Jefferies Group LLC
Form 10-Q
October 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission file number 1-14947

JEFFERIES GROUP LLC

(Exact name of registrant as specified in its charter)

Delaware	**95-4719745**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
520 Madison Avenue, New York, New York	**10022**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 284-2550

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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JEFFERIES GROUP LLC

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August 31, 2013

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands)

	Successor August 31, 2013	Predecessor November 30, 2012
ASSETS		
Cash and cash equivalents	$ 4,119,096	$ 2,692,595
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,457,926	4,082,595
Financial instruments owned, at fair value, including securities pledged of $12,693,618 and $12,334,745 at August 31, 2013 and November 30, 2012, respectively.		
Corporate equity securities	1,933,302	1,762,775
Corporate debt securities	2,354,748	3,038,146
Government, federal agency and other sovereign obligations	4,027,870	5,153,750
Mortgage- and asset-backed securities	4,126,691	5,468,284
Loans and other receivables	942,969	678,311
Derivatives	121,869	298,086
Investments, at fair value	79,917	127,023
Physical commodities	110,915	144,016
Total financial instruments owned, at fair value	13,698,281	16,670,391
Investments in managed funds	55,897	57,763
Loans to and investments in related parties	563,828	586,420
Securities borrowed	5,316,449	5,094,679
Securities purchased under agreements to resell	4,420,886	3,357,602
Securities received as collateral	45,133	
Receivables:		
Brokers, dealers and clearing organizations	2,738,047	1,424,027
Customers	1,095,422	916,284
Fees, interest and other	241,909	196,811
Premises and equipment	191,018	185,991
Goodwill	1,718,115	365,670
Other assets	1,168,206	662,713
Total assets	$ 38,830,213	$ 36,293,541

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION CONTINUED (UNAUDITED)

(In thousands, except share amounts)

	Successor August 31, 2013	Predecessor November 30, 2012
LIABILITIES AND EQUITY		
Short-term borrowing	$ 50,000	$ 150,000
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	1,739,491	1,539,332
Corporate debt securities	1,320,896	1,389,312
Government, federal agency and other sovereign obligations	2,987,515	3,666,112
Mortgage- and asset-backed securities	37,968	241,211
Loans	360,537	207,227
Derivatives	133,827	229,127
Physical commodities	44,796	183,142
Total financial instruments sold, not yet purchased, at fair value	6,625,030	7,455,463
Collateralized financings:		
Securities loaned	2,578,401	1,934,355
Securities sold under agreements to repurchase	10,863,548	8,181,250
Other secured financings	228,025	62,300
Obligation to return securities received as collateral	45,133	
Payables:		
Brokers, dealers and clearing organizations	1,058,396	2,819,677
Customers	4,837,843	5,568,017
Accrued expenses and other liabilities	956,403	1,062,068
Long-term debt	6,346,439	4,804,607
Mandatorily redeemable convertible preferred stock		125,000
Mandatorily redeemable preferred interests of consolidated subsidiaries		348,051
Total liabilities	33,589,218	32,510,788
EQUITY		
Common stock, $0.0001 par value. Authorized 500,000,000 shares; issued 204,147,007 shares at November 30, 2012		20
Member s paid-in capital/ Additional paid-in capital	5,169,864	2,219,959
Retained earnings		1,281,855
Treasury stock, at cost, 835,033 shares at November 30, 2012		(12,682)
Accumulated other comprehensive loss:		
Currency translation adjustments	(5,917)	(38,009)
Additional minimum pension liability		(15,128)
Total accumulated other comprehensive loss	(5,917)	(53,137)
Total member s / common stockholders equity	5,163,947	3,436,015
Noncontrolling interests	77,048	346,738
Total equity	5,240,995	3,782,753

Total liabilities and equity	$ 38,830,213	$ 36,293,541

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION CONTINUED (UNAUDITED)

(In thousands)

The table below presents the carrying amount and classification of assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of the consolidated VIEs and the liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to our general credit. The assets and liabilities of these consolidated VIEs are included in the Consolidated Statements of Financial Condition and are presented net of intercompany eliminations.

	Successor August 31, 2013	Predecessor November 30, 2012
Assets		
Cash and cash equivalents	$ 43,938	$ 388,279
Financial instruments owned, at fair value		
Corporate equity securities		105,271
Corporate debt securities		394,043
Mortgage- and asset-backed securities		15,589
Loans and other receivables	108,700	383,667
Investments, at fair value	462	5,836
Total financial instruments owned, at fair value	109,162	904,406
Receivables:		
Brokers, dealers and clearing organizations		236,594
Fees, interest and other		10,931
Other assets	22	348
Total assets	$ 153,122	$ 1,540,558
Liabilities		
Financial instruments sold, not yet purchased, at fair value:		
Corporate debt securities		325,979
Loans		199,610
Derivatives		505
Total financial instruments sold, not yet purchased, at fair value		526,094
Collateralized financings:		
Other secured financings	228,025	62,300
Payables:		
Brokers, dealers and clearing organizations		201,237
Accrued expenses and other liabilities	40,959	10,656
Mandatorily redeemable preferred interests of consolidated subsidiaries		348,051
Total liabilities	$ 268,984	$ 1,148,338

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share amounts)

	Successor Three Months Ended August 31, 2013	Predecessor Three Months Ended August 31, 2012
Revenues:		
Commissions	$ 138,736	$ 119,200
Principal transactions	(24,910)	297,037
Investment banking	309,339	260,163
Asset management fees and investment income from managed funds	13,549	3,116
Interest	230,672	242,625
Other	28,630	22,911
Total revenues	696,016	945,052
Interest expense	178,987	206,114
Net revenues	517,029	738,938
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries		8,304
Net revenues, less interest on mandatorily redeemable preferred interests of consolidated subsidiaries	517,029	730,634
Non-interest expenses:		
Compensation and benefits	293,771	440,391
Non-compensation expenses:		
Floor brokerage and clearing fees	34,500	30,280
Technology and communications	62,266	58,681
Occupancy and equipment rental	26,205	24,077
Business development	17,624	27,736
Professional services	25,269	14,667
Other	34,012	12,433
Total non-compensation expenses	199,876	167,874
Total non-interest expenses	493,647	608,265
Earnings before income taxes	23,382	122,369
Income tax expense	8,493	44,048
Net earnings	14,889	78,321
Net earnings attributable to noncontrolling interests	3,149	8,150
Net earnings attributable to Jefferies Group LLC	$ 11,740	$ 70,171

Earnings per common share:			
Basic	N/A	$	0.31
Diluted	N/A	$	0.31
Dividends declared per common share	N/A	$	0.075
Weighted average common shares:			
Basic	N/A		214,756
Diluted	N/A		218,867

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED (UNAUDITED)

(In thousands, except per share amounts)

	Successor	Predecessor	
	Six Months Ended August 31, 2013	Three Months Ended February 28, 2013	Nine Months Ended August 31, 2012
Revenues:			
Commissions	$ 285,584	$ 131,083	$ 358,495
Principal transactions	109,661	300,278	793,834
Investment banking	586,473	288,278	842,921
Asset management fees and investment income from managed funds	24,076	10,883	10,648
Interest	489,337	249,277	788,935
Other	54,875	27,004	103,102
Total revenues	1,550,006	1,006,803	2,897,935
Interest expense	390,450	203,416	668,000
Net revenues	1,159,556	803,387	2,229,935
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	3,368	10,961	34,604
Net revenues, less interest on mandatorily redeemable preferred interests of consolidated subsidiaries	1,156,188	792,426	2,195,331
Non-interest expenses:			
Compensation and benefits	667,651	474,217	1,310,394
Non-compensation expenses:			
Floor brokerage and clearing fees	67,491	30,998	91,039
Technology and communications	126,105	59,878	180,460
Occupancy and equipment rental	58,430	24,309	71,582
Business development	40,356	24,927	72,362
Professional services	54,788	24,135	45,656
Other	52,732	14,475	46,018
Total non-compensation expenses	399,902	178,722	507,117
Total non-interest expenses	1,067,553	652,939	1,817,511
Earnings before income taxes	88,635	139,487	377,820
Income tax expense	33,500	48,645	134,403
Net earnings	55,135	90,842	243,417
Net earnings attributable to noncontrolling interests	3,887	10,704	32,612
Net earnings attributable to Jefferies Group LLC	$ 51,248	$ 80,138	$ 210,805

