when labor market conditions have been weak and as high as a little over 4% when labor market conditions have been strong. Since the beginning of the labor market recovery in Q1 2010, U.S. wage growth has yet to exceed 2.3%, which is at the low end of the typical cyclical range.

At long last, however, the U.S. labor market is on the threshold of generating faster wage growth, and we expect it to accelerate in the months ahead. The decline in the unemployment rate to as low as 5.4% and monthly private payroll growth that has averaged almost 250,000 per month over the past year are indications that U.S. labor markets are poised to tighten. So far the available evidence is preliminary but includes a modest acceleration in the ECI and an upshift in the monthly increases of AHE to-date in 2015.

As it unfolds, faster U.S. wage growth will promote consumer confidence and spending. Since consumer spending accounts for almost 70% of U.S. GDP, the faster wage growth will also foster faster GDP growth.

— Ward McCarthy, Chief Financial Economist

European Economic Outlook: Greece & European Recovery: What’s Next for Both? When will UK Hike?

Seemingly on the verge of a deal only days ago, Greece and its creditors have moved close to a complete rupture since. In the coming hours the various pieces of the puzzle should begin to fall into place: will Greece pay the IMF (no, it hasn’t), will the ECB respond and squeeze the Greek banks further (possible), and what happens after this coming Sunday’s referendum (if it takes place at all). If the referendum does go ahead, in a week’s time the European landscape will look very different regardless of the result: either Tsipras loses the backing of the electorate and likely has to call a new General Election; or he wins and Greece moves a step closer to exiting the euro. A temporary last-minute deal still remains the more likely outcome, either before or after the referendum; but without a serious discussion about a deep haircut on Greek debt (something which is not on offer at the moment) the crisis will reignite, it is only a matter of time.

If a deal with Greece is reached, then the market’s focus will turn to the gradually improving European macro fundamentals, the potential pick-up in global inflation and the prospect of rising interest rates in the U.S. and the UK. If Greece were to leave the euro, all bets are off, as the implications of a disorderly Greek exit are impossible to predict with any degree of accuracy. However, with the European recovery postponed until 2016 under this scenario, the U.S. Fed and the Bank of England would be wise to stay on hold indefinitely.

Please see attached our latest Quarterly Economic Outlook, where we look at the prospects for the European economic recovery, Greece, the potential timing of UK rate hikes and what to make of recent market volatility. FULL REPORT

— David Owen, Chief European Financial Economist
— Marchel Alexandrovich, European Financial Economist
Follow the QE
The second quarter of 2015 has been dominated by derisking. The turmoil in Greece became a catalyst for profit taking in many of the popular European QE trades. Whereas we started the year with European stocks rallying, European rates falling and the Euro weakening, unwinding these QE based trades became the story of Q2. And while Greece likely sparked the unwind, it made for some peculiar price action. To see bund yields spike and the euro rally on Greek exit risks confused many investors. But as we argued in our research notes over the last few months, this was just derisking. It had little to do with the fundamentals related to a Greek exit, but it had everything to do with investors trying to flatten crowded QE positions in the wake of heightened uncertainty.

We continue to maintain that the Greek issue, while a big deal for Greece, is of little relevance to the longer term reflation trade underway in Europe. Our core view for 2015 remains unchanged: QE forces will continue to propel European risk assets higher. This bump in the European road will be forgotten in coming quarters as those QE forces regain their momentum.

We also continue to believe, as we have all year, that U.S. risk assets are best left untouched. We are unwinding the greatest monetary policy experiment in U.S. history. There is no reason to be a hero and guess exactly how this ends. Instead, the U.S. QE playbook gives you a wonderful guide to how markets will perform in Europe (and Japan) as QE is applied aggressively in the coming quarters. Take the easy trades, stay away from the hard one.

— David Zervos, Chief Market Strategist

Shifting Sands
Global equities struggled in the second quarter as ongoing negotiations with Greece failed to produce a bailout agreement while U.S. economic data remained soft. The turmoil in global markets also over-spilled into developed world bourses with the DAX and European markets retreating. However, M&A activity blossomed while a rebound in oil prices helped some of the commodity-producing emerging markets countries that had floundered through the end of last year. Japan remained well bid as the yen weakened while retail investors continued to dominate activity in China. Global fund flows still suggested a preference for Europe versus the U.S. while North Asia saw inflows through the quarter.

