

Jefferies Group LLC  
Form 10-Q  
April 08, 2014  
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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 February 28, 2014

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>95-4719745</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>520 Madison Avenue, New York, New York</b> <b>(Address of principal executive offices)</b>	<b>10022</b> <b>(Zip Code)</b>
<b>Registrant's telephone number, including area code: <u>(212) 284-2550</u></b>	

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  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  No

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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  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

**The Registrant is a wholly-owned subsidiary of Leucadia National Corporation and meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with a reduced disclosure format as permitted by Instruction H (2).**

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**FEBRUARY 28, 2014**

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Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)****(In thousands)**

	<b>February 28, 2014</b>	<b>November 30, 2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,864,910	\$ 3,561,119
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,801,517	3,616,602
Financial instruments owned, at fair value, including securities pledged of \$15,065,084 and \$13,253,537 at February 28, 2014 and November 30, 2013, respectively:		
Corporate equity securities	2,609,789	2,098,597
Corporate debt securities	3,260,638	2,982,768
Government, federal agency and other sovereign obligations	5,429,302	5,346,152
Mortgage- and asset-backed securities	5,083,832	4,473,135
Loans and other receivables	1,294,096	1,349,128
Derivatives	223,699	261,093
Investments, at fair value	118,278	101,282
Physical commodities	105,982	37,888
<b>Total financial instruments owned, at fair value</b>	<b>18,125,616</b>	<b>16,650,043</b>
Investments in managed funds	71,142	57,285
Loans to and investments in related parties	725,293	701,873
Securities borrowed	6,119,935	5,359,846
Securities purchased under agreements to resell	4,448,531	3,746,920
Securities received as collateral	1,051	11,063
Receivables:		
Brokers, dealers and clearing organizations	2,596,998	2,119,279
Customers	1,275,955	1,046,945
Fees, interest and other	286,688	251,072
Premises and equipment	230,251	202,467
Goodwill	1,724,883	1,722,346
Other assets	1,167,061	1,130,136
<b>Total assets</b>	<b>\$ 43,439,831</b>	<b>\$ 40,176,996</b>

Continued on next page.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION CONTINUED (UNAUDITED)**

(In thousands, except share amounts)

	February 28, 2014	November 30, 2013
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$ 12,000	\$ 12,000
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	1,601,171	1,823,299
Corporate debt securities	1,773,525	1,346,078
Government, federal agency and other sovereign obligations	5,060,521	3,155,683
Mortgage- and asset-backed securities	7,230	34,691
Loans	706,107	695,300
Derivatives	188,505	180,079
Physical commodities	41,545	36,483
Total financial instruments sold, not yet purchased, at fair value	9,378,604	7,271,613
Collateralized financings:		
Securities loaned	3,082,032	2,506,122
Securities sold under agreements to repurchase	10,777,065	10,779,845
Other secured financings	270,394	234,711
Obligation to return securities received as collateral	1,051	11,063
Payables:		
Brokers, dealers and clearing organizations	1,569,582	1,281,253
Customers	5,703,520	5,208,768
Accrued expenses and other liabilities	923,832	1,217,141
Long-term debt	6,259,664	6,232,806
Total liabilities	37,977,744	34,755,322
<b>EQUITY</b>		
Member s paid-in capital	5,393,795	5,280,420
Accumulated other comprehensive income:		
Currency translation adjustments	35,125	21,341
Additional minimum pension liability	2,759	2,759
Total accumulated other comprehensive income	37,884	24,100
Total member s equity	5,431,679	5,304,520
Noncontrolling interests	30,408	117,154

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Total equity	5,462,087	5,421,674
Total liabilities and equity	\$ 43,439,831	\$ 40,176,996

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Table of Contents**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.

	<b>February 28, 2014</b>	<b>November 30, 2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 176	\$ 176
Financial instruments owned, at fair value		
Loans and other receivables	97,500	97,500
Investments, at fair value	378	412
Total financial instruments owned, at fair value	97,878	97,912
Other assets	3,243	2,275
Total assets	\$ 101,297	\$ 100,363
<b>Liabilities</b>		
Other secured financings	\$ 240,000	\$ 226,000
Accrued expenses and other liabilities	668	706
Total liabilities	\$ 240,668	\$ 226,706

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)

	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
<b>Revenues:</b>		
Commissions	\$ 162,063	\$ 146,240
Principal transactions	238,363	300,278
Investment banking	414,320	288,278
Asset management fees and investment income from managed funds	9,957	10,883
Interest	249,268	249,277
Other	23,069	27,004
<b>Total revenues</b>	<b>1,097,040</b>	<b>1,021,960</b>
Interest expense	198,012	203,416
<b>Net revenues</b>	<b>899,028</b>	<b>818,544</b>
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries		10,961
<b>Net revenues, less interest on mandatorily redeemable preferred interests of consolidated subsidiaries</b>	<b>899,028</b>	<b>807,583</b>
<b>Non-interest expenses:</b>		
Compensation and benefits	507,899	474,217
<b>Non-compensation expenses:</b>		
Floor brokerage and clearing fees	49,513	46,155
Technology and communications	64,306	59,878
Occupancy and equipment rental	27,017	24,309
Business development	26,476	24,927
Professional services	24,304	24,135
Other	17,244	14,475
<b>Total non-compensation expenses</b>	<b>208,860</b>	<b>193,879</b>
<b>Total non-interest expenses</b>	<b>716,759</b>	<b>668,096</b>

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Earnings before income taxes	182,269		139,487
Income tax expense	66,877		48,645
Net earnings	115,392		90,842
Net earnings attributable to noncontrolling interests	2,960		10,704
Net earnings attributable to Jefferies Group LLC	\$ 112,432	\$	80,138
Earnings per common share:			
Basic	N/A	\$	0.35
Diluted	N/A	\$	0.35
Dividends declared per common share	N/A	\$	0.075
Weighted average common shares:			
Basic	N/A		213,732
Diluted	N/A		217,844

See accompanying notes to consolidated financial statements.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)****(In thousands)**

	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
Net earnings	\$ 115,392	\$ 90,842
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	13,784	(10,018)
Total other comprehensive income (loss), net of tax (1)	13,784	(10,018)
Comprehensive income:	129,176	80,824
Net earnings attributable to noncontrolling interests	2,960	10,704
Comprehensive income attributable to Jefferies Group LLC	\$ 126,216	\$ 70,120

(1) No other comprehensive income (loss) is attributable to noncontrolling interests.  
See accompanying notes to consolidated financial statements.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**

(In thousands, except per share amounts)

	<b>Successor</b>	<b>Predecessor</b>
	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>February 28,</b>	<b>February 28,</b>
	<b>2014</b>	<b>2013</b>
<b>Common stock, par value \$0.0001 per share</b>		
Balance, beginning of period	\$	\$ 20
Issued		1
Balance, end of period	\$	\$ 21
<b>Member s paid-in capital</b>		
Balance, beginning of period	\$ 5,280,420	\$ 4,754,101
Contributions		362,255
Net earnings to Jefferies Group LLC	112,432	161,191
Tax benefit for issuance of share-based awards	943	2,873
Balance, end of period	\$ 5,393,795	\$ 5,280,420
<b>Additional paid-in capital</b>		
Balance, beginning of period	\$	\$ 2,219,959
Benefit plan share activity (3)		3,138
Share-based expense, net of forfeitures and clawbacks		22,288
Proceeds from exercise of stock options		57
Acquisitions and contingent consideration		2,535
Tax deficiency for issuance of share-based awards		(17,965)
Dividend equivalents on share-based plans		1,418
Balance, end of period	\$	\$ 2,231,430
<b>Retained earnings</b>		
Balance, beginning of period	\$	\$ 1,281,855
Net earnings to common shareholders		80,138
Dividends		(17,217)
Balance, end of period	\$	\$ 1,344,776

<b>Accumulated other comprehensive income (loss) (1) (2)</b>			
Balance, beginning of period	\$ 24,100	\$	\$ (53,137)
Currency adjustment	13,784	21,341	(10,018)
Pension adjustment, net of tax		2,759	
Balance, end of period	\$ 37,884	\$ 24,100	\$ (63,155)
<b>Treasury stock, at cost</b>			
Balance, beginning of period	\$	\$	\$ (12,682)
Purchases			(166,541)
Returns / forfeitures			(1,922)
Balance, end of period	\$	\$	\$ (181,145)
<b>Total member s / common stockholders equity</b>	<b>\$ 5,431,679</b>	<b>\$ 5,304,520</b>	<b>\$ 3,331,927</b>
<b>Noncontrolling interests</b>			
Balance, beginning of period	\$ 117,154	\$ 356,180	\$ 346,738
Net earnings attributable to noncontrolling interests	2,960	8,418	10,704
Contributions	31,075	100,210	
Distributions		(25)	(1,262)
Redemptions		(347,629)	
Consolidation (deconsolidation) of asset management entity	(120,781)		
Balance, end of period	\$ 30,408	\$ 117,154	\$ 356,180
<b>Total equity</b>	<b>\$ 5,462,087</b>	<b>\$ 5,421,674</b>	<b>\$ 3,688,107</b>

- (1) The components of other comprehensive income (loss) are attributable to Jefferies Group LLC (formerly Jefferies Group, Inc.). None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.
- (2) There were no reclassifications out of Accumulated other comprehensive loss during the nine months ended November 30, 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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	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
Cash flows from operating activities:		
Net earnings	\$ 115,392	\$ 90,842
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	(3,951)	17,393
Gain on conversion option	(1,967)	
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries		10,961
Accruals related to various benefit plans and stock issuances, net of forfeitures		23,505
Income on loans to and investments in related parties	(20,629)	
Distributions received on investments in related parties	2,388	
Other adjustments	(1,338)	(1,154)
Net change in assets and liabilities:		
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(183,710)	352,891
Receivables:		
Brokers, dealers and clearing organizations	(478,066)	(1,027,671)
Customers	(227,813)	(130,543)
Fees, interest and other	(35,076)	(29,149)
Securities borrowed	(756,481)	(224,557)
Financial instruments owned	(1,650,607)	229,394
Loans to and investments in related parties		(197,166)
Investments in managed funds	16,696	(2,213)
Securities purchased under agreements to resell	(694,175)	(224,418)
Other assets	(39,193)	25,489
Payables:		
Brokers, dealers and clearing organizations	287,356	(1,031,335)
Customers	488,178	(111,139)
Securities loaned	572,285	(28,138)
Financial instruments sold, not yet purchased	2,282,870	2,327,667
Securities sold under agreements to repurchase	(10,772)	(197,493)
Accrued expenses and other liabilities	(297,462)	(267,336)
Net cash used in operating activities	(636,075)	(394,170)

Cash flows from investing activities:		
Contributions to loans to and investments in related parties	(784,818)	
Distributions from loans to and investments in related parties	779,638	
Net payments on premises and equipment	(40,271)	(10,706)
Deconsolidation of asset management entity	(137,856)	
Cash received from contingent consideration	1,442	1,203
Net cash used in investing activities	(181,865)	(9,503)

Continued on next page.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED (UNAUDITED)****(In thousands)**

	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 953	\$ 5,682
Proceeds from short-term borrowings		6,744,000
Payments on short-term borrowings		(6,794,000)
Proceeds from secured credit facility	250,000	900,000
Payments on secured credit facility	(200,000)	(990,007)
Net proceeds from other secured financings	35,683	60,000
Payments on mandatorily redeemable preferred interest of consolidated subsidiaries		(61)
Payments on repurchase of common stock		(166,541)
Payments on dividends		(15,799)
Proceeds from exercise of stock options, not including tax benefits		57
Net proceeds from issuance of senior notes, net of issuance costs		991,469
Proceeds from contributions of noncontrolling interests	31,075	
Payments on distributions to noncontrolling interests		(1,262)
Net cash provided by financing activities	117,711	733,538
Effect of exchange rate changes on cash and cash equivalents	4,020	(4,502)
Net (decrease) increase in cash and cash equivalents	(696,209)	325,363
Cash and cash equivalents at beginning of period	3,561,119	2,692,595
Cash and cash equivalents at end of period	\$ 2,864,910	\$ 3,017,958
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 244,269	\$ 178,836
Income tax refunds, net of cash paid	(4,836)	(34,054)

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***

Jefferies Group LLC, and its subsidiaries operate as a global full service, integrated securities and investment banking firm. Jefferies Group LLC was previously known as Jefferies Group, Inc., which on March 1, 2013 was converted into a limited liability company and 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.

On March 1, 2013, Jefferies Group LLC through a series of transactions, became an indirect wholly owned subsidiary of Leucadia National Corporation ( Leucadia ) (referred to herein as the Leucadia 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 a full-service investment banking firm and 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 Leucadia Transaction, 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.

We operate in two business segments, Capital Markets and Asset Management. Capital Markets, which represents principally our entire business, 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.

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 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***

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The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) for financial information and with the instructions to Form 10-K.

As more fully described in Note 4, Leucadia and Related Transactions, the Leucadia Transaction is accounted for using the acquisition method of accounting, which requires that the assets, including identifiable intangible assets, and liabilities of Jefferies Group LLC be recorded at their fair values. 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

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

result, our consolidated financial statements are presented for periods subsequent to March 1, 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 and intangible assets, 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 three months ended February 28, 2014, 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 Leucadia Transaction.

***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 2013 Adjustments***

As indicated in our Quarterly Report on Form 10-Q for the three months ended May 31, 2013 and our Annual Report on Form 10-K for the year ended November 30, 2013, we have made correcting adjustments (referred to as adjustments ) to our historical financial statements for the first quarter of 2013. We do not believe these adjustments are material to our financial statements for the quarterly period ended February 28, 2013. For additional information on these adjustments, see Note 1, Organization and Basis of Presentation, and Note 26, Selected Quarterly Financial Data (Unaudited), of the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended November 30, 2013.

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**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.

*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- and long-term borrowings 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.



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***Cash Equivalents***

Cash equivalents include highly liquid investments, including certificates of deposit and 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).

***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

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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 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

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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 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 may include 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.

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***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 11, Investments, and Note 24, 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 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 and Related Transactions for more information regarding the allocation of the purchase price.



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***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 not more likely than not that the fair value of a reporting unit is less 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.

*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 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. 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***

Prior to the Leucadia Transaction we filed a consolidated U.S. federal income tax return, which included all of our qualifying subsidiaries. Subsequently, our results of operations are included in the consolidated federal and applicable state income tax returns filed by Leucadia. In states that neither accept nor require combined or unitary tax returns, certain subsidiaries file separate state income tax returns. We also are subject to income tax in various foreign jurisdictions in which we operate. For the Successor period, we account for our provision for income taxes using a separate return method. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable.

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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 carryforwards. 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, 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. In the Successor period, Jefferies provides deferred taxes on its temporary differences and on any carryforwards that it could claim on its hypothetical tax return. 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 on the basis of its projected separate return results. The tax benefit related to Leucadia 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.

We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax positions will be sustained on the basis of the technical merits of the position; and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

***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. As of February 28, 2014, we have reserved approximately \$21.0 million for remaining payments under a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the Securities and Exchange Commission, both with respect to an investigation of certain purchases and sales of mortgage-backed securities. We believe that any other matters for which we have determined a loss to be probable and reasonably estimable are not material to the consolidated financial statements.

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.

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***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 Leucadia 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. 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.

***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.

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**

***Adopted Accounting Standards***

*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

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balance sheet. We adopted the guidance effective December 1, 2013 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.

*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. 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 operations, financial condition or cash flows.

*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* to eliminate diversity in practice. The guidance requires an entity to net their unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements against 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 fiscal years and interim periods within those years, beginning after December 15, 2013, and is to be applied prospectively to all unrecognized tax benefits that exist at the effective date. We do not expect that the adoption of this update will have a material effect on our consolidated financial statements.

**Note 4. Leucadia and Related Transactions**

*Leucadia Transaction*

On March 1, 2013, Jefferies Group LLC completed a business combination 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.

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 became convertible into common shares of Leucadia. Other than the conversion into Leucadia common shares, the terms of the debenture remain the same.

The Leucadia Transaction 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



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acquired, including intangible assets, and liabilities assumed based on their estimated fair values. 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 Leucadia Transaction consists largely of our commercial potential and the value of our assembled workforce.

In connection with the Leucadia Transaction, we recognized \$2.1 million in transaction costs during the three months ended February 28, 2013.

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-based 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
<b>Total purchase price</b>	<b>\$ 4,754,101</b>

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- (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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<b>Assets acquired:</b>	
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 (1)	15,551
Finite-lived intangible customer relationships (1)	136,002
Finite-lived trade name (1)	131,299
Other assets	939,600
<b>Total assets</b>	<b>\$ 38,036,242</b>
<b>Liabilities assumed:</b>	
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	793,843
Long-term debt	6,362,024
Mandatorily redeemable preferred interests	358,951
<b>Total liabilities</b>	<b>\$ 34,646,341</b>
Noncontrolling interests	356,180

<b>Fair value of net assets acquired, excluding goodwill</b>	<b>\$ 3,033,721</b>
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<b>Goodwill</b>	<b>\$ 1,720,380</b>
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(1) Intangible assets are recorded within Other assets on the Consolidated Statements of Financial Condition. 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 is not deductible for tax purposes.

***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. On April 1, 2013, we redeemed the mandatorily redeemable preferred interests in JHYH received from Leucadia. In addition, on April 1, 2013, our high yield trading broker-dealer was merged into Jefferies LLC (our U.S. securities broker-dealer).

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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 February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014	November 30, 2013
Cash and cash equivalents:		
Cash in banks	\$ 670,082	\$ 830,438
Certificate of deposit	50,004	50,005
Money market investments	2,144,824	2,680,676
<b>Total cash and cash equivalents</b>	<b>\$ 2,864,910</b>	<b>\$ 3,561,119</b>
Cash and securities segregated (1)	\$ 3,801,517	\$ 3,616,602

- (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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The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis as of February 28, 2014 and November 30, 2013 by level within the fair value hierarchy (in thousands):

	February 28, 2014				Total
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 2,197,314	\$ 400,134	\$ 12,341	\$	\$ 2,609,789
Corporate debt securities		3,231,323	29,315		3,260,638
Collateralized debt obligations		251,416	66,028		317,444
U.S. government and federal agency securities	2,098,286	138,695			2,236,981
Municipal securities		563,190			563,190
Sovereign obligations	1,751,744	877,387			2,629,131
Residential mortgage-backed securities		3,384,620	116,992		3,501,612
Commercial mortgage-backed securities		1,209,978	17,486		1,227,464
Other asset-backed securities		34,937	2,375		37,312
Loans and other receivables		1,165,264	128,832		1,294,096
Derivatives	40,304	2,352,971	2,940	(2,172,516)	223,699
Investments at fair value		10	118,268		118,278
Physical commodities		105,982			105,982
<b>Total financial instruments owned</b>	<b>\$ 6,087,648</b>	<b>\$ 13,715,907</b>	<b>\$ 494,577</b>	<b>\$ (2,172,516)</b>	<b>\$ 18,125,616</b>
Cash and cash equivalents	\$ 2,864,910	\$	\$	\$	\$ 2,864,910
Investments in managed funds	\$	\$ 11,614	\$ 59,528	\$	\$ 71,142
Cash and securities segregated and on deposit for regulatory purposes (2)	\$ 3,801,517	\$	\$	\$	\$ 3,801,517
Securities received as collateral	\$ 1,051	\$	\$	\$	\$ 1,051
<b>Total Level 3 assets</b>			<b>\$ 554,105</b>		

**Liabilities:**

Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,531,598	\$ 68,558	\$ 1,015	\$	\$ 1,601,171
Corporate debt securities		1,773,525			1,773,525
U.S. government and federal agency securities	2,578,965				2,578,965
Sovereign obligations	1,532,088	949,468			2,481,556
Residential mortgage-backed securities		7,230			7,230
Loans		695,847	10,260		706,107
Derivatives	60,012	2,341,346	8,713	(2,221,566)	188,505
Physical commodities		41,545			41,545
 Total financial instruments sold, not yet purchased	 \$ 5,702,663	 \$ 5,877,519	 \$ 19,988	 \$ (2,221,566)	 \$ 9,378,604
 Obligation to return securities received as collateral					
	\$ 1,051	\$	\$	\$	\$ 1,051
Other secured financings	\$	\$ 20,000	\$ 30,394	\$	\$ 50,394
Embedded conversion option	\$	\$ 7,607	\$	\$	\$ 7,607

- (1) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (2) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of \$749.2 million.

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	November 30, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,913,220	\$ 175,493	\$ 9,884	\$	\$ 2,098,597
Corporate debt securities		2,957,102	25,666		2,982,768
Collateralized debt obligations		182,095	37,216		219,311
U.S. government and federal agency securities	2,293,221	40,389			2,333,610
Municipal securities		664,054			664,054
Sovereign obligations	1,458,803	889,685			2,348,488
Residential mortgage-backed securities		2,932,268	105,492		3,037,760
Commercial mortgage-backed securities		1,130,410	17,568		1,147,978
Other asset-backed securities		55,475	12,611		68,086
Loans and other receivables		1,203,238	145,890		1,349,128
Derivatives	40,952	2,472,237	1,493	(2,253,589)	261,093
Investments at fair value		40	101,242		101,282
Physical commodities		37,888			37,888
<b>Total financial instruments owned</b>	<b>\$ 5,706,196</b>	<b>\$ 12,740,374</b>	<b>\$ 457,062</b>	<b>\$ (2,253,589)</b>	<b>\$ 16,650,043</b>
Cash and cash equivalents	\$ 3,561,119	\$	\$	\$	\$ 3,561,119
Investments in managed funds	\$	\$	\$ 57,285	\$	\$ 57,285
Cash and securities segregated and on deposit for regulatory purposes (3)	\$ 3,616,602	\$	\$	\$	\$ 3,616,602
Securities received as collateral	\$ 11,063	\$	\$	\$	\$ 11,063
<b>Total Level 3 assets</b>			<b>\$ 514,347</b>		
<b>Liabilities:</b>					
Financial instruments sold,					
Corporate equity securities	\$ 1,782,903	\$ 40,358	\$ 38	\$	\$ 1,823,299
Corporate debt securities		1,346,078			1,346,078
U.S. government and federal agency securities	1,324,326				1,324,326



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Sovereign obligations	1,360,269	471,088			1,831,357
Residential mortgage-backed securities		34,691			34,691
Loans		672,838	22,462		695,300
Derivatives	43,829	2,480,463	8,398	(2,352,611)	180,079
Physical commodities		36,483			36,483
Total financial instruments sold, not yet purchased	\$ 4,511,327	\$ 5,081,999	\$ 30,898	\$ (2,352,611)	\$ 7,271,613
Obligation to return securities received as collateral	\$ 11,063	\$	\$	\$	\$ 11,063
Other secured financings	\$	\$ 31,000	\$ 8,711	\$	\$ 39,711
Embedded conversion option	\$	\$ 9,574	\$	\$	\$ 9,574

- (1) During the nine months ended November 30, 2013, we transferred 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 from Level 1 to Level 2 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) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of \$304.2 million.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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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 hierarchy.

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 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.

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*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.

*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 and interest-only and principal-only 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 that are actively traded are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 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, use similar valuation approaches as those applied to over-the-counter derivative contracts 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

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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.

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 houses. 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.

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The following tables present information about our investments in entities that have the characteristics of an investment company at February 28, 2014 and November 30, 2013 (in thousands):

		February 28, 2014	
	Fair Value (6)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (1)	\$ 37,078	\$	Monthly, Quarterly
High Yield Hedge Funds(2)	244		
Fund of Funds(3)	315	94	
Equity Funds(4)	65,878	38,714	
Convertible Bond Funds(5)	3,703		At Will
Total(7)	\$ 107,218	\$ 38,808	

		November 30, 2013	
	Fair Value (6)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (1)	\$ 20,927	\$	Monthly, Quarterly
High Yield Hedge Funds(2)	244		
Fund of Funds(3)	494	94	
Equity Funds(4)	66,495	40,816	
Convertible Bond Funds(5)	3,473		At Will
Total(7)	\$ 91,633	\$ 40,910	

(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 February 28, 2014 and November 30, 2013, investments representing approximately 99% and 98%, respectively, of the fair value of investments in this category are redeemable with 30 - 65 days prior written notice, and includes an investment in a private asset management fund managed by us with a fair value of \$14.7 million at February 28, 2014. 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 February 28, 2014 and November 30, 2013, approximately 97% and 98%, 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 approximately two years. For the remaining investments we have requested redemption; however, we are unable to estimate when these funds will be received.
  - (4) At February 28, 2014 and November 30, 2013, investments representing approximately 99% and 99%, 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 February 28, 2014 and November 30, 2013, this category includes investments in equity funds managed by us with a fair value of \$53.6 million and \$54.4 million and unfunded commitments of \$37.1 million and \$39.2 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) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.
  - (7) Investments at fair value in the Consolidated Statements of Financial Condition at February 28, 2014 and November 30, 2013 include \$82.2 million and \$66.9 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table. We have unfunded commitments to such investments of \$3.3 million and \$3.3 million in aggregate at February 28, 2014 and November 30, 2013, respectively.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Other Secured Financings*

Other secured financings include the notes issued by consolidated VIEs, which are classified as Level 2 within the fair value hierarchy. Fair value is based on recent transaction prices. In addition, at February 28, 2014, Other secured financings includes \$30.4 million related to transfers of loans accounted for as secured financings rather than as sales and classified as Level 3 within the fair value hierarchy.

