

Jefferies Group LLC  
Form 10-Q  
April 10, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-14947

JEFFERIES GROUP LLC  
(Exact name of registrant as specified in its charter)

Delaware 95-4719745  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

520 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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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JEFFERIES GROUP LLC AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
 (In thousands)

	February 28, 2015	November 30, 2014
<b>ASSETS</b>		
Cash and cash equivalents (\$194 and \$178 at February 28, 2015 and November 30, 2014, respectively, related to consolidated VIEs)	\$3,339,965	\$4,079,968
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,186,319	3,444,674
Financial instruments owned, at fair value, (including securities pledged of \$14,407,276 and \$14,794,488 at February 28, 2015 and November 30, 2014, respectively; and \$65,943 and \$62,990 at February 28, 2015 and November 30, 2014, respectively, related to consolidated VIEs)	19,098,646	18,636,612
Investments in managed funds	54,679	74,365
Loans to and investments in related parties	826,574	773,141
Securities borrowed	6,566,376	6,853,103
Securities purchased under agreements to resell	3,745,688	3,926,858
Securities received as collateral	4,821	5,418
Receivables:		
Brokers, dealers and clearing organizations	2,200,275	2,164,006
Customers	1,343,634	1,250,520
Fees, interest and other (\$370 and \$363 at February 28, 2015 and November 30, 2014, respectively, related to consolidated VIEs)	276,841	262,437
Premises and equipment	249,828	251,957
Goodwill	1,661,384	1,662,636
Other assets	1,231,698	1,131,953
Total assets	\$43,786,728	\$44,517,648
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$411,998	\$12,000
Financial instruments sold, not yet purchased, at fair value	7,910,823	8,881,268
Collateralized financings:		
Securities loaned	3,173,512	2,598,487
Securities sold under agreements to repurchase	11,323,367	10,672,157
Other secured financings (\$854,994 and \$597,999 at February 28, 2015 and November 30, 2014, respectively, related to consolidated VIEs)	860,602	605,824
Obligation to return securities received as collateral	4,821	5,418
Payables:		
Brokers, dealers and clearing organizations	2,663,025	2,280,103
Customers	4,757,514	6,241,965
Accrued expenses and other liabilities (\$814 and \$589 at February 28, 2015 and November 30, 2014, respectively,	777,679	1,273,378

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related to consolidated VIEs)		
Long-term debt	6,437,033	6,483,617
Total liabilities	38,320,374	39,054,217
<b>EQUITY</b>		
Member's paid-in capital	5,445,639	5,439,256
Accumulated other comprehensive loss:		
Currency translation adjustments	(13,985	) (9,654
Additional minimum pension liability	(5,019	) (5,019
Total accumulated other comprehensive loss	(19,004	) (14,673
Total member's equity	5,426,635	5,424,583
Noncontrolling interests	39,719	38,848
Total equity	5,466,354	5,463,431
Total liabilities and equity	\$43,786,728	\$44,517,648
See accompanying notes to consolidated financial statements.		

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)  
(In thousands)

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Revenues:		
Commissions	\$ 166,922	\$ 162,063
Principal transactions	105,477	238,363
Investment banking	271,995	414,320
Asset management fees and investment income (loss) from managed funds	(9,837	) 9,957
Interest	228,870	249,268
Other	19,905	23,069
Total revenues	783,332	1,097,040
Interest expense	191,660	198,012
Net revenues	591,672	899,028
Non-interest expenses:		
Compensation and benefits	365,215	507,899
Non-compensation expenses:		
Floor brokerage and clearing fees	55,080	49,513
Technology and communications	72,387	64,306
Occupancy and equipment rental	24,184	26,502
Business development	21,937	26,476
Professional services	24,256	24,819
Other	15,729	17,244
Total non-compensation expenses	213,573	208,860
Total non-interest expenses	578,788	716,759
Earnings before income taxes	12,884	182,269
Income tax expense	331	66,877
Net earnings	12,553	115,392
Net earnings attributable to noncontrolling interests	871	2,960
Net earnings attributable to Jefferies Group LLC	\$ 11,682	\$ 112,432
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Net earnings	\$ 12,553	\$ 115,392
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	(4,331	) 13,784
Total other comprehensive income (loss), net of tax (1)	(4,331	) 13,784
Comprehensive income	8,222	129,176
Net earnings attributable to noncontrolling interests	871	2,960
Comprehensive income attributable to Jefferies Group LLC	\$ 7,351	\$ 126,216

(1) None of the components of other comprehensive income (loss) are attributable to noncontrolling interests. See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In thousands)