While the Fed’s interest rate decisions are still over-shadowing markets, there is still an easing bias in China and India that ought to mean that these markets can still experience good domestic interest. Europe’s ongoing QE program should mean a bounce in the continent’s exchanges even if Greece were to default. The U.S. is a mature bull market but the share buyback programs and the start of a genuine credit cycle could extend the life of the market.

Strong dollar proxies remain in favor in the U.S. while investors have been alerted to the rapid growth in China tourism which is helping economies such as Japan. The U.S. consumer is also showing signs of ‘animal spirits’ as the job market tightens, although corporate spending remains surprisingly subdued.

Perhaps the biggest investment theme year-to-date is the opening of China’s capital account. Investors continue to under-estimate the rate of change of China’s capital account liberalization. While the Shanghai-HK connect is the most visible sign of a relaxation in capital controls to date, we expect the Chinese bond market to also become part of the ‘through train’ in the next 18 months.

— Sean Darby, Global Head of Equity Strategy
Best Research Ideas

AMERICAS

Jefferies Franchise Picks Update – 21 Stocks with Differentiated Analysis

The Jefferies Franchise Pick List was introduced in December 2013 to highlight the firm’s highest conviction Buy rated stocks in the U.S. The stocks on the list have returned 29% since inception, 1250 basis points above the S&P 500, with the bulk of that outperformance coming in 2015. This report takes a closer look at performance for the list and offers the latest investment theses for the 21 stocks: ABBV, ATVI, AMAT, T, BA, CBS, EPAM, GOOG, IR, INTC, JAH, MNK, MU, OC, PFE, PRU, RKT, PAY, VMW, WDC and WETF. FULL REPORT

— Jefferies U.S. Equity Research Team

Tesla – Initiate at BUY: Survey Paves Road to 500K Cars ex China, 60% 5-year EBITDA CAGR

A Jefferies survey suggests 500,000 cars per year is possible for Tesla, a number that implies less than 0.5% share of expected 2020 global light vehicle sales. Jefferies believes the R&D/ad spend can converge with peers, and along with improving overhead, Models S/X could reach 32-33% gross margins from 27-30%. The less-expensive Model III will have lower margins, but Jefferies expects rapid improvement after introduction. Jefferies also saw little excitement for an Apple or Google car that otherwise could be a killjoy for Tesla. FULL REPORT

— Dan Dolev, Equity Research Analyst

EMEA

Telecom Services – VOD/LBTYA: Europe in Charge, More Likely

Recent comments from John Malone triggered a sharp rally of both Vodafone and Liberty Global as the likelihood of a deal clearly increased. Jefferies analyzed two scenarios - VOD in charge vs LBTY in charge - and concluded VOD was still the more likely driver of the process for reasons of regulatory backdrop, capital structure issues, and relative deal complexity. This work added conviction to Jefferies’ contrarian view that Vodafone was more likely to be the driving force of any deal, and suggested downside risk in VOD shares given the firm’s 230p target. FULL REPORT

— Jerry Dellis and Ulrich Rathe, Equity Research Analysts, European Telecom Services

Europe Insights: 15 for ’15 Update

In December, Jefferies selected 15 Buy-rated stocks offering potential upside in 2015 based around certain fundamental themes: Dividend/Cash Return, Restructuring/Portfolio Change, Growth, Unjustified Valuation Discount and Points of Inflection. We provide a midyear update on progress and performance. We remove three stocks because of coverage changes and introduce three fresh ideas (Lafarge/Holcim, Wirecard and Jungheinrich), bringing us back to full strength. FULL REPORT