Earnings per common share:					
Basic	N/A	$	0.35	$	0.92
Diluted	N/A	$	0.35	$	0.91
Dividends declared per common share	N/A	$	0.075	$	0.225
Weighted average common shares:					
Basic	N/A		213,732		216,509
Diluted	N/A		217,844		220,621

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Successor Three Months Ended August 31, 2013	Predecessor Three Months Ended August 31, 2012
Net earnings	$ 14,889	$ 78,321
Other comprehensive income, net of tax:		
Currency translation adjustments	5,549	6,519
Total other comprehensive income, net of tax (1)	5,549	6,519
Comprehensive income	20,438	84,840
Net earnings attributable to noncontrolling interests	3,149	8,150
Comprehensive income attributable to Jefferies Group LLC	$ 17,289	$ 76,690

	Successor	Predecessor	
	Six Months Ended August 31, 2013	Three Months Ended February 28, 2013	Nine Months Ended August 31, 2012
Net earnings	$ 55,135	$ 90,842	$ 243,417
Other comprehensive income, net of tax:			
Currency translation adjustments	(5,917)	(10,018)	(207)
Total other comprehensive loss, net of tax (1)	(5,917)	(10,018)	(207)
Comprehensive income	49,218	80,824	243,210
Net earnings attributable to noncontrolling interests	3,887	10,704	32,612
Comprehensive income to attributable to Jefferies Group LLC	$ 45,331	$ 70,120	$ 210,598

(1) Total other comprehensive income (loss), net of tax, is attributable to Jefferies Group LLC. No other comprehensive income (loss) is attributable to noncontrolling interests.

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In thousands, except per share amounts)

	Successor	Predecessor	
	Six Months Ended August 31, 2013	Three Months Ended February 28, 2013	Twelve Months Ended November 30, 2012
Common stock, par value $0.0001 per share			
Balance, beginning of period	$	$ 20	$ 20
Issued		1	1
Retired			(1)
Balance, end of period	$	$ 21	$ 20
Member s paid-in capital			
Balance, beginning of period	$ 4,754,101	$	$
Contributions	362,255		
Net earnings to Jefferies Group LLC	51,248		
Tax benefit for issuance of share-based awards	2,260		
Balance, end of period	$ 5,169,864	$	$
Additional paid-in capital			
Balance, beginning of period	$	$ 2,219,959	$ 2,207,410
Benefit plan share activity (3)		3,138	12,076
Share-based expense, net of forfeitures and clawbacks		22,288	83,769
Proceeds from exercise of stock options		57	104
Acquisitions and contingent consideration		2,535	
Tax (deficiency) benefit for issuance of share-based awards		(17,965)	19,789
Equity component of convertible debt, net of tax			(427)
Dividend equivalents on share-based plans		1,418	6,531
Retirement of treasury stock			(109,293)
Balance, end of period	$	$ 2,231,430	$ 2,219,959
Retained earnings			
Balance, beginning of period	$	$ 1,281,855	$ 1,067,858
Net earnings to common shareholders		80,138	282,409
Dividends		(17,217)	(68,412)
Balance, end of period	$	$ 1,344,776	$ 1,281,855
Accumulated other comprehensive loss (1) (2)			
Balance, beginning of period	$	$ (53,137)	$ (50,490)
Currency adjustment	(5,917)	(10,018)	1,511
Pension adjustment, net of tax			(4,158)

Balance, end of period	$ (5,917)	$ (63,155)	$ (53,137)
Treasury stock, at cost			
Balance, beginning of period	$	$ (12,682)	$ (486)
Purchases		(166,541)	(113,562)
Returns / forfeitures		(1,922)	(7,928)
Retirement of treasury stock			109,294
Balance, end of period	$	$ (181,145)	$ (12,682)
Total member s / common stockholders equity	$ 5,163,947	$ 3,331,927	$ 3,436,015
Noncontrolling interests			
Balance, beginning of period	$ 356,180	$ 346,738	$ 312,663
Net earnings attributable to noncontrolling interests	3,887	10,704	40,740
Contributions	64,610		
Distributions		(1,262)	(13,570)
Redemptions	(347,629)		
Consolidation of asset management entity			6,905
Balance, end of period	$ 77,048	$ 356,180	$ 346,738
Total equity	$ 5,240,995	$ 3,688,107	$ 3,782,753

(1) The components of other comprehensive loss are attributable to Jefferies Group LLC (formerly Jefferies Group, Inc.). None of the components of other comprehensive loss are attributable to noncontrolling interests.

(2) There were no reclassifications out of Accumulated other comprehensive loss during the six months ended August 31, 2013.

(3) Includes grants related to the Incentive Plan, Deferred Compensation Plan, and Directors Plan.

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Successor	Predecessor	
	Six Months Ended August 31, 2013	Three Months Ended February 28, 2013	Nine Months Ended August 31, 2012
Cash flows from operating activities:			
Net earnings	$ 55,135	$ 90,842	$ 243,417
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	(1,369)	17,393	54,836
Gain on conversion option	(9,151)		
Bargain purchase gain			(3,368)
Gain on repurchase of long-term debt			(9,898)
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	3,368	10,961	34,604
Accruals related to various benefit plans and stock issuances, net of forfeitures		23,505	65,457
Income on loans to and investments in related parties	(55,194)		
Distributions received on investments in related parties	28,335		
Other adjustments	(1,815)	(1,154)	(2,780)
Net change in assets and liabilities:			
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	269,786	352,891	(408,445)
Receivables:			
Brokers, dealers and clearing organizations	(300,959)	(1,027,671)	(401,758)
Customers	(51,942)	(130,543)	224,761
Fees, interest and other	(16,821)	(29,149)	(28,921)
Securities borrowed	(5,251)	(224,557)	(48,893)
Financial instruments owned	2,691,267	229,394	2,758,173
Loans to and investments in related parties		(197,166)	(109,997)
Investments in managed funds	4,079	(2,213)	10,619
Securities purchased under agreements to resell	(846,206)	(224,418)	(1,050,263)
Other assets	38,339	25,489	26,957
Payables:			
Brokers, dealers and clearing organizations	(727,408)	(1,031,335)	(2,204,936)
Customers	(607,034)	(111,139)	241,725
Securities loaned	679,305	(28,138)	355,679
Financial instruments sold, not yet purchased	(3,127,918)	2,327,667	1,750,709
Securities sold under agreements to repurchase	2,894,054	(197,493)	(1,402,558)
Accrued expenses and other liabilities	134,369	(267,336)	74,927
Net cash provided by (used in) operating activities	1,046,969	(394,170)	170,047
Cash flows from investing activities:			
Net payments on premises and equipment	(24,787)	(10,706)	(39,848)
Contributions to loans to and investments in related parties	(1,133,831)		

Distributions from loans to and investments in related parties	1,363,755		
Cash received in connection with acquisition during the period			2,257
Cash received from contingent consideration	2,579	1,203	2,774
Cash paid from contingent consideration			(1,172)
Net cash provided by (used in) investing activities	207,716	(9,503)	(35,989)

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JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED (UNAUDITED)

(In thousands)

	Successor	Predecessor	
	Six Months Ended August 31, 2013	Three Months Ended February 28, 2013	Nine Months Ended August 31, 2012
Cash flows from financing activities:			
Excess tax benefits from the issuance of share-based awards	$ 2,419	$ 5,682	$ 30,576
Proceeds from short-term borrowings	8,053,000	6,744,000	9,563,063
Payments on short-term borrowings	(8,103,000)	(6,794,000)	(9,370,557)
Proceeds from secured credit facility	720,000	900,000	680,000
Payments on secured credit facility	(685,000)	(990,007)	(370,000)
Repayment of long-term debt			(253,232)
Proceeds from other secured financings	105,000	60,000	
Payments on repurchase of long-term debt			(1,435)
Payments on mandatorily redeemable preferred interest of consolidated subsidiaries	(64)	(61)	(5,313)
Payments on repurchase of common stock		(166,541)	(104,202)
Payments on dividends		(15,799)	(46,298)
Proceeds from exercise of stock options, not including tax benefits		57	104
Net proceeds from issuance of senior notes, net of issuance costs		991,469	201,010
Proceeds from contributions of noncontrolling interests	64,610		
Payments on distributions to noncontrolling interests	(306,830)	(1,262)	(7,709)
Net cash (used in) provided by financing activities	(149,865)	733,538	316,007
Effect of exchange rate changes on cash and cash equivalents	(3,682)	(4,502)	651
Net increase in cash and cash equivalents	1,101,138	325,363	450,716
Cash and cash equivalents at beginning of period	3,017,958	2,692,595	2,393,797
Cash and cash equivalents at end of period	$ 4,119,096	$ 3,017,958	$ 2,844,513
Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for:			
Interest	$ 441,652	$ 178,836	$ 648,394
Income taxes, net of refunds	26,037	(34,054)	12,816
Noncash financing activities:			

In connection with the merger with Leucadia National Corporation, Jefferies Group LLC recorded acquisition accounting adjustments which resulted in changes to equity. Refer to Note 4, Leucadia Merger and Related Transactions, for further details.