*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 a convertible bond model 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 February 28, 2014 and November 30, 2013, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:

	February 28, 2014		November 30, 2013	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	12%	16%	12%	25%
Recently observed transaction prices	6%	5%	5%	4%
External pricing services	68%	74%	68%	66%
Broker quotes	3%	3%	3%	3%
Valuation techniques	11%	2%	12%	2%
	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 February 28, 2014 (in thousands):

Three Months Ended February 28, 2014

	Balance, November 30, 2013	Total gains/ losses realized and unrealized (1)	Purchases	Sales	Settlements	Issuances	Net transfers into/ (out of) Level 3	Balance, February 28, 2014	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2014 (1)
<b>Assets:</b>									
Financial instruments owned:									
Corporate equity securities	\$ 9,884	\$ (1,393)	\$ 134	\$	\$	\$	\$ 3,716	\$ 12,341	\$ (1,319)
Corporate debt securities	25,666	(2,014)	4,136	(624)			2,151	29,315	193
Collateralized debt obligations	37,216	10,184	76,511	(78,081)	(144)		20,342	66,028	5,662
Residential mortgage-backed securities	105,492	(1,626)	9,637	(13,703)	(1,755)		18,947	116,992	(2,097)
Commercial mortgage-backed securities	17,568	(3,032)	8,933	(14,645)	(50)		8,712	17,486	(958)
Other asset-backed securities	12,611	72	2,250	(2,048)	(83)		(10,427)	2,375	7
Loans and other receivables	145,890	(3,902)	36,213	(49,475)	(935)		1,041	128,832	(3,807)
	101,242	24,889	22,500	(29,587)			(776)	118,268	24,889

Investments, at  
fair value

Investments in managed funds	57,285	(2,859)	5,102				59,528	(2,859)
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**Liabilities:**

Financial  
instruments sold,  
not yet  
purchased:

Corporate equity securities	\$ 38	\$ 8	\$ 411	\$ 558	\$ 1,015	\$ (8)		
Net derivatives (2)	6,905	1,267	(1,327)	2,169	197	(3,438)	5,773	(1,267)
Loans	22,462	(153)	(18,913)	4,887	1,977	10,260	(153)	
Other secured financings	8,711			21,683		30,394		

- (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.

*Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 28, 2014*

During the three months ended February 28, 2014, transfers of assets of \$91.0 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$38.1 million, commercial mortgage backed-securities of \$9.0 million and other asset-backed securities of \$1.8 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$8.9 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2.

Corporate equity securities of \$7.4 million and corporate debt securities of \$2.3 million due to lack of observable market transactions;

Collateralized debt obligations of \$23.5 million which have little to no transparency in trade activity;

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During the three months ended February 28, 2014, transfers of assets of \$47.3 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of \$19.1 million, commercial mortgage-backed securities of \$0.2 million and other asset-backed securities of \$12.2 million for which market trades were observed in the period for either identical or similar securities;

Collateralized debt obligations of \$3.3 million, loans and other receivables of \$7.9 million and investments at fair value of \$0.8 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of \$3.6 million and corporate debt securities of \$0.2 million due to an increase in observable market transactions.

During the three months ended February 28, 2014, there were transfers of loan liabilities of \$2.9 million from Level 3 to Level 2 and transfers of \$4.8 million from Level 2 to Level 3 due to an increase and decrease in observable inputs in the valuation, respectively. There were \$3.4 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable inputs used in the valuing of derivative contracts.

Net gains on Level 3 assets were \$20.3 million and net losses on Level 3 liabilities were \$1.1 million for the three months ended February 28, 2014. Net gains on Level 3 assets were primarily due to increased valuations of certain collateralized debt obligations and investments at fair value, partially offset by a decrease in valuation of certain corporate equity securities, corporate debt securities, residential and commercial mortgage-backed securities, loans and other receivables and investments in managed funds. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments, partially offset by decrease in valuation of certain loan positions.

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 February 28, 2013 (in thousands):

		Predecessor					
		Three Months Ended February 28, 2013 <sup>(3)</sup>					
Balance,	Total gains/	Purchases	Sales	Settlements	Net	Balance,	Change
November 30,	losses				transfers	February 28,	in
2012	(realized and				into/ (out	2013	unrealized gains/

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	unrealized) (1)				of) Level 3		(losses) relating to instruments still held at February 28, 2013 (1)	
<b>Assets:</b>								
Financial instruments owned:								
Corporate equity securities	\$ 16,815	\$ 200	\$ 707	\$ 109	\$	\$ (4,597)	\$ 13,234	\$ 172
Corporate debt securities	3,631	7,836	11,510	(1,918)		10,761	31,820	7,833
Collateralized debt obligations	31,255	3,584	4,406	(17,374)		2,865	24,736	(1,165)
Residential mortgage-backed securities	156,069	11,906	132,773	(130,143)	(6,057)	4,878	169,426	4,511
Commercial mortgage-backed securities	30,202	(995)	2,280	(2,866)	(1,188)	(9,639)	17,794	(2,059)
Other asset-backed securities	1,114	90	1,627	(1,342)	(19)	(178)	1,292	39
Loans and other receivables	180,393	(8,682)	105,650	(29,828)	(61,407)	(15,140)	170,986	(12,374)
Investments, at fair value	83,897	961	5,952	(4,923)	(9,721)	(1,099)	75,067	1,171
Investments in managed funds	57,763	(363)	11,068		(8,492)		59,976	(363)
<b>Liabilities:</b>								
Financial instruments sold, not yet purchased:								
Corporate equity securities	\$ 38	\$	\$	\$	\$	\$	\$ 38	\$
Residential mortgage-backed securities		25	(73,846)	75,363			1,542	(19)
Net derivatives (2)	9,188	2,648				(651)	11,185	2,648
Loans	1,711		(1,711)	7,398			7,398	

- (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 February 28, 2013.





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 28, 2013*

During the three months ended February 28, 2013, transfers of assets of \$100.5 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$78.4 million and commercial mortgage-backed securities of \$1.3 million for which no recent trade activity was observed for purposes of determining observable inputs;

Corporate debt securities of \$10.8 million and corporate equity securities of \$0.1 million due to lack of observable market transactions;

Collateralized debt obligations of \$5.3 million which have little to no transparency in trade activity;

Loans and other receivables of \$4.8 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2.

During the three months ended February 28, 2013, transfers of assets of \$112.7 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of \$73.5 million, commercial mortgage-backed securities of \$10.9 million and \$0.2 million of other asset-backed securities for which market trades were observed in the period for either identical or similar securities;

Loans and other receivables of \$19.9 million and collateralized debt obligations of \$2.4 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of \$4.7 million due to an increase in observable market transactions.

During the three months ended February 28, 2013, there were no transfers of liabilities from Level 2 to Level 3 and there were \$0.7 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable significant inputs used in valuing the derivative contracts.

Net gains on Level 3 assets were \$14.5 million and net losses on Level 3 liabilities were \$2.7 million for the three months ended February 28, 2013. Net gains on Level 3 assets were primarily due to increased valuations of certain residential mortgage-backed securities, corporate debt securities, collateralized debt obligations and investments at fair value partially offset by a decrease in valuation of certain loans and other receivables, commercial mortgage backed securities and investments in managed funds. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

Components or portions of interest rate and credit risk related to mortgage-backed securities categorized within Level 3 of the fair value hierarchy are frequently economically hedged with U.S. Treasury and Eurodollar futures and short U.S. Treasury securities, which are categorized within Level 1 liabilities, and with interest rate swaps and, to a lesser extent, index credit default swaps categorized within Level 2 assets or liabilities. Accordingly, a portion of the gains and losses on mortgage-backed securities reported in Level 3 are offset by gains and losses from the economic hedges attributed to instruments categorized within Level 1 and Level 2. Economic hedging is often executed on a macro-basis for a given asset class rather than an instrument-specific basis. Valuation inputs and prices for hedging instruments categorized within Level 1 and Level 2 provide a level of observability used in valuing Level 3 mortgage-backed securities; however, other inputs, such as prepayment, default rates and other credit specific factors are significant to the valuation and are not derived from the prices of the hedging instruments. Basis risk differences may also arise between the Level 3 mortgage-backed securities and the Level 1 and Level 2 hedging instruments due to the underlying interest rates and the underlying credits comprising the referenced credit index. Hedge effectiveness is limited by factors that include idiosyncratic collateral performance and basis risk as well as the sizing of the macro-hedge.

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**(Unaudited)**

***Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at February 28, 2014 and November 30, 2013***

The tables below present information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument; i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class. Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of our financial instruments; rather the range of inputs is reflective of the differences in the underlying characteristics of the financial instruments in each category.

For certain categories, we have provided a weighted average of the inputs allocated based on the fair values of the financial instruments comprising the category. We do not believe that the range or weighted average of the inputs is indicative of the reasonableness of uncertainty of our Level 3 fair values. The range and weighted average are driven by the individual financial instruments within each category and their relative distribution in the population. The disclosed inputs when compared with the inputs as disclosed in other quarters should not be expected to necessarily be indicative of changes in our estimates of unobservable inputs for a particular financial instrument as the population of financial instruments comprising the category will vary from period to period based on purchases and sales of financial instruments during the period as well as transfers into and out of Level 3 each period.

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	Fair Value (in thousands)	February 28, 2014 Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
<b>Financial Instruments Owned</b>					
<b>Corporate equity securities</b>	\$ 4,988				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.3	
<b>Corporate debt securities</b>	\$ 25,644				
		Scenario analysis	Estimated recovery percentage	20% to 31%	26.0%
		Market approach	Yield	11.7% to 11.8%	11.7%
<b>Collateralized debt obligations</b>	\$ 63,778				
		Discounted cash flows	Constant prepayment rate	0% to 20%	14%
			Constant default rate	0% to 2%	1%
			Loss severity	30% to 70%	50%
			Yield	4% to 81%	20%
<b>Residential mortgage-backed securities</b>	\$ 116,992				
		Discounted cash flows	Constant prepayment rate	2% to 50%	10%
			Constant default rate	2% to 100%	25%
			Loss severity	0% to 85%	55%
			Yield	1% to 14%	8%
<b>Commercial mortgage-backed securities</b>	\$ 17,486				
		Discounted cash flows	Yield	4% to 11%	8%
			Cumulative loss rate	0% to 8%	5%
<b>Other asset-backed securities</b>	\$ 2,375				
		Discounted cash flows	Constant prepayment rate	0%	
			Constant default rate	0%	
			Yield	5%	
<b>Loans and other receivables</b>	\$ 111,642				
		Comparable pricing	Comparable bond or loan price	\$97 to \$101	\$ 100
		Market approach	Yield	2.6% to 3.3%	2.9%
			EBITDA (a) multiple	7	
		Scenario analysis	Estimated recovery percentage	10% to 79%	71%
<b>Derivatives</b>	\$ 2,940				
Forward contract		Comparable pricing	Comparable loan price	\$68 to \$104	\$ 89
<b>Investments at fair value</b>					
Private equity securities	\$ 33,785				

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		Comparable pricing	Comparable share price	\$27
		Net asset value	Discount to net asset value	10%
<b>Financial Instruments Sold, Not Yet Purchased</b>	<b>Fair Value (in thousands)</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Weighted Input / Range Average</b>
<b>Derivatives</b>	\$ 8,713			
Loan commitments		Comparable pricing	Comparable bond or loan price	\$100
<b>Loans</b>	\$ 10,260			
		Comparable pricing	Comparable bond or loan price	\$100.50

(a) Earnings before interest, taxes, depreciation and amortization ( EBITDA ).

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		<b>November 30, 2013</b>			
<b>Financial Instruments Owned</b>	<b>Fair Value</b> (in thousands)	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Input / Range</b>	<b>Weighted Average</b>
<b>Corporate equity securities</b>	\$ 8,034				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	4.0 to 5.5	4.53
Warrants		Option model	Volatility	36%	
<b>Corporate debt securities</b>	\$ 17,699				
		Scenario analysis	Estimated recovery percentage	24%	
		Comparable pricing	Comparable bond or loan price	\$69.10 to \$70.50	\$69.91
		Market approach	Yield	13%	
<b>Collateralized debt obligations</b>	\$ 34,316				
		Discounted cash flows	Constant prepayment rate	0% to 20%	13%
			Constant default rate	2% to 3%	2%
			Loss severity	30% to 85%	38%
			Yield	3% to 91%	28%
<b>Residential mortgage-backed securities</b>	\$ 105,492				
		Discounted cash flows	Constant prepayment rate	2% to 50%	11%
			Constant default rate	1% to 100%	17%
			Loss severity	30% to 90%	48%
			Yield	0% to 20%	7%
<b>Commercial mortgage-backed securities</b>	\$ 17,568				
		Discounted cash flows	Yield	12% to 20%	14%
			Cumulative loss rate	5% to 28.2%	11%
<b>Other asset-backed securities</b>	\$ 12,611				
		Discounted cash flows	Constant prepayment rate	4% to 30%	17%
			Constant default rate	2% to 11%	7%
			Loss severity	40% to 92%	64%
			Yield	3% to 29%	18%
<b>Loans and other receivables</b>	\$ 101,931				
		Comparable pricing		\$91 to \$101	\$98.90

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			Comparable bond or loan price		
		Market approach	Yield	8.75% to 13.5%	10%
			EBITDA (a) multiple	6.9	
		Scenario analysis	Estimated recovery percentage	16.9% to 92%	74%
<b>Derivatives</b>	\$ 1,493				
Loan commitments			Comparable bond or loan price	\$100.875	
<b>Investments at fair value</b>	\$ 30,203				
Private equity securities		Comparable pricing	Comparable share price	\$414	
		Market approach	Discount rate	15% to 30%	23%
<b>Financial Instruments Sold, Not Yet Purchased</b>	<b>Fair Value (in thousands)</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Input / Range</b>	<b>Weighted Average</b>
<b>Derivatives</b>	\$ 8,398				
Equity options		Option model	Volatility	36.25% to 41%	39%
<b>Loans</b>	8,106				
		Comparable pricing	Comparable bond or loan price	\$101.88	

(a) Earnings before interest, taxes, depreciation and amortization ( EBITDA ).

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above table. At February 28, 2014 and November 30, 2013, asset exclusions consisted of \$114.9 million and \$127.7 million, respectively, primarily comprised of investments in private equity securities, investments in reinsurance contracts and certain corporate loans. At February 28, 2014 and November 30, 2013, liability exclusions consisted of \$1.0 million and \$14.4 million, respectively of corporate loan commitments.



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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Sensitivity of Fair Values to Changes in Significant Unobservable Inputs*

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs (if any) are described below:

Private equity securities, corporate debt securities, loans and other receivables and loan commitments using comparable pricing valuation techniques. A significant increase (decrease) in the comparable share, bond or loan price in isolation would result in a significant higher (lower) fair value measurement.

Non-exchange traded securities, corporate debt securities and loans and other receivables using a market approach valuation technique. A significant increase (decrease) in the EBITDA or other multiples in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the yield of a corporate debt security, loan and other receivable would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the discount rate of a private equity security would result in a significantly lower (higher) fair value measurement.

Corporate debt securities and loans and other receivables using scenario analysis. A significant increase (decrease) in the possible recovery rates of the cash flow outcomes underlying the investment would result in a significantly higher (lower) fair value measurement for the financial instrument.

Collateralized debt obligations, residential and commercial mortgage-backed securities and other asset-backed securities using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, loss severities or cumulative loss rate and discount rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate would have differing impacts depending on the capital structure of the security. A significant increase (decrease) in the loan or bond yield would result in a significant lower (higher) fair value measurement.

Derivative equity options and equity warrants using an option model. A significant increase (decrease) in volatility would result in a significant higher (lower) fair value measurement.

Private equity securities using a net asset value technique. A significant increase (decrease) in the discount applied to net asset value would result in a significant (lower) higher fair value measurement.

***Fair Value Option Election***

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our investment banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned-derivatives and Financial instruments sold, not yet purchased derivatives on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included within Loans to and investments in related parties on the Consolidated Statements of Financial Condition and are accounted for on an amortized cost basis. We have elected the fair value option for our investment in Knight Capital Group, Inc., which is included in Financial Instruments owned Corporate equity securities on the Consolidated Statement of Financial Condition. See Note 11, Investments for further details regarding our investment in Knight Capital Group, Inc. We have also elected the fair value option for certain financial instruments held by subsidiaries as the investments are risk managed by us on a fair value basis. The fair value option has also been elected for certain secured financings that arise in connection with our securitization activities and other structural financings. Other secured financings, Receivables Brokers, dealers and clearing

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organizations, Receivables Customers, Receivables Fees, interest and other, Payables Brokers, dealers and clearing organizations and Payables Customers, are not accounted for at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

The following is a summary of gains (losses) due to changes in instrument specific credit risk on loans and other receivables and loan commitments measured at fair value under the fair value option (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
<b>Financial Instruments Owned:</b>		
Loans and other receivables	\$ 4,467	\$ 3,924
<b>Financial Instruments Sold:</b>		
Loans	\$ (462)	\$
Loan commitments	(2,357)	(2,746)

The following is a summary of the amount by which contractual principal exceeds fair value for loans and other receivables measured at fair value under the fair value option (in thousands):

	Successor February 28, 2014	November 30, 2013
<b>Financial Instruments Owned:</b>		
Loans and other receivables (2)	\$ 255,398	\$ 264,896
Loans greater than 90 days past due (1) (2)		

- (1) The aggregate fair value of loans that were 90 or more days past due was \$-0- million and \$-0- at February 28, 2014 and November 30, 2013.
- (2) Interest income is recognized separately from other changes in fair value and is included within Interest revenues on the Consolidated Statements of Earnings.

There were no loan receivables on nonaccrual status at February 28, 2014 and November 30, 2013.

**Note 7. Derivative Financial Instruments**

***Off-Balance Sheet Risk***

We have contractual commitments arising in the ordinary course of business for securities loaned or purchased under agreements to resell, repurchase agreements, future purchases and sales of foreign currencies, securities transactions on a when-issued basis and underwriting. Each of these financial instruments and activities contains varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount. The settlement of these transactions is not expected to have a material effect upon our consolidated financial statements.

***Derivative Financial Instruments***

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Financial instruments owned derivatives and Financial instruments sold, not yet purchased derivatives net of cash paid or received under credit support agreements and on a net counterparty basis when a legally enforceable right to offset

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in Principal transactions in the Consolidated Statements of Earnings on a trade date basis and as a component of cash flows from operating activities in the Consolidated Statements of Cash Flows. Acting in a trading capacity, we may enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. (See Note 6, Fair Value Disclosures and Note 21, Commitments, Contingencies and Guarantees for additional disclosures about derivative instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with our other trading-related activities. We manage the risks associated with derivatives on an aggregate basis along with the risks associated with proprietary trading as part of our firm wide risk management policies.

In connection with our derivative activities, we may enter into International Swaps and Derivative Association, Inc. ( ISDA ) master netting agreements or similar agreements with counterparties. A master agreement creates a single contract under which all transactions between two counterparties are executed allowing for trade aggregation and a single net payment obligation. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. In addition, we enter into customized bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

Under our ISDA master netting agreements, we typically also execute credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted by or paid to a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex. In the event of the counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to the enforceability of certain standard provisions in respective jurisdictions are relied upon as a part of managing credit risk. In cases where we have not determined an agreement to be enforceable, the related amounts are not offset. Master netting agreements are a critical component of our risk management processes as part of reducing counterparty credit risk and managing liquidity risk.

We are also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open derivative contracts.

The following tables present the fair value and related number of derivative contracts at February 28, 2014 and November 30, 2013 categorized by type of derivative contract and the platform on which these derivatives are transacted. The fair value of assets/liabilities represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the statement of financial condition as appropriate under GAAP and 2) the extent to which other rights of setoff

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associated with these arrangements exist and could have an effect on our financial position (in thousands, except contract amounts). See Note 8, Collateralized Transactions, for information related to offsetting of certain secured financing transactions.

	February 28, 2014 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
<b>Interest rate contracts</b>				
Exchange-traded	\$ 4,265	40,007	\$ 7,670	47,510
Cleared OTC	519,964	2,222	523,532	1,964
Bilateral OTC	711,837	1,190	677,525	612
<b>Foreign exchange contracts</b>				
Exchange-traded	29	56,669	68	66,613
Bilateral OTC	582,894	9,665	622,707	11,809
<b>Equity contracts</b>				
Exchange-traded	423,076	1,441,414	421,531	1,446,583
Bilateral OTC	3,640	96	13,418	104
<b>Commodity contracts</b>				
Exchange-traded	26,851	678,154	27,547	698,329
Bilateral OTC	106,004	4,062	88,289	3,173
<b>Credit contracts</b>				
Cleared OTC	13,695	17	15,545	14
Bilateral OTC	3,961	19	12,239	26
<b>Total gross derivative assets/ liabilities:</b>				
Exchange-traded	454,221		456,816	
Cleared OTC	533,659		539,077	
Bilateral OTC	1,408,336		1,414,178	
<b>Amounts offset in the Consolidated Statements of Financial Condition (2):</b>				
Exchange-traded	(448,484)		(448,484)	
Cleared OTC	(522,286)		(514,335)	
Bilateral OTC	(1,201,747)		(1,258,747)	
	\$ 223,699		\$ 188,505	

Net amounts per Consolidated Statements  
of Financial Condition (3)

- (1) Exchange traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.
- (2) Amounts netted include both netting by counterparty and for cash collateral paid or received.
- (3) We have not received or pledged additional collateral under master netting agreements and/ or other credit support agreements that is eligible to be offset beyond what has been offset in the Consolidated Statements of Financial Condition.



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	November 30, 2013 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
<b>Interest rate contracts</b>				
Exchange-traded	\$ 8,696	57,344	\$ 3,846	68,268
Cleared OTC	432,667	5,402	396,422	7,730
Bilateral OTC	724,613	1,221	730,897	1,340
<b>Foreign exchange contracts</b>				
Exchange-traded	33	111,229	40	104,205
Bilateral OTC	653,739	7,478	693,618	8,212
<b>Equity contracts</b>				
Exchange-traded	495,069	1,742,195	465,110	1,800,467
Bilateral OTC	6,715	148	9,875	136
<b>Commodity contracts</b>				
Exchange-traded	27,185	785,718	33,661	780,358
Bilateral OTC	114,095	11,811	139,458	8,359
<b>Credit contracts</b>				
Cleared OTC	49,531	49	51,632	46
Bilateral OTC	2,339	16	8,131	19
<b>Total gross derivative assets/ liabilities:</b>				
Exchange-traded	530,983		502,657	
Cleared OTC	482,198		448,054	
Bilateral OTC	1,501,501		1,582,979	
<b>Amounts offset in the Consolidated Statements of Financial Condition (2):</b>				
Exchange-traded	(489,375)		(489,375)	
Cleared OTC	(446,520)		(445,106)	
Bilateral OTC	(1,317,694)		(1,418,130)	
<b>Net amounts per Consolidated Statements of Financial Condition (3)</b>				
	\$ 261,093		\$ 180,079	

- (1) Exchange traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing

counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

- (2) Amounts netted include both netting by counterparty and for cash collateral paid or received.
- (3) We have not received or pledged additional collateral under master netting agreements and/ or other credit support agreements that is eligible to be offset beyond what has been offset in the Consolidated Statements of Financial Condition.