— Jefferies European Equity Research Team

ASIA

China Utilities – China Pollution: Beyond the Clouds, the Sun is Shining

Pollution in China has been one of the most prominent emerging themes. The highly controversial web documentary “Under the Dome – Investigating China’s Smog” went viral and further sparked the government’s attention toward the theme. China’s economic rebalancing, the rise of middle class, the anti-corruption campaign and institutional reform highlight that China is on track toward bluer sky. Jefferies is positive on city gas distributors, alternative energy and nuclear; steer clear of the coal companies and be selective within metals and mining. FULL REPORT

— Joseph Fong, Research Analyst, Hong Kong/China Utilities and Clean Energy
ORIX – A Deep Dive into the Black Box

Jefferies attempts to address and tackle a wide range of pushbacks regarding ORIX. One of the most frequent comments received is that ORIX is a black box, and this report attempts to shine some light on this with a deep dive into their business segments. At the same time, the report also addresses the other wide-ranging concerns frequently heard. As a result of additional diligence and increased conviction in earnings forecasts, Jefferies’ target price for ORIX increases to ¥2,600, with 47% upside and the highest on the street. Jefferies also increases dividend forecasts to a 30% payout in FY3/18, with an absolute dividend of ¥72/share, 28% above consensus. Shareholder return surprises have been a key catalyst for the sector in the past several months, and with the stock range bound for the past two years, this new “deep dive” report reveals a number of long-term merits which will allow Orix to break above its trading range. FULL REPORT

— Makarim Salman, Research Analyst, Head of Japan Financials

Actionable Ideas for Companies and Sponsors

EQUITY CAPITAL MARKETS

Concurrent Offerings Are on the Increase

Concurrent transaction volume has accelerated recently, as issuers take advantage of the momentum in the broader equity markets and the better pricing in the convertible market. Transactions have averaged $1.1 billion in deal size (33% of pre-deal market cap); proceeds have averaged a 43% / 57% split between common / convert; and the average file-to-offer discount has been 9.2%.

Some notable benefits of concurrent offerings include the ability to: (1) raise additional proceeds often limited by sizing constraints of issuing just common stock or just a convertible; (2) minimize the dilution associated with straight common; and (3) target different investor bases that allow the transactions to be sized with investor demand. In addition, clients looking to raise a large amount of capital to fund acquisitions should consider the concurrent offering structure to achieve their objectives.

UK Closed-End Fund Issuance Being Adapted to Numerous Asset Classes

The UK closed-end funds market continues to experience high levels of both primary and secondary issuance activity, with $5 billion raised year-to-date. Funds have been raised for investment in an increasingly diverse range of assets, including: (1) credit strategies (peer to peer lending, online lending and property debt); (2) drug royalty income streams; (3) real estate; (4) infrastructure; and (5) private equity.

Investors remain most interested in strong management teams, stable cash flows and near-term investment opportunities, particularly in these differentiated sectors. Jefferies is the leader in the UK funds market, with a #1 league table ranking across 2010-2015, executing 26 transactions raising over $6 billion.

Convertible Plus Call Spread Offerings Achieving Record Conversion Premiums

Convertible plus call spread offerings continue to accelerate, as 11 of the past 17 deals (65%) have included this feature. For 2015 year-to-date, convertible plus call spreads represent 35% of all convertible debt offerings.

Call spread effective conversion premiums are typically 60-80% above the current stock price, but recent offerings have been as high as 100-125%, as companies have become increasingly bullish on their stock prices and are willing to use proceeds for this feature.
DEBT CAPITAL MARKETS

Issuing Second Lien High Yield Debt
There is an increasing focus on second lien high yield debt, as investors are intensely interested in higher yielding issuances. These deals provide access to fresh capital for companies that either do not have first lien capacity under their current indenture or that want to maintain capacity to draw on their revolver. Companies in the energy and metals & mining sectors are good examples of companies whose liquidity can benefit from this first lien flexibility. Other companies that find they are using their revolver facilities beyond their normal comfort level will find second lien high yield issuances a useful way to access the credit markets and build a liquidity cushion.