On March 31, 2013, Leucadia contributed its mandatorily redeemable preferred interests in JHYH to Jefferies Group, LLC. The contribution was recorded as a capital contribution and increased member s equity by $362.3 million. Refer to Note 4, Leucadia Merger and Related Transactions, for further details.

See accompanying notes to consolidated financial statements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation
Organization

On March 1, 2013, Jefferies Group, Inc. converted into a limited liability company and was renamed Jefferies Group LLC. In addition, certain subsidiaries of Jefferies Group, Inc. also converted into limited liability companies. The accompanying Consolidated Financial Statements therefore refer to Jefferies Group LLC and represent the accounts of Jefferies Group, Inc., as it was formerly known, and all our subsidiaries (together we or us). The subsidiaries of Jefferies Group LLC include Jefferies LLC (Jefferies), Jefferies Execution Services, Inc., (Jefferies Execution), Jefferies Bache, LLC, Jefferies International Limited, Jefferies Bache, Limited, Jefferies Hong Kong Limited, Jefferies Bache Financial Services, Inc., Jefferies Mortgage Funding, LLC and Jefferies Leveraged Credit Products, LLC and all other entities in which we have a controlling financial interest or are the primary beneficiary.

We operate in two business segments, Capital Markets and Asset Management. Capital Markets includes our securities, commodities, futures and foreign exchange trading and investment banking activities, which provides the research, sales, trading, origination and advisory effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds, separate accounts and mutual funds.

On February 1, 2012, we acquired the corporate broking business of Hoare Govett from The Royal Bank of Scotland Group plc (RBS). The acquired business represented the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprised corporate broking advice and services. The acquisition of Hoare Govett provided us with the opportunity to continue our growth in corporate broking in the U.K. and significantly expand the capabilities and reach of our established European Investment Banking and Equities business units. See Note 5, Hoare Govett Acquisition for further details.

On March 1, 2013, Jefferies Group LLC through a series of merger transactions, became a wholly owned subsidiary of Leucadia National Corporation (Leucadia) (referred to herein as the Merger Transaction). Each outstanding share of Jefferies Group LLC was converted into 0.81 of a share of Leucadia common stock (the Exchange Ratio). Leucadia did not assume nor guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 are now convertible into Leucadia common shares at a price that reflects the Exchange Ratio and the 3.25% Series A Convertible Cumulative Preferred Stock of Jefferies Group, Inc. was exchanged for a comparable series of convertible preferred shares of Leucadia. Jefferies Group LLC continues to operate as the holding company of its various regulated and unregulated operating subsidiaries. Richard Handler, our Chief Executive Officer and Chairman, was also appointed the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian Friedman, our Chairman of the Executive Committee, was also appointed Leucadia s President and a Director of Leucadia. Following the merger, we continue to operate as a full-service global investment banking firm, retain a credit rating separate from Leucadia and remain an SEC reporting company, filing annual, quarterly and periodic financial reports.

In addition, on April 1, 2013, we merged Jefferies High Yield Trading, LLC (our high yield trading broker-dealer) with Jefferies (a U.S. broker-dealer) and our high yield activities are now all conducted by Jefferies. In addition, during the three months ended May 31, 2013, we redeemed the third party interests in our high yield joint venture.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2012.

As more fully described in Note 4, Leucadia Merger and Related Transactions, the Merger Transaction is accounted for using the acquisition method of accounting, which requires that the assets, including identifiable intangible

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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assets, and liabilities of Jefferies Group LLC be recorded at their fair values at the date of the Merger Transaction. The application of the acquisition method of accounting has been pushed down and reflected in the financial statements of Jefferies Group LLC as a wholly-owned subsidiary of Leucadia. The application of push down accounting represents the termination of the prior reporting entity and the creation of a new reporting entity, which do not have the same bases of accounting. As a result, our consolidated financial statements for 2013 are presented for the period from March 1, 2013 through August 31, 2013 for the new reporting entity (the Successor), and before March 1, 2013 for the prior reporting entity (the Predecessor.) The Predecessor and Successor periods are separated by a vertical line to highlight the fact that the financial information for such periods have been prepared under two different cost bases of accounting.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, goodwill, the ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Cash Flow Statement Presentation

For the six months ended August 31, 2013, certain amounts relating to loans and investments in related parties are classified as components of investing activities on the Consolidated Statements of Cash Flows to conform to the presentation of our Parent company in connection with the establishment of a new accounting entity through the application of push down accounting. These amounts were classified by the Predecessor entity as operating activities for reporting periods prior to the merger.

Consolidation

Our policy is to consolidate all entities in which we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. For consolidated entities that are less than wholly owned, the third-party s holding of equity interest is presented as Noncontrolling interests in the Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Equity. The portion of net earnings attributable to the noncontrolling interests are presented as Net earnings to noncontrolling interests in the Consolidated Statements of Earnings.

In situations where we have significant influence, but not control, of an entity that does not qualify as a variable interest entity, we apply either the equity method of accounting or fair value accounting pursuant to the fair value option election under U.S. GAAP, with our portion of net earnings or gains and losses recorded within Other revenues or Principal transaction revenues, respectively. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies and are carried at fair value. We act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or kick-out rights.

Intercompany accounts and transactions are eliminated in consolidation.

Immaterial Revision

We have made correcting adjustments (referred to as adjustments) to our historical financial statements for the three months ended February 28, 2013 and for the three months ended May 31, 2013, the results of which are included within our financial statements for the six months ended August 31, 2013. We do not believe these adjustments are material to our financial statements for any previously reported period.

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Pre-tax non-compensation expenses for the quarter ended February 28, 2013, were overstated by $8.5 million. Professional services expense should have been $24.1 million rather than $32.6 million, as previously reported. Professional service fees related to the Merger Transaction were incorrectly accrued in the quarter ended February 28, 2013, rather than at 12:01AM on March 1, 2013 when the transaction was completed. This had the effect of understating net earnings by approximately $5.3 million for the three month period ended February 28, 2013 and, accordingly, we have increased first quarter net earnings to $80.1 million. We evaluated the effects of this correction and concluded that it is not material to the previously issued Quarterly Report on Form 10-Q for the three month period ended February 28, 2013. Nevertheless, we revised our consolidated net earnings for the three month period ended February 28, 2013 as presented in this Form 10-Q to correct for the effect of this error and appropriately reflected the $8.5 million of professional service fees as an expense in the second quarter of fiscal 2013. The adjustment had an inconsequential impact on the Statement of Financial Condition as of February 28, 2013.

Principal transaction revenues for the three months ended May 31, 2013 was reduced by $3.9 million to correct the valuation of the conversion option to shares of Leucadia embedded in our 3.875% Senior Convertible Debentures. On an after tax basis, the correction results in a reduction of Net earnings for the three months ended May 31, 2013 of $2.5 million. It was determined that the conversion option liability at March 1, 2013, which was recognized at fair value as part of acquisition accounting should have been $16.5 million rather than $7.7 million. This had the effect of understating goodwill in the purchase price allocation by $5.3 million, after considering the tax effects of increasing the fair value of the conversion option. We evaluated the effects of this correction and concluded that it is not material to the previously issued Quarterly Report on Form 10-Q for the three month period ended May 31, 2013. Nevertheless, we revised our consolidated net earnings for the three month period ended May 31, 2013 as reflected in this this Form 10-Q for the six months ended August 31, 2013 to correct for the effect of these items and appropriately reflected the increase in goodwill of $5.3 million within our Consolidated Statement of Financial Condition.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

Commissions. All customer securities transactions are reported on the Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. These arrangements are accounted for on an accrual basis and, as we are not the primary obligor for these arrangements, netted against commission revenues in the Consolidated Statements of Earnings. The commissions and related expenses on client transactions executed by Jefferies Bache, LLC, a futures commission merchant, are recorded on a half-turn basis.

Principal Transactions. Financial instruments owned and Financial instruments sold, but not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in Principal transactions in the Consolidated Statements of Earnings on a trade date basis. Fees received on loans carried at fair value are also recorded within Principal transactions.