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The following table presents unrealized and realized gains (losses) on derivative contracts for the three months ended February 28, 2014 and 2013 (in thousands):

<i>Gains (Losses)</i>	Three Months Ended	
	February 28, 2014	February 28, 2013
Interest rate contracts	\$ (208)	\$ 38,936
Foreign exchange contracts	5,437	11,895
Equity contracts	(91,101)	(22,021)
Commodity contracts	16,186	19,585
Credit contracts	(3,889)	(3,742)
Total	\$ (73,575)	\$ 44,653

**OTC Derivatives.** The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities as of February 28, 2014 (in thousands):

	OTC Derivative Assets (1) (2) (4)					Total
	0 12 Months	1 5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)		
Commodity swaps, options and forwards	\$ 41,185	\$ 132	\$	\$	\$	\$ 41,317
Credit default swaps		436				436
Equity swaps and options	1,446					1,446
Total return swaps	3,612			(34)		3,578
Foreign currency forwards, swaps and options	117,738	18,721	36	(17,246)		119,249
Interest rate swaps, options and forwards	67,280	108,067	116,922	(60,576)		231,693
Total	\$ 231,261	\$ 127,356	\$ 116,958	\$ (77,856)		397,719
Cross product counterparty netting						(9,332)
Total OTC derivative assets included in Financial instruments owned						\$ 388,387

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- (1) At February 28, 2014, we held exchange traded derivative assets and other credit agreements with a fair value of \$11.1 million, which are not included in this table.
- (2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received on the Consolidated Statements of Financial Condition. At February 28, 2014, cash collateral received was \$176.1 million.
- (3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.

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	OTC Derivative Liabilities (1) (2) (4)						
	0	12 Months	1	5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	Total
Commodity swaps, options and forwards	\$ 23,585	\$ 108	\$	\$	\$	\$	\$ 23,693
Credit default swaps	2,116	4,512		66			6,694
Equity swaps and options				11,006			11,006
Total return swaps	1,706	34				(34)	1,706
Foreign currency forwards, swaps and options	153,068	23,466				(17,246)	159,288
Interest rate swaps, options and forwards	24,764	108,398		132,889		(60,576)	205,475
<b>Total</b>	<b>\$ 205,239</b>	<b>\$ 136,518</b>	<b>\$</b>	<b>\$ 143,961</b>	<b>\$</b>	<b>(77,856)</b>	<b>407,862</b>
Cross product counterparty netting							(9,332)
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased							\$ 398,530

- (1) At February 28, 2014, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$15.2 million, which are not included in this table.
- (2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged on the Consolidated Statements of Financial Condition. At February 28, 2014, cash collateral pledged was \$225.2 million.
- (3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.
- At February 28, 2014, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

Counterparty credit quality (1):

A- or higher	\$ 242,672
BBB- to BBB+	8,093
BB+ or lower	80,870

Unrated	56,752
<b>Total</b>	<b>\$ 388,387</b>

- (1) We utilize internal credit ratings determined by our Risk Management. Credit ratings determined by Risk Management use methodologies that produce ratings generally consistent with those produced by external rating agencies.

***Contingent Features***

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at February 28, 2014 and November 30, 2013 is \$110.7 million and \$170.2 million, respectively, for which we have posted collateral of \$72.9 million and \$127.7 million, respectively, in the normal course of business. If the

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credit-risk-related contingent features underlying these agreements were triggered on February 28, 2014 and November 30, 2013, we would have been required to post an additional \$42.5 million and \$49.4 million, respectively, of collateral to our counterparties.

**Note 8. Collateralized Transactions**

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We monitor the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and request additional collateral or return excess collateral, as appropriate. We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged securities owned that can be sold or repledged by the counterparty are included within Financial instruments owned and noted parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. We also receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities. In many instances, we are permitted by contract or custom to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending transactions, satisfy margin requirements on derivative transactions or cover short positions. At February 28, 2014 and November 30, 2013, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$23.5 billion and \$21.9 billion, respectively. The fair value of securities received as collateral at February 28, 2014 and November 30, 2013 that pertains to our securities financing activities at February 28, 2014 and November 30, 2013 are as follows (in thousands):

	February 28, 2014	November 30, 2013
Carrying amount:		
Securities purchased under agreements to resell	\$ 4,448,531	\$ 3,746,920
Securities borrowed	6,119,935	5,359,846
Securities received as collateral	1,051	11,063
<b>Total assets on Consolidated Statement of Financial Condition</b>	<b>10,569,517</b>	<b>9,117,829</b>
Netting of securities purchased under agreements to resell (1)	8,572,185	8,968,529

	19,141,702	18,086,358
Fair value of additional collateral received (2)	4,321,796	3,866,577
Fair value of securities received as collateral	\$ 23,463,498	\$ 21,952,935

- (1) Represents the netting of securities purchased under agreements to resell with securities sold under agreements to repurchase balances for the same counterparty under legally enforceable netting agreements.
- (2) Includes 1) collateral received from customers for margin balances unrelated to arrangements for securities purchased under agreements to resell or securities borrowed with a fair value of \$1,498.6 million and \$1,182.1 million at February 28, 2014 and November 30, 2013, respectively, of which \$600.0 million and \$596.2 million had been rehypothecated, 2) collateral received on securities for securities transactions of \$2,877.5 million and \$2,656.9 million at February 28, 2014 and November 30, 2013, respectively and 3) differences in collateral required as compared to reverse repurchase and securities borrowed contract amounts.

At February 28, 2014 and November 30, 2013, a substantial portion of the securities received by us had been sold or repledged.



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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

In instances where we receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities and are permitted to sell or repledge the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At February 28, 2014 and November 30, 2013, \$1.1 million and \$11.1 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

*Offsetting of Securities Financing Agreements*

To manage our exposure to credit risk associated with securities financing transactions, we may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to, master securities lending agreements (securities lending transactions) and master repurchase agreements (repurchase transactions). A master agreement creates a single contract under which all transactions between two counterparties are executed allowing for trade aggregation and a single net payment obligation. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. In addition, we enter into customized bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

In the event of the counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to the enforceability of certain standard provisions in respective jurisdictions are relied upon as a part of managing credit risk. Master netting agreements are a critical component of our risk management processes as part of reducing counterparty credit risk and managing liquidity risk.

We are also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open repurchase and/or securities lending transactions.



Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following tables provide information regarding repurchase agreements and securities borrowing and lending arrangements that are recognized in the Consolidated Statement of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statement of Financial Condition as appropriate under GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position. See Note 7, Derivative Financial Instruments, for information related to offsetting of derivatives.

(in thousands)	February 28, 2014					
	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
<b>Assets</b>						
Securities borrowing arrangements	\$ 6,119,935		6,119,935	(655,539)	(1,197,430)	\$ 4,266,966
Reverse repurchase agreements	\$ 13,020,716	(8,572,185)	4,448,531	(196,671)	(4,197,094)	\$ 54,766
<b>Liabilities</b>						
Securities lending arrangements	\$ 3,082,032		3,082,032	(655,539)	(2,384,307)	\$ 42,186
Repurchase agreements	\$ 19,349,250	(8,572,185)	10,777,065	(196,671)	(9,247,075)	\$ 1,333,319

- (1) Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met.
- (2) Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.
- (3) Amounts include \$4,202.5 million of securities borrowing arrangements, for which we have received securities collateral of \$4,076.5 million, and \$1,325.0 million of repurchase agreements, for which we have pledged securities collateral of \$1,358.3 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

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November 30, 2013

(in thousands)	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
<b>Assets</b>						
Securities borrowing arrangements	\$ 5,359,846		5,359,846	(530,293)	(957,140)	\$ 3,872,413
Reverse repurchase agreements	\$ 12,715,449	(8,968,529)	3,746,920	(590,754)	(3,074,540)	\$ 81,626
<b>Liabilities</b>						
Securities lending arrangements	\$ 2,506,122		2,506,122	(530,293)	(1,942,271)	\$ 33,558
Repurchase agreements	\$ 19,748,374	(8,968,529)	10,779,845	(590,754)	(8,748,641)	\$ 1,440,450

- (1) Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met.
- (2) Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.
- (3) Amounts include \$3,818.4 million of securities borrowing arrangements, for which we have received securities collateral of \$3,721.8 million, and \$1,410.0 million of repurchase agreements, for which we have pledged securities collateral of \$1,438.9 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

**Note 9. Securitization Activities**

We engage in securitization activities related to corporate loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities (SPEs) and act as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of our securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. These SPEs generally meet the criteria of variable interest entities; however we generally do not consolidate the SPEs as we are not considered the primary beneficiary for these SPEs. See Note 10, Variable Interest Entities for further discussion on variable interest entities and our determination of the primary beneficiary.

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We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues in the Consolidated Statement of Earnings prior to the identification and isolation for securitization. Revenues subsequent to such identification and isolation, including revenues recognized from the sales of the beneficial interests to investors, are reflected as net underwriting revenues. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other secured financings. The carrying value of assets and liabilities resulting from transfers made as part of our securitization activities for which we have not relinquished control over the related assets was \$30.4 million and \$30.4 million, respectively, at February 28, 2014 and \$8.7 million and \$8.7 million, respectively, at November 30, 2013. The related liabilities do not have recourse to our general credit.

We generally receive cash proceeds in connection with the transfer of assets to an SPE. We may, however, have continuing involvement with the transferred assets, which is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities), which are included within Financial instruments owned. We apply fair value accounting to the securities.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement (in millions):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Transferred assets	\$ 1,626.9	\$ 2,735.2
Proceeds on new securitizations	1,628.1	2,751.3
Net revenues	0.7	12.9
Cash flows received on retained interests	\$ 8.5	\$ 32.3

Assets received as proceeds in the form of mortgage-backed-securities or collateralized loan obligations issued by the SPEs have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies and Note 6, Fair Value Disclosures. We have no explicit or implicit arrangements to provide additional financial support to these SPEs and have no liabilities related to these SPEs at February 28, 2014 and November 30, 2013. Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these SPEs. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these SPEs, although the securities are included in Financial instruments owned Mortgage- and asset-backed securities. To

the extent the securities purchased through these market-marking activities meet specific thresholds and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities table presented in Note 10, Variable Interest Entities.

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The following tables summarize our retained interests in SPEs where we transferred assets and have continuing involvement and received sale accounting treatment (in millions):

Securitization Type	As of February 28, 2014	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$ 11,130.8	\$ 237.0
U.S. government agency commercial mortgage-backed securities	6,830.7	245.5
Collateralized loan obligations	728.5	8.9

Securitization Type	As of November 30, 2013	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$ 11,518.4	\$ 281.3
U.S. government agency commercial mortgage-backed securities	5,385.6	96.8
Collateralized loan obligations	728.5	9.0

We do not have any outstanding derivative contracts executed in connection with these securitization activities. Total assets represent the unpaid principal amount of assets in the SPEs in which we have continuing involvement and are presented solely to provide information regarding the size of the transaction and the size of the underlying assets supporting our retained interests, and are not considered representative of the risk of potential loss. Assets retained in connection with a securitization transaction represent the fair value of the securities of one or more tranches issued by an SPE, including senior and subordinated tranches. Our risk of loss is limited to this fair value amount which is included within total Financial instruments owned - Mortgage- and asset-backed securities on our Consolidated Statements of Financial Condition.

**Note 10. Variable Interest Entities**

Variable interest entities ( VIEs ) are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated

financial support. VIEs are consolidated by 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.

We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and we reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. In determining whether we are the party with the power to direct the VIE's most significant activities, we first identify the activities of the VIE that most significantly impact its economic performance. Our considerations in determining the VIE's most significant activities primarily include, but are not limited to, the VIE's purpose and design and the risks passed through to investors. We then assess whether we have the power to direct those significant activities. Our considerations in determining whether we have the power to direct the VIE's most significant activities include, but are not limited to, voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE's initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over the VIE's most significant activities is shared, we assess whether we are the party with the power over the majority of the significant activities. If we are the party with the power over the majority of the significant activities, we meet the power criteria of the primary beneficiary. If we do not have the power over a majority of the significant activities or we determine that decisions require consent of each sharing party, we do not meet the power criteria of the primary beneficiary.



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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests. Our variable interests in VIEs include debt and equity interests, commitments and certain fees. Our involvement with VIEs arises primarily from:

Purchases of mortgage-backed securities and collateralized debt and loan obligations in connection with our trading and secondary market making activities,

Retained interests held as a result of securitization activities as part of primary market making activities, including the resecuritizations of mortgage-backed securities and the securitization of corporate loans,

Financing of agency and non-agency mortgage-securities through financing vehicles utilizing master repurchase agreements,

Management and performance fees in the Jefferies Umbrella Fund, and

Loans to and investments in investment fund vehicles.

**Consolidated VIEs**

The following table presents information about the assets and liabilities of our consolidated VIEs, which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of February 28, 2014 and November 30, 2013. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. We have aggregated our consolidated VIEs based upon principal business activity.

(in millions)	February 28, 2014		November 30, 2013	
	Securitization Vehicles	Other	Securitization Vehicles	Other

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Cash	\$	\$ 0.2	\$	\$ 0.2
Financial instruments owned	97.5	0.4	97.5	0.4
Securities purchased under agreement to resell (1)	220.0		195.1	
Other assets	3.2		2.3	
	\$ 320.7	\$ 0.6	\$ 294.9	\$ 0.6
Other secured financings (2)	\$ 317.5	\$	\$ 292.5	\$
Other liabilities	3.0	0.2	2.1	0.2
	\$ 320.5	\$ 0.2	\$ 294.6	\$ 0.2

(1) Securities purchased under agreement to resell represent an amount due under a collateralized transaction on a related consolidated entity, which is eliminated in consolidation.

(2) Approximately \$77.5 million and \$66.5 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at February 28, 2014 and November 30, 2013, respectively.

*Securitization Vehicles.* We are the primary beneficiary of a securitization vehicle to which we transferred a corporate loan and retained a portion of the securities issued by the securitization vehicle. Our variable interests in this vehicle consists of the securities retained. The assets of the VIE consist of a corporate loan, which is available for the benefit of the vehicle's beneficial interest holders. The creditors of the VIE do not have recourse to our general credit.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

We are the primary beneficiary of mortgage-backed financing vehicles to which we sell agency and non-agency residential and commercial mortgage-backed securities pursuant to the terms of a master repurchase agreement. We manage the assets within these vehicles. Our variable interests in these vehicles consist of our collateral margin maintenance obligations under the master repurchase agreement. The assets of these VIEs consist of reverse repurchase agreements, which are available for the benefit of the vehicle's debt holders. The creditors of these VIEs do not have recourse to our general credit.

*Other.* We are the primary beneficiary of certain investment vehicles set up for the benefit of our employees. We manage and invest alongside our employees in these vehicles. The assets of these VIEs consist of private equity securities, and are available for the benefit of the entities' equity holders. Our variable interests in these vehicles consist of equity securities. The creditors of these VIEs do not have recourse to our general credit.

**Nonconsolidated VIEs**

We also hold variable interests in VIEs in which we are not the primary beneficiary and do not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. We have not provided financial or other support to these VIEs during the three months ended February 28, 2014 and 2013. We have no explicit or implicit arrangements to provide additional financial support to these VIEs at February 28, 2014 and November 30, 2013.

The following tables present information about nonconsolidated VIEs in which we had variable interests aggregated by principal business activity. The tables include VIEs where we have determined that the maximum exposure to loss is greater than specific thresholds or meets certain other criteria.

(in millions)	February 28, 2014			
	Carrying Amount Assets	Liabilities	Maximum Exposure to loss	VIE Assets
Collateralized loan obligations (2)	\$ 24.2	\$ 2.3	\$ 281.1	\$ 2,076.8
Agency mortgage- and asset-backed securitizations (1) (3)	1,733.2		1,733.2(5)	3,463.3
Non-agency mortgage- and asset-backed securitizations (1) (3)	862.4		862.4(5)	89,546.7
Asset management vehicle (4)	3.7		3.7(5)	470.0
Private equity vehicles (4)	41.3		67.5	88.1
Total	\$ 2,664.8	\$ 2.3	\$ 2,947.9	\$ 95,644.9

- (1) VIE assets represent the unpaid principal balance of the assets in these vehicles at February 28, 2014, and represent the underlying assets that provide the cash flows supporting our variable interests.
- (2) Assets consist of debt securities and participation interests in corporate loans accounted for at fair value, which are included within Financial instruments owned. Liabilities consist of forward sale agreements and a guarantee provided to a CLO managed by Jefferies Finance, which are accounted for at fair value and included within Financial instruments sold, not yet purchased.
- (3) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned.
- (4) Assets consist of equity interests, which are included within Investments in managed funds.
- (5) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

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(in millions)	November 30, 2013			
	Carrying Amount Assets	Liabilities	Maximum Exposure to loss	VIE Assets
Collateralized loan obligations (2)	\$ 11.9	\$ 0.2	\$ 88.8	\$ 1,122.3
Agency mortgage- and asset-backed securitizations (1) (3)	1,226.0		1,226.0(5)	5,857.3
Non-agency mortgage- and asset-backed securitizations (1) (3)	840.1		840.1(5)	78,070.8
Asset management vehicle (4)	3.5		3.5(5)	454.2
Private equity vehicles (4)	40.8		68.8	89.4
Total	\$ 2,122.3	\$ 0.2	\$ 2,227.2	\$ 85,594.0

- (1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2013 and represent the underlying assets that provide the cash flows supporting our variable interests.
- (2) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned. Liabilities consist of forward sale agreements accounted for at fair value, which are included within Financial instruments sold, not yet purchased.
- (3) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned.
- (4) Assets consist of equity interests, which are included within Investments in managed funds.
- (5) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

*Collateralized Loan Obligations.* We act as transferor and underwriter in collateralized loan obligation ( CLOs ) transactions and retain securities representing variable interests in the CLOs. Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. We also enter into forward sale agreements and master participation agreements with CLOs. Under forward sale agreements, we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to a CLO. Under master participation agreements, we purchase participation interests in corporate loans held by a CLO.

In addition, we own variable interests in CLOs previously managed by us. Our variable interests consist of debt securities and a right to a portion of the CLOs' management and incentive fees. Our exposure to loss from these CLOs is limited to our investments in the debt securities held. Management and incentives fees are accrued as the amounts become realizable. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. We also have provided a guarantee to a CLO managed by Jefferies Finance, whereby we guarantee certain of the obligations of Jefferies Finance to the CLO.



Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

*Mortgage- and Asset-Backed Vehicles.* In connection with our trading and market making activities, we buy and sell mortgage- and asset-backed securities. Mortgage- and asset-backed securities issued by securitization entities are generally considered variable interests in VIEs. A substantial portion of our variable interests in mortgage- and asset-backed VIEs are sponsored by unrelated third parties. The variable interests consist entirely of mortgage- and asset-backed securities and are accounted for at fair value and included in Financial instruments owned on our Consolidated Statements of Financial Condition. In addition to the agency mortgage- and asset-backed securities, non-agency mortgage- and asset-backed securities and collateralized loan obligations presented in the above table, we owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with our secondary market making activities and our securitization activities. Total securities issued by securitization SPEs at February 28, 2014 consist of the following (in millions):

	Nonagency	Agency	Total
Variable interests in collateralized loan obligations	\$ 24.2	\$	\$ 24.2
Variable interests in agency mortgage- and asset-backed securitizations		1,733.2	1,733.2
Variable interests in nonagency mortgage- and asset-backed securitizations	862.4		862.4
Additional securities in connection with trading and market making activities:			
Residential mortgage-backed securities	40.9	1,750.2	1,791.1
Commercial mortgage-backed securities	31.0	613.1	644.1
Collateralized debt obligations	22.7		22.7
Other asset-backed securities	18.2		18.2
<b>Total mortgage- and asset-backed securities on the Consolidated Statements of Financial Condition</b>	<b>\$ 999.4</b>	<b>\$ 4,096.5</b>	<b>\$ 5,095.9</b>

*Asset Management Vehicle.* We manage the Jefferies Umbrella Fund, an umbrella structure company that invests primarily in convertible bonds and enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. Accounting changes to consolidation standards under generally accepted accounting principles have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and we are not the primary beneficiary as of February 28, 2014 and November 30, 2013 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees.

*Private Equity Vehicles.* On July 26, 2010, we committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the SBI USA Fund ). As of February 28, 2014 and November 30, 2013, we funded approximately \$48.8 million and \$47.0 million, respectively, of our commitment. The carrying amount of our equity investment was \$39.7 million and \$39.2 million at February 28, 2014 and November 30, 2013, respectively. Our exposure to loss is limited to our equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

We have a variable interest in Jefferies Employees Partners IV, LLC ( JEP IV ) consisting of an equity investment. The carrying amount of our equity investment was \$1.6 million and \$1.6 million at February 28, 2014 and November 30, 2013, respectively. Our exposure to loss is limited to our equity investment. JEP IV has assets consisting primarily of private equity and equity related investments.

#### **Note 11. Investments**

We have investments in Jefferies Finance, LLC ( Jefferies Finance ), Jefferies LoanCore LLC ( Jefferies LoanCore ) and KCG Holdings, Inc. ( Knight ). Our investment in Knight is accounted for at fair value by electing the fair value option available under U.S. GAAP and is included in Financial instruments owned, at fair value Corporate equity securities on the Consolidated Statements of Financial Condition with changes in fair value recognized in Principal transaction revenues on the Consolidated Statements of Earnings. Our investments in Jefferies Finance and Jefferies LoanCore are accounted for under the equity method and are included in Loans to and investments in related parties on the Consolidated Statements of Financial Condition with our share of the investees earnings recognized in Other revenues in the Consolidated Statements of Earnings.

#### ***Jefferies Finance***

On October 7, 2004, we entered into an agreement with Babson Capital Management LLC ( Babson Capital ) and Massachusetts Mutual Life Insurance Company ( MassMutual ) to form Jefferies Finance, a joint venture entity. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt to middle market and growth companies in the form of term and revolving loans. Loans are originated



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primarily through the investment banking efforts of Jefferies, with Babson Capital providing primary credit analytics and portfolio management services. Jefferies Finance can also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market, including loans that are performing, stressed and distressed loan obligations.

As of February 28, 2014, we and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million for a combined total commitment of \$1.2 billion. As of February 28, 2014, we have funded \$352.1 million of our \$600.0 million commitment, leaving \$247.9 million unfunded. The investment commitment is scheduled to expire on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party.

Jefferies Finance has executed a Secured Revolving Credit Facility with us and MassMutual, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total committed Secured Revolving Credit Facility is \$700.0 million at February 28, 2014. The facility is scheduled to mature on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party. At February 28, 2014 and November 30, 2013, we have funded \$175.0 million and \$123.8 million, respectively, of our \$350.0 million commitment. During the three months ended February 28, 2014 and 2013, \$0.5 million and \$4.1 million of interest income and \$0.7 million and \$0.3 million of unfunded commitment fees, respectively, are included in the Consolidated Statements of Earnings related to the Secured Revolving Credit Facility.

The following is a summary of selected financial information for Jefferies Finance as of February 28, 2014 and November 30, 2013 (in millions):

	February 28, 2014	November 30, 2013
Total assets	\$ 3,790.5	\$ 3,271.9
Total liabilities	3,086.4	2,597.0
Total equity	704.1	674.9
Our total equity balance	352.1	337.3

The net earnings of Jefferies Finance were \$29.2 million and \$36.7 million for the three months ended February 28, 2014 and 2013, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned net underwriting fees of \$47.6 million and \$39.9 million during the three months ended February 28, 2014 and 2013, respectively, recognized in Investment banking revenues on the Consolidated Statements of Earnings. In addition, we paid fees to Jefferies Finance regarding certain loans

originated by Jefferies Finance of \$4.3 million and \$0.8 million during the three months ended February 28, 2014 and 2013, respectively, which are recognized as Business development expenses on the Consolidated Statements of Earnings. Under a service agreement, we charged Jefferies Finance \$21.7 million and \$15.7 million for services provided during the three months ended February 28, 2014 and 2013, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$19.0 million and \$31.1 million at February 28, 2014 and November 30, 2013, respectively.

***Jefferies LoanCore***

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. Jefferies

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LoanCore originates and purchases commercial real estate loans throughout the United States with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$600.0 million. As of February 28, 2014 and November 30, 2013, we have funded \$129.5 million and \$175.5 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

The following is a summary of selected financial information for Jefferies LoanCore as of February 28, 2014 and November 30, 2013 (in millions):

	February 28, 2014	November 30, 2013
Total assets	\$ 768.3	\$ 974.9
Total liabilities	396.2	507.9
Total equity	372.1	467.0
Our total equity balance	180.5	226.5

The net earnings of Jefferies LoanCore were \$5.0 million and \$7.3 million for the three months ended February 28, 2014 and 2013, respectively.