	Three Months Ended February 28, 2015	Year Ended November 30, 2014	
Member's paid-in capital			
Balance, beginning of period	\$5,439,256	\$5,280,420	
Net earnings attributable to Jefferies Group LLC	11,682	157,560	
Tax benefit (detriment) for issuance of share-based awards	(5,299	) 1,276	
Balance, end of period	\$5,445,639	\$5,439,256	
Accumulated other comprehensive income (loss) (1) (2)			
Balance, beginning of period	\$(14,673	) \$24,100	
Currency adjustment	(4,331	) (30,995	)
Pension adjustment, net of tax	—	(7,778	)
Balance, end of period	\$(19,004	) \$(14,673	)
Total member's equity	\$5,426,635	\$5,424,583	
Noncontrolling interests			
Balance, beginning of period	\$38,848	\$117,154	
Net earnings attributable to noncontrolling interests	871	3,400	
Contributions	—	39,075	
Deconsolidation of asset management company	—	(120,781	)
Balance, end of period	\$39,719	\$38,848	
Total equity	\$5,466,354	\$5,463,431	

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

(2) There were no reclassifications out of Accumulated other comprehensive income during the three months ended February 28, 2015 and the year ended November 30, 2014.

See accompanying notes to consolidated financial statements.



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JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(In thousands)

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014	
Cash flows from operating activities:			
Net earnings	\$ 12,553	\$ 115,392	
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	3,260	(3,951	)
Income on loans to and investments in related parties	(20,689	)	(20,629 )
Distributions received on investments in related parties	9,765	2,388	
Other adjustments	(62,926	)	(3,305 )
Net change in assets and liabilities:			
Cash and securities segregated and on deposit for regulatory purposes or deposited	257,319	(183,710	)
with clearing and depository organizations			
Receivables:			
Brokers, dealers and clearing organizations	(39,313	)	(481,532 )
Customers	(93,823	)	(224,347 )
Fees, interest and other	(14,530	)	(35,076 )
Securities borrowed	285,891	(756,481	)
Financial instruments owned	(471,101	)	(1,650,607 )
Investments in managed funds	19,686	16,696	
Securities purchased under agreements to resell	179,290	(694,175	)
Other assets	(107,685	)	(39,193 )
Payables:			
Brokers, dealers and clearing organizations	384,163	313,997	
Customers	(1,481,640	)	461,537 )
Securities loaned	575,750	572,285	
Financial instruments sold, not yet purchased	(966,190	)	2,282,870 )
Securities sold under agreements to repurchase	654,705	(10,772	)
Accrued expenses and other liabilities	(494,018	)	(297,462 )
Net cash used in operating activities	(1,369,533	)	(636,075 )
Cash flows from investing activities:			
Contributions to loans to and investments in related parties	(600,844	)	(784,818 )
Distributions from loans to and investments in related parties	558,335	779,638	
Net payments on premises and equipment	(17,381	)	(40,271 )
Deconsolidation of asset management entity	—	(137,856	)
Cash received from contingent consideration	996	1,442	
Net cash used in investing activities	(58,894	)	(181,865 )

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JEFFERIES GROUP LLC AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED (UNAUDITED)  
 (In thousands)

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$245	\$953
Proceeds from short-term borrowings	3,385,000	—
Payments on short-term borrowings	(2,985,002	) —
Proceeds from secured credit facility	611,000	250,000
Payments on secured credit facility	(576,000	) (200,000
Net proceeds from other secured financings	254,778	35,683
Proceeds from contributions of noncontrolling interests	—	31,075
Net cash provided by financing activities	690,021	117,711
Effect of exchange rate changes on cash and cash equivalents	(1,597	) 4,020
Net decrease in cash and cash equivalents	(740,003	) (696,209
Cash and cash equivalents at beginning of period	4,079,968	3,561,119
Cash and cash equivalents at end of period	\$3,339,965	\$2,864,910
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$180,068	\$244,269
Income taxes paid (refunds), net	701	(4,836

See accompanying notes to consolidated financial statements.

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(Unaudited)

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(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. The accompanying Consolidated Financial Statements represent the accounts of Jefferies Group LLC 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 International Limited, Jefferies Bache Limited, Jefferies Hong Kong Limited, Jefferies Bache Financial Services, Inc., Jefferies 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 September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies (a U.S. broker-dealer), with Jefferies as the surviving entity

Jefferies Group LLC is an indirect wholly owned subsidiary of Leucadia National Corporation (“Leucadia”). Leucadia does not guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 are convertible into Leucadia common shares (see Note 12. Long-Term Debt for further details). Jefferies Group LLC operates as a full-service investment banking firm and as the holding company of its various regulated and unregulated operating subsidiaries, retains a credit rating separate from Leucadia and is a Securities and Exchange Commission (“SEC”) reporting company, filing annual, quarterly and periodic financial reports. Richard Handler, our Chief Executive Officer and Chairman, is the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President and a Director of Leucadia. We operate in two business segments, Capital Markets and Asset Management. Capital Markets, which represents substantially 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 and separate accounts.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2014.