Investment Banking. Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is otherwise concluded. Expenses are recorded net of client reimbursements and netted against revenues. Unreimbursed expenses with no related revenues are included in Business development and Professional services expenses in the Consolidated Statements of Earnings.

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Asset Management Fees and Investment Income From Managed Funds. Asset management fees and investment income from managed funds include revenues we earn from management, administrative and performance fees from funds and accounts managed by us, revenues from management and performance fees we earn from related-party managed funds and investment income from our investments in these funds. We earn fees in connection with management and investment advisory services performed for various funds and managed accounts. These fees are based on assets under management or an agreed upon notional amount and may include performance fees based upon the performance of the funds. Management and administrative fees are generally recognized over the period that the related service is provided. Generally, performance fees are earned when the return on assets under management exceeds certain benchmark returns, high-water marks or other performance targets. Performance fees are accrued (or reversed) on a monthly basis based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Performance fees are not subject to adjustment once the measurement period ends (generally annual periods) and the performance fees have been realized.

Interest Revenue and Expense. We recognize contractual interest on Financial instruments owned and Financial instruments sold, but not yet purchased, on an accrual basis as a component of interest revenue and expense. Interest flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts and recognized in Principal transactions in the Consolidated Statements of Earnings rather than as a component of interest revenue or expense. We account for our short-term borrowings, long-term borrowings and our mandatorily redeemable convertible preferred stock on an accrual basis with related interest recorded as Interest expense. Discounts/premiums arising on our long-term debt are accreted / amortized to Interest expense using the effective yield method over the remaining lives of the underlying debt obligations. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds, not held for resale with original maturities of three months or less.

Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited With Clearing and Depository Organizations

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In addition, certain financial instruments used for initial and variation margin purposes with clearing and depository organizations are recorded in this caption. Jefferies Bache, LLC, as a futures commission merchant, is obligated by rules mandated by the Commodities Futures Trading Commission under the Commodities Exchange Act, to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. Certain other entities are also obligated by rules mandated by their primary regulators to segregate or set aside cash or equivalent securities to satisfy regulations, promulgated to protect customer assets.

Financial Instruments

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. These instruments primarily represent our trading activities and include both cash and derivative products. Gains and losses are recognized in Principal transactions in our Consolidated Statements of Earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

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Fair Value Hierarchy

In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Instruments that have little to no pricing observability as of the reported date. These financial instruments are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Financial instruments are valued at quoted market prices, if available. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current as of the measurement date. For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

The valuation of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management s judgment, features of the financial instrument such as its complexity, the market in which the financial instrument is traded and risk uncertainties about market conditions require that an adjustment be made to the value derived from the models. Adjustments from the price derived from a valuation model reflect management s judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Valuation Process for Financial Instruments

Our Independent Price Verification (IPV) Group, which is part of our Finance department, in partnership with Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Risk Management, which are independent of our business functions, play an important role and serve as a control function in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event

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that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. The IPV Group reports to the Global Controller and is subject to the oversight of the IPV Committee, which is comprised of our Chief Financial Officer, Global Controller, Global Head of Product Control, Chief Risk Officer and Principal Accounting Officer, among other personnel. Our independent price verification policies and procedures are reviewed, at a minimum, annually and changes to the policies require the approval of the IPV Committee.

Price Testing Process. The business units are responsible for determining the fair value of our financial instruments using approved valuation models and methodologies. In order to ensure that the business unit valuations represent a fair value exit price, the IPV Group tests and validates the fair value of our financial instruments inventory. In the testing process, the IPV Group obtains prices and valuation inputs from sources independent of Jefferies, consistently adheres to established procedures set forth in our valuation policies for sourcing prices and valuation inputs and utilizing valuation methodologies. Sources used to validate fair value prices and inputs include, but are not limited to, exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and prepares a monthly summary of its valuation results. This process also forms the basis for our classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists the Chief Financial Officer in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Audit Committee.

Judgment exercised in determining Level 3 fair value measurements is supplemented by daily analysis of profit and loss performed by the Product Control functions. Gains and losses, which result from changes in fair value, are evaluated and corroborated daily based on an understanding of each of the trading desks overall risk positions and developments in a particular market on the given day. Valuation techniques generally rely on recent transactions of suitably comparable financial instruments and use the observable inputs from those comparable transactions as a validation basis for Level 3 inputs. Level 3 fair value measurements are further validated through subsequent sales testing and market comparable sales, if such information is available. Level 3 fair value measurements require documentation of the valuation rationale applied, which is reviewed for consistency in application from period to period; and the documentation includes benchmarking the assumptions underlying the valuation rationale against relevant analytic data.

Third Party Pricing Information. Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. We have a process whereby we challenge the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) in order to validate the data for consistency with the definition of a fair value exit price. Our process includes understanding and evaluating the external data providers valuation methodologies. For corporate, U.S. government and agency, and municipal debt securities, and loans, to the extent independent pricing services or broker quotes are utilized in our valuation process, the vendor service providers are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing

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information received from the independent pricing service is not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, our independent pricing service uses a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, we consider pricing data from multiple service providers as available as well as compare pricing data to prices we have observed for recent transactions, if any, in order to corroborate our valuation inputs.

Model Review Process. Where a pricing model is to be used to determine fair value, the pricing model is reviewed for theoretical soundness and appropriateness by Risk Management, independent from the trading desks, and then approved by Risk Management to be used in the valuation process. Review and approval of a model for use includes benchmarking the model against relevant third party valuations, testing sample trades in the model, backtesting the results of the model against actual trades and stress-testing the sensitivity of the pricing model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated by Risk Management annually or more frequently if market conditions or use of the valuation model changes.

Investments in Managed Funds

Investments in managed funds include our investments in funds managed by us and our investments in related-party managed funds in which we are entitled to a portion of the management and/or performance fees. Investments in nonconsolidated managed funds are accounted for at fair value with gains or losses included in Asset management fees and investment income from managed funds in the Consolidated Statements of Earnings.

Loans to and Investments in Related Parties

Loans to and investments in related parties include investments in private equity and other operating entities made in connection with our capital markets activities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other revenues in the Consolidated Statements of Earnings. See Note 12, Investments, and Note 25, Related Party Transactions, for additional information regarding certain of these investments.

Receivable from and Payable to Customers

Receivable from and payable to customers includes amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the accompanying consolidated financial statements. Receivable from officers and directors included within this financial statement line item represents balances arising from their individual security transactions. These transactions are subject to the same regulations as customer transactions and are provided on substantially the same terms.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, we borrow securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. We have an active securities borrowed and lending matched book business in which we borrow securities from one party and lend them to another party. When we borrow securities, we generally provide cash to the lender as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities borrowed. We earn interest revenues on this cash collateral. Similarly, when we lend securities to another

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party, that party provides cash to us as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively repos) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amount plus accrued interest. We earn and incur interest over the term of the repo, which is reflected in Interest income and Interest expense on our Consolidated Statements of Earnings on an accrual basis. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis-by counterparty, where permitted by generally accepted accounting principles. We monitor the fair value of the underlying securities daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate.

Premises and Equipment

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the assets, whichever is shorter. Premises and equipment includes internally developed software, which was increased to its fair market value in the allocation of the purchase price on March 1, 2013. The revised carrying values of internally developed software ready for its intended use are depreciated over the remaining useful life. See Note 4, Leucadia Merger and Related Transactions for more information regarding the allocation of the purchase price.

Goodwill and Intangible Assets

Goodwill. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing on August 1 or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. If we conclude otherwise, we are required to perform the two-step impairment test. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any.

The fair value of reporting units are based on widely accepted valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating the fair value of reporting units include market capitalization, price-to-book multiples of comparable exchange traded companies and multiples of merger and acquisitions of similar businesses. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods. Refer to Note 13, Goodwill and Other Intangible Assets, for further information on our assessment of goodwill.

Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or

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indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If we conclude otherwise, we are required to perform a quantitative impairment test. Subsequent reversal of impairment losses is not permitted. Our annual indefinite-lived intangible asset impairment testing date is August 1.

To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset, if any. Subsequent reversal of impairment losses is not permitted.