Under a service agreement, we charged Jefferies LoanCore \$0.1 million and \$0.6 million for the three months ended February 28, 2014 and 2013, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$20,000 and \$230,000 at February 28, 2014 and November 30, 2013, respectively.

In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees of \$0.3 million during the three months ended February 28, 2014. In addition, Jefferies LoanCore enters into derivative transactions with us to hedge its loan portfolio.

***Knight Capital***

On August 6, 2012, we entered into a Securities Purchase Agreement with Knight Capital Group, Inc., a publicly-traded global financial services firm, ( the Agreement ). Under the Agreement, we purchased preferred stock, which contained certain conversion options, in exchange for cash consideration of \$125.0 million. On August 29, 2012, we exercised our conversion options and converted our holding of Series A Securities to common stock. On July 1, 2013, Knight Capital Group, Inc. merged with GETCO Holding Company, LLC (the merged company referred to as KCG Holdings, Inc. ). In connection with the consummation of the merger, we received cash consideration of \$3.75 per share, or approximately \$192.0 million, with respect to approximately 63% of our holdings in Knight

Capital Group, Inc. and stock consideration of one third of a share of KCG Holdings, Inc. common stock for each share of Knight Capital Group Inc. common stock for the remainder of our holdings. As of February 28, 2014, we owned approximately 13% of the outstanding common stock of Knight. During March 2014, we acquired 6.0 million additional shares of Knight, resulting in our ownership of approximately 19.6% of Knight's outstanding common stock.

We elected to record our investment in Knight at fair value under the fair value option as the investment was acquired as part of our capital markets activities. The valuation of our investment at February 28, 2014 is based on the closing exchange price of Knight's common stock and included within Level 1 of the fair value hierarchy. Changes in the fair value of our investment of \$(1.0) million and \$26.5 million for three months ended February 28, 2014 and 2013, respectively, are recognized in Revenues - Principal transactions on the Consolidated Statement of Earnings.

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The following is a summary of selected financial information for Knight as of December 31, 2013, the most recently available public financial information for the company (in millions):

	December 31, 2013
Total assets	\$ 6,991.3
Total liabilities	5,484.0
Total equity	1,507.3

Knight's net income attributable to common shareholders was \$141.7 million for the year ended December 31, 2013.

We have separately entered into securities lending transactions with Knight in the normal course of our capital markets activities. At February 28, 2014, the balances of securities borrowed and securities loaned were \$12.9 million and \$23.6 million, respectively, and at November 30, 2013, \$11.0 million and \$22.7 million, respectively.

**Note 12. Goodwill and Other Intangible Assets**

In connection with the Leucadia Transaction, goodwill of \$1.7 billion was recorded on March 1, 2013. In addition, as of March 1, 2013, certain existing intangible assets and new intangible assets were identified and recorded at their fair values. See Note 4, Leucadia and Related Transactions for further information.

*Goodwill*

Goodwill resulting from the Leucadia Transaction attributed to our reportable segments are as follows (in thousands):

	February 28, 2014	November 30, 2013
Capital Markets	\$ 1,719,783	\$ 1,717,246
Asset Management	5,100	5,100
Total goodwill	\$ 1,724,883	\$ 1,722,346

The following table is a summary of the changes to goodwill for the three months ended February 28, 2014, nine months ended November 30, 2013, and three months ended February 28, 2013 (in thousands):

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	Successor		Predecessor
	Three Months Ended	Three Months Ended	Three Months Ended
	February 28,	November 30,	February 28,
	2014	2013	2013
Balance, at beginning of period	\$ 1,722,346	\$ 1,720,380	\$ 365,670
Less: Disposal		(5,700)(1)	
Add: Contingent consideration			2,394(2)
Add: Translation adjustments	2,537	7,666	(1,287)
Balance, at end of period	\$ 1,724,883	\$ 1,722,346	\$ 366,777(3)

- (1) As a result of a restructuring of our ownership interest in the commodities asset management business, we no longer hold a controlling interest and accordingly do not consolidate this business. In addition, we sold Jefferies International Management Limited to Leucadia. Goodwill associated with these entities was included in the net assets disposed of in the transactions.
- (2) Contingent consideration recorded during the three months ended February 28, 2013 relates to the lapse of certain conditions as specified in the purchase agreements associated with an acquisition in 2007.
- (3) Predecessor Company goodwill as of February 28, 2013 was reduced to \$-0- as of March 1, 2013, as a result of purchase accounting adjustments.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Intangible Assets*

The following tables present the gross carrying amount, accumulated amortization, net carrying amount and weighted average amortization period of identifiable intangible assets as of February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014			Weighted average remaining lives (years)
	Gross cost	Accumulated amortization	Net carrying amount	
Customer relationships	\$ 137,119	\$ (19,843)	\$ 117,276	14.6
Trade name	133,469	(3,970)	129,499	34.0
Exchange and clearing organization membership interests and registrations	14,962		14,962	N/A
	\$ 285,550	\$ (23,813)	\$ 261,737	

  

	November 30, 2013				Weighted average remaining lives (years)
	Gross cost	Impairment losses	Accumulated amortization	Net carrying amount	
Customer relationships (1)	\$ 136,740	\$	\$ (17,567)	\$ 119,173	14.8
Trade name	132,967		(2,966)	130,001	34.3
Exchange and clearing organization membership interests and registrations (2)	15,294	(378)		14,916	N/A
	\$ 285,001	\$ (378)	\$ (20,533)	\$ 264,090	

- (1) The gross cost and accumulated amortization of customer relationships has been reduced by \$132,000 and \$5,500 respectively, as these customer relationships related to our commodity asset management business, which we restructured in September 2013 and for which we no longer own a controlling financial interest and do not consolidate at November 30, 2013.

- (2) The gross cost of exchange and clearing organization membership interests and registrations has been reduced by \$255,000 as these registrations relate to asset management businesses which we restructured or sold during the nine months ended November 30, 2013.

We performed our annual impairment testing of intangible assets with an indefinite useful life, which consists of exchange and clearing organization membership interests and registrations, as of August 1, 2013. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices, and a qualitative assessment of the remainder of our intangible assets. In applying our quantitative assessment, we recognized an impairment loss of \$378,000 on certain exchange memberships based on a decline in fair value at August 1, 2013 as observed based on quoted sales prices. With regard to our qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions, the utilization of the assets and the replacement costs associated with the assets since the most recent valuation date of March 1, 2013 as part of acquisition accounting, we have concluded that it is not more likely than not that the intangible assets are impaired. Prior to the Leucadia Transaction, our annual impairment testing date was June 1.

For intangible assets with a finite life, aggregate amortization expense amounted to \$3.2 million and \$0.4 million for the three months ended February 28, 2014 and 2013, respectively, which is included in Other expenses on the Consolidated Statements of Earnings.



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Estimated future amortization expense for the next five fiscal years are as follows (in thousands):

Period ended	Estimated future amortization expense
9 months ended November 30, 2014	\$ 9,501
Year ended November 30, 2015	12,668
Year ended November 30, 2016	12,668
Year ended November 30, 2017	12,668
Year ended November 30, 2018	12,668

**Note 13. Short-Term Borrowings**

Bank loans represent short-term borrowings that are payable on demand and generally bear interest at a spread over the federal funds rate. Bank loans are typically overnight loans used to finance financial instruments owned or clearing related balances, but are not part of our systemic funding model. Bank loans at February 28, 2014 and November 30, 2013 were \$12.0 million and \$12.0 million, respectively. At February 28, 2014, the interest rate on short-term borrowings outstanding is 0.64% per annum. Average daily bank loans outstanding for the three months ended February 28, 2014 and three months ended February 28, 2013 were \$12.0 million and \$110.0 million, respectively.

**Note 14. Long-Term Debt**

In conjunction with pushdown accounting for the Leucadia Transaction, we recorded our long-term debt at its then current fair value of \$6.1 billion, which included \$536.5 million of excess of the fair value over the total principal amount of our debt at March 1, 2013, in aggregate. The premium is being amortized to interest expense using the effective yield method over the remaining lives of the underlying debt obligations. See Note 4, Leucadia and Related Transactions for further information.

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The following summarizes our long-term debt carrying values (including unamortized discounts and premiums and valuation adjustment, where applicable) at February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014	November 30, 2013
<b>Unsecured Long-Term Debt</b>		
5.875% Senior Notes, due June 8, 2014 (effective interest rate of 1.51%)	\$ 252,964	\$ 255,676
3.875% Senior Notes, due November 9, 2015 (effective interest rate of 2.17%)	514,156	516,204
5.5% Senior Notes, due March 15, 2016 (effective interest rate of 2.52%)	370,714	373,178
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)	851,136	854,011
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)	852,113	858,425
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)	863,430	866,801
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)	4,809	4,792
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)	625,057	625,626
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)	382,806	383,224
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (1)	357,032	359,281
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)	513,271	513,343
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)	422,176	422,245
	\$ 6,009,664	\$ 6,032,806
<b>Secured Long-Term Debt</b>		
Credit facility, due August 26, 2014	250,000	200,000

\$ 6,259,664	\$ 6,232,806
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- (1) As a result of the Leucadia Transaction on March 1, 2013, the value of the 3.875% Convertible Senior debentures at February 28, 2014 and November 30, 2013 includes the fair value of the conversion feature of \$7.6 million and \$9.6 million, respectively. The change in fair value of the conversion feature is included within Revenues Principal transactions in the Consolidated Statement of Earnings and amounted to a gain of \$2.0 million for the three months ended February 28, 2014.

On January 15, 2013, we issued \$1.0 billion in senior unsecured long-term debt, comprising 5.125% Senior Notes, due 2023 and 6.5% Senior Notes, due 2043. The 5.125% Senior Notes were issued with a principal amount of \$600.0 million and we received proceeds of \$595.6 million. The 6.5% Senior Notes were issued with a principal amount of \$400.0 million and we received proceeds of \$391.7 million.

Upon completion of the Leucadia Transaction, our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the debentures) remain issued and outstanding but are now convertible into common shares of Leucadia. Other than the conversion into Leucadia common shares, the terms of the debenture remain the same. As of March 13, 2014, each \$1,000 debenture is currently convertible into 22.0242 shares of Leucadia's common stock (equivalent to a conversion price of approximately \$45.40 per share of Leucadia's common stock). The debentures are convertible at the holders' option any time beginning on August 1, 2029 and convertible at any time if: 1) Leucadia's common stock price is greater than or equal to 130% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days; 2) if the trading price per debenture is less than 95% of the price of the common stock times the conversion ratio for any 10 consecutive trading days; 3) if the debentures are called for redemption; or 4) upon the occurrence of specific corporate actions. The debentures may be redeemed for par, plus accrued interest, on or after November 1, 2012 if the price of Leucadia's common stock is greater than 130% of the conversion price for at least 20 days in a period of 30 consecutive trading days and we may redeem the debentures for par, plus accrued interest, at our election any time on or after November 1, 2017. Holders may require us to repurchase the debentures for par, plus accrued interest, on November 1, 2017, 2019 and 2024. In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceeds \$1,200 per \$1,000 debenture. As of March 1, 2013, the conversion option to Leucadia common shares embedded within the debentures meets the definition of a derivative contract, does not qualify to be accounted for within member's equity and is not clearly and closely related to the economic interest rate or credit risk characteristics of our debt.

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Accordingly, as of March 1, 2013, the conversion option is accounted for on a standalone basis at fair value with changes in fair value recognized in Principal transaction revenues and is presented within Long-term debt on the Consolidated Statement of Financial Condition.

**Secured Long-Term Debt** - On August 26, 2011, we entered into a committed senior secured revolving credit facility ( Credit Facility ) with a group of commercial banks in U.S. dollars, Euros and Sterling, for an aggregate committed amount of \$950.0 million with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. The borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility is guaranteed by Jefferies Group LLC and contains certain financial covenants, including, but not limited to, restrictions on future indebtedness of our subsidiaries, requires Jefferies Group LLC and certain of our subsidiaries to maintain specified level of tangible net worth and liquidity amounts and to maintain specified levels of regulated capital interest is based on, in the case of U.S. dollar borrowings, the Federal funds rate or the London Interbank Offered Rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. At February 28, 2014 and November 30, 2013, borrowings under the Credit Facility were denominated in U.S. dollar and we were in compliance with debt covenants under the Credit Facility. The Credit Facility terminates on August 26, 2014. We are currently in discussions with the lead bank and facility providers to extend the maturity of the Credit Facility and expect to finalize an amended facility agreement before the August 2014 maturity date.

**Note 15. Mandatorily Redeemable Convertible Preferred Stock**

On March 1, 2013, pursuant to the Leucadia Transaction, the Series A Convertible Cumulative Preferred Stock was exchanged for a comparable series of convertible preferred shares of Leucadia. The assumption by Leucadia of our convertible cumulative preferred stock is considered part of the purchase price and resulted in an increase in member s equity. See Note 4. Leucadia and Related Transactions for further details.

Prior to the Leucadia Transaction, we had issued and outstanding 125,000 shares of 3.25% Series A Convertible Cumulative Preferred Stock, all of which was held by controlled affiliates of MassMutual. The preferred stock was callable beginning in 2016 at a price of \$1,000 per share plus accrued interest and matured in 2036. Dividends paid on the Series A Convertible Cumulative Preferred Stock were recorded as a component of Interest expense as the preferred stock was treated as debt for accounting purposes. For tax purposes, the dividend was not tax-deductible because the Series A Convertible Cumulative Preferred Stock were considered equity .

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Noncontrolling interests represent equity interests in consolidated subsidiaries, comprised primarily of asset management entities and investment vehicles set up for the benefit of our employees, that are not attributable, either directly or indirectly, to us (i.e., minority interests). The following table presents noncontrolling interests at February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014	November 30, 2013
Jefferies Structured Alpha Fund B, LLC (1)	\$	\$ 115,958
Global Equity Event Opportunity Fund, LLC (2)	25,140	
Other	5,268	1,196
Noncontrolling interests	\$ 30,408	\$ 117,154

(1) During the first quarter of 2014, the entity was deconsolidated due to substantive investments in the entity by third parties. No gain or loss was recognized upon deconsolidation. At November 30, 2013, noncontrolling interests include \$75.0 million invested by Leucadia.

(2) At February 28, 2014, all noncontrolling interests are attributed to Leucadia.

Noncontrolling ownership interests in consolidated subsidiaries are presented in the accompanying Consolidated Statements of Financial Condition within Equity as a component separate from Member's equity. Net Earnings in the accompanying Consolidated Statements of Earnings includes earnings attributable to both our equity investor and the noncontrolling interests. There has been no other comprehensive income or loss attributed to noncontrolling interests for the Successor period three months ended February 28, 2014 and Predecessor period three months ended February 28, 2013, because all other comprehensive income or loss is attributed to us.

*Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries*

Interests in consolidated subsidiaries that meet the definition of mandatorily redeemable financial instruments require liability classification and remeasurement at the estimated amount of cash that would be due and payable to settle such interests under the applicable entity's organization agreement. On April 1, 2013, mandatorily redeemable financial instruments, representing Leucadia's member's equity interests held in Jefferies High Yield Holdings, LLC ( JHYH ), were redeemed and subsequently contributed back to us by Leucadia as additional equity in Jefferies Group LLC.

Prior to redemption, the mandatorily redeemable financial instruments, representing equity interests in JHYH and entitled to a pro rata share of the profits and losses of JHYH, were reported within liabilities as Mandatorily redeemable preferred interests of consolidated subsidiaries on the Consolidated Statement of Financial Condition. Changes to these mandatorily redeemable financial instruments were reflected as Interest on mandatorily redeemable preferred interests of consolidated subsidiaries within Net revenues on our Consolidated Statements of Earnings.

**Note 17. Benefit Plans**

*U.S. Pension Plan*

We maintain a defined benefit pension plan, Jefferies Group LLC Employees Pension Plan (the U.S. Pension Plan ), which is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and covers certain of our employees. Under the U.S. Pension Plan, benefits to participants are based on years of service and the employee's career average pay. Effective December 31, 2005, benefits under the U.S. Pension Plan were frozen with no further benefit accruing to participants for future service after December 31, 2005.

*German Pension Plan*

In connection with the acquisition of Jefferies Bache from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the German Pension Plan ) for the benefit of eligible employees of Jefferies Bache

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in that territory. The German Pension Plan has no plan assets and is therefore unfunded. We have purchased insurance contracts from multi-national insurers held in the name of Jefferies Bache Limited to provide for the plan's future obligations. The investment in these insurance contracts are included in Financial Instruments owned - Investments at fair value in the Consolidated Statements of Financial Condition and has a fair value of \$19.7 million and \$19.7 million at February 28, 2014 and November 30, 2013, respectively. We expect to pay our pension obligations from the cash flows available to us under the insurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

The components of net periodic pension (income)/cost for the plans are as follows (in thousands):

<b>U.S. Pension Plan</b>	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
<b>Components of net periodic pension (income) cost:</b>		
Service cost	\$ 56	\$ 56
Interest cost on projected benefit obligation	607	529
Expected return on plan assets	(789)	(665)
Net amortization	(36)	300
<b>Net periodic pension (income)/cost</b>	<b>\$ (162)</b>	<b>\$ 220</b>
<b>German Pension Plan</b>	<b>Successor Three Months Ended February 28, 2014</b>	<b>Predecessor Three Months Ended February 28, 2013</b>
<b>Components of net periodic pension cost:</b>		
Service cost	\$ 11	\$ 16
Interest cost on projected benefit obligation	221	220
Net amortization	62	45
<b>Net periodic pension cost</b>	<b>\$ 294</b>	<b>\$ 281</b>

*Employer Contributions* Our funding policy is to contribute to the plans at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. We did not contribute to the U.S. Pension Plan during the three months ended February 28, 2014 and we expect to make \$1.0 million in contributions to the plan during the remainder of the 2014 fiscal year. We did not contribute to the German Pension Plan during the three months ended February 28, 2014 and do not expect to make any contributions to the German Pension Plan for the remainder of the fiscal year.

**Note 18. Compensation Plans**

Prior to the Leucadia Transaction, we sponsored the following share-based compensation plans: incentive compensation plan, employee stock purchase plan and the deferred compensation plan. Subsequently, sponsorship of share-based compensation plans was transferred to Leucadia, with outstanding share-based awards relating to Leucadia common shares and future awards to relate to Leucadia common shares. The fair value of share-based awards is estimated on the date of grant based on the market price of the underlying common stock less the impact of selling restrictions subsequent to vesting, if any, and is amortized as compensation expense over the related requisite service periods. We are allocated costs associated with awards granted to our employees under such plans.

In addition, we sponsor non-share-based compensation plans. Non-share-based compensation plans sponsored by us include a profit sharing plan and other forms of restricted cash awards.



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The following are descriptions of the compensation plans and the activity of such plans for the three months ended February 28, 2014 and 2013:

***Incentive Compensation Plan.*** The Incentive Compensation Plan ( Incentive Plan ) allows awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, restricted stock units, dividend equivalents or other share-based awards. Restricted stock units ( RSUs ) give a participant the right to receive fully vested common shares at the end of a specified deferral period allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, RSUs carry no voting or dividend rights associated with the stock ownership, but dividend equivalents are accrued to the extent there are dividends declared on the underlying common shares as cash amounts or as deemed reinvestments in additional RSUs. In connection with the Leucadia Transaction, the Incentive Plan was amended to provide for awards to be issued relating to shares of Leucadia, our parent company as of March 1, 2013. Share-based awards outstanding at March 1, 2013 were converted into awards for shares of Leucadia at the Exchange Ratio, with all such awards subject to the same terms and conditions that previously existed (except for the elimination of fractional shares).

Restricted stock and RSUs may be granted to new employees as sign-on awards, to existing employees as retention awards and to certain executive officers as awards for multiple years. Sign-on and retention awards are generally subject to annual ratable vesting over a four-year service period and are amortized as compensation expense on a straight line basis over the related four years. Restricted stock and RSUs are granted to certain senior executives with both performance and service conditions. These awards granted to senior executives are amortized over the service period as we have determined that it is probable that the performance condition will be achieved.

The total compensation cost associated with restricted stock and RSUs amounted to \$31.9 million and \$22.3 million for the three months ended February 28, 2014 and 2013, respectively. Total compensation cost includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

The fair values of outstanding restricted stock and RSUs with future service requirements were remeasured as part of the acquisition accounting, resulting in an increase of approximately \$45.1 million to the unrecognized compensation cost allocated to us at March 1, 2013. As of February 28, 2014, we had \$150.5 million of total unrecognized compensation cost allocated to us related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 2.5 years.

***Employee Stock Purchase Plan.*** There is also an Employee Stock Purchase Plan ( ESPP ) which we consider noncompensatory effective January 1, 2007. The ESPP permits all regular full-time employees and employees who work part time over 20 hours per week to purchase, at a discount, Leucadia common shares (since the Leucadia Transaction) and permitted purchase of Jefferies Group, Inc. common stock (prior to the Leucadia Transaction). Annual employee contributions are limited to \$21,250, are voluntary and made through payroll deduction. The stock purchase price is equal to 95% of the closing price of common stock on the last day of the applicable session (monthly).

***Deferred Compensation Plan.*** There is also a Deferred Compensation Plan, which was established in 2001. Eligible employees are able to defer compensation on a pre-tax basis, with deferred amounts deemed invested at a discount in Leucadia common shares and, prior to the Leucadia Transaction, in Jefferies Group, Inc. common stock ( DCP shares ), or by allocating among any combination of other investment funds available under the Deferred Compensation Plan. In connection with the transaction with Leucadia on March 1, 2013, the Deferred Compensation Plan was amended and deferrals denominated as DCP shares became settleable by delivery of Leucadia common shares. We often invest directly, as a principal, in investments corresponding to the other investment funds, relating to our obligations to perform under the Deferred Compensation Plan. The compensation deferred by our employees is expensed in the period earned. The change in fair value of our investments in assets corresponding to the specified other investment funds are recognized in Principal transactions and changes in the corresponding deferral compensation liability are reflected as Compensation and benefits expense in our Consolidated Statements of Earnings.

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Additionally, we recognize compensation cost related to the discount provided to employees in electing to defer compensation in DCP shares. This compensation cost was approximately \$38,000 for the Successor period three months ended February 28, 2014 and \$72,000 for the Predecessor period three months ended February 28, 2013.

***Profit Sharing Plan.*** We have a profit sharing plan, covering substantially all employees, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code. The compensation cost related to this plan was \$3.4 million and \$2.6 million for the three months ended February 28, 2014 and 2013, respectively.

***Restricted Cash Awards.*** We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements ranging from one to eight years, with an approximate average term of three years. We amortize these awards to compensation expense over the relevant service period. The compensation cost associated with these awards amounted to \$34.2 million and \$44.7 million for the three months ended February 28, 2014 and 2013, respectively. At February 28, 2014 and November 30, 2013, the remaining unamortized amount of these awards was \$292.8 million and \$185.0 million, respectively, and is included within Other assets on the Consolidated Statements of Financial Condition.

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Earnings per share data is not provided for periods subsequent to March 1, 2013, the date we became a limited liability company and wholly-owned subsidiary of Leucadia. The following is a reconciliation of the numerators and denominators of the Basic and Diluted earnings per common share computations for the three months ended February 28, 2013 (in thousands, except per share amounts):

	Predecessor Three Months Ended February 28, 2013
<b>Earnings for basic earnings per common share:</b>	
Net earnings	\$ 90,842
Net earnings to noncontrolling interests	10,704
Net earnings to common shareholders	80,138
Less: Allocation of earnings to participating securities (1)	5,890
Net earnings available to common shareholders	\$ 74,248
<b>Earnings for diluted earnings per common share:</b>	
Net earnings	\$ 90,842
Net earnings to noncontrolling interests	10,704
Net earnings to common shareholders	80,138
Add: Mandatorily redeemable convertible preferred stock dividends	1,016
Less: Allocation of earnings to participating securities (1)	5,882
Net earnings available to common shareholders	\$ 75,272
<b>Shares:</b>	
Average common shares used in basic computation	213,732
Stock options	2
Mandatorily redeemable convertible preferred stock	4,110
Convertible debt	

Average common shares used in diluted computation	217,844
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**Earnings per common share:**

Basic	\$	0.35
Diluted	\$	0.35

- (1) Represents dividends declared during the period on participating securities plus an allocation of undistributed earnings to participating securities. Net losses are not allocated to participating securities. Participating securities represent restricted stock and restricted stock units for which requisite service has not yet been rendered and amounted to weighted average shares of 16,756,000 for the three months ended February 28, 2013. Dividends declared on participating securities during the three months ended February 28, 2013 amounted to approximately \$1.3 million. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Our ability to pay distributions to Leucadia is subject to the restrictions set forth in certain financial covenants associated with the \$950.0 million Credit Facility as described in Note 14, Long-Term Debt and the governing provisions of the Delaware Limited Liability Company Act.