Using PIK-Toggle HoldCo Notes and Repricings to Finance Dividend Recap Transactions
As the leverage finance market continues to strengthen, PIK-Toggle HoldCo deals to finance dividend recaps become an attractive option for issuers with existing traded debt. These bonds, issued at the holding company level, allow an issuer with outstanding operating company debt to avoid debt incurrence restrictions and achieve higher leverage than would be possible versus issuing debt at the operating company.

Issuers also have been able to take advantage of current market conditions and reprice their transactions, and year-to-date nearly 50 issuers have repriced at lower rates. Given these favorable conditions and strong investor demand, issuers not only can reprice but also simultaneously issue incremental debt to fund a dividend.

Deleveraging Through a Non-Pro-Rata Private Debt Exchange
Two recent transactions (Venoco, Inc. and Fortescue Metals Group) have highlighted the potential for issuers to complete a debt exchange with a select group of bondholders who are able to swap their unsecured notes at a premium to current trading levels but at a discount to par for new second lien debt. Because the new secured debt was permitted to be incurred under the relevant debt documents, these companies are able to consummate the exchange without needing to obtain any consents. Companies whose debt documents permit the incurrence of additional secured debt will likely see such opportunities as an efficient method of deleveraging.

MERGERS AND ACquisitions

Negotiation of Management Incentive Packages as a Tactical Component in a Sell-Side
Historically, management teams were instructed to wait until late in the process to negotiate their compensation packages with the final bidders. This can create delays and influence outcomes when buyers take materially different approaches to address the management team’s objectives. However, a common M&A tactic in Europe is now migrating to U.S. deals – i.e., third-party management advisors who work with management during the sellside process to negotiate the management team’s compensation and equity packages concurrent with the sale.

The management advisor works with management early in the sale process to develop a compensation package that is shared with all bidders early in the second round and then is negotiated in parallel with the broader sale transaction. The objective is to fully negotiate and sign the management package at the same time the overall transaction is signed. The benefits for management teams are clear, but this can introduce conflicts with the equity holders, particularly in financial sponsor deals. The third-party advisor is most readily applicable for situations where founders are selling or businesses are being carved out of larger companies.
“Put Up or Shut Up” Rules Have Broad Consequences on Takeovers of Publicly-Listed UK Companies

The “put-up-or-shut-up rule” in the UK was implemented in 2011 in response to the Kraft / Cadbury deal. It requires a bidder for a UK-listed company to make a formal offer for a target within 28 days after its intentions become public—either from market rumors or from notice by the target company—or face a six-month standstill. If the target company wants to engage in negotiations with the would-be acquirer, the companies can jointly request an extension.

The rule, designed to prevent UK companies from facing the disruptive impact of a prolonged hostile takeover, has had several material consequences on M&A tactics:

- The rule has forced companies to come to the table better prepared and be able to move faster, as unprepared bidders can be forced to abandon interest.
- Private equity funds and foreign acquirers have become more cautious in approaching public deals in the UK, worried about their ability to complete diligence and reach a deal within a 28 day period.
- UK public targets have gained negotiating leverage through the ability to respond slowly and force the buyer to bid against itself or face a prolonged standstill period.
- Additionally, as marketplace rumors force previously confidential dialogue into the public domain, the rule encourages competitive bidders to emerge prior to reaching a formal deal.

Use of the “Locked Box” Mechanism Can Simplify M&A Deal Processes

While already prevalent in Europe, “locked box” structures are now increasingly finding use in North America as the strong M&A environment provides additional negotiating leverage to sellers. In a “locked box” structure, the purchase price is fixed at signing based upon a historical balance sheet (i.e. there are no post-closing adjustments for cash, debt, and working capital). As such, “locked box” structures can be employed to set price certainty at deal signing and speed the negotiation process. According to data published by the International Financial Law Review, 69% of European private M&A deals in 2014 featured “locked box” structures.

Key considerations for sellers and buyers, include: (1) sellers eliminate the possibility for post-signing adjustments to reduce the final purchase price; (2) sellers control the preparation of the “locked box” balance sheet; (3) ease of comparing competing offers in an auction environment; (4) SPAs can be considerably less complex; (5) buyers will perform significant upfront due diligence by committing to “locked box” balance sheet; and (6) buyers will need to protect for leakage of value through adequate representations and warranties written into the sale and purchase agreement.