Income Taxes

We are a single-member limited liability company treated as a disregarded entity for federal and state income tax purposes and our results of operations are included in the consolidated federal and applicable state income tax returns filed by Leucadia. Prior to the Merger Transaction we filed a consolidated U.S. federal income tax return, which included all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Under acquisition accounting for the Merger Transaction the recognition of certain assets and liabilities at fair value created a change in the financial reporting basis for our assets and liabilities, while the tax basis of our assets and liabilities remained the same. As a result, deferred tax assets and liabilities were recognized for the change in the basis differences. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized.

The tax benefit related to dividends and dividend equivalents paid on nonvested share-based payment awards are recognized as an increase to Additional paid-in capital. These amounts are included in tax benefits for issuance of share-based awards on the Consolidated Statements of Changes in Equity.

Legal Reserves

In the normal course of business, we have been named, from time to time, as a defendant in legal and regulatory proceedings. We are also involved, from time to time, in other exams, investigations and similar reviews (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions.

We recognize a liability for a contingency in Accrued expenses and other liabilities when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. The determination of the outcome and loss estimates requires significant judgment on the part of management.

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In many instances, it is not possible to determine whether any loss is probable or even possible or to estimate the amount of any loss or the size of any range of loss. We believe that, in the aggregate, the pending legal actions or regulatory proceedings and any other exams, investigations or similar reviews (both formal and informal) should not have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount that could be reasonably estimated of potential loss or range of potential loss in excess of what has been provided in the consolidated financial statements is not material.

Share-based Compensation

Share-based awards are measured based on the grant-date fair value of the award and recognized over the period from the service inception date through the date the employee is no longer required to provide service to earn the award. Expected forfeitures are included in determining share-based compensation expense.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, if any, are included in Other comprehensive income. Gains or losses resulting from foreign currency transactions are included in Principal transactions in the Consolidated Statements of Earnings.

Earnings per Common Share

As a single member limited liability company, earnings per share is not calculated for Jefferies Group LLC (the Successor company).

Prior to the Merger Transaction, Jefferies Group, Inc. (the Predecessor company) had common shares and other common share equivalents outstanding. For the Predecessor periods, basic earnings per share (EPS) is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued. Net earnings available to common shareholders represent net earnings to common shareholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Common shares outstanding and certain other shares committed to be, but not yet issued, include restricted stock and restricted stock units (RSUs) for which no future service is required. For Predecessor periods, diluted EPS is computed by dividing net earnings available to common shareholders plus dividends on dilutive mandatorily redeemable convertible preferred stock by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued, plus all dilutive common stock equivalents outstanding during the period. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, are included in the earnings allocation in computing earnings per share under the two-class method of earning per share. Restricted stock and RSUs granted as part of our share-based compensation contain nonforfeitable rights to dividends and dividend equivalents, respectively, and therefore, prior to the requisite service being rendered for the right to retain the award, restricted stock and RSUs meet the definition of a participating security. As such, we calculate Basic and Diluted earnings per share under the two-class method.

Securitization Activities

We engage in securitization activities related to corporate loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. Such transfers of financial assets are accounted for as sales when we have relinquished control over the transferred assets. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer allocated between the assets sold and the retained interests, if any, based upon their respective fair values at the date of sale. We may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included within Financial instruments owned in the Consolidated Statements of Financial Condition at fair value. Any changes in the fair value of such retained interests are recognized within Principal transactions revenues in the Consolidated Statements of Earnings.

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When a transfer of assets does not meet the criteria of a sale, we account for the transfer as a secured borrowing and continue to recognize the assets of a secured borrowing in Financial instruments owned and recognize the associated financing in Other secured financings in the Consolidated Statements of Financial Condition.

Note 3. Accounting Developments
Accounting Standards to be Adopted in Future Periods

Income Taxes. In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or tax credit carryforward, unless such tax loss or credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes resulting from the disallowance of a tax position. In the event that the tax position is disallowed or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. The guidance is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods (fiscal quarter ended February 28, 2014), and is to be applied prospectively. We are currently evaluating the impact of our pending adoption of ASU No. 2013-11 on our consolidated financial statements.

Balance Sheet Offsetting Disclosures. In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities and in January 2013 the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The updates require new disclosures regarding balance sheet offsetting and related arrangements. For derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions, the updates require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal quarter ended February 28, 2014), and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance will not affect our financial condition, results of operations or cash flows.

Adopted Accounting Standards

Accumulated Other Comprehensive Income. In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. We adopted the guidance effective March 1, 2013, presenting the additional disclosures within our Consolidated Statements of Changes in Equity. Adoption did not affect our results of operation, financial condition or cash flows.

Indefinite-Lived Intangible Asset Impairment. In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired

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as a basis for determining whether it is necessary to perform the quantitative impairment test. The update does not revise the requirement to test indefinite-lived intangible assets annually for impairment, or more frequently if deemed appropriate. The new guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance on December 1, 2012 did not affect our financial condition, results of operations or cash flows as it did not affect how impairment is calculated.

Goodwill Testing. In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. The update outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. The update is effective for annual and interim goodwill tests performed for fiscal years beginning after December 15, 2011. We adopted this guidance on December 1, 2012, which did not change how goodwill impairment is calculated nor assigned to reporting units and therefore had no effect on our financial condition, results of operations or cash flows.

Comprehensive Income. In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The update requires entities to report comprehensive income either (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements. We adopted the guidance on March 1, 2012, and elected the two separate but consecutive statements approach. Accordingly, we now present our Consolidated Statements of Comprehensive Income immediately following our Consolidated Statements of Earnings within our consolidated financial statements.

Fair Value Measurements and Disclosures. In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2; and for Level 3 fair value measurements, a description of our valuation processes and additional information about unobservable inputs impacting Level 3 measurements. We adopted this guidance on March 1, 2012 and have reflected the new disclosures in our consolidated financial statements. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

Reconsideration of Effective Control for Repurchase Agreements. In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. In assessing whether to account for repurchase and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financing, this guidance removes from the assessment of effective control 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and 2) the collateral maintenance implementation guidance related to that criterion. The adoption of this guidance for transactions beginning on or after January 1, 2012 did not have an impact on our financial condition, results of operations or cash flows.

Note 4. Leucadia Merger and Related Transactions

Merger Transaction

On March 1, 2013, Jefferies Group LLC completed a merger transaction with Leucadia and became a wholly-owned subsidiary of Leucadia as described in Note 1 Organization and Basis of Presentation. Each share of Jefferies Group Inc. s common stock outstanding was converted into common shares of Leucadia at an Exchange Ratio of 0.81 of a Leucadia common share for each share of Jefferies Group, Inc. (the Exchange Ratio). Leucadia exchanged Jefferies Group, Inc. s $125.0 million 3.25% Series A-1 Convertible Cumulative Preferred Stock for a new series of Leucadia $125.0 million 3.25% Cumulative Convertible Preferred Shares. In addition, each restricted share and restricted stock unit of Jefferies Group, Inc. common stock was converted at the Exchange Ratio, into an equivalent award of shares of Leucadia, with all such awards for Leucadia shares subject to the same terms and conditions, including, without limitation, vesting and, in the case of performance-based restricted stock units, performance being measured at existing targets.

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Leucadia did not assume or guarantee any of our outstanding debt securities, but our 3.875% Convertible senior Debentures due 2029 with an aggregate principal amount of $345.0 million are now convertible into common shares of Leucadia. Other than the conversion into Leucadia common shares, the terms of the debenture remain the same.

The merger resulted in a change in our ownership and was recorded under the acquisition method of accounting by Leucadia and pushed-down to us by allocating the total purchase consideration of $4.8 billion to the cost of the assets acquired, including intangible assets, and liabilities assumed based on their estimated fair values at the date of the merger. The excess of the total purchase price over the fair value of assets acquired and the liabilities assumed is recorded as goodwill. The goodwill arising from the merger consists largely of our commercial potential and the value of our assembled workforce.

In connection with the merger, we recognized $2.5 million, $11.5 million and $2.1 million in transaction costs during the three and six months ended August 31, 2013 and three months ended February 28, 2013, respectively.