Dividends per share of common stock declared during the quarter are reflected below:

	1 <sup>st</sup> Quarter
2013	\$ 0.075

**Note 20. Income Taxes**

As of February 28, 2014 and November 30, 2013, we had approximately \$129.4 million and \$126.8 million respectively, of total gross unrecognized tax benefits. The total amount of unrecognized benefit that, if recognized, would favorably affect the effective tax rate was \$86.2 million and \$85.5 million at February 28, 2014 and November 30, 2013, respectively.

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We recognize interest accrued related to unrecognized tax benefits in Interest expense. Penalties, if any, are recognized in Other expenses in the Consolidated Statements of Earnings. As of February 28, 2014 and November 30, 2013, we had interest accrued of approximately \$24.3 million and \$22.9 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the three months ended February 28, 2014 and year ended November 30, 2013.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions. We do not expect that resolution of these examinations will have a material effect on our consolidated financial position, but could have a material impact on the consolidated results of operations for the period in which resolution occurs.

The table below summarizes the earliest tax years that remain subject to examination in the major tax jurisdictions in which we operate:

Jurisdiction	Tax Year
United States	2006
United Kingdom	2012
California	2006
Connecticut	2006
Massachusetts	2006
New Jersey	2007
New York State	2001
New York City	2003

**Note 21. Commitments, Contingencies and Guarantees*****Commitments***

The following table summarizes our commitments associated with our capital market and asset management business activities at February 28, 2014 (in millions):

	Expected Maturity Date					Maximum Payout
	2014	2015	2016 and 2017	2018 and 2019	2020 and Later	
Equity commitments (1)	\$ 1.7	\$ 7.4	\$ 0.9	\$	\$ 447.8	\$ 457.8

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Loan commitments (1)	100.5	36.9	268.4	100.9	506.7
Mortgage-related commitments	837.2	445.5	209.2		1,491.9
Forward starting reverse repos and repos	253.3				253.3
	\$ 1,192.7	\$ 489.8	\$ 478.5	\$ 100.9	\$ 2,709.7

(1) Equity and loan commitments are presented by contractual maturity date. The amounts are however available on demand.

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The table below presents our credit exposure from our loan commitments, including funded amounts, summarized by period of expiration as of February 28, 2014. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	0	12 Months	1	5 Years	Greater Than 5 Years	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Non-investment grade	\$		\$	149.2	\$	\$ 149.2	\$ 17.8	\$ 131.4
Unrated		177.0		609.6		786.6	411.3	375.3
<b>Total</b>	<b>\$</b>	<b>177.0</b>	<b>\$</b>	<b>758.8</b>	<b>\$</b>	<b>\$ 935.8</b>	<b>\$ 429.1</b>	<b>\$ 506.7</b>

- (1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.
- (2) The corporate lending exposure at fair value includes \$435.3 million of funded loans included in Financial instruments owned Loans and Loans to and investments in related parties, and a \$6.2 million net liability related to lending commitments recorded in Financial instruments sold Derivatives and Financial instruments owned Derivatives in the Consolidated Statement of Financial Condition as of February 28, 2014.
- (3) Represents the notional amount of unfunded lending commitments.

*Equity Commitments.* We have commitments to invest \$600.0 million and \$291.0 million in Jefferies Finance and Jefferies LoanCore as of February 28, 2014, and have funded \$352.1 million and \$129.5 million, respectively. See Note 11, Investments for additional information regarding these investments.

As of February 28, 2014, we have committed to invest \$9.8 million in Jefferies Capital Partners LLC, the manager of Jefferies Capital Partners IV L.P., Jefferies Capital Partners V L.P. and a related parallel fund, the SBI USA Fund (Jefferies Capital Partners V L.P. and the SBI USA Fund are collectively Fund V). As of February 28, 2014, we have funded approximately \$4.5 million of our commitment to Jefferies Capital Partners LLC, leaving \$5.3 million unfunded.

We have committed to invest in aggregate up to \$85.0 million in Fund V, private equity funds managed by a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee, comprised of up to \$75.0 million in the SBI USA Fund and \$10.0 million in Jefferies Capital Partners V L.P. As of February 28, 2014, we have funded approximately \$48.8 million and \$6.5 million of our commitments to the SBI USA Fund and Jefferies Capital



Partners V L.P., respectively, leaving approximately \$29.7 million unfunded in aggregate.

We have committed to invest up to \$45.9 million in Jefferies Capital Partners IV L.P. and \$3.1 million in JCP IV LLC, the General Partner of Jefferies Capital Partners IV L.P. As of February 28, 2014, we have funded approximately \$38.7 million and \$2.3 million of our commitments to Jefferies Capital Partners IV L.P. and JCP IV LLC, respectively, leaving approximately \$8.0 million unfunded in aggregate. In addition, as of February 28, 2014, we have committed to invest up to \$10.0 million in ING Furman Selz III LP fund, of which \$0.2 million was unfunded at the quarter end.

As of February 28, 2014, we had other equity commitments to invest up to \$20.8 million in various other investments of which \$5.2 million remained unfunded.

*Loan Commitments.* From time to time we make commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions and to SPE sponsors in connection with the placement of CLO transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. As of February 28, 2014, we had \$331.7 million of outstanding loan commitments to clients.

On March 1, 2011, we and MassMutual entered into a secured revolving credit facility with Jefferies Finance, to be funded equally, to support loan underwritings by Jefferies Finance. The facility of \$700.0 million, is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party. As of February 28, 2014, we have funded \$175.0 million of our \$350.0 million commitment to LoanCore.

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The unfunded loan commitments to Jefferies Finance of \$175.0 million is unrated and included in the total unrated lending commitments of \$375.3 million presented in the table above.

*Mortgage-Related Commitments.* We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statements of Financial Condition was \$55.6 million at February 28, 2014.

*Forward Starting Reverse Repos and Repos.* We enter into commitments to take possession of securities with agreements to resell on a forward starting basis and to sell securities with agreements to repurchase on a forward starting basis that are primarily secured by U.S. government and agency securities.

***Contingencies***

Seven putative class action lawsuits have been filed in New York and Delaware concerning the Leucadia Transaction. The class actions, filed on behalf of our shareholders prior to the Leucadia Transaction, name as defendants Jefferies Group, Inc., the members of the board of directors of Jefferies Group, Inc., Leucadia and, in certain of the actions, certain subsidiaries. The actions allege that the directors breached their fiduciary duties in connection with the Leucadia Transaction by engaging in a flawed process and agreeing to sell Jefferies Group, Inc. for inadequate consideration pursuant to an agreement that contains improper deal protection terms. The actions allege that Jefferies Group, Inc. and Leucadia aided and abetted the directors' breach of fiduciary duties. The actions filed in New York have been stayed, the actions filed in Delaware are proceeding and the claims against certain of the directors have been dismissed. We are unable to predict the outcome of this litigation or to estimate the amount of or range of any reasonably possible loss.

Jefferies has reached a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the Securities and Exchange Commission ( SEC ), relating to an investigation of the purchases and sales of mortgage-backed securities. That investigation arose from a matter that came to light in late 2011, at which time the Company terminated a mortgage-backed-securities trader who was then indicted by the United States Attorney for the State of Connecticut in January 2013 and separately charged in a civil complaint by the SEC. Those agreements include an aggregate \$25.0 million payment, of which approximately \$11.0 million are payments to trading counterparties impacted by those activities, approximately \$10 million of which is a fine payable to the U.S. Attorney's Office, and approximately \$4.0 million of which is a fine payable to the SEC. As of February 28, 2014, we have reserved approximately \$21.0 million, which equals the remaining payments under the agreements.

***Guarantees***

*Derivative Contracts.* As a dealer, we make markets and trade in a variety of derivative instruments. Certain derivative contracts that we have entered into meet the accounting definition of a guarantee under U.S. GAAP, including credit default swaps, written foreign currency options and written equity put options. On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest or foreign exchange rates are not contractually limited by the terms of the contract. As such, we have disclosed notional values as a measure of our maximum potential payout under these contracts.

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The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at February 28, 2014 (in millions):

Guarantee Type:	2014	Expected Maturity Date				Notional/ Maximum Payout
		2015	2016 and 2017	2018 and 2019	2020 and Later	
Derivative contracts - non-credit related	\$ 46,801.9	\$ 708.0	\$ 15.2	\$ 1.2	\$ 541.7	\$ 48,068.0
Written derivative contracts - credit related		5.0		376.0	5.0	386.0
<b>Total derivative contracts</b>	<b>\$ 46,801.9</b>	<b>\$ 713.0</b>	<b>\$ 15.2</b>	<b>\$ 377.2</b>	<b>\$ 546.7</b>	<b>\$ 48,454.0</b>

At February 28, 2014 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating						Notional/ Maximum Payout
	AAA/ Aaa	AA/Aa	A	BBB/Baa	Below Investment Grade	Unrated	
<b>Credit related derivative contracts:</b>							
Index credit default swaps	\$ 335.0	\$	\$	\$	\$	\$	\$ 335.0
Single name credit default swaps				46.0	5.0		51.0

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or one-sided component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments, and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At February 28, 2014, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$107.6 million.

*Loan Guarantee.* We have provided a guarantee to Jefferies Finance, whereby we are required to make certain payments to a SPE sponsored by Jefferies Finance in the event that Jefferies Finance is unable to meet its obligations to the SPE. As of February 28, 2014, the maximum amount payable under the guarantee is \$21.0 million and matures

in January 2021.

*Stand by Letters of Credit.* At February 28, 2014, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$31.4 million, which expire within one year. Stand by letters of credit commit us to make payment to the beneficiary if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary. Since commitments associated with these collateral instruments may expire unused, the amount shown does not necessarily reflect the actual future cash funding requirement.

*Other Guarantees.* We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote. Accordingly no liability has been recognized for these arrangements.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 22. Net Capital Requirements**

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ( FINRA ), Jefferies and Jefferies Execution are subject to the SEC Net Capital Rule ( Rule 15c3-1 ), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. Jefferies and Jefferies Execution have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1. Jefferies Bache, LLC is registered as a Futures Commission Merchant and is subject to Rule 1.17 of the Commodities Futures Trading Commission ( CFTC ). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

As of February 28, 2014, Jefferies and Jefferies Execution and Jefferies Bache, LLC s net capital, adjusted net capital, and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 656,570	\$ 596,187
Jefferies Execution	5,023	4,773

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 185,061	\$ 43,784

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom ( U.K. ).

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our subsidiaries.

**Note 23. Segment Reporting**

We operate in two principal segments Capital Markets and Asset Management. The Capital Markets segment includes our securities, commodities, futures and foreign exchange brokerage trading activities and investment banking, which is comprised of underwriting and financial advisory activities. The Capital Markets reportable segment provides the sales, trading, origination and advisory effort for various fixed income, equity and advisory products and services. The Asset Management segment provides investment management services to investors in the U.S. and overseas.

Our reportable business segment information is prepared using the following methodologies:

Net revenues and expenses directly associated with each reportable business segment are included in determining earnings before taxes.

Net revenues and expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment's net revenues, headcount and other factors.

Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment's capital utilization.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Our net revenues and expenses by segment are summarized below for the three months ended February 28, 2014 and 2013 (in millions):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
<b>Capital Markets:</b>		
Net revenues	\$ 876.9	\$ 807.6
Expenses	\$ 705.7	\$ 660.6
<b>Asset Management:</b>		
Net revenues	\$ 22.1	\$ 10.9
Expenses	\$ 11.1	\$ 7.5
<b>Total:</b>		
Net revenues	\$ 899.0	\$ 818.5
Expenses	\$ 716.8	\$ 668.1

The following table summarizes our total assets by segment as of February 28, 2014 and November 30, 2013 (in millions):

	February 28, 2014	November 30, 2013
<b>Segment Assets:</b>		
Capital Markets	\$ 42,832.3	\$ 39,276.8
Asset Management	607.5	900.2
Total assets	\$ 43,439.8	\$ 40,177.0

***Net Revenues by Geographic Region***

Net revenues for the Capital Market segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For Asset Management, net revenues are allocated according to the location of the investment advisor. Net revenues by geographic region for the three months ended February 28, 2014 and 2013, were as follows (in thousands):



	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Americas (1)	\$ 693,055	\$ 661,600
Europe (2)	186,791	135,135
Asia	19,182	21,809
Net revenues	\$ 899,028	\$ 818,544

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

- (1) Substantially all relates to U.S. results.  
(2) Substantially all relates to U.K. results.

**Note 24. Related Party Transactions**

*Jefferies Capital Partners and JEP IV Related Funds.* We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager of the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee ( Private Equity Related Funds ). At February 28, 2014 and November 30, 2013, loans to and/or equity investments in Private Equity Related Funds were in aggregate \$61.4 million and \$61.7 million, respectively. The following table presents interest income earned on loans to Private Equity Related Funds and other revenues and investment income related to net gains and losses on our investment in Private Equity Related Funds (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Interest income	\$	\$ 516
Other revenues and investment (loss) income	(2,491)	947

For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 21, Commitments, Contingencies and Guarantees.

*Berkadia Commercial Mortgage, LLC.* At February 28, 2014 and November 30, 2013, we have commitments to purchase \$244.0 million and \$300.0 million, respectively, in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

*Officers, Directors and Employees.* At February 28, 2014 and November 30, 2013, we had \$15.4 million and \$13.9 million, respectively, of loans outstanding to certain of our employees (none of whom are executive officers or directors) that are included in Other assets on the Consolidated Statements of Financial Condition.

*Leucadia.* Under a service agreement, we charge Leucadia for certain services which, for the three months ended February 28, 2014 amounted to \$8.0 million. As of February 28, 2014 and November 30, 2013, we had a receivable from Leucadia of \$44.3 million and \$2.3 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. As of February 28, 2014 and November 30, 2013, we had a payable to Leucadia of \$6.1 million and \$6.7 million respectively, which is included within Other liabilities on the Consolidated Statements of Financial Condition.

On March 18, 2014, we sold our investment in Harbinger Group Inc., consisting of approximately 18.6 million shares, to Leucadia at the closing price on that date. In addition, on February 28, 2014, we sold our ownership interest in CoreCommodity Capital, LLC (formerly CoreCommodity Management, LLC, our commodity asset management business) to Leucadia at a fair value. During the three months ended February 28, 2013, we distributed \$61,000 to Leucadia in respect of Leucadia's remaining investment in our high yield joint venture.

See Note 4, Leucadia and Related Transactions for information regarding the transaction on March 1, 2013 and Note 16, Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries regarding other investments by Leucadia.

For information on transactions with our equity method investees, see Note 11, Investments.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This report contains or incorporates by reference forward looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words believe, intend, may, will, or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations and other results, and may include statements of future performance, plans and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in this report and other documents we file. You should read and interpret any forward looking statement together with these documents, including the following:

the description of our business and risk factors contained in our Annual Report on Form 10-K for the year ended November 30, 2013 and filed with the SEC on January 28, 2014;

the discussion of our analysis of financial condition and results of operations contained in this report under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations ;

the discussion of our risk management policies, procedures and methodologies contained in this report under the caption Risk Management included within Management's Discussion and Analysis of Financial Condition and Results of Operations;

the notes to the consolidated financial statements contained in this report; and

cautionary statements we make in our public documents, reports and announcements.

Any forward looking statement speaks only as of the date on which that statement is made. We will not update any forward looking statement to reflect events or circumstances that occur after the date on which the statement is made, except as required by applicable law.

Our business, by its nature, does not produce predictable or necessarily recurring earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and our own activities and positions. For a further discussion of the factors that may affect our future operating results, see Risk Factors in Part I, Item IA of our Annual Report on Form 10-K for the year ended November 30, 2013.

**Consolidated Results of Operations**

On March 1, 2013, Jefferies Group, Inc. converted into a limited liability company (renamed Jefferies Group LLC) and became an indirect wholly owned subsidiary of Leucadia National Corporation ( Leucadia ) pursuant to an agreement with Leucadia (the Leucadia Transaction ). Each outstanding share of Jefferies Group LLC was converted into 0.81 of a common share of Leucadia (the Exchange Ratio ). Jefferies Group LLC continues to operate as a full-service investment banking firm and as the holding company to 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 Leucadia Transaction, Jefferies Group LLC retains a credit rating separate from Leucadia and remains an SEC reporting company, filing annual, quarterly and periodic financial reports. For further information, see Note 1, Organization and Basis of Presentation in our consolidated financial statements.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES**

In Management's Discussion and Analysis of Financial Condition and Results of Operations, we have presented the historical financial results in the tables that follow for the periods before and after the Leucadia Transaction. Periods prior to March 1, 2013 are referred to as Predecessor periods, while periods after March 1, 2013 are referred to as Successor periods to reflect the fact that under U.S. generally accepted accounting principles ( U.S. GAAP ) Leucadia's cost of acquiring Jefferies Group LLC has been pushed down to create a new accounting basis for Jefferies Group LLC. The Predecessor and Successor periods have been separated by a vertical line to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting. Our financial results of operations are discussed separately for the periods (i) three months ended February 28, 2014 (the Successor period ) and (ii) the three months ended February 28, 2013 (the Predecessor period ). The following table provides an overview of our consolidated results of operations (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Net revenues, less mandatorily redeemable preferred interests	\$ 899,028	\$ 807,583
Non-interest expenses	716,759	668,096
Earnings before income taxes	182,269	139,487
Income tax expense	66,877	48,645
Net earnings	115,392	90,842
Net earnings to noncontrolling interests	2,960	10,704
Net earnings attributable to Jefferies Group LLC	112,432	80,138
Effective tax rate	36.7%	34.9%

As indicated in our Quarterly Report on Form 10-Q for the three months ended May 31, 2013 and our Annual Report on Form 10-K for the year ended November 30, 2013, we have made correcting adjustments to our historical financial statements for the first quarter of 2013. We do not believe these adjustments are material to our financial statements for the quarterly period ended February 28, 2013. For additional information on these adjustments, see Note 1, Organization and Basis of Presentation, and Note 26, Selected Quarterly Financial Data (Unaudited), of the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended November 30, 2013.

**Executive Summary***Three Months Ended February 28, 2014*

Net revenues, less mandatorily redeemable preferred interests, for the three months ended February 28, 2014 were \$899.0 million reflecting strong revenues in investment banking business and equities. Our fixed income revenues were solid, particularly given challenging market conditions with continued tapering of the U.S. Federal reserve monetary stimulus and global economic pressures. The results for the three month 2014 period reflect within Net revenues positive income of \$26.2 million from the amortization of premiums arising from recognizing our long-term debt at fair value as part of the pushdown accounting for the Leucadia Transaction, and unrealized losses of \$13.1

million in aggregate from our investments in KCG Holdings, Inc. ( Knight ) and Harbinger Group Inc., the latter of which we sold to Leucadia in March 2014.

Non-interest expenses were \$716.8 million for the three months ended February 28, 2014 and include Compensation and benefits expense of \$507.9 million recognized commensurate with the level of net revenues for the three month period. Compensation and benefits expenses as a percentage of Net revenues was 56.5% for the three months ended February 28, 2014. Non-interest expense also includes \$2.1 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of \$3.5 million associated with intangible assets and internally developed software recognized at the Leucadia Transaction date, and \$3.6 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements.

At February 28, 2014, we had 3,838 employees globally, slightly above our headcount at November 30, 2013 of 3,797.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES***Three Months Ended February 28, 2013*

Net revenues, less mandatorily redeemable preferred interests, for the three months ended February 28, 2013 were \$807.6 million, which include strong investment banking revenues, particularly in debt and equity capital markets, and a gain of \$26.5 million on our then share ownership in Knight. Non-interest expenses of \$668.1 million for the three months ended February 28, 2013 reflect compensation expense consistent with the level of net revenues and professional service costs associated with the Leucadia Transaction. Compensation costs as a percentage of Net revenues for the three months ended February 28, 2013 were 57.9%.

**Revenues by Source**

The Capital Markets reportable segment includes our securities and commodities trading activities, and our investment banking activities. The Capital Markets reportable segment provides the sales, trading and origination and advisory effort for various equity, fixed income, commodities, futures, foreign exchange and advisory products and services. The Capital Markets segment comprises many business units, with many interactions and much integration among them. In addition, we separately discuss our Asset Management business.

For presentation purposes, the remainder of **Results of Operations** is presented on a detailed product and expense basis, rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective sales and trading activities, which is a function of the mix of each business's associated assets and liabilities and the related funding costs.

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary from period to period due to fluctuations in economic and market conditions, and our own performance. The following provides a summary of **Revenues by Source** for the Successor period three months ended February 28, 2014 and the Predecessor periods three months ended February 28, 2013 (amounts in thousands):

	Successor		Predecessor	
	Three Months Ended February 28, 2014		Three Months Ended February 28, 2013	
	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	\$ 188,823	21%	\$ 167,354	21%
Fixed income	285,928	32	352,029	43
<b>Total sales and trading</b>	<b>474,751</b>	<b>53</b>	<b>519,383</b>	<b>64</b>
Equity	94,738	11	61,380	7
Debt	173,038	19	140,672	17



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Capital markets	267,776	30	202,052	24
Advisory	146,544	16	86,226	11
Total investment banking	414,320	46	288,278	35
Asset management fees and investment income (loss) from managed funds:				
Asset management fees	9,446	1	11,083	1
Investment income (loss) from managed funds	511		(200)	
Total	9,957	1	10,883	1
Net revenues	899,028	100%	818,544	100%
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries			10,961	
Net revenues, less mandatorily redeemable preferred interests	\$ 899,028		\$ 807,583	

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

***Net Revenues***

Net revenues for the three months ended February 28, 2014 of \$899.0 million were the second highest quarterly net revenues on record (after the fourth quarter of fiscal 2013) reflecting strong revenues in investment banking in excess of \$400 million for the second successive quarter, and a solid performance in Equities and Fixed Income. Further, European and Asian revenues for the 2014 first quarter were the highest on record with strong contributions in both investment banking and securities. The three months results include unrealized losses of \$13.1 million from our investments in Knight and Harbinger Group Inc. ( Harbinger ).

Net revenues for the three months ended February 28, 2013 of \$818.5 million were the third highest quarter on record as a result of improved overall market activity, with all of our business lines demonstrating strong results. Within Equities revenues, net revenues include Principal transaction revenues of \$26.5 million from gains related to our investment in Knight during the quarter.

In 2013, interest on mandatorily redeemable preferred interests of consolidated subsidiaries represents primarily the allocation of earnings and losses from our high yield business to third party noncontrolling interest holders that were invested in that business through mandatorily redeemable preferred securities. These interests were redeemed in April 2013.

***Equities Revenue***

Equities revenue is comprised of equity commissions, principal transactions and net interest revenue relating to cash equities, electronic trading, equity derivatives, convertible securities, prime brokerage, securities finance and alternative investment strategies. Equities revenue is heavily dependent on the overall level of trading activity of our clients. Equities revenue also includes our share of the net earnings from our joint venture investments in Jefferies Finance, LLC ( Jefferies Finance ) and Jefferies LoanCore, LLC ( LoanCore ), which are accounted for under the equity method, as well changes in the value of our investments in Knight and Harbinger. Subsequent to February 28, 2014, we sold our investment in Harbinger to Leucadia at fair market value.

***Three Months Ended February 28, 2014***

Total equities revenue was \$188.8 million for the three months ended February 28, 2014. Equities revenue includes unrealized losses of \$13.1 million from our investments in Knight and Harbinger and an unrealized gain of \$2.0 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible Debentures. Additionally, during the first quarter of 2014, we recognized a mark-to-market gain of \$12.2 million in connection with our investment in CoreCommodity Management LLC, which was transferred to Leucadia on February 28, 2014. Also included within interest expense allocated to our equities business is positive income of \$11.8 million related to the amortization of premiums arising from the adjustment of our long-term debt to fair value as part of accounting for the Leucadia Transaction.

The first quarter of 2014 was characterized by market volatility and stock prices generally rallied. As a result, we saw increased commission revenues driven by increased customer flows on our U.S equity cash, electronic trading, equity options and convertible desks and higher trading revenues from equity block trading. In Europe, with the economy continuing to show signs of strengthening, increased commission and trading revenues also resulted from improved

customer flows. Asian equity commissions for the first quarter of 2014 also were up as compared to the 2013 comparable quarter, particularly on higher volumes on the Nikkei.