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.

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 (“VIE”) for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE 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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Intercompany accounts and transactions are eliminated in consolidation.

Immaterial Adjustments

As indicated in our Annual Report on Form 10-K for the year ended November 30, 2014, we have made adjustments to our historical Consolidated Statement of Cash Flows for the first quarter of 2014. The adjustments had the impact of increasing the Net change in Receivables: Brokers, dealers and clearing organization by \$3.4 million, decreasing the Net change in Receivables: Customers by \$3.4 million, decreasing the Net change in Payables: Brokers, dealers and clearing organizations by \$26.6 million and increasing the Net change in Payables: Customers by \$26.6 million on the Consolidated Statement of Cash Flow for the three months ended February 28, 2014. These adjustments were made in order to classify amounts arising from unsettled securities transactions with other broker dealers. We do not believe these adjustments are material to our financial statements for the quarterly period ended February 28, 2014.

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, a futures commission merchant ("FCM"), 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 transaction revenues in the Consolidated Statements of Earnings on a trade date basis. Fees received on loans carried at fair value are also recorded within Principal transaction revenues.

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 transaction revenues 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

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Cash Equivalents

Cash equivalents include highly liquid investments, including 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 as an FCM 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 and Fair Value

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 transaction revenues 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 at the reported date.

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

Level 2: 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.

Instruments that have little to no pricing observability at the reported date. These financial instruments are

Level 3: measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Financial instruments are valued at quoted market prices, if available. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current at 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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 independent sources, consistently adheres to established procedures set forth in our valuation policies for sourcing prices and valuation inputs and utilizing valuation methodologies. Sources used to validate fair value prices and inputs include, but are not limited to, exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

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

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

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**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 thus not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, our independent pricing services use 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.

**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 9, Investments, and Note 20, Related Party Transactions, for additional information regarding certain of these investments.

**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

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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. The carrying values of internally developed software ready for its intended use are depreciated over the remaining useful life.

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, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

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 valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable exchange traded companies and multiples of merger and acquisitions of similar businesses and discounted cash flow methodologies that incorporate an appropriate risk-adjusted discount rate. 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.

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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. Refer to Note 10, Goodwill and Other Intangible Assets, for further information.

**Income Taxes**

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. 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. Pursuant to a tax sharing agreement entered into between us and Leucadia, payments are made between us and Leucadia to settle current tax assets and liabilities.

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. 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 non-vested share-based awards are recognized as an increase to Additional paid-in capital. These amounts, and other windfall tax effects, are included in “Tax benefit (detriment) for issuance of share-based awards” on the Consolidated Statements of Changes in Equity. In the event tax benefits associated with share-based awards are less than the cumulative compensation cost recognized for financial reporting purposes, we look to Leucadia’s consolidated pool of windfall tax benefits in the calculation of our income tax provision.

We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax position 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. At February 28, 2015, we have reserved approximately \$1.0 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 SEC, 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

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estimated of potential loss or range of potential loss in excess of what has been provided in the consolidated financial statements is not material.

Share-based Compensation

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

Foreign Currency Translation

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

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

Accounting Standards to be Adopted in Future Periods

Debt Issuance Costs. In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported on the Consolidated Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. The guidance is effective for the Company retrospectively beginning in the first quarter of fiscal 2017 and early adoption is permitted. The adoption of this accounting guidance is not expected to have a material impact on the Company's Consolidated Statements of Financial Condition.

Consolidation. In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendment eliminates the deferral of certain consolidation standards for entities considered to be investment companies and modifies the consolidation analysis performed on certain types of legal entities. The guidance is effective beginning in the first quarter of fiscal 2017 and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Repurchase Agreements. In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The accounting guidance changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. This accounting change is effective in the second quarter of fiscal 2015.

The guidance also requires new disclosures about certain transfers of financial assets accounted for as sales as well as increased transparency about the types of collateral pledged and remaining maturity of repurchase and securities lending agreements. The disclosure guidance related to certain transactions accounted for as sales is effective prospectively in the second quarter of fiscal 2015. The disclosure guidance related the types of

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collateral pledged and remaining maturity of repurchase and securities lending agreements is effective prospectively in the third quarter of fiscal 2015. We do not expect this guidance to significantly affect our results of operations, financial condition or cash flows and will provide the additional disclosures in our consolidated financial statements. Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance is effective beginning in the first quarter of fiscal 2018. In April 2015, the FASB announced a proposal to defer the effective date by one year, with early adoption on the original effective date permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Adopted Accounting Standards

Discontinued Operations. In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The guidance changes the criteria for disposals to qualify as discontinued operations and requires new disclosures about disposals of both discontinued operations and certain other disposals that do not meet the new definition. The guidance was effective beginning in the first quarter of 2015. The adoption of this guidance did not have a significant impact on our consolidated financial position or results of operations.