The summary computation of the purchase price and the fair values assigned to the assets and liabilities are presented as follows (in thousands except share amounts):

Purchase Price	
Jefferies common stock outstanding	205,368,031
Less: Jefferies common stock owned by Leucadia	(58,006,024)
Jefferies common stock acquired by Leucadia	147,362,007
Exchange ratio	0.81
Leucadia s shares issued (excluding for Jefferies shares held by Leucadia)	119,363,226
Less: restricted shares issued for share-base payment awards (1)	(6,894,856)
Leucadia s shares issued, excluding share-based payment awards	112,468,370
Closing price of Leucadia s common stock (2)	$ 26.90
Fair value of common shares acquired by Leucadia	3,025,399
Fair value of 3.25% cumulative convertible preferred shares (3)	125,000
Fair value of shares-based payment awards (4)	343,811
Fair value of Jefferies shares owned by Leucadia (5)	1,259,891
Total purchase price	**$ 4,754,101**

(1) Represents shares of restricted stock included in Jefferies common stock outstanding that contained a future service requirement as of March 1, 2013.
(2) The value of the shares of common stock exchanged with Jefferies shareholders was based upon the closing price of Leucadia s common stock at February 28, 2013, the last trading day prior to the date of acquisition.
(3) Represents Leucadia s 3.25% Cumulative Convertible Preferred Shares issued in exchange for Jefferies Group, Inc. s 3.25% Series A-1 Convertible Cumulative Preferred Stock.

(4) The fair value of share-based payment awards is calculated in accordance with ASC 718, Compensation Stock Compensation. Share-based payment awards attributable to pre-combination service are included as part of the total purchase price. Share-based payment awards attributable to pre-combination service is estimated based on the ratio of the pre-combination service performed to the original service period of the award.

(5) The fair value of Jefferies shares owned by Leucadia was based upon a price of $21.72, the closing price of Jefferies common stock at February 28, 2013.

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Assets acquired (1):	
Cash and cash equivalents	$ 3,017,958
Cash and securities segregated	3,728,742
Financial instruments owned, at fair value	16,413,535
Investments in managed funds	59,976
Loans to and investments in related parties	766,893
Securities borrowed	5,315,488
Securities purchased under agreements to resell	3,578,366
Securities received as collateral	25,338
Receivables:	
Brokers, dealers and clearing organizations	2,444,085
Customers	1,045,251
Fees, interest and other	225,555
Premises and equipment	192,603
Indefinite-lived intangible exchange memberships and licenses (2)	15,551
Finite-lived intangible customer relationships (2)(3)	136,002
Finite-lived trade name (2)(4)	131,299
Other assets	939,600
Total assets	$ 38,036,242
Liabilities assumed (1):	
Short-term borrowings	$ 100,000
Financial instruments sold, not yet purchased, at fair value	9,766,876
Securities loaned	1,902,687
Securities sold under agreements to repurchase	7,976,492
Other secured financings	122,294
Obligation to return securities received as collateral	25,338
Payables:	
Brokers, dealers and clearing organizations	1,787,055
Customers	5,450,781
Accrued expenses and other liabilities	789,449
Long-term debt	6,362,024
Mandatorily redeemable preferred interests	358,951
Total liabilities	$ 34,641,947
Noncontrolling interests	356,180
Fair value of net assets acquired, excluding goodwill (1)	$ 3,038,115
Goodwill (1)	$ 1,715,986

(1) Modifications to the purchase price allocation have been made since the initial presentation included in our Quarterly Report on Form 10-Q for the three months ended May 31, 2013, which reflect additional information obtained about the fair value of the assets acquired and liabilities assumed. These modifications include adjustments of $4.8 million to reduce the fair value of the total assets acquired and $9.6 million to increase the total liabilities assumed at March 1, 2013. The impact of the adjustments resulted in an increase of goodwill of $14.4 million from the previously presented balance of $1,701.6 million to $1,716.0 million as reflected in this table.

(2) Intangible assets are recorded within Other assets on the Consolidated Statements of Financial Condition.

(3) The fair value of the finite-lived customer relationships will be amortized on a straight line basis over a weighted average useful life of approximately 14.4 years.

(4) The fair value of the finite-lived trade name will be amortized on a straight line basis over a useful life of 35 years.

Intangible assets, not including goodwill, totaling approximately $282.9 million were identified and recognized as part of the acquisition accounting. The goodwill of $1.7 billion resulting from the Merger Transaction is not deductible for tax purposes.

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Reorganization of Jefferies High Yield Holdings, LLC

On March 1, 2013, we commenced a reorganization of our high yield joint venture with Leucadia, conducted through Jefferies High Yield Holdings, LLC (JHYH) (the parent of Jefferies High Yield Trading, LLC (our high yield trading broker-dealer)). On March 1, 2013, we redeemed the outstanding third party noncontrolling interests in JHYH of $347.6 million. On March 31, 2013, Leucadia contributed its mandatorily redeemable preferred interests in JHYH of $362.3 million to Jefferies Group LLC as member s equity. We subsequently redeemed the mandatorily redeemable preferred interests in JHYH on April 1, 2013. In addition, on April 1, 2013, our high yield trading broker-dealer was merged into Jefferies LLC (our U.S. securities broker-dealer).

Note 5. Hoare Govett Acquisition

On February 1, 2012, we acquired the corporate broking business of Hoare Govett from RBS. Total cash consideration paid by us to RBS for the acquisition was £1. In addition, under the terms of the purchase agreement RBS agreed to pay us approximately £1.9 million towards retention payments made to certain employees, which constituted a reduction of the final purchase price. The business acquired represents the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprised corporate broking advice and services, as well as certain equity sales and trading activities. The acquisition included the Hoare Govett trade name, domain name, client agreements and the exclusive right to carry on the business in succession to RBS.

We accounted for the acquisition under the acquisition method of accounting. Accordingly, the assets acquired, including identifiable intangible assets, and liabilities assumed were recorded at their respective fair values as of the date of acquisition. The fair values of the net assets acquired, including identifiable intangible assets, specifically the Hoare Govett trademark/trade name, was approximately $0.3 million, which exceeded the negative purchase price of $3.1 million (cash consideration paid of £1 less remittance from RBS of £1.9 million), resulting in a bargain purchase gain of approximately $3.4 million. The bargain purchase gain is included within Other revenues in the Consolidated Statement of Earnings for the nine months ended August 31, 2012 and is reported within the Capital Markets business segment.

Our results of operations for the nine months ended August 31, 2012 include the results of operations of Hoare Govett for seven months for the period from February 1, 2012 to August 31, 2012. The acquisition closed on February 29, 2012.

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Note 6. Cash, Cash Equivalents and Short-Term Investments

We generally invest our excess cash in money market funds and other short-term instruments. Cash equivalents include highly liquid investments not held for resale and with original maturities of three months or less. The following are financial instruments classified as cash and cash equivalents that are deemed by us to be generally readily convertible into cash as of August 31, 2013 and November 30, 2012 (in thousands):

	Successor August 31, 2013	Predecessor November 30, 2012
Cash and cash equivalents:		
Cash in banks	$ 938,881	$ 1,038,664
Money market investments	3,180,215	1,653,931
Total cash and cash equivalents	$ 4,119,096	$ 2,692,595
Cash and securities segregated (1)	$ 3,457,926	$ 4,082,595

(1) Consists of deposits at exchanges and clearing organizations, as well as deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker-dealer carrying client accounts to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients, and Jefferies Bache, LLC which, as a futures commission merchant, is subject to the segregation requirements pursuant to the Commodity Exchange Act.

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Note 7. Fair Value Disclosures

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis as of August 31, 2013 and November 30, 2012 by level within the fair value hierarchy (in thousands):

	Successor August 31, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$ 1,753,178	$ 164,045	$ 16,079	$	$ 1,933,302
Corporate debt securities		2,334,115	20,633		2,354,748
Collateralized debt obligations		196,639	45,872		242,511
U.S. government and federal agency securities	1,559,899	45,993			1,605,892
Municipal securities		504,981			504,981
Sovereign obligations	1,225,076	691,921			1,916,997
Residential mortgage-backed securities		2,951,619	132,183		3,083,802
Commercial mortgage-backed securities		728,365	14,423		742,788
Other asset-backed securities		49,020	8,570		57,590
Loans and other receivables		812,517	130,452		942,969
Derivatives	38,410	1,937,799	2,567	(1,856,907)	121,869
Investments at fair value		6,465	73,452		79,917
Physical commodities		110,915			110,915
Total financial instruments owned	$ 4,576,563	$ 10,534,394	$ 444,231	$ (1,856,907)	$ 13,698,281
Cash and cash equivalents	$ 4,119,096	$	$	$	$ 4,119,096
Investments in managed funds	$	$	$ 55,897	$	$ 55,897
Cash and securities segregated and on deposit for regulatory purposes (3)	$ 3,457,926	$	$	$	$ 3,457,926
Securities received as collateral	$ 45,133	$	$	$	$ 45,133
Total Level 3 assets			$ 500,128		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$ 1,675,406	$ 64,047	$ 38	$	$ 1,739,491
Corporate debt securities		1,320,896			1,320,896
U.S. government and federal agency securities	1,299,404				1,299,404
Sovereign obligations	1,043,906	644,205			1,688,111
Residential mortgage-backed securities		24,569			24,569
Commercial mortgage-backed securities		13,399			13,399
Loans		359,561	976		360,537
Derivatives	39,794	1,991,520	17,205	(1,914,692)	133,827