Equities revenues from our Jefferies Finance and LoanCore joint ventures decreased during the three month period ended February 28, 2014 as compared to the three months ended February 28, 2013 due to fewer loan closings and no securitizations by the ventures over the periods. In addition, during the three months ended February 28, 2014, we deconsolidated certain of our strategic investment entities as additional third party investments were contributed during the period. Accordingly, the results from this business reflected in equities revenues for the first quarter of 2014 represent trading revenues solely from our managed accounts. Results from our strategic investments business in prior periods represented 100% of strategic investment trading revenues, a portion of which was attributed to noncontrolling interests.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Three Months Ended February 28, 2013*

Total equities revenue was \$167.4 million for the three months ended February 28, 2013 and includes within Principal transaction revenues an unrealized gain of \$26.5 million recognized on our investment in Knight. While U.S. equity markets posted gains during our first quarter, with the S&P index up 7%, investors remained cautious as evidenced by declining volumes. Although market volumes declined, our equity trading desks experienced ample client trading volumes. For the three months ended February 28, 2013, performance from certain strategic investments benefited from the increase in the overall stock markets and other positioning.

***Fixed Income Revenue***

Fixed income revenue includes commissions, principal transactions and net interest revenue from investment grade corporate bonds, mortgage- and asset-backed securities, government and agency securities, municipal bonds, emerging markets debt, high yield and distressed securities, bank loans, foreign exchange and commodities trading activities.

*Three Months Ended February 28, 2014*

Fixed income revenue was \$285.9 million for the three months ended February 28, 2014. Included within Interest expense for the period is positive income of \$14.4 million from the allocation to our fixed income business of a portion of the amortization of premiums arising from adjusting our long-term debt to fair value as part of acquisition accounting.

The first quarter of fiscal 2014 was characterized by weaker U.S. economic data in the first two months of the quarter combined with increased geopolitical stress. Credit spreads continued to tighten as the U.S. Federal Reserve continued to taper its bond buyback program at a measured pace. These factors continued to motivate investors to take on more risk in search of yield, which benefited our international rates and credit business, and reduced demand in U.S. rates. Additionally, credit spread tightening on a relative basis in the first quarter of 2014 as compared to the first quarter of 2013 lower revenues from our corporate credit and U.S. mortgages businesses. Increased customer flow for the first quarter of 2014 benefited our municipal securities business, though the municipal high yield sector from prior periods was more muted. Futures sales and trading revenues for the three months ended February 28, 2014 were relatively comparable with the prior 2013 period offset by challenging market conditions for foreign currency trading in the 2014 first quarter given political and economic instability in various global environments.

During the second quarter of 2013, we redeemed the third party interests in our high yield joint venture, Jefferies High Yield Holdings, LLC. As a result of this redemption, effective April 1, 2013, results of this business are allocated to us in full.

*Three Months Ended February 28, 2013*

For the three months ended February 28, 2013, fixed income revenue was \$352.0 million. Credit spreads narrowed through the first quarter of 2013. In January 2013, global macroeconomic conditions appeared to be improving, with the U.S. economy expanding and the U.S. Federal reserve continuing quantitative easing. U.S. rates revenues were robust, with strong treasury issuance and strong demand and yields at historic lows. Revenues from our leveraged

finance and emerging markets sales and trading businesses were sound as investor confidence returned in 2013 and investors were attracted to the relatively higher yield on these products. Revenue in our emerging markets business is reflective of our efforts to strengthen our position in this business and revenues for the period include significant gains generated by certain high yield positions. Revenues from our international mortgage desk were positively impacted by the demand for European mortgage bonds and foreign exchange revenues demonstrated a successful navigation of volatile currency markets. Revenues also benefited from new client activity associated with our expansion of our global metals desk in the latter part of 2012. However, international rates sales and trading revenues were negatively impacted by investor concerns over the European markets resulting in restrained trading volumes and a high level of market volatility.

Of the net earnings recognized in Jefferies High Yield Holdings, LLC (our high yield and distressed securities and bank loan trading and investment business) for the three months ended February 28, 2013, approximately 65% is allocated to minority investors and are presented within interest on mandatorily redeemable preferred interests and net earnings to noncontrolling interests in our Consolidated Statements of Earnings.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES*****Investment Banking Revenue***

We provide a full range of capital markets and financial advisory services to our clients across most industry sectors primarily in the U.S. and Europe and to a lesser extent in Asia, Latin America and Canada. Capital markets revenue includes underwriting and placement revenue related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity-linked securities. Advisory revenue consists primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions. The following table sets forth our investment banking revenue (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Equity	\$ 94,738	\$ 61,380
Debt	173,038	140,672
Capital markets	267,776	202,052
Advisory	146,544	86,226
<b>Total</b>	<b>\$ 414,320</b>	<b>\$ 288,278</b>

*Three Months Ended February 28, 2014*

During the three month period ended February 28, 2014, low borrowing costs, strong equity and debt markets and an improving U.S. economic environment, increased the volume and size of capital market transactions. Mergers and acquisition activity continued to gain momentum, boosted by improved macroeconomic fundamentals, low priced credit and levels of capital available to be deployed by corporate and strategic investors.

Investment banking revenue was \$414.3 million for the quarter, the second successive quarter with investment banking revenues in excess of \$400 million. From equity and debt capital raising activities, we generated \$94.7 million and \$173.0 million in revenues, respectively. During the three months ended February 28, 2014, we completed 129 public and private debt financings that raised \$53.1 billion in aggregate and we completed 37 public equity financings and three convertible offerings that raised \$11.4 billion (33 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled \$146.5 million, including revenues from 28 merger and acquisition transactions with an aggregate transaction value of \$21.2 billion.

*Three Months Ended February 28, 2013*

For the three months ended February 28, 2013, investment banking revenue was \$288.3 million, including advisory revenues of \$86.2 million and \$202.1 million in revenues from capital market activities, the third highest on record. Debt capital markets revenue were \$140.7 million, driven by a high number of debt capital market transactions as companies took advantage of lower borrowing costs and more favorable economic and market conditions. During the

three months ended February 28, 2013, we completed 121 public and private debt financings that raised a total of \$42 billion. Equity capital markets revenue totaled \$61.4 million, completing 30 public equity financings that raised \$10.0 billion (25 of which we acted as sole or joint bookrunner). Reflective of a subdued mergers and acquisition deal environment, despite improving fundamentals, for the three months ended February 28, 2013, advisory revenue totaled \$86.2 million. During the first quarter of 2013, we served as financial advisor on 31 merger and acquisition transactions and two restructuring transactions with an aggregate transaction value of approximately \$21 billion.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES*****Asset Management Fees and Investment Income (Loss) from Managed Funds***

Asset management revenue includes management and performance fees from funds and accounts managed by us, management and performance fees from related party managed funds and accounts and investment income (loss) from our investments in these funds, accounts and related party managed funds. The key components of asset management revenue are the level of assets under management and the performance return, whether on an absolute basis or relative to a benchmark or hurdle. These components can be affected by financial markets, profits and losses in the applicable investment portfolios and client capital activity. Further, asset management fees vary with the nature of investment management services. The terms under which clients may terminate our investment management authority, and the requisite notice period for such termination, varies depending on the nature of the investment vehicle and the liquidity of the portfolio assets.

On September 11, 2013, we restructured our ownership interest in CoreCommodity Management, LLC ( CoreCommodity ), our commodity asset management business. Pursuant to the terms of that restructuring, we acquired Class B Units in what is now called CoreCommodity Capital, LLC. As a consequence, subsequent to September 11, 2013, we no longer report asset management revenues, assets under management and managed accounts attributed to the commodities asset class. On February 28, 2014, we sold our Class B Units to Leucadia at fair market value.

The following summarizes the results of our Asset Management businesses for the three months ended February 28, 2014 and 2013 (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
<b>Asset management fees:</b>		
Fixed income	\$ 1,338	\$ 1,154
Equities	5,283	2,295
Convertibles	2,825	1,376
Commodities		6,258
	9,446	11,083
Investment income (loss) from managed funds	511	(200)
Total	\$ 9,957	\$ 10,883

As a result of deconsolidation of certain strategic investment entities during the first quarter of 2014, results above attributed to Equities now includes asset management fees from these entities. Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to manage certain collateralized loan obligations ( CLOs ) to Babson Capital Management, LLC in January 2010. As sale consideration, we are entitled to a portion of



the asset management fees earned under the contracts for their remaining lives. Investment income (loss) from managed funds comprise net unrealized markups (markdowns) in private equity funds managed by related parties.

*Assets under Management*

Period end assets under management by predominant asset strategy were as follows (in millions):

	February 28, 2014	November 30, 2013
Assets under management (1):		
Equities	\$ 215	\$ 14
Convertibles	510	492
Total	\$ 725	\$ 506

- (1) Assets under management include assets actively managed by us, including hedge funds and certain managed accounts. Assets under management do not include the assets of funds that are consolidated due to the level or nature of our investment in such funds.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES***Invested Capital in Managed Funds*

The following table presents our invested capital in managed funds at February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014	November 30, 2013
Unconsolidated funds (1)	\$ 71,142	\$ 57,285
Consolidated funds (2)	6,988	37,802
<b>Total</b>	<b>\$ 78,130</b>	<b>\$ 95,087</b>

- (1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statements of Financial Condition.
- (2) Our invested capital in consolidated funds represents our investment in the Structured Alpha program, which are funds actively managed by us. Due to the level or nature of our investment in such funds, the funds are consolidated and the assets and liabilities of these funds are reflected in our consolidated financial statements primarily within Financial instruments owned. We do not recognize asset management fees for funds and accounts that we have consolidated. During the first quarter of 2014, we deconsolidated certain of these funds due to additional third-party investments.

**Non-interest Expenses**

Non-interest expenses for the months ended February 2014 and 2013, were as follows (in thousands):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
Compensation and benefits	\$ 507,899	\$ 474,217
Non-compensation expenses:		
Floor brokerage and clearing fees	49,513	46,155
Technology and communications	64,306	59,878
Occupancy and equipment rental	27,017	24,309
Business development	26,476	24,927
Professional services	24,304	24,135
Other	17,244	14,475
<b>Total non-compensation expenses</b>	<b>\$ 208,860</b>	<b>\$ 193,879</b>

Total non-interest expenses	\$	716,759	\$	668,096
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***Compensation and Benefits***

Compensation and benefits expense consists of salaries, benefits, cash bonuses, commissions, annual cash compensation awards, historical annual share-based compensation awards and the amortization of certain nonannual share-based and cash compensation awards to employees. Cash- and historical share-based awards granted to employees as part of year end compensation generally contain provisions such that employees who terminate their employment or are terminated without cause may continue to vest in their awards, so long as those awards are not forfeited as a result of other forfeiture provisions (primarily non-compete clauses) of those awards. Accordingly, the compensation expense for a substantial portion of awards granted at year end as part of annual compensation is fully recorded in the year of the award.

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in January 2010 and September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of \$66.0 million and

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\$67.1 million for the three months ended February 28, 2014 and 2013, respectively. In addition, compensation and benefits expense for the three months ended February 28, 2014 includes approximately \$3.6 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements at the Leucadia Transaction date.

Compensation and benefits as a percentage of Net revenues was 56.5% for the three months ended February 28, 2014, and 57.9% for the three months ended February 28, 2013. Employee headcount was 3,838 at February 28, 2014 and 3,797 at November 30, 2013.

***Non-Compensation Expenses***

***Three Months Ended February 28, 2014***

Non-compensation expenses were \$208.9 million for the three months ended February 28, 2014, equating to 23.2% of Net revenues. Non-compensation expenses include approximately \$3.5 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of acquisition accounting reported within Technology and communications expense and Other expense, and \$2.1 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense.

Floor brokerage and clearing expenses for the period are reflective of the trading volumes in our fixed income and equities trading businesses. Technology and communications expense includes milestone payments associated with development of the various trading systems and projects associated with corporate support infrastructure, including communication enhancements to 520 Madison Avenue, our global headquarters and executive offices. For the quarter, Occupancy and equipment rental expense reflects additional space and office re-configuration expenditure at 520 Madison Avenue. Business development costs increased primarily driven by our continued efforts to build market share, including our loan origination business conducted through Jefferies Finance joint venture. We continue to incur legal and consulting fees as part of implementing various regulatory requirements, which is recognized in Professional services expense.

***Three Months Ended February 28, 2013***

Non-compensation expenses were \$193.9 million for the three months ended February 28, 2013, or 23.7% of Net revenues. Floor brokerage and clearing expense for the 2013 first quarter is commensurate with equity, fixed income and futures trading volumes for the quarter. Occupancy and equipment expense for the period includes costs associated with taking on additional space at our global head office in New York offset by a reduction in integration costs for technology and communications as significant system migrations for Jefferies Bache have been completed. Professional services expense includes legal and consulting fees of \$2.1 million related to the Leucadia Transaction and business and development expense contains costs incurred in connection with our efforts to build out our market share.

***Income Taxes***

For the three months ended February 28, 2014, the provision for income taxes was \$66.9 million, equating to an effective tax rate was 36.7%. For the three months ended February 28, 2013, the provision for income taxes was \$48.6 million, equating to an effective tax rate was 34.9%. At February 28, 2014, the effective tax rates differed from the U.S. federal statutory rate of 35% primarily due to the impact of state income taxes, the effect of which is partially offset by international earnings taxed at rates that are generally lower than the U.S. federal statutory rate.

***Earnings per Common Share***

Diluted net earnings per common share was \$0.35 for the three months ended February 28, 2013 on 217,844,000 shares. Earnings per share data is not provided for periods subsequent to February 28, 2013, coinciding with the date we became a limited liability company and wholly-owned subsidiary of Leucadia. See Note 19, Earnings per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****Accounting Developments**

For a discussion of recently issued accounting developments and their impact on our consolidated financial statements, see Note 3, Accounting Developments, in our consolidated financial statements.

**Critical Accounting Policies**

The consolidated financial statements are prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results can and may differ from estimates. These differences could be material to the financial statements.

We believe our application of U.S. GAAP and the associated estimates are reasonable. Our accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

We believe our critical accounting policies (policies that are both material to the financial condition and results of operations and require our most subjective or complex judgments) are our valuation of financial instruments, assessment of goodwill and our use of estimates related to compensation and benefits during the year.

*Valuation of Financial Instruments*

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value. 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). Unrealized gains or losses are generally recognized in Principal transactions in our Consolidated Statements of Earnings.

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased, as of February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014		November 30, 2013	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	\$ 2,609,789	1,601,171	\$ 2,098,597	\$ 1,823,299
Corporate debt securities	3,260,638	1,773,525	2,982,768	1,346,078
Government, federal agency and other sovereign obligations	5,429,302	5,060,521	5,346,152	3,155,683
Mortgage- and asset-backed securities	5,083,832	7,230	4,473,135	34,691

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Loans and other receivables	1,294,096	706,107	1,349,128	695,300
Derivatives	223,699	188,505	261,093	180,079
Investments	118,278		101,282	
Physical commodities	105,982	41,545	37,888	36,483
	\$ 18,125,616	\$ 9,378,604	\$ 16,650,043	\$ 7,271,613

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

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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, where Level 1 uses observable prices in active markets and Level 3 uses valuation techniques that incorporate significant unobservable inputs and broker quotes that are considered less observable. Greater use of management judgment is required in determining fair value when inputs are less observable or unobservable in the marketplace, such as when the volume or level of trading activity for a financial instrument has decreased and when certain factors suggest that observed transactions may not be reflective of orderly market transactions. Judgment must be applied in determining the appropriateness of available prices, particularly in assessing whether available data reflects current prices and/or reflects the results of recent market transactions. Prices or quotes are weighed when estimating fair value with greater reliability placed on information from transactions that are considered to be representative of orderly market transactions.

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 6, Fair Value Disclosures, in our consolidated financial statements.

**Level 3 Assets and Liabilities** The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class at February 28, 2014 and November 30, 2013 (in thousands):

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013
Loans and other receivables	\$ 128,832	\$ 145,890	\$ 10,260	\$ 22,462
Investments at fair value	118,268	101,242		
Residential mortgage-backed securities	116,992	105,492		
Collateralized debt obligations	66,028	37,216		
Corporate debt securities	29,315	25,666		
Commercial mortgage-backed securities	17,486	17,568		
Corporate equity securities	12,341	9,884	1,015	38
Derivatives	2,940	1,493	8,713	8,398
Other asset-backed securities	2,375	12,611		
Total Level 3 financial instruments	494,577	457,062	\$ 19,988	\$ 30,898
Investments in managed funds	59,528	57,285		



Total Level 3 assets	\$ 554,105	\$ 514,347
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Total Level 3 financial instruments as a percentage of total financial instruments	3%	3%	0.2%	0.4%
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While our Financial instruments sold, not yet purchased, which are included within liabilities on our Consolidated Statements of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities included with Other secured financings of approximately \$50.4 million and \$39.7 million at February 28, 2014 and November 30, 2013, respectively, and the conversion option to Leucadia shares embedded in our 3.875% Convertible Senior debenture of approximately \$7.6 million and \$9.6 million reported within Long-term debt at February 28, 2014 and November 30, 2013, respectively.

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The following table reflects activity with respect to our Level 3 assets and liabilities (in millions):

	Successor Three Months Ended February 28, 2014	Predecessor Three Months Ended February 28, 2013
<b>Assets:</b>		
Transfers from Level 3 to Level 2	\$ 47.3	\$ 112.7
Transfers from Level 2 to Level 3	91.0	100.5
Net gains (losses)	20.3	14.5
<b>Liabilities:</b>		
Transfers from Level 3 to Level 2	\$ 6.3	\$ 0.7
Transfers from Level 2 to Level 3	5.4	
Net gains (losses)	(1.1)	(2.7)

See Note 6, Fair Value Disclosures, in our consolidated financial statements for additional discussion on transfers of assets and liabilities among the fair value hierarchy levels.

**Controls Over the Valuation Process for Financial Instruments** - Our Independent Price Verification Group, independent of the trading function, plays an important role 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 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. Where a pricing model is used to determine fair value, these control processes include reviews of the pricing model's theoretical soundness and appropriateness by risk management personnel with relevant expertise who are independent from the trading desks. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

***Goodwill***

As of February 28, 2014, goodwill recorded on our Consolidated Statement of Financial Condition is \$1.7 billion (4.0% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies and Note 12, Goodwill and Other Intangible Assets, in our consolidated financial statements. Goodwill must be allocated to reporting units and tested for impairment at least annually by comparing the estimated fair value of each reporting unit with its carrying value. Our annual goodwill impairment testing date is August 1, which did not indicate any goodwill impairment in any of our reporting units at August 1, 2013.

We use allocated equity plus goodwill and allocated intangible assets as a proxy for the carrying amount of each reporting unit. The amount of equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. Refer to the discussion of our Cash Capital Policy of the Liquidity, Financial Condition and Capital Resources section within Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of

Operations to this Quarterly Report on Form 10-Q for further information. Intangible assets are allocated to a reporting unit based on either specifically identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment and often involves the use of estimates and assumptions that could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Estimated fair values for our reporting units utilize market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable public companies and, for certain reporting units, a net asset value method. Under the market approach, the key assumptions are the selected multiples and our internally developed forecasts of future profitability, growth and return on equity for each reporting unit. The weight assigned to the multiples requires judgment in qualitatively and quantitatively evaluating the size, profitability and the nature of the business activities of the reporting units as compared to the comparable publicly-traded companies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we apply a control premium to arrive at the estimate fair value of each reporting unit on a controlling basis.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Substantially all of our goodwill is allocated to our Investment Banking, Equities and Fixed Income reporting units.

*Compensation and Benefits*

A portion of our compensation and benefits represents discretionary bonuses, which are finalized at year end. In addition to the level of net revenues, our overall compensation expense in any given year is influenced by prevailing labor markets, revenue mix, profitability, individual and business performance metrics, and our use of share-based compensation programs. We believe the most appropriate way to allocate estimated annual total compensation among interim periods is in proportion to projected net revenues earned. Consequently, during the year we accrue compensation and benefits based on annual targeted compensation ratios, taking into account the mix of our revenues and the timing of expense recognition.

For further discussion of these and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****Liquidity, Financial Condition and Capital Resources**

Our Chief Financial Officer and Global Treasurer are responsible for developing and implementing our liquidity, funding and capital management strategies. These policies are determined by the nature and needs of our day to day business operations, business opportunities, regulatory obligations, and liquidity requirements.

Our actual levels of capital, total assets and financial leverage are a function of a number of factors, including asset composition, business initiatives and opportunities, regulatory requirements and cost and availability of both long term and short term funding. We have historically maintained a balance sheet consisting of a large portion of our total assets in cash and liquid marketable securities, arising principally from traditional securities brokerage and trading activity. The liquid nature of these assets provides us with flexibility in financing and managing our business.

*Analysis of Financial Condition*

A business unit level balance sheet and cash capital analysis is prepared and reviewed with senior management on a weekly basis. As a part of this balance sheet review process, capital is allocated to all assets and gross and adjusted balance sheet limits are established. This process ensures that the allocation of capital and costs of capital are incorporated into business decisions. The goals of this process are to protect the firm's platform, enable our businesses to remain competitive, maintain the ability to manage capital proactively and hold businesses accountable for both balance sheet and capital usage.

We actively monitor and evaluate our financial condition and the composition of our assets and liabilities. Substantially all of our Financial instruments owned and Financial instruments sold, not yet purchased are valued on a daily basis and we monitor and employ balance sheet limits for our various businesses. In connection with our government and agency fixed income business and our role as a primary dealer in these markets, a sizable portion of our securities inventory is comprised of U.S. government and agency securities and other G-7 government securities.

The following table provides detail on key balance sheet asset and liability line items (in millions):

	Successor		
	February 28, 2014	November 30, 2013	% Change
Total assets	\$ 43,439.8	\$ 40,177.0	8%
Cash and cash equivalents	2,864.9	3,561.1	-20%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,801.5	3,616.6	5%
Financial instruments owned	18,125.6	16,650.0	9%
Financial instruments sold, not yet purchased	9,378.6	7,271.6	29%
Total Level 3 assets	554.1	514.3	8%
Securities borrowed	\$ 6,119.9	\$ 5,359.8	14%

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Securities purchased under agreements to resell	4,448.5	3,746.9	19%
Total securities borrowed and securities purchased under agreements to resell	\$ 10,568.4	\$ 9,106.7	16%
Securities loaned	\$ 3,082.0	\$ 2,506.1	23%
Securities sold under agreements to repurchase	10,777.1	10,779.8	0%
Total securities loaned and securities sold under agreements to repurchase	\$ 13,859.1	\$ 13,285.9	4%

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Total assets at February 28, 2014 and November 30, 2013 were \$43.4 billion and \$40.2 billion, respectively. During the three months ended February 28, 2014, average total assets were approximately 13% higher than total assets at February 28, 2014.

Jefferies Bache, LLC (our U.S. futures commission merchant) and Jefferies Bache Limited (our U.K. commodities and financial futures broker-dealer), receive cash or securities as margin to secure customer futures trades. Jefferies LLC (a U.S. broker-dealer), under SEC Rule 15c3-3, and Jefferies Bache, LLC, under CFTC Regulation 1.25, are required to maintain customer cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients. We are required to conduct customer segregation calculations to ensure the appropriate amounts of funds are segregated and that no customer funds are used to finance firm activity. Similar requirements exist with respect to our U.K.-based activities conducted through Jefferies Bache Limited and Jefferies International Limited (a U.K. broker-dealer). Customer funds received are separately segregated and locked-up apart from our funds. If we rehypothecate customer securities, that activity is conducted only to finance customer activity. Additionally, we do not lend customer cash to counterparties to conduct securities financing activity (i.e., we do not lend customer cash to reverse in securities). Further, we have no customer loan activity in Jefferies International Limited and we do not have any European prime brokerage operations. In Jefferies Bache Limited, any funds received from a customer are placed on deposit and not used as part of our operations. We do not transfer U.S. customer assets to our U.K. entities.

Our total Financial instruments owned inventory at February 28, 2014 was \$18.1 billion, an increase of 8.9% from inventory of \$16.7 billion at November 30, 2013, primarily driven by increases in inventory positions of equity, corporate debt and mortgage- and asset backed securities as a result of greater customer trading demand and the shifting yield curve as impacted by the U.S. Federal Reserve bond buyback program. Financial instruments sold, not yet purchased inventory was \$9.4 billion and \$7.3 billion at February 28, 2014 and November 30, respectively, with the increase primarily driven by increased trading by our U.S. and international rates businesses. Our overall net inventory position was \$8.7 billion and \$9.4 billion at February 28, 2014 and November 30, 2013, respectively.