Restructuring and Recapitalization

Less Amend and Extend Activity Should Translate into More Restructurings

The frequency of amend and extend transactions for smaller issuers without a proven track record is beginning to be more and more infrequent. Specifically, banks are concerned that an extension of the company’s restructuring as a result of the loosening of covenants can lead to situations where assets become significantly impaired and recoveries, even at the most senior part of the capital structure, can be much smaller than is acceptable.

Therefore, the restructuring industry is beginning to see potential restructurings starting to happen more quickly. Restructuring professionals are seeing loans being sold, intermediaries getting involved, and the transfer of risk between banks, private equity sponsors and others as a result of bank unwillingness to amend and extend as frequently as in the past.
MUNICIPAL FINANCE

Issuers Refinancing Build America Bonds (BABs) for Savings

More than $181 billion of BABs were issued in 2009 and 2010. BABs are taxable municipal bonds with a federal subsidy of 35% of the coupon payment (the 35% has now been reduced to 32.4% due to sequestration). Issuers most often sold BABs with long maturities and “make-whole” optional redemption provisions. An issuer’s ability to refinance make-whole call BABs for savings is extremely limited since the make-whole redemption price will consume any potential savings from a reduction in market yields. Many issuers sold BABs that include a standard muni 10 year par call, for example a 30 year maturity callable at par in 10 years (30 NC 10). Certain high coupon BABs with par calls can theoretically be advance refunded for savings at today’s low rates. Issuers contemplating refunding BABs should be aware of the most recent IRS guidance which indicates that defeased BABs will be treated as reissued for tax purposes resulting in the termination of the federal subsidy. Issuers should contemplate using advance refundings which do not result in a defeasance of their BABs, such as crossover refundings, and review any BAB refinancing plans with tax counsel.
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NOTABLE RECENT TRANSACTIONS

<table>
<thead>
<tr>
<th>Industry</th>
<th>Date</th>
<th>Transaction Description</th>
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<tbody>
<tr>
<td>Telecom</td>
<td>May 2015</td>
<td>Eurofiber $976,000,000 to Asial Infrastructure Partners S.A.S.</td>
</tr>
<tr>
<td>Technology</td>
<td>May 2015</td>
<td>BLUE COAT $1,250,000,000 to Bain Capital</td>
</tr>
<tr>
<td>Consumer</td>
<td>May 2015</td>
<td>Lifetime $1,500,000,000 to Lazard Green &amp; Partners LP and TP Capital, LLC</td>
</tr>
<tr>
<td>Industrials</td>
<td>April 2015</td>
<td>AXALTA $1,288,000,000 to Joint Bookrunner</td>
</tr>
<tr>
<td>Energy</td>
<td>April 2015</td>
<td>Breitburn $1,000,000,000 to EIG Global Energy Partners and Other Purchasers</td>
</tr>
<tr>
<td>Real Estate</td>
<td>April 2015</td>
<td>Oversize $600,000,000 to Joint Bookrunner</td>
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<tr>
<td>Financials</td>
<td>May 2015</td>
<td>Spectrum Brands $1,000,000,000 to Joint Bookrunner</td>
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<tr>
<td>Energy</td>
<td>April 2015</td>
<td>NMC New Mountain Capital $692,000,000 to Joint Bookrunner</td>
</tr>
<tr>
<td>Industrials</td>
<td>April 2015</td>
<td>Dendreon $661,000,000 to Joint Bookrunner</td>
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<tr>
<td>Technology</td>
<td>April 2015</td>
<td>Epicor $1,500,000,000 to Joint Bookrunner</td>
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<tr>
<td>Media</td>
<td>June 2015</td>
<td>UNIVAR $886,000,000 to Joint Bookrunner</td>
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JEFFERIES KEY FACTS & STATISTICS

(as of 5/31/2015)

- Founded: 1962
- Total Capital: $10.9 billion
- Total Assets: $44.1 billion
- Number of Employees: 3,830
- Companies under Global Equity Research Coverage: 2,000

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