Physical commodities		44,796			44,796
Total financial instruments sold, not yet purchased	$ 4,058,510	$ 4,462,993	$ 18,219	$ (1,914,692)	$ 6,625,030
Obligation to return securities received as collateral	$ 45,133	$	$	$	$ 45,133
Other secured financings	$	$ 30,000	$ 3,025	$	$ 33,025
Embedded conversion option	$	$ 7,336	$	$	$ 7,336

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(1) During the three months ended August 31, 2013, we transferred from Level 1 to Level 2 listed equity options with a fair value of $403.0 million within Financial instruments owned and $423.0 million within Financial instruments sold, not yet purchased as adjustments to the exchange closing price are necessary to best reflect the fair value of the population at its exit price.
(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
(3) Securities comprise U.S. government securities segregated for regulatory purposes with a fair value of $279.3 million.

	Predecessor November 30, 2012				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$ 1,608,715	$ 137,245	$ 16,815	$	$ 1,762,775
Corporate debt securities		3,034,515	3,631		3,038,146
Collateralized debt obligations		87,239	31,255		118,494
U.S. government and federal agency securities	1,720,617	115,310			1,835,927
Municipal securities		619,969			619,969
Sovereign obligations	1,722,044	975,810			2,697,854
Residential mortgage-backed securities		4,008,844	156,069		4,164,913
Commercial mortgage-backed securities		1,060,333	30,202		1,090,535
Other asset-backed securities		93,228	1,114		94,342
Loans and other receivables		497,918	180,393		678,311
Derivatives	615,024	1,547,984	328	(1,865,250)	298,086
Investments at fair value		43,126	83,897		127,023
Physical commodities		144,016			144,016
Total financial instruments owned	$ 5,666,400	$ 12,365,537	$ 503,704	$ (1,865,250)	$ 16,670,391
Level 3 financial instruments for which the firm does not bear economic exposure (3)			(53,289)		
Level 3 financial instruments for which the firm bears economic exposure			$ 450,415		
Cash and cash equivalents	$ 2,692,595	$	$	$	$ 2,692,595
Investments in managed funds	$	$	$ 57,763	$	$ 57,763
Cash and securities segregated and on deposit for regulatory purposes (4)	$ 4,082,595	$	$	$	$ 4,082,595
Total Level 3 assets for which the firm bears economic exposure			$ 508,178		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$ 1,442,347	$ 96,947	$ 38	$	$ 1,539,332

Corporate debt securities		1,389,312			1,389,312
U.S. government and federal agency securities	1,428,746	250,387			1,679,133
Sovereign obligations	1,395,355	591,624			1,986,979
Residential mortgage-backed securities		239,063			239,063
Commercial mortgage-backed securities		2,148			2,148
Loans		205,516	1,711		207,227
Derivatives	547,605	1,684,884	9,516	(2,012,878)	229,127
Physical commodities		183,142			183,142
Total financial instruments sold, not yet purchased	$ 4,814,053	$ 4,643,023	$ 11,265	$ (2,012,878)	$ 7,455,463

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(1) There were no transfers between Level 1 and Level 2 for the year ended November 30, 2012.
(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
(3) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.
(4) Securities comprise U.S. government securities segregated for regulatory purposes with a fair value of $404.3 million.

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

Corporate Equity Securities

Exchange Traded Equity Securities: Exchange-traded equity securities are measured based on quoted closing exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy, otherwise they are categorized within Level 2 or Level 3 of the fair value hierachy.

Non-exchange Traded Equity Securities: Non-exchange traded equity securities are measured primarily using broker quotations, pricing data from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange traded equity securities are categorized within Level 3 of the fair value hierarchy and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

Equity warrants: Non-exchange traded equity warrants are generally categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

Corporate Debt Securities

Corporate Bonds: Corporate bonds are measured primarily using pricing data from external pricing services and broker quotations, where available, prices observed for recently executed market transactions of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

High Yield Corporate and Convertible Bonds: A significant portion of our high yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing data from external pricing services, where available, and prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer s subsequent financings or recapitalizations, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

Collateralized Debt Obligations

Collateralized debt obligations are measured based on prices observed for recently executed market transactions or based on valuations received from third party brokers and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs.

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U.S. Government and Federal Agency Securities

U.S. Treasury Securities: U.S. Treasury securities are measured based on quoted market prices and categorized within Level 1 of the fair value hierarchy.

U.S. Agency Issued Debt Securities: Callable and non-callable U.S. agency issued debt securities are measured primarily based on quoted market prices obtained from external pricing services. Non-callable U.S. agency securities are generally categorized within Level 1 and callable U.S. agency securities are categorized within Level 2 of the fair value hierarchy.

Municipal Securities

Municipal securities are measured based on quoted prices obtained from external pricing services and are generally categorized within Level 2 of the fair value hierarchy.

Sovereign Obligations

Foreign sovereign government obligations are measured based on quoted market prices obtained from external pricing services, where available, or recently executed independent transactions of comparable size. To the extent external price quotations are not available or recent transactions have not been observed, valuation techniques incorporating interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value of sovereign bonds or obligations. Foreign sovereign government obligations are classified in Level 1, 2 or Level 3 of the fair value hierarchy, primarily based on the country of issuance.

Residential Mortgage-Backed Securities

Agency Residential Mortgage-Backed Securities: Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations, interest-only and principal-only securities and to-be-announced securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

Agency Residential Inverse Interest-Only Securities (Agency Inverse IOs): The fair value of agency inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency inverse IOs are categorized within Level 2 or Level 3 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.

Non-Agency Residential Mortgage-Backed Securities: Fair values are determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability and significance of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses. Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields.

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Commercial Mortgage-Backed Securities

Agency Commercial Mortgage-Backed Securities: GNMA project loan bonds and FNMA Delegated Underwriting and Servicing (DUS) mortgage-backed securities are generally measured by using prices observed for recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.

Non-Agency Commercial Mortgage-Backed Securities: Non-agency commercial mortgage-backed securities are measured using pricing data obtained from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

Other Asset-Backed Securities

Other asset-backed securities include, but are not limited to, securities backed by auto loans, credit card receivables and student loans and are categorized within Level 2 and Level 3 of the fair value hierarchy. Valuations are determined using pricing data obtained from external pricing services and prices observed for recently executed market transactions.

Loans and Other Receivables

Corporate Loans: Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer s capital structure.

Participation Certificates in GNMA Project and Construction Loans: Valuations of participation certificates in GNMA project and construction loans are based on observed market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

Project Loans: Valuation of project loans are based on benchmarks of prices for recently executed transactions of related realized collateralized securities and are categorized within Level 2 of the fair value hierarchy.

Escrow and Trade Claim Receivables: Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

Derivatives

Listed Derivative Contracts: Listed derivative contracts are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 or Level 2 of the fair value hierarchy. Listed derivatives for which there is limited trading activity are measured based on incorporating the closing auction price of the underlying equity security and are categorized within Level 2 of the fair value hierarchy.

OTC Derivative Contracts: Over-the-counter (OTC) derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily categorized within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

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OTC options include OTC equity, foreign exchange and commodity options measured using various valuation models, such as the Black-Scholes, with key inputs impacting the valuation including the underlying security, foreign exchange spot rate or commodity price, implied volatility, dividend yield, interest rate curve, strike price and maturity date. Discounted cash flow models are utilized to measure certain OTC derivative contracts including the valuations of our interest rate swaps, which incorporate observable inputs related to interest rate curves, valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates and forward curves and valuations of our commodity swaps, which incorporate observable inputs related to commodity spot prices and forward curves. Credit default swaps include both index and single-name credit default swaps. External prices are available as inputs in measuring index credit default swaps and single-name credit default swaps. For commodity and equity total return swaps, market prices are observable for the underlying asset and used as the basis for measuring the fair value of the derivative contracts. Total return swaps executed on other underlyings are measured based on valuations received from external pricing services.