The change in our net inventory balance is primarily attributed to a reduction in our net inventory of U.S. government and agency securities and sovereign obligations, partially offset by an increase in net equity and mortgage- and asset-backed securities inventory.

We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. As a Primary Dealer in the U.S. and with our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. For further detail on our outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain as of February 28, 2014, refer to the Risk Management section within Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, within this Quarterly Report on Form 10-Q.

Of our total Financial instruments owned, approximately 76% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of our policy, a portion of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Additionally, our Financial instruments owned primarily consisting of bank loans, investments and non-agency mortgage-backed securities are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent

than the haircuts used in the market for secured funding; and we maintain surplus capital at these maximum levels.

At February 28, 2014 and November 30, 2013, our Level 3 financial instruments owned was 3% of our financial instruments owned.

Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 16% November 30, 2013 to February 28, 2014 commensurate with the change in our net inventory position of U.S. government and agency securities, partially offset by a decline in matched book activity driven by less customer trading activity. The outstanding balance of our



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securities loaned and securities sold under agreement to repurchase increased by 4% from November 30, 2013 to February 28, 2014 due to an increase in firm financing of our inventory, partially offset by a decrease in our matched book activity. By executing repurchase agreements with central clearing corporations to finance liquid inventory, rather than bi-lateral arrangements, we reduce the credit risk associated with these arrangements and decrease net outstanding balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the three months ended February 28, 2014 were 20% and 15% higher, respectively, than the February 28, 2014 balances.

The following table presents our period end balance, average balance and maximum balance at any month end within the periods presented for Securities purchased under agreements to resell and Securities sold under agreements to repurchase (in millions):

	Successor		Predecessor
	Three Months	Nine Months	Three Months
	Ended	Ended	Ended
	February 28, 2014	November 30, 2013	February 28, 2013
<b>Securities Purchased Under Agreements to Resell</b>			
Period end	\$ 4,449	\$ 3,747	\$ 3,578
Month end average	6,361	4,936	5,132
Maximum month end	8,081	6,007	6,288
<b>Securities Sold Under Agreements to Repurchase</b>			
Period end	\$ 10,777	\$ 10,780	\$ 7,976
Month end average	13,082	13,308	11,895
Maximum month end	14,422	16,502	15,168

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented are influenced in any given period by our clients' balances and our clients' desires to execute collateralized financing arrangements via the repurchase market or via other financing products. Average balances and period end balances will fluctuate based on market and liquidity conditions and we consider the fluctuations intraperiod to be typical for the repurchase market.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES***Leverage Ratios*

The following table presents total assets, adjusted assets, total equity, total member's equity, tangible equity and tangible member's equity with the resulting leverage ratios as of February 28, 2014 and November 30, 2013 (in thousands):

	Successor	
	February 28, 2014	November 30, 2013
Total assets	\$ 43,439,830	\$ 40,176,996
Deduct: Securities borrowed	(6,119,935)	(5,359,846)
Securities purchased under agreements to resell	(4,448,531)	(3,746,920)
Add: Financial instruments sold, not yet purchased	9,378,603	7,271,613
Less derivative liabilities	(188,505)	(180,079)
Subtotal	9,190,098	7,091,534
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(3,801,517)	(3,616,602)
Goodwill and intangible assets	(1,986,620)	(1,986,436)
Adjusted assets	\$ 36,273,325	\$ 32,558,726
Total equity	\$ 5,462,087	\$ 5,421,674
Deduct: Goodwill and intangible assets	(1,986,620)	(1,986,436)
Tangible equity	\$ 3,475,467	\$ 3,435,238
Total member's equity	\$ 5,431,679	\$ 5,304,520
Deduct: Goodwill and intangible assets	(1,986,620)	(1,986,436)
Tangible member's equity	\$ 3,445,059	\$ 3,318,084
Leverage ratio (1)	8.0	7.4
Tangible leverage ratio (2)	12.0	11.5
Leverage ratio - excluding merger impacts (3)	10.0	9.3
Adjusted leverage ratio (4)	10.4	9.5

- 1) Leverage ratio equals total assets divided by total equity.
- 2) Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets less goodwill and identifiable intangible assets divided by tangible member's equity. The tangible gross leverage ratio is used by Rating Agencies in assessing our leverage ratio.
- 3) Leverage ratio - excluding impacts of the Leucadia Transaction (a non-GAAP financial measure) equals total assets less the increase in goodwill and asset fair values in acquisition accounting of \$1,957 million less amortization of \$32 million and \$27 million during the period since the Leucadia Transaction to February 28, 2014 and November 30, 2013, respectively, on assets recognized at fair value in acquisition accounting divided by the sum of total equity less \$1,338 million and \$1,326 million at February 28, 2014 and November 30, 2013, respectively, being the increase in equity arising from consideration of \$1,426 million excluding the \$125 million attributable to the assumption of our preferred stock by Leucadia, and less the impact on equity due to amortization of \$36 million and \$25 million at February 28, 2014 and November 30, 2013, respectively, on assets and liabilities recognized at fair value in acquisition accounting.
- 4) Adjusted leverage ratio (a non-GAAP financial measure) equals adjusted assets divided by tangible total equity. Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self-financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Liquidity Management*

The key objectives of the liquidity management framework are to support the successful execution of our business strategies while ensuring sufficient liquidity through the business cycle and during periods of financial distress. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material franchise or business impact.

The principal elements of our liquidity management framework are our Contingency Funding Plan, our Cash Capital Policy and our assessment of Maximum Liquidity Outflow.

*Contingency Funding Plan.* Our Contingency Funding Plan is based on a model of a potential liquidity contraction over a one year time period. This incorporates potential cash outflows during a liquidity stress event, including, but not limited to, the following: (a) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (b) maturity rolloff of outstanding letters of credit with no further issuance and replacement with cash collateral; (c) higher margin requirements than currently exist on assets on securities financing activity, including repurchase agreements; (d) liquidity outflows related to possible credit downgrade; (e) lower availability of secured funding; (f) client cash withdrawals; (g) the anticipated funding of outstanding investment and loan commitments; and (h) certain accrued expenses and other liabilities and fixed costs.

*Cash Capital Policy.* We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of \$11.2 billion as of February 28, 2014 exceeded our cash capital requirements.

*Maximum Liquidity Outflow.* Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change. As a result of our policy to ensure we have sufficient funds to cover what we estimate may be needed in a liquidity crisis, we hold more cash and unencumbered securities and have greater long-term debt balances than our businesses would otherwise require. As part of this estimation process, we calculate a Maximum Liquidity Outflow that could be experienced in a liquidity crisis. Maximum Liquidity Outflow is based on a scenario that includes both a market-wide stress and firm-specific stress, characterized by some or all of the following elements:

Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.

Severely challenged market environment with material declines in equity markets and widening of credit spreads.

Damaging follow-on impacts to financial institutions leading to the failure of a large bank.

A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Maximum Liquidity Outflow:

Liquidity needs over a 30-day scenario.

A two-notch downgrade of our long-term senior unsecured credit ratings.

No support from government funding facilities.

A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.

No diversification benefit across liquidity risks. We assume that liquidity risks are additive.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.

Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.

A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration.

Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives and other outflows due to trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings.

Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives and any increase in initial margin and guarantee fund requirements by derivative clearing houses.

Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions.

Liquidity outflows to clearing banks to ensure timely settlements of cash and securities transactions.

Draws on our unfunded commitments considering, among other things, the type of commitment and counterparty.

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At February 28, 2014, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

*Sources of Liquidity*

The following are financial instruments that are cash and cash equivalents or are deemed by management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time (in thousands):

	February 28, 2014	Average balance Quarter ended February 28, 2014 (1)	November 30, 2013
<b>Cash and cash equivalents:</b>			
Cash in banks	\$ 670,082	\$ 603,190	\$ 830,438
Certificate of deposit	50,004	50,005	50,005
Money market investments	2,144,824	1,766,249	2,680,676
<b>Total cash and cash equivalents</b>	<b>2,864,910</b>	<b>2,419,444</b>	<b>3,561,119</b>
<b>Other sources of liquidity:</b>			
Debt securities owned and securities purchased under agreements to resell (2)	1,129,903	1,500,887	1,316,867
Other (3)	471,883	644,111	403,738
<b>Total other sources</b>	<b>1,601,786</b>	<b>2,144,998</b>	<b>1,720,605</b>
<b>Total cash and cash equivalents and other liquidity sources</b>	<b>\$ 4,466,696</b>	<b>\$ 4,564,442</b>	<b>\$ 5,281,724</b>
<b>Total cash and cash equivalents and other liquidity sources as % of Total Assets</b>	<b>10.3%</b>		<b>13.1%</b>
<b>Total cash and cash equivalents and other liquidity sources as % of Total Assets less Goodwill and Intangibles</b>	<b>10.8%</b>		<b>13.8%</b>

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- (1) Average balances are calculated based on weekly balances.
- (2) Consists of high quality sovereign government securities and reverse repurchase agreements collateralized by U.S. government securities and other high quality sovereign government securities; deposits with a central bank within the European Economic Area, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.
- (3) Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that could be reasonably expected to be obtained from our financial instruments owned that are currently not pledged after considering reasonable financing haircuts and additional funds available under the committed senior secured revolving credit facility available for working capital needs of Jefferies Bache.

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. As of February 28, 2014, we have the ability to readily obtain repurchase financing for 76% of our inventory at haircuts of 10% or less, which reflects the liquidity of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at February 28, 2014 and November 30, 2013 (in thousands):

	February 28, 2014		November 30, 2013	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$ 2,347,998	\$ 311,039	\$ 1,982,877	\$ 137,721
Corporate debt securities	1,915,738	34,230	2,250,512	26,983
U.S. Government, agency and municipal securities	2,546,499	250,029	2,513,388	400,821
Other sovereign obligations	2,564,908	966,077	2,346,485	991,774
Agency mortgage-backed securities (1)	4,236,984		2,976,133	
Physical commodities	105,982		37,888	
	\$ 13,718,109	\$ 1,561,375	\$ 12,107,283	\$ 1,557,299

- (1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These securities include pass-through securities, securities backed by adjustable rate mortgages ( ARMs ), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.
- (2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been.



Average liquid financial instruments for the three months ended February 28, 2014 were \$17.1 billion and for three and twelve months ended November 30, 2013 were \$15.7 billion and \$16.1 billion, respectively.

In addition to being able to be readily financed at modest haircut levels, we estimate that each of the individual securities within each asset class above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. There are no restrictions on the unencumbered liquid securities, nor have they been pledged as collateral.

*Sources of Funding and Capital Resources*

Our assets are funded by equity capital, senior debt, convertible debt, securities loaned, securities sold under agreements to repurchase, customer free credit balances, bank loans and other payables.

Secured Financing

We rely principally on readily available secured funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate-term secured funding, primarily through securities financing transactions. We finance a portion of our long inventory and

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cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively repos), respectively. Approximately 82% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

A significant portion of our financing of European Sovereign inventory is executed using central clearinghouse financing arrangements rather than via bi-lateral arrangements repo agreements. For those asset classes not eligible for central clearinghouse financing, we seek to execute our bi-lateral financings on an extended term basis.

In addition to the above financing arrangements, in November 2012, we initiated a program whereby we issue notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory (our repurchase agreement financing program). At February 28, 2014, the outstanding amount of the notes issued under the program was \$220.0 million in aggregate, which is presented within Other secured financings on the Consolidated Statement of Financial Condition. Of the \$220.0 million aggregate notes, \$60.0 million matures in November 2014, a second \$60.0 million in February 2015 and \$100.0 million matures in March 2015, all bearing interest at a spread over one month LIBOR. For additional discussion on the program, refer to Note 10, Variable Interest Entities, in our consolidated financial statements.

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at February 28, 2014. Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our ability to draw bank loans on an uncommitted basis under our various banking arrangements. As of February 28, 2014, short-term borrowings as bank loans totaled \$12.0 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily bank loans for the three months ended February 28, 2014 were \$12.0 million.

Total Capital

As of February 28, 2014 and November 30, 2013, we have total long-term capital of \$11.2 billion and \$11.2 billion resulting in a long-term debt to equity capital ratio of 1.05:1 and 1.07:1, respectively. Our total capital base as of February 28, 2014 and November 30, 2013 was as follows (in thousands):

	February 28, 2014	November 30, 2013
Long-Term Debt (1)	\$ 5,756,700	\$ 5,777,130
Total Equity	5,462,087	5,421,674

Total Capital	\$ 11,218,787	\$ 11,198,804
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- (1) Long-term debt for purposes of evaluating long-term capital at February 28, 2014 and November 30, 2013 excludes \$250.0 million and \$200.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility and excludes \$253.0 million and \$255.7 million of our 5.875% Senior Notes, respectively, as the notes mature in less than one year from the quarter ends.

Long-Term Debt

On August 26, 2011, we entered into a committed senior secured revolving credit facility ( Credit Facility ) with a group of commercial banks in Dollars, Euros and Sterling, for an aggregate committed amount of \$950.0 million with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. The borrowers under the Credit Facility are Jefferies Bache

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Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. At February 28, 2014 and November 30, 2013, we had borrowings outstanding under the Credit Facility amounting to \$250.0 million and \$200.0 million, respectively.

Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. The Credit Facility is guaranteed by Jefferies Group LLC and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group LLC to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis we provide a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At February 28, 2014 and November 30, 2013, the minimum tangible net worth requirement was \$2,576.8 million and \$2,564.0 million, respectively and the minimum liquidity requirement was \$535.0 million and \$532.8 million, respectively for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred and we expect to remain in compliance given our current liquidity, anticipated additional funding requirements given our business plan and profitability expectations. While our subsidiaries are restricted under the Credit Facility from incurring additional indebtedness beyond trade payable and derivative liabilities in the normal course of business, we do not believe that these restrictions will have a negative impact on our liquidity. The Credit Facility terminates on August 26, 2014. We are currently in discussions with the lead bank and facility providers to extend the maturity of the Credit Facility and expect to finalize an amended facility agreement before the August 2014 maturity date.

As of February 28, 2014, our long-term debt, excluding the Credit Facility, has a weighted average maturity exceeding 8 years. Our next scheduled maturity is the \$250.0 million 5.875% Senior Notes that mature in June 2014.

Our long-term debt ratings as of February 28, 2014 are as follows:

	Rating	Outlook
Moody's Investors Service	Baa3	Stable
Standard and Poor's	BBB	Stable
Fitch Ratings	BBB-	Stable

We rely upon our cash holdings and external sources to finance a significant portion of our day to day operations. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including our debt ratings. Our current debt ratings are dependent upon many factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trend and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings. While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact on our business and trading results in future periods is inherently uncertain and depends on a number of factors, including the magnitude of the downgrade, the behavior of individual clients and future mitigating action taken by us.

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. At February 28, 2014, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade was \$93.2 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management's best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

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The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of February 28, 2014. The table presents principal cash flows with expected maturity dates (in millions):

	2014	Expected Maturity Date				Total
		2015	2016 and 2017	2018 and 2019	2020 and Later	
<b>Debt obligations:</b>						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	\$ 253.0	514.2	370.7	1,703.2	3,168.6	\$ 6,009.7
Senior secured revolving credit facility	250.0					250.0
Interest payment obligations on senior notes	240.1	313.6	556.8	436.4	1,443.1	2,990.0
	743.1	827.8	927.5	2,139.6	4,611.7	9,249.7
<b>Commitments and guarantees:</b>						
Equity commitments	1.7	7.4	0.9		447.8	457.8
Loan commitments	100.5	36.9	268.4	100.9		506.7
Mortgage-related commitments	837.2	445.5	209.2			1,491.9
Forward starting repos	253.3					253.3
<b>Derivative Contracts:</b>						
Derivative contracts-non credit related	46,801.9	708.0	15.2	1.2	541.7	48,068.0
	47,994.6	1,202.8	493.7	478.1	994.5	51,163.7

(1) Certain of our derivative contracts meet the definition of a guarantee and are therefore included in the above table. For additional information on commitments, see Note 21, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the Consolidated Statements of Financial Condition as Financial instruments owned - derivative contracts or Financial instruments sold, not yet purchased - derivative contracts as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 6, Fair Value

Disclosures, and Note 7, Derivative Financial Instruments, in our consolidated financial statements.

We are routinely involved with variable interest entities ( VIEs ) in connection with our mortgage-backed securities securitization activities. VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by 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. Where we are the primary beneficiary of a VIE, we consolidate the VIE. We do not generally consolidate the various VIEs related to our mortgage-backed securities securitization activities because we are not the primary beneficiary.

At February 28, 2014, we did not have any commitments to purchase assets from our securitization vehicles. At February 28, 2014, we held \$491.4 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial instruments owned on our Consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 9, Securitization Activities and Note 10, Variable Interest Entities, in our consolidated financial statements.

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Due to the uncertainty regarding the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table. See Note 20, Income Taxes, in our consolidated financial statements for further information.

*Equity Capital*

On March 1, 2013, all of the outstanding common shares of Jefferies Group LLC were exchanged for shares of Leucadia and Jefferies Group LLC became wholly-owned by Leucadia with Leucadia as the sole equity owner of Jefferies Group LLC. The aggregate purchase price was approximately \$4.8 billion and therefore, as a result of the Leucadia Transaction, our member's equity capital approximated \$4.8 billion upon consummation. Further, we do not anticipate making distributions in the future.

As compared to November 30, 2013, the increase to total member's equity as of February 28, 2014 is attributed to first quarter 2014 net earnings and foreign currency translation adjustments.

The following table sets forth the declaration dates, record dates, payment dates and per common share amounts for the dividends declared during the period ended three months ended February 28, 2013:

Declaration Date	Record Date	Payment Date	Dividend per common share
<b>Three months ended February 28, 2013:</b>			
December 6, 2012	December 21, 2012	December 31, 2012	\$ 0.075

*Net Capital*

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority (FINRA), Jefferies and Jefferies Execution are subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. Jefferies and Jefferies Execution have elected to calculate minimum capital requirements using the alternative method permitted by Rule 15c3-1 in calculating net capital. Additionally, Jefferies Bache, LLC is registered as a Futures Commission Merchant and is subject to Rule 1.17 of the Commodities Futures Trading Commission (CFTC). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

As of February 28, 2014, Jefferies, Jefferies Execution and Jefferies Bache, LLC's net capital, adjusted net capital, and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 656,570	\$ 596,187
Jefferies Execution	5,023	4,773



	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 185,061	\$ 43,784

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. While entities that register under these provisions will be subject to regulatory capital requirements, these regulatory capital requirements have not yet been finalized. We expect that these provisions will result in modifications to the regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products, Inc. and Jefferies Bache Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013.

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The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our subsidiaries.

**Risk Management**

Risk is an inherent part of our business and activities. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our activities is critical to our financial soundness, viability and profitability. Accordingly, we have a comprehensive risk management approach, with a formal governance structure and processes to identify, assess, monitor and manage risk. Principal risks involved in our business activities include market, credit, liquidity and capital, operational, legal and compliance, new business, and reputational risk.

Risk management is a multifaceted process that requires communication, judgment and knowledge of financial products and markets. Accordingly, our risk management process encompasses the active involvement of executive and senior management, and also many departments independent of the revenue-producing business units, including the Risk Management, Operations, Compliance, Legal and Finance Departments. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

For discussion of liquidity and capital risk management refer to, Liquidity, Financial Condition and Capital Resources within Item 7. Management's Discussion and Analysis in this Annual Report on Form 10-K.

*Governance and Risk Management Structure*

*Our Board of Directors* Our Board of Directors and its Audit Committee play an important role in reviewing our risk management process and risk tolerance. Our Board of Directors and Audit Committee are provided with data relating to risk at each of its regularly scheduled meetings. Our Chief Risk Officer and Global Treasurer meet with the Board of Directors on not less than a quarterly basis to present our risk profile and liquidity profile and to respond to questions.

*Risk Committees* We make extensive use of internal committees to govern risk taking and ensure that business activities are properly identified, assessed, monitored and managed. Our Risk Management Committee meets weekly to discuss our risk, capital, and liquidity profile in detail. In addition, business or market trends and their potential impact on the risk profile are discussed. Membership is comprised of our Chief Executive Officer and Chairman, Chairman of the Executive Committee, Chief Financial Officer, Chief Risk Officer and Global Treasurer. The Committee approves limits for us as a whole, and across risk categories and business lines. It also reviews all limit breaches. Limits are reviewed on at least an annual basis. Other risk related committees include Market Risk Management, Credit Risk Management, New Business, Underwriting Acceptance, Margin Oversight, Executive Management and Operating Committees. These Committees govern risk taking and ensure that business activities are properly managed for their area of oversight.

*Risk Related Policies* We make use of various policies in the risk management process:

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*Market Risk Policy*- This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.

*Independent Price Verification Policy*- This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.

*Operational Risk Policy*- This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.

*Credit Risk Policy*- This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

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*Risk Management Key Metrics*

We apply a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of our business activities. The size of the limit reflects our risk tolerance for a certain activity under normal business conditions. Key metrics included in our framework include inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value-at-Risk, sensitivities (greeks), exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis metrics.

Market Risk

The potential for changes in the value of financial instruments is referred to as market risk. Our market risk generally represents the risk of loss that may result from a change in the value of a financial instrument as a result of fluctuations in interest rates, credit spreads, equity prices, commodity prices and foreign exchange rates, along with the level of volatility. Interest rate risks result primarily from exposure to changes in the yield curve, the volatility of interest rates, and credit spreads. Equity price risks result from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices. Commodity price risks result from exposure to the changes in prices and volatilities of individual commodities, commodity baskets and commodity indices. Market risk arises from market making, proprietary trading, underwriting, specialist and investing activities. We seek to manage our exposure to market risk by diversifying exposures, controlling position sizes, and establishing economic hedges in related securities or derivatives. Due to imperfections in correlations, gains and losses can occur even for positions that are hedged. Position limits in trading and inventory accounts are established and monitored on an ongoing basis. Each day, consolidated position and exposure reports are prepared and distributed to various levels of management, which enable management to monitor inventory levels and results of the trading groups.

Value-at-Risk

We estimate Value-at-Risk (VaR) using a model that simulates revenue and loss distributions on substantially all financial instruments by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss in value of our financial instruments over a specified time horizon at a given confidence level. We calculate a one-day VaR using a one year look-back period measured at a 95% confidence level. This implies that, on average, we expect to realize a loss of daily trading net revenue at least as large as the VaR amount on one out of every twenty trading days.

As with all measures of VaR, our estimate has inherent limitations due to the assumption that historical changes in market conditions are representative of the future. Furthermore, the VaR model measures the risk of a current static position over a one-day horizon and might not capture the market risk of positions that cannot be liquidated or offset with hedges in a one-day period. Published VaR results reflect past trading positions while future risk depends on future positions.

While we believe the assumptions and inputs in our risk model are reasonable, we could incur losses greater than the reported VaR because the historical market prices and rates changes may not be an accurate measure of future market events and conditions. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities. When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies and assumptions could produce significantly different results.

Our average daily VaR increased to \$16.27 million for the three months ended February 28, 2014 from \$12.61 million for the three months ended November 30, 2013. The increase was primarily driven by higher equity price risk resulting from strategic holdings/corporate actions regarding certain of our equity holdings and higher interest rates risk. We also saw an increase in the diversification benefit across asset classes. Currency rates risk and commodity prices risk did not change significantly from the prior fiscal quarter. Excluding our investment in Knight, the average VaR for the three months ended February 28, 2014 and November 30, 2013 was \$12.64 million and \$10.37 million, respectively. Excluding both our investment in Knight and Harbinger Group, our average VaR for the three months ended February 28, 2014 was \$9.23 million. On March 18, 2014, we sold our investment in Harbinger Group to Leucadia at the closing price on that date.

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The following table illustrates each separate component of VaR for each component of market risk by interest rate, equity, currency and commodity products, as well as for our overall trading positions using the past 365 days of historical data (in millions).