Income Taxes. In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The guidance requires an entity to 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 was effective for fiscal years and interim periods within those years, beginning after December 15, 2013, and is applied prospectively to all unrecognized tax benefits that exist at the effective date. The adoption of this update, effective December 1, 2014, did not have a material effect on our consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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## Note 4. Fair Value Disclosures

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis at February 28, 2015 and November 30, 2014 by level within the fair value hierarchy (in thousands):

February 28, 2015

	Level 1(1)	Level 2(1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	\$2,150,032	\$209,338	\$18,210	\$ —	\$2,377,580
Corporate debt securities	—	3,399,249	30,735	—	3,429,984
Collateralized debt obligations	—	153,900	90,897	—	244,797
U.S. government and federal agency securities	3,783,645	106,427	—	—	3,890,072
Municipal securities	—	772,940	—	—	772,940
Sovereign obligations	1,522,227	1,057,623	333	—	2,580,183
Residential mortgage-backed securities	—	2,824,500	79,953	—	2,904,453
Commercial mortgage-backed securities	—	542,089	24,629	—	566,718
Other asset-backed securities	—	138,391	7,146	—	145,537
Loans and other receivables	—	1,349,201	111,410	—	1,460,611
Derivatives	96,660	5,083,829	46,136	(4,729,533 )	497,092
Investments at fair value	—	3	169,961	—	169,964
Physical commodities	—	58,715	—	—	58,715
Total financial instruments owned	\$7,552,564	\$15,696,205	\$579,410	\$ (4,729,533 )	\$19,098,646
Cash and cash equivalents	\$3,339,965	\$—	\$—	\$ —	\$3,339,965
Investments in managed funds	\$—	\$23,839	\$30,840	\$ —	\$54,679
Cash and securities segregated and on deposit for regulatory purposes (3)	\$3,186,319	\$—	\$—	\$ —	\$3,186,319
Securities received as collateral	\$4,821	\$—	\$—	\$ —	\$4,821
Total Level 3 assets			\$610,250		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$1,996,335	\$60,034	\$38	\$ —	\$2,056,407
Corporate debt securities	—	1,766,453	—	—	1,766,453
U.S. government and federal agency securities	1,366,689	99,422	—	—	1,466,111
Sovereign obligations	707,844	659,846	—	—	1,367,690
Residential mortgage-backed securities	—	11,925	—	—	11,925
Loans	—	910,569	9,327	—	919,896
Derivatives	71,707	5,011,935	49,450	(4,810,751 )	322,341
Total financial instruments sold, not yet purchased	\$4,142,575	\$8,520,184	\$58,815	\$ (4,810,751 )	\$7,910,823
Obligation to return securities received as collateral	\$4,821	\$—	\$—	\$ —	\$4,821

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Other secured financings	\$—	\$—	\$65,602	\$ —	\$65,602
Embedded conversion option	\$—	\$—	\$825	\$ —	\$825

(1) There were no transfers between Level 1 and Level 2 for the three months ended February 28, 2015.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of \$434.8 million and Commodities Futures Trading Commission (“CFTC”) approved money market funds with a fair value of \$810.0 million.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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(Unaudited)

	November 30, 2014			Counterparty and	
	Level 1 (1)	Level 2 (1)	Level 3	Cash Collateral	Total
				Netting (2)	
Assets:					
Financial instruments owned:					
Corporate equity securities	\$2,178,837	\$226,441	\$20,964	\$ —	\$2,426,242
Corporate debt securities	—	3,342,276	55,918	—	3,398,194
Collateralized debt obligations	—	306,218	91,498	—	397,716
U.S. government and federal agency securities	2,694,268	81,273	—	—	2,775,541
Municipal securities	—	590,849	—	—	590,849
Sovereign obligations	1,968,747	790,764	—	—	2,759,511
Residential mortgage-backed securities	—	2,879,954	82,557	—	2,962,511
Commercial mortgage-backed securities	—	966,651	26,655	—	993,306
Other asset-backed securities	—	137,387	2,294	—	139,681
Loans and other receivables	—	1,458,760	97,258	—	1,556,018
Derivatives	65,145	5,046,278	54,190	(4,759,345 )	406,268
Investments at fair value	—	73,152	95,389	—	168,541
Physical commodities	—	62,234	—	—	62,234
Total financial instruments owned	\$6,906,997	\$15,962,237	\$526,723	\$ (4,759,345 )	\$18,636,612
Cash and cash equivalents	\$4,079,968	\$—	\$—	\$ —	\$4,079,968
Investments in managed funds	\$—	\$19,383	\$54,982	\$ —	\$74,365
Cash and securities segregated and on deposit for regulatory purposes (3)	\$3,444,674	\$—	\$—	\$ —	\$3,444,674
Securities received as collateral	\$5,418	\$—	\$—	\$ —	\$5,418
Total Level 3 assets			\$581,705		
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$1,911,145	\$74,681	\$38	\$ —	\$1,985,864
Corporate debt securities	—	1,611,994	223	—	1,612,217
Collateralized debt obligations	—	4,557	—	—	4,557
U.S. government and federal agency securities	2,253,055	—	—	—	2,253,055
Sovereign obligations	1,217,075	574,010	—	—	1,791,085
Loans	—	856,525	14,450	—	870,975
Derivatives	52,778	5,117,803	49,552	(4,856,618 )	363,515
Total financial instruments sold, not yet purchased	\$5,434,053	\$8,239,570	\$64,263	\$ (4,856,618 )	\$8,881,268
Obligation to return securities received as collateral	\$5,418	\$—	\$—	\$ —	\$5,418
Other secured financings	\$—	\$—	\$30,825	\$ —	\$30,825
Embedded conversion option	\$—	\$—	\$693	\$ —	\$693

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- At December 1, 2013, equity options presented within Financial instruments owned and Financial instruments sold, not yet purchased of \$6.1 million and \$6.6 million, respectively, were transferred from Level 1 to Level 2 as
- (1) adjustments were incorporated into the valuation approach for such contracts to estimate the point within the bid-ask range that meets the best estimate of fair value.
  - (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 \$453.7 million and CFTC approved money market funds with a fair value of \$545.0 million.



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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.

Collateralized Debt Obligations

Collateralized debt obligations are measured based on prices observed for recently executed market transactions of the same or similar security or based on valuations received from third party brokers or data providers and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs. Valuation that is based on recently executed market transitions of similar securities incorporates additional review and analysis of pricing inputs and comparability criteria including but not limited to collateral type, tranche type, rating, origination year, prepayment rates, default rates, and severities.

U.S. Government and Federal Agency Securities

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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 and are generally categorized within Level 1 or Level 2 of the fair value hierarchy.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 Interest-Only and 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.

Commercial Mortgage-Backed Securities

Agency Commercial Mortgage-Backed Securities: Government National Mortgage Association (“GNMA”) project loans are measured based on inputs corroborated from and benchmarked to observed prices of recent securitization transactions of similar securities with adjustments incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. Federal National Mortgage Association (“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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 Agency Residential Loans: Valuations of participation certificates in agency residential loans are based on observed market prices of recently executed purchases and sales of similar loans. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions and availability of data provider pricing.

Project Loans and Participation Certificates in GNMA Project and Construction Loans: Valuations of participation certificates in GNMA project and construction loans are based on inputs corroborated from and benchmarked to observed prices of recent securitizations of assets with similar underlying loan collateral to derive an implied spread. Securitization prices are adjusted to estimate the fair value of the loans incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. The measurements are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

Consumer Loans and Funding Facilities: Consumer and small business whole loans and related funding facilities are valued based on observed market transactions incorporating additional valuation inputs including, but not limited to, delinquency and default rates, prepayment rates, borrower characteristics, loan risk grades and loan age. These assets are categorized within Level 2 or Level 3 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 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 and forwards, 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. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy.

The following tables present information about our investments in entities that have the characteristics of an investment company at February 28, 2015 and November 30, 2014 (in thousands):

	February 28, 2015		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$49,550	\$—	Monthly, Quarterly
High Yield Hedge Funds (3)	196	—	—
Fund of Funds (4)	340	94	—
Equity Funds (5)	40,403	25,670	—
Convertible Bond Funds (6)	3,470	—	At Will
Total (7)	\$93,959	\$25,764	
	November 30, 2014		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$44,983	\$—	Monthly, Quarterly
High Yield Hedge Funds (3)	204	—	—
Fund of Funds (4)	323	94	—
Equity Funds (5)	65,216	26,023	—
Convertible Bond Funds (6)	3,355	—	At Will

Total (7)	\$114,081	\$26,117
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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

- (1) Where fair value is calculated based on net asset value, fair value has been derived from each of the funds' capital statements.  
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, 2015 and November 30, 2014,
- (2) investments representing approximately 100% and 99%, respectively, of the fair value of investments in this category are redeemable with 30-90 days prior written notice.  
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
- (3) 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.  
Includes investments in fund of funds that invest in various private equity funds. At February 28, 2015 and November 30, 2014, approximately 96% and 95%, respectively, of the fair value of investments in this category
- (4) 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.  
At February 28, 2015 and November 30, 2014, 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
- (5) 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.  
This category represents an investment in the Jefferies Umbrella Fund, an open-ended investment company
- (6) managed by us that invests primarily in convertible bonds. The investment is redeemable with five days prior written notice.  
Investments at fair value in Financial instruments owned in the Consolidated Statements of Financial Condition at
- (7) February 28, 2015 and November 30, 2014 include \$130.7 million and \$128.8 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

**Other Secured Financings**

Other secured financings that are accounted for at fair value include notes issued by consolidated VIEs, which are classified as Level 2 or Level 3 within the fair value hierarchy. Fair value is based on recent transaction prices for similar assets. In addition, at February 28, 2015 and November 30, 2014, Other secured financings includes \$5.6 million and \$7.8 million, respectively, 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 3 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, 2015 and November 30, 2014, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	February 28, 2015		November 30, 2014		
	Financial Instruments Owned	Financial Instruments Not Yet Purchased	Financial Instruments Sold	Financial Instruments Not Yet Purchased	
Exchange closing prices	11	% 25	% 12	% 20	%
Recently observed transaction prices	4	% 3	% 4	% 2	%
External pricing services	73	% 64	% 71	% 69	%
Broker quotes	4	% 4	% 4	% 3	%
Valuation techniques	8	% 4	% 9	% 6	%
	100	% 100	% 100	% 100	%

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, 2015 (in thousands):

Three Months Ended February 28, 2015

	Balance at November 30, 2014	Total gains/losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances into/ (out of) Level 3	Net transfers	Balance at February 28, 2015	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2015 (1)
<b>Assets:</b>									
<b>Financial instruments owned:</b>									
Corporate equity securities	\$20,964	\$ 63	\$ —	\$(168 )	\$ —	\$ —	\$(2,649 )	\$ 18,210	\$ 243
Corporate debt securities	55,918	(1,930 )	469	(533 )	—	—	(23,189 )	30,735	(1,577 )
Collateralized debt obligations	91,498	(16,022 )	—	(13,519 )	(1,296 )	—	30,236	90,897	(15,886 )
Sovereign obligations	—	13	—	(1 )	—	—	321	333	12
Residential mortgage-backed securities	82,557	(2,863 )	2,100	(1,375 )	(23 )	—	(443 )	79,953	783
Commercial mortgage-backed securities	26,655	(531 )	—	(382 )	(6,864 )	—	5,751	24,629	(1,369 )
Other asset-backed securities	2,294	(167 )	26	(1 )	—	—	4,994	7,146	(167 )
Loans and other receivables	97,258	(5,033 )	40,019	(16,122 )	(15,448 )	—	10,736	111,410	(3,262 )
Investments at fair value	95,389	1,299	5,010	(594 )	(277 )	—	69,134	169,961	1,304

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value									
Investments in managed funds	54,982	(24,496 )	354	—	—	—	—	30,840	(24,495 )
Liabilities:									
Financial instruments sold, not yet purchased:									
Corporate equity securities	\$ 38	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 38	\$ —
Corporate debt securities	223	(115 )	(6,683 )	6,698	—	—	(123 )	—	—
Net derivatives (2)	(4,638 )	6,938	—	—	(58 )	1,072	—	3,314	(8,771 )
Loans	14,450	(39 )	(2,877 )	825	—	—	(3,032 )	9,327	39
Other secured financings	30,825	—	—	—	(2,218 )	36,995	—	65,602	—
Embedded conversion option	693	132	—	—	—	—	—	825	(132 )

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues 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, 2015

During the three months ended February 28, 2015, transfers of assets of \$205.2 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$35.3 million, commercial mortgage-backed securities of \$10.3 million and other asset-backed securities of \$5.0 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$16.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

Collateralized debt obligations of \$64.5 million which have little to no transparency related to trade activity;

Corporate debt securities of \$2.4 million, corporate equity securities of \$1.7 million and investments at fair value of \$69.2 million due to a lack of observable market transactions.

During the three months ended February 28, 2015, transfers of assets of \$110.3 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of \$35.7 million and commercial mortgage-backed securities of \$4.5 million for which market trades were observed in the period for either identical or similar securities;

Collateralized debt obligations of \$34.3 million and loans and other receivables of \$5.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate debt securities of \$25.6 million and corporate equity securities of \$4.4 million due to an increase in observable market transactions.

During the three months ended February 28, 2015, there were transfers of loan liabilities of \$3.0 million from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$49.7 million and net losses on Level 3 liabilities were \$6.9 million for the three months ended February 28, 2015. Net losses on Level 3 assets were primarily due to decreased valuations of certain investments in managed funds, collateralized debt obligations, loans and other receivables, residential and commercial mortgage-backed securities and corporate debt securities, partially offset by an increase in valuation of certain investments at fair value. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 28, 2014 (in thousands):

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Three Months Ended February 28, 2014

	Balance at November 30, 2013	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuance into/ (out of) Level 3	Net transfers into/ (out of) Level 3	Balance at February 28, 2014	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2014 (1)
Assets:									
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 )
Investments at fair value	101,242	24,889	22,500	(29,587)	—	—	(776 )	118,268	24,889
Investments in managed funds	57,285	(2,859 )	5,102	—	—	—	—	59,528	(2,859 )
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	—
	9,574	(1,967 )	—	—	—	—	—	7,607	—

Embedded  
conversion  
option

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues 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 and 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;

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Collateralized debt obligations of \$23.5 million which have little to no transparency related to trade activity. 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 and 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 and 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. 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 valuing the derivative contracts. Net gains on Level 3 assets were \$20.3 million and net gains on Level 3 liabilities were \$0.8 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 gains on Level 3 liabilities were primarily due to decreased valuations of the embedded conversion option, partially offset by increased valuations of certain loan positions.

#### Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at February 28, 2015 and November 30, 2014

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 periods 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.

February 28, 2015

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
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Corporate equity securities	\$ 18,210				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.5 to 8.6	4.4
		Scenario analysis	Estimated recovery percentage	78%	—
		Convertible bond model	Discount rate/yield	32%	—
Corporate debt securities	\$ 24,795				

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Collateralized debt obligations	\$51,095	Discounted cash flows	Constant prepayment rate	0% to 20%	14	%
			Constant default rate	0% to 2%	2	%
			Loss severity	0% to 70%	42	%
			Yield	6% to 20%	13	%
Residential mortgage-backed securities	\$79,953	Discounted cash flows	Constant prepayment rate	2% to 50%	13	%
			Constant default rate	2% to 100%	21	%
			Loss severity	35% to 80%	52	%
			Yield	1% to 13%	6	%
Commercial mortgage-backed securities	\$24,629	Discounted cash flows	Yield	8% to 22%	14	%
			Cumulative loss rate	2% to 73%	16	%
		Scenario analysis	Estimated recovery percentage	81%	—	
			Constant prepayment rate	4% to 6%	4	%
Other asset-backed securities	\$7,146	Discounted cash flows	Constant default rate	3% to 4%	4	%
			Loss severity	50% to 60%	52	%
			Yield	6% to 7%	6	%
			Comparable bond or loan price	\$100 to \$101	\$100.5	
Loans and other receivables	\$102,034	Comparable pricing	Yield	3% to 9%	7	%
			EBITDA (a) multiple	8.2	—	
		Market approach	Estimated recovery percentage	10% to 81%	37	%
			Discounted cash flows	Constant prepayment rate	20%	—
		Scenario analysis	Constant default rate	2%	—	
			Loss severity	25%	—	
			Yield	11%	—	
			Volatility	12% to 23%	15	%
Derivatives	46,136	Option Model	Discount rate	20%	—	
Foreign exchange options		Discounted cash flows	Comparable loan price	\$71 to \$100	\$99.0	
Commodity forwards		Comparable pricing	Yield	8%	—	
Unfunded commitment		Market approach	Transaction Level	\$57	—	
Investments at fair value		Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average	
Private equity securities	\$9,179					
Liabilities	Fair Value (in thousands)					

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Financial Instruments Sold,  
Not Yet

Purchased:

Derivatives	\$49,450					
Foreign exchange options		Option model	Volatility	12% to 23%	15	%
Unfunded commitment		Comparable pricing	Comparable loan price	\$71 to \$100	\$78.6	
		Market approach	Yield	5% to 8%	8	%
		Discounted cash flows	Constant prepayment rate	20%	—	
			Constant default rate	2%	—	
			Loss severity	25%	—	
			Yield	11%	—	
Loans and other receivables	\$9,327	Comparable pricing	Comparable loan price	\$100	—	
Other secured financings	\$65,602	Comparable pricing	Comparable loan price	\$82 to \$100	\$98.9	
Embedded conversion option	\$825	Option valuation model	Historical volatility	20%	—	

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

November 30, 2014

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average	
Corporate equity securities	\$ 19,814					
Non-exchange traded securities		Market approach	EBITDA multiple	3.4 to 4.7	3.6	
Corporate debt securities	\$ 22,766	Scenario analysis Convertible bond model	Estimated recovery percentage Discount rate/yield	24% 32%	—	—
Collateralized debt obligations	\$ 41,784	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	0% to 20% 0% to 2% 0% to 70% 2% to 51%	13 2 39 16	% % % %
Residential mortgage-backed securities	\$ 82,557	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	1% to 50% 1% to 100% 20% to 80% 3% to 13%	13 14 50 7	% % % %
Commercial mortgage-backed securities	\$ 26,655	Discounted cash flows	Yield	8% to 12%	11	%
Other asset-backed securities	\$ 2,294	Scenario analysis Discounted cash flows	Cumulative loss rate Estimated recovery percentage Constant prepayment rate Constant default rate Loss severity Yield	4% to 72% 90% 8% 3% 70% 7%	15 — — — — —	%      
Loans and other receivables	\$ 88,154	Comparable pricing Market approach Scenario analysis	Comparable loan price Yield EBITDA multiple Estimated recovery percentage	\$100 to \$101 3% to 5% 3.4 to 8.2 10% to 41%	\$100.3 4 7.6 36	 %  %
Derivatives	\$ 54,190					
Foreign exchange options		Option Model	Volatility	13% to 23%	—	
Commodity forwards		Discounted cash flows	Discount rate	17%	—	
Loan commitments		Comparable pricing	Comparable loan price	\$100	—	
Investments at fair value	\$ 8,500					
		Market approach	Transaction level	\$50	—	

## Private equity securities

Liabilities	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Financial Instruments Sold, Not Yet Purchased:					
Derivatives	\$ 49,552				
FX options		Option model	Volatility	13% to 23%	17 %
Unfunded commitment		Comparable pricing	Comparable loan price	\$89 to \$100	\$92.0
			Credit spread	45bps	—
		Market approach	Yield	5%	—
Loans and other receivables	\$ 14,450	Comparable pricing	Comparable loan price	\$100	—
Other secured financings	\$ 30,825	Comparable pricing	Comparable loan price	\$81-\$100	\$98.7
Embedded conversion option	\$ 693	Option valuation model	Historical volatility	18.9%	—

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 tables. At February 28, 2015 and November 30, 2014, asset exclusions consisted of \$216.2 million and \$180.0 million, respectively, primarily comprised of investments in non-exchange traded securities, private equity securities, investments in reinsurance contracts, derivatives and certain corporate loans. At February 28, 2015 and November 30, 2014, liability exclusions consisted of \$0 and \$0.3 million, respectively of corporate loan commitments.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(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, other asset-backed 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 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, and loss severities or cumulative loss 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- and other asset-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 and Financial instruments sold, not yet purchased 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 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 structured financings. Other secured financings, Receivables – Brokers, dealers and clearing organizations, Receivables – Customers, Receivables – Fees, interest and other, Payables – Brokers, dealers and clearing organizations and Payables – Customers, are accounted for at cost plus accrued interest rather than 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):



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Financial Instruments Owned:		
Loans and other receivables	\$5,389	\$4,467
Financial Instruments Sold:		
Loans	\$(1,022)	\$(462)
Loan commitments	(7,166)	(2,357)
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):		
	February 28, 2015	November 30, 2014
Financial Instruments Owned:		
Loans and other receivables (1)	\$426,425	\$403,119
Loans and other receivables greater than 90 days past due (1)	28,829	5,594
Loans and other receivables on nonaccrual status (1) (2)	(36,471)	(22,360)

(1) Interest income is recognized separately from other changes in fair value and is included within Interest revenues on the Consolidated Statements of Earnings.

(2) Amounts include all loans and other receivables greater than 90 days past due.

The aggregate fair value of loans and other receivables that were greater than 90 days past due was \$14.1 million and \$0 at February 28, 2015 and November 30, 2014, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 days past due, was \$285.7 million and \$274.6 million at February 28, 2015 and November 30, 2014, respectively.

## Note 5. 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 and Financial instruments sold, not yet purchased, net of cash paid or received under credit support agreements and on a net counterparty basis when a legally enforceable right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in Principal transaction revenues 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 4, Fair Value Disclosures and Note 17, Commitments, Contingencies and Guarantees for additional disclosures about derivative financial 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

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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, 2015 and November 30, 2014 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. See Note 6, Collateralized Transactions for information related to offsetting of certain secured financing transactions. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements 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 (in thousands, except contract amounts).

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	February 28, 2015 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts				
Exchange-traded	\$7,257	74,982	\$3,983	120,525
Cleared OTC	1,881,757	2,433	1,865,499	2,482
Bilateral OTC	799,302	1,420	764,478	1,126
Foreign exchange contracts				
Exchange-traded	—	587	—	302
Bilateral OTC	1,366,539	13,551	1,327,400	12,565
Equity contracts				
Exchange-traded	775,242	1,908,334	734,700	1,888,515
Bilateral OTC	60,811	1,528	103,898	909
Commodity contracts				
Exchange-traded	88,501	937,820	67,164	943,863
Bilateral OTC	157,317	3,411	148,027	4,259
Credit contracts				
Cleared OTC	79,540	102	84,075	88
Bilateral OTC	10,359	38	33,868	42
Total gross derivative assets/ liabilities:				
Exchange-traded	871,000		805,847	
Cleared OTC	1,961,297		1,949,574	
Bilateral OTC	2,394,328		2,377,671	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(804,823 )		(804,823 )	
Cleared OTC	(1,903,362 )		(1,903,362 )	
Bilateral OTC	(2,021,348 )		(2,102,566 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$497,092		\$322,341	

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 (1) 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.

We have not received or pledged additional collateral under master