Physical Commodities

Physical commodities include base and precious metals and are measured using observable inputs including spot prices and published indices. Physical commodities are categorized within Level 2 of the fair value hierarchy. To facilitate the trading in precious metals we undertake leasing of such precious metals. The fees earned or paid for such leases are recorded as Principal transaction revenues on the Consolidated Statements of Earnings.

Investments at Fair Value and Investments in Managed Funds

Investments at fair value and Investments in managed funds include investments in hedge funds, fund of funds, private equity funds, convertible bond funds and commodity funds, which are measured at fair value based on the net asset value of the funds provided by the fund managers and are categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured at fair value using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 2 or Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany and at November 30, 2012, shares in non-U.S. exchanges and clearing house. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy. Fair value for the shares in non-U.S. exchanges and clearing houses is determined based on recent transactions or third party model valuations and is categorized within Level 2 or Level 3 of the fair value hierarchy. The following tables present information about our investments in entities that have the characteristics of an investment company at August 31, 2013 and November 30, 2012 (in thousands):

	Successor August 31, 2013		
	Fair Value (7)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds [1]	$ 20,360	$	Monthly, Quarterly
High Yield Hedge Funds[2]	341		
Fund of Funds[3]	474	106	
Equity Funds[4]	66,526	49,019	
Convertible Bond Funds[5]	3,081		At Will
Other Investments[6]	17		Bi-Monthly
Total[8]	$ 90,799	$ 49,125	

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	Predecessor November 30, 2012		
	Fair Value (7)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds [1]	$ 19,554	$	Monthly, Quarterly
High Yield Hedge Funds[2]	612		
Fund of Funds[3]	604	106	
Equity Funds[4]	69,223	59,272	
Convertible Bond Funds[5]	3,002		At Will
Other Investments[6]	19		Bi-Monthly
Total[8]	$ 93,014	$ 59,378	

(1) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At August 31, 2013 and November 30, 2012, investments representing approximately 98% and 96%, respectively, of the fair value of investments in this category are redeemable with 30 65 days prior written notice. The remaining investments in this category cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. We are unable to estimate when the underlying assets will be liquidated.

(2) Includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. The underlying assets of the funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.

(3) Includes investments in fund of funds that invest in various private equity funds. At August 31, 2013 and November 30, 2012, approximately 98% and 94%, respectively, of the fair value of investments in this category are managed by us and have no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to two years. For the remaining investments we have requested redemption; however, we are unable to estimate when these funds will be received.

(4) At August 31, 2013 and November 30, 2012, investments representing approximately 99% and 98%, respectively of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed, instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years. The remaining investments are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated. At August 31, 2013 and November 30, 2012, this category includes investments in equity funds managed by us with a fair value of $53.7 million and $55.6 million and unfunded commitments of $47.5 million and $56.9 million, respectively.

(5) Investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The investment is redeemable with 5 days prior written notice.

(6) Other investments at August 31, 2013 and November 30, 2012 included investments in funds that invest in commodity futures and options contracts.

(7) Fair value has been estimated using the net asset value derived from each of the funds capital statements.

(8) Investments at fair value in the Consolidated Statements of Financial Condition at August 31, 2013 and November 30, 2012 include $45.0 million and $91.8 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

Other Secured Financings

Other secured financings includes the notes issued by VIEs related to transfers of financial assets and accounted for as financings, which are classified as Level 2 within the fair value hierarchy. Fair value is based on recent transaction prices. Other secured financings also includes mortgage-backed securities issued by a VIE for which we are deemed the primary beneficiary, categorized within Level 3 of the fair value hierarchy and measured using a discounted cashflow model with discount yield being a significant input.

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Embedded Conversion Option

The embedded conversion option presented within long-term debt represents the fair value of the conversion option on Leucadia shares within our 3.875% Convertible Senior Debentures, due November 1, 2029 and categorized as Level 2 within the fair value hierarchy. The conversion option was valued using Black-Scholes methodology using as inputs the price of Leucadia s common stock, the conversion strike price, 252-day historical volatility, a maturity date of November 1, 2017 (the first put date), dividend yield and the risk-free interest rate curve.

Pricing Information

At August 31, 2013 and November 30, 2012, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:

	Successor		Predecessor	
	August 31, 2013		November 30, 2012	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	13%	26%	11%	19%
Recently observed transaction prices	7%	4%	5%	6%
External pricing services	56%	65%	70%	71%
Broker quotes	3%	3%	1%	0%
Valuation techniques	21%	2%	13%	4%
	100%	100%	100%	100%

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The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended August 31, 2013 (in thousands):

	Successor Three Months Ended August 31, 2013 (3)							
	Balance, May 31, 2013	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, August 31, 2013	Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2013 (1)
Assets:								
Financial instruments owned:								
Corporate equity securities	$ 19,577	$ (788)	$	$ (930)	$	$ (1,780)	$ 16,079	$ (786)
Corporate debt securities	18,615	(4,285)	68	(571)		6,806	20,633	(4,342)
Collateralized debt obligations	45,124	(1,903)	8,222	(4,236)		(1,335)	45,872	(2,388)
Residential mortgage-backed securities	143,766	(1,876)	33,831	(50,938)	(2,306)	9,706	132,183	(3,898)
Commercial mortgage-backed securities	16,068	2,033	130	(310)	(3,703)	205	14,423	(1,106)
Other asset-backed securities	1,444	2,170	7,576	(3,279)		659	8,570	2,142
Loans and other receivables	117,496	(198)	52,246	(12,139)	(25,395)	(1,558)	130,452	609
Investments, at fair value	76,364	1,848		(101)	(710)	(3,949)	73,452	2,002
Investments in managed funds	55,141	4,034	6,598		(9,876)		55,897	4,034
Liabilities:								
Financial instruments sold, not yet purchased:								
Corporate equity securities	$ 38	$	$	$	$	$	$ 38	$
Net derivatives (2)	10,799	3,899			(60)		14,638	(3,899)
Loans	15,212		(14,952)	716			976	
Other secured financing	2,294	731					3,025	(731)

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.
(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.
(3) There were no issuances during the three months ended August 31, 2013.

Analysis of Level 3 Assets and Liabilities for the Three Months Ended August 31, 2013

During the three months ended August 31, 2013, transfers of assets of $91.4 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of $50.3 million and commercial mortgage-backed securities of $2.4 million for which no recent trade activity was observed for purposes of determining observable inputs;

Corporate equity securities of $5.6 million and corporate debt securities of $8.3 million due to lack of observable market transactions;

Collateralized debt obligations of $22.3 million which have little to no transparency in trade activity;

During the three months ended August 31, 2013, transfers of assets of $82.7 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of $40.6 million and commercial mortgage-backed securities of $2.2 million for which market trades were observed in the period for either identical or similar securities;

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Collateralized debt obligations of $23.6 million and loans and other receivables of $1.6 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of $7.4 million and corporate debt securities of $1.5 million due to an increase in observable market transactions.

During the three months ended August 31, 2013, there no transfers of liabilities from Level 2 to Level 3 and from Level 3 to Level 2.

Net gains on Level 3 assets were $1.0 million and net losses on Level 3 liabilities were $4.6 million for the three months ended August 31, 2013. Net gains on Level 3 assets were primarily due to increased valuations of certain commercial mortgage-backed securities, other asset-backed securities, investments at fair value and investments in managed funds, partially offset by a decrease in valuation of certain corporate equity securities, corporate debt securities, collateralized debt obligations, residential mortgage-backed securities and loans and other receivables. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the six months ended August 31, 2013 (in thousands):

	Successor Six Months Ended August 31, 2013 (3)							
	Balance, February 28, 2013	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, August 31, 2013	Change in unrealized gains/ (losses) relating to instruments still held at August 31, 2013 (1)
Assets:								
Financial instruments owned:								
Corporate equity securities	$ 13,234	$ 1,053	$ 213	$ (753)	$ 266	$ 2,066	$ 16,079	$ 1,243
Corporate debt securities	31,820	(17,415)	708	(2,556)		8,076	20,633	(6,933)
Collateralized debt obligations	29,776	(2,008)	43,152	(27,676)		2,628	45,872	(3,830)
Residential mortgage-backed securities	169,426	5,594	79,531	(105,671)	(4,851)	(11,846)	132,183	586
Commercial mortgage-backed securities	17,794	(735)	1,533	(3,054)	(5,281)	4,166	14,423	(5,007)
Other asset-backed securities	1,252	2,168	7,618	(3,127)		659	8,570	2,077
Loans and other receivables	170,986	(5,103)	206,672	(26,630)	(213,662)			