## Daily VaR (1)

## Value-at-Risk In Trading Portfolios

Risk Categories	Daily VaR for the Three Months					Daily VaR for the Three Months			
	VaR as of	Ended			VaR as of	Ended			
	February 28, 2014	February 28, 2014			November 30, 2013	November 30, 2013			
	Average	High	Low		Average	High	Low		
Interest Rates	\$ 5.78	\$ 7.09	\$ 8.69	\$ 5.78	\$ 7.33	\$ 6.07	\$ 9.46	\$ 4.25	
Equity Prices	11.27	11.64	12.95	9.60	12.22	8.38	12.37	4.00	
Currency Rates	0.75	1.14	4.05	0.15	0.56	0.71	1.75	0.21	
Commodity Prices	0.83	0.92	1.57	0.35	0.74	0.77	1.61	0.39	
Diversification Effect (2)	(3.03)	(4.52)	N/A	N/A	(4.60)	(3.32)	N/A	N/A	
Firmwide	\$ 15.60	\$ 16.27	\$ 18.05	\$ 13.90	\$ 16.25	\$ 12.61	\$ 16.25	\$ 7.60	

(1) VaR is the potential loss in value of our trading positions due to adverse market movements over a defined time horizon with a specific confidence level. For the VaR numbers reported above, a one-day time horizon, with a one year look-back period, and a 95% confidence level were used.

(2) The diversification effect is not applicable for the maximum and minimum VaR values as the firmwide VaR and the VaR values for the four risk categories might have occurred on different days during the period.

The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the four risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated.

The chart below reflects our daily VaR over the last four quarters:

The primary method used to test the efficacy of the VaR model is to compare our actual daily net revenue for those positions included in our VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e. no intra-day trading), assuming

current changes in market value are consistent with the historical changes used in the calculation,

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net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e. once in every 20 days). During the three months ended February 28, 2014, results of the evaluation at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR.

Certain positions within financial instruments are not included in the VaR model because VaR is not the most appropriate measure of risk. Accordingly, Risk Management has additional procedures in place to assure that the level of potential loss that would arise from market movements are within acceptable levels. Such procedures include performing stress tests, monitoring concentration risk and tracking price target/stop loss levels. The table below presents the potential reduction in net income associated with a 10% stress of the fair value of the positions that are not included in the VaR model at February 28, 2014 (in thousands):

	10% Sensitivity
Private investments	\$ 28,441
Corporate debt securities in default	9,244
Trade claims	4,463

**Daily Net Trading Revenue**

There were 7 days with trading losses out of a total of 61 trading days in the three months ended February 28, 2014. Excluding trading losses associated with the daily marking to market of our position in Knight and Harbinger Group, there would have been one day with trading losses. The histogram below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the three months ended February 28, 2014 (in millions).

**Scenario Analysis and Stress Tests**

While VaR measures potential losses due to adverse changes in historical market prices and rates, we use stress testing to analyze the potential impact of specific events or moderate or extreme market moves on our current portfolio both firm wide and within business segments. Stress scenarios comprise both historical market price and rate changes and hypothetical market environments, and generally involve simultaneous changes of many risk factors. Indicative market changes in our scenarios include, but are not limited to, a large widening of credit spreads, a substantial decline in equities markets, significant moves in selected emerging markets, large moves in interest rates, changes in the shape of the yield curve and large moves in European markets. In addition, we also perform ad hoc stress tests and add new scenarios as market conditions dictate. Because our stress scenarios are meant to reflect market moves that occur over a period of time, our estimates of potential loss assume some level of position reduction for liquid positions. Unlike our VaR, which measures potential losses within a given confidence interval, stress scenarios do not have an associated implied probability; rather, stress testing is used to estimate the potential loss from market moves that tend to be larger than those embedded in the VaR calculation.





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Stress testing is performed and reported regularly as part of the risk management process. Stress testing is used to assess our aggregate risk position as well as for limit setting and risk/reward analysis.

*Counterparty Credit Risk and Issuer Country Exposure*

Counterparty Credit Risk

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract. We are exposed to credit risk as trading counterparty to other broker-dealers and customers, as a direct lender and through extending loan commitments, as a holder of securities and as a member of exchanges and clearing organizations.

It is critical to our financial soundness and profitability that we properly and effectively identify, assess, monitor, and manage the various credit and counterparty risks inherent in our businesses. Credit is extended to counterparties in a controlled manner in order to generate acceptable returns, whether such credit is granted directly or is incidental to a transaction. All extensions of credit are monitored and managed on an enterprise level in order to limit exposure to loss related to credit risk.

Our Credit Risk Framework is responsible for identifying credit risks throughout the operating businesses, establishing counterparty limits and managing and monitoring those credit limits. Our framework includes:

defining credit limit guidelines and credit limit approval processes;

providing a consistent and integrated credit risk framework across the enterprise;

approving counterparties and counterparty limits with parameters set by the Risk Management Committee;

negotiating, approving and monitoring credit terms in legal and master documentation;

delivering credit limits to all relevant sales and trading desks;

maintaining credit reviews for all active and new counterparties;

operating a control function for exposure analytics and exception management and reporting;

determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;

actively managing daily exposure, exceptions, and breaches;

monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and

setting the minimum global requirements for systems, reports, and technology.

#### Credit Exposures

Credit exposure exists across a wide-range of products including cash and cash equivalents, loans, securities finance transactions and over-the-counter derivative contracts.

Loans and lending arise in connection with our capital markets activities and represents the notional value of loans that have been drawn by the borrower and lending commitments that were outstanding at February 28, 2014.

Securities and margin finance includes credit exposure arising on securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements) to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.

Derivatives represent over-the-counter ( OTC ) derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement. Derivatives are accounted for at fair value net of cash collateral received or posted under credit support agreements. In addition, credit exposures on forward settling trades are included within our derivative credit exposures.

Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks. Current counterparty credit exposures at February 28, 2014 and November 30, 2013 are summarized in the tables below and provided by credit quality, region and industry. Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk

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arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at February 28, 2014, excluding cash and cash equivalents, 62% are investment grade counterparties, compared to 66% at November 30, 2013, and are mainly concentrated in North America. When comparing our credit exposure at February 28, 2014 with credit exposure at November 30, 2013, excluding cash and cash equivalents, current exposure has increased 21% to approximately \$1.2 billion from \$1.0 billion. All business areas contributed to the increase over the quarter, with the largest increase from securities and margin finance.

**Counterparty Credit Exposure by Credit Rating**

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of		As of		As of			As of		As of		
	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013		February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	
(in millions)												
AAA Range	\$	\$	\$ 0.8	\$ 0.2	\$	\$	\$ 0.8	\$ 0.2	\$ 2,144.8	\$ 2,680.6	\$ 2,145.6	\$ 2,680.8
AA Range			110.2	104.8	12.7	14.7	122.9	119.5	30.1	144.1	153.0	263.6
A Range			433.6	374.4	63.2	56.7	496.8	431.1	687.9	734.7	1,184.7	1,165.8
BBB Range	71.0	71.0	57.0	39.9	18.1	16.2	146.1	127.1	2.1	1.7	148.2	128.8
B or lower	145.1	120.3	182.9	115.4	18.6	9.5	346.6	245.2			346.6	245.2
Unrated	89.3	86.6	3.1		37.4	18.6	129.8	105.2			129.8	105.2
Total	\$ 305.4	\$ 277.9	\$ 787.6	\$ 634.7	\$ 150.0	\$ 115.7	\$ 1,243.0	\$ 1,028.3	\$ 2,864.9	\$ 3,561.1	\$ 4,107.9	\$ 4,589.4

**Counterparty Credit Exposure by Region**

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of		As of		As of			As of		As of		
	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013		February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	
(in millions)												
Asia/Latin America/Other	\$ 24.3	\$	\$ 42.9	\$ 30.9	\$ 10.6	\$ 11.6	\$ 77.8	\$ 42.5	\$ 179.9	\$ 183.3	\$ 257.7	\$ 225.3
Europe			242.0	180.3	60.6	47.6	302.6	227.9	271.2	269.3	573.8	497.8
North America	281.1	277.9	502.7	423.5	78.8	56.5	862.6	757.9	2,413.8	3,108.5	3,276.4	3,866.4
Total	\$ 305.4	\$ 277.9	\$ 787.6	\$ 634.7	\$ 150.0	\$ 115.7	\$ 1,243.0	\$ 1,028.3	\$ 2,864.9	\$ 3,561.1	\$ 4,107.9	\$ 4,589.4

**Counterparty Credit Exposure by Industry**

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of	As of	As of	As of	As of	As of	As of	As of	As of			
(in millions)	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013	February 28, 2014	November 30, 2013		
Asset managers	\$	\$	\$ 9.2	\$ 7.1	\$ 0.5	\$ 0.5	\$ 9.7	\$ 7.6	\$ 2,144.8	\$ 2,680.7	\$ 2,154.5	\$ 2,688.8
Bankers, broker-dealers			412.1	354.9	81.3	73.8	493.4	428.7	720.1	880.4	1,213.5	1,309.8
Commodities			57.3	35.6	7.4	9.4	64.7	45.0			64.7	45.0
Other	305.4	277.9	309.0	237.1	60.8	32.0	675.2	547.0			675.2	547.0
<b>Total</b>	<b>\$ 305.4</b>	<b>\$ 277.9</b>	<b>\$ 787.6</b>	<b>\$ 634.7</b>	<b>\$ 150.0</b>	<b>\$ 115.7</b>	<b>\$ 1,243.0</b>	<b>\$ 1,028.3</b>	<b>\$ 2,864.9</b>	<b>\$ 3,561.1</b>	<b>\$ 4,107.9</b>	<b>\$ 4,589.6</b>

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 7, Derivative Financial Instruments, in our consolidated financial statements included within this Annual Report on Form 10-K.

Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk as the country of jurisdiction or domicile of the obligor. The following tables reflect our top exposure at February 28, 2014 and November 30, 2013 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

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	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivative	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Great Britain	\$ 556.1	\$ (377.8)	\$ 155.3	\$ 60.1	\$ 21.7	\$ 152.6	\$ 415.4	\$ 568.0
France	423.2	(226.7)	115.6	10.9	7.3		330.3	330.3
Canada	157.5	(72.9)	6.9	126.6	0.9	(0.5)	219.0	218.5
Spain	426.5	(280.5)		1.9	1.6	0.4	149.5	149.9
Puerto Rico	145.0						145.0	145.0
Belgium	98.9	(56.1)	2.0	0.6		97.8	45.4	143.2
Hong Kong	33.0	(24.0)		0.4		114.0	9.4	123.4
Ireland	93.6	(14.5)	0.7	0.1	3.5	0.2	83.4	83.6
Italy	1,435.7	(1,244.7)	(116.4)	0.3	0.1		75.0	75.0
Germany	309.9	(199.4)	(172.1)	111.0	2.4	15.9	51.8	67.7
<b>Total</b>	<b>\$ 3,679.4</b>	<b>\$ (2,496.6)</b>	<b>\$ (8.0)</b>	<b>\$ 311.9</b>	<b>\$ 37.5</b>	<b>\$ 380.4</b>	<b>\$ 1,524.2</b>	<b>\$ 1,904.6</b>

**As of November 30, 2013**

	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivative	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Great Britain	\$ 418.8	\$ (181.5)	\$ (27.2)	\$ 42.5	\$ 20.7	\$ 113.1	\$ 273.3	\$ 386.4
Germany	462.0	(226.1)	(70.5)	93.2	10.9	3.3	269.5	272.8
Netherlands	445.7	(198.8)	(2.3)	5.2	1.5	0.3	251.3	251.6
Italy	1,181.4	(1,017.6)	74.2	1.8	0.1		239.9	239.9
Canada	140.6	(59.0)	18.8	99.5	0.2	2.2	200.1	202.3
Spain	352.3	(159.8)	0.3	3.0	0.2	0.1	196.0	196.1
Puerto Rico	130.1						130.1	130.1
Luxembourg	75.0	(15.1)		0.1		68.0	60.0	128.0
Hong Kong	33.9	(18.3)	(0.9)	0.3		104.3	15.0	119.3
Austria	130.2	(32.8)		5.0		0.1	102.4	102.5
<b>Total</b>	<b>\$ 3,370.0</b>	<b>\$ (1,909.0)</b>	<b>\$ (7.6)</b>	<b>\$ 250.6</b>	<b>\$ 33.6</b>	<b>\$ 291.4</b>	<b>\$ 1,737.6</b>	<b>\$ 2,029.0</b>

Exposure to the Sovereign Debt, Corporate and Financial Securities of Greece, Ireland, Italy, Portugal and Spain

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As detailed below, our net exposure to sovereign debt of Greece, Ireland, Italy, Portugal, and Spain (before economic derivative hedges) was net long \$238.6 million at February 28, 2014, which is approximately 4% of total equity.

The table below reflects not only our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal, and Spain at February 28, 2014 but also includes our exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries. This table is presented in a manner consistent with how management views and monitors these exposures as part of our risk management framework. Our issuer exposure to these European countries arises primarily in the context of our market making activities and our role as a major dealer in the debt securities of these countries. Accordingly, our issuer risk arises due to holding securities as long and short inventory, which does not carry counterparty credit exposure. While the economic derivative hedges are presented on a notional basis, we believe this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of the hedges. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities.

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<i>(in millions)</i>	As of February 28, 2014						
	Fair Value			Notional Amount (3)			
	Long Debt Securities (1)	Short Debt Securities (2)	Net Cash Inventory (4)	Long Derivatives	Short Derivatives	Net Derivatives	Total Net Exposure
<b>Greece</b>							
Sovereigns	\$	\$ 0.1	\$ (0.1)	\$	\$	\$	\$ (0.1)
Corporations	4.4	8.0	(3.6)	0.2		0.2	(3.4)
Financial Institutions	0.2	0.4	(0.2)	4.6		4.6	4.4
Structured Products	3.0		3.0				3.0
<b>Total Greece</b>	<b>7.6</b>	<b>8.5</b>	<b>(0.9)</b>	<b>4.8</b>		<b>4.8</b>	<b>3.9</b>
<b>Ireland</b>							
Sovereigns	2.8	3.9	(1.1)				(1.1)
Corporations	5.6	6.6	(1.0)	1.0	0.5	0.5	(0.5)
Financial Institutions	15.8	1.1	14.7		7.2	(7.2)	7.5
Structured Products							
<b>Total Ireland</b>	<b>24.2</b>	<b>11.6</b>	<b>12.6</b>	<b>1.0</b>	<b>7.7</b>	<b>(6.7)</b>	<b>5.9</b>
<b>Italy</b>							
Sovereigns	1,348.6	1,206.9	141.7	203.4 (5)	299.2 (5)	(95.8)	45.9
Corporations	30.0	17.0	13.0				13.0
Financial Institutions	46.0	20.8	25.2		20.6	(20.6)	4.6
Structured Products	11.0		11.0				11.0
<b>Total Italy</b>	<b>1,435.6</b>	<b>1,244.7</b>	<b>190.9</b>	<b>203.4</b>	<b>319.8</b>	<b>(116.4)</b>	<b>74.5</b>
<b>Portugal</b>							
Sovereigns	62.3	43.9	18.4				18.4
Corporations	2.9	0.3	2.6				2.6
Financial Institutions	12.4	0.1	12.3				12.3
Structured Products	13.0		13.0				13.0
<b>Total Portugal</b>	<b>90.6</b>	<b>44.3</b>	<b>46.3</b>				<b>46.3</b>
<b>Spain</b>							
Sovereigns	322.2	242.5	79.7				79.7
Corporations	24.5	13.6	10.9				10.9
Financial Institutions	29.8	24.4	5.4	0.2	0.2		5.4
Structured Products	50.0		50.0				50.0



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Total Spain	426.5	280.5	146.0	0.2	0.2		146.0
<b>Total</b>	<b>\$ 1,984.5</b>	<b>\$ 1,589.6</b>	<b>\$ 394.9</b>	<b>\$ 209.4</b>	<b>\$ 327.7</b>	<b>\$ (118.3)</b>	<b>\$ 276.6</b>
Total Sovereign	\$ 1,735.9	\$ 1,497.3	\$ 238.6	\$ 203.4	\$ 299.2	\$ (95.8)	\$ 142.8
<b>Total Non-sovereign</b>	<b>\$ 248.6</b>	<b>\$ 92.3</b>	<b>\$ 156.3</b>	<b>\$ 6.0</b>	<b>\$ 28.5</b>	<b>\$ (22.5)</b>	<b>\$ 133.8</b>

- (1) Long securities represent the fair value of debt securities and are presented within Financial instruments owned - corporate debt securities and government, federal agency and other sovereign obligations and mortgage- and asset-backed securities on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (2) Short securities represent the fair value of debt securities sold short and are presented within Financial instruments sold, not yet purchased - corporate debt securities and government, federal agency and other sovereign obligations on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.
- (4) Classification of securities by country and by issuer type is presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.
- (5) These positions are comprised of bond futures executed on exchanges outside Italy.

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For the quarter ended February 28, 2014, our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain calculated on an average daily basis was as follows (in millions):

	Remaining Maturity		Total Average Balance
	Remaining Maturity Less Than One Year	Greater Than or Equal to One Year	
<b>Financial instruments owned -</b>			
<b>Debt securities</b>			
Greece	\$	\$	\$
Ireland	0.6	4.6	5.2
Italy	1,251.4	1,505.5	2,756.9
Portugal	0.8	58.7	59.5
Spain	145.2	485.8	631.0
<b>Total average fair value of long debt securities (1)</b>	<b>1,398.0</b>	<b>2,054.6</b>	<b>3,452.6</b>
<b>Financial instruments sold -</b>			
<b>Debt securities</b>			
Greece			
Ireland	0.1	4.1	4.2
Italy	396.0	1,734.4	2,130.4
Portugal	0.9	36.8	37.7
Spain	17.8	277.6	295.4
<b>Total average fair value of short debt securities</b>	<b>414.8</b>	<b>2,052.9</b>	<b>2,467.7</b>
<b>Total average net fair value of debt securities</b>	<b>983.2</b>	<b>1.7</b>	<b>984.9</b>
<b>Derivative contracts - long notional exposure</b>			
Greece		0.5	0.5
Ireland		6.6	6.6
Italy		117.9 (2)	117.9 (2)
Portugal			
Spain		32.6	32.6

Total average notional amount - long		157.6		157.6
Derivative contracts - short notional exposure				
Greece				
Ireland				
Italy		353.3		353.3
Portugal				
Spain		123.9		123.9
Total average notional amount - short		477.2		477.2
Total average net derivative notional exposure (3)		(319.6)		(319.6)
Total average net exposure to select European countries	\$	983.2	\$	(317.9)
			\$	665.3

- (1) Classification of securities by country and by issuer type is presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.
- (2) These positions are comprised of bond futures executed on exchanges outside Italy.
- (3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps and bond futures.

In addition, our non-U.S. sovereign obligations recorded in financial instruments owned and financial instruments sold, not yet purchased are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion are executed with central clearing organizations. Accordingly, we utilize foreign sovereign obligations as underlying collateral for our repurchase financing arrangements. At February 28, 2014,

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repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Greece, Ireland, Italy, Portugal and Spain as follows (in millions):

	As of February 28, 2014		
	Reverse Repurchase		
	Agreements (1)	Repurchase Agreements (1)	Net
Greece	\$	\$	\$
Ireland	4.0	61.2	(57.2)
Italy	1,271.9	1,449.5	(177.6)
Portugal	44.8	70.1	(25.3)
Spain	175.8	442.6	(266.8)
Total	\$ 1,496.5	\$ 2,023.4	\$ (526.9)

(1) Amounts represent the contract amount of the repurchase financing arrangements.

Our collateral management of the risk due to exposure from these sovereign obligations is subject to our overall collateral and cash management risk framework. For further discussion regarding our cash and liquidity management framework and processes, see *Liquidity, Financial Condition and Capital Resources* within Part I, Item 2. *Management's Discussion and Analysis* in this Quarterly Report on Form 10-Q.

*Operational Risk*

Operational risk refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, the transactions we process have become increasingly complex. If our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely

impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Our Operational Risk framework includes governance, collection of operational risk incidents, proactive operational risk management, and periodic review and analysis of business metrics to identify and recommend controls and process-related enhancements.

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the Operational Risk policy and processes within the department. Operational Risk policy, framework, infrastructure, methodology, processes, guidance and oversight of the implementation of operational risk processes are centralized and consistent firm wide.

*Legal and Compliance Risk*

Legal and compliance risk includes the risk of noncompliance with applicable legal and regulatory requirements. We are subject to extensive regulation in the different jurisdictions in which we conduct our business. We have various procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, credit granting, collection activities, anti-money laundering and record keeping. These risks also reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we continuously review new and pending regulations and legislation and participate in various industry interest groups. We also maintain an anonymous hotline for employees or others to report suspected inappropriate actions by us or by our employees or agents.

*New Business Risk*

New business risk refers to the risks of entering into a new line of business or offering a new product. By entering a new line of business or offering a new product, we may face risks that we are unaccustomed to dealing with and may increase the magnitude of the risks we currently face. The New Business Committee reviews proposals for new businesses and new products to determine if we are prepared to handle the additional or increased risks associated with entering into such activities.

*Reputational Risk*

We recognize that maintaining our reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risks. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards. Our reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. We actively monitor public comment concerning us and are vigilant in seeking to assure accurate information and perception prevails.

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**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Quantitative and qualitative disclosures about market risk are set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management" in Part I, Item 2 of this Form 10-Q.

**Item 4. Controls and Procedures.**

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of February 28, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of February 28, 2014 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in our internal control over financial reporting occurred during the quarter ended February 28, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Many aspects of our business involve substantial risks of legal and regulatory liability. In the normal course of business, we have been named as defendants or co-defendants in lawsuits involving primarily claims for damages. We are also involved in a number of judicial and regulatory matters, including exams, investigations and similar reviews, arising out of the conduct of our business. Based on currently available information, we do not believe that any matter will have a material adverse effect on our financial condition.

Seven putative class action lawsuits have been filed in New York and Delaware concerning the Leucadia Transaction. The class actions, filed on behalf of our shareholders prior to the Leucadia Transaction, name as defendants Jefferies Group, Inc., the members of our board of directors of Jefferies Group, Inc., Leucadia and, in certain of the actions, certain subsidiaries. The actions allege that the directors breached their fiduciary duties in connection with the Leucadia Transactions by engaging in a flawed process and agreeing to sell Jefferies Group, Inc. for inadequate consideration pursuant to an agreement that contains improper deal protection terms. The actions allege that Jefferies Group, Inc. and Leucadia aided and abetted the directors' breach of fiduciary duties. The actions filed in New York have been stayed, the actions filed in Delaware are proceeding and the claims against certain of the directors have been dismissed. We are unable to predict the outcome of this litigation.

During the first quarter of 2014, we reached a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the SEC, which remains subject to review and approval by the SEC Commissioners, relating to an investigation of the purchases and sales of mortgage-backed securities. That

investigation arose from a matter that came to light in late 2011, at which time we terminated a mortgage-backed-securities trader who was then indicted by the United States Attorney for the District of Connecticut in January 2013 and separately charged in a civil complaint by the SEC. Those agreements include an aggregate \$25.0 million in payments, of which approximately \$11.0 million are payments to trading counterparties impacted by those activities, \$10 million of which is a fine payable to the U.S. Attorney's Office, and approximately \$4.0 million of which is a fine payable to the SEC. All such amounts were recognized in our year-end 2013 financial statements. At February 28, 2014, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately \$21.0 million.



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Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended November 30, 2013 filed with the SEC on January 28, 2014. These risk factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect our business or that could otherwise result in changes that differ materially from our expectations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 6. Exhibits**

Exhibit No.	Description
3.1	Certificate of Formation of Jefferies Group LLC, effective as of March 1, 2013 is incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed on March 1, 2013.
3.2	Certificate of Conversion of Jefferies Group LLC, effective as of March 1, 2013 is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on March 1, 2013.
3.3	Limited Liability Company Agreement of Jefferies Group LLC, dated as of March 1, 2013 is incorporated by reference to Exhibit 3.3 of Registrant's Form 8-K filed on March 1, 2013.
4	Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.
12*	Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.
31.1*	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.
32*	Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.
101*	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of February 28, 2014 and November 30, 2013; (ii) the Consolidated Statements of Earnings for the three months ended February 28, 2014 and February 28, 2013; (iii) the Consolidated Statements of Comprehensive Income for the three months ended February 28, 2014 and February 28, 2013; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended February 28, 2014 and nine months ended November 30, 2013 and three months ended February 28, 2013; (v) the Consolidated Statements of Cash Flows for the three months ended February 28, 2014 and February 28, 2013; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JEFFERIES GROUP LLC  
(Registrant)

Date: April 8, 2014

By: /s/ Peregrine C. Broadbent  
Peregrine C. Broadbent  
Chief Financial Officer  
(duly authorized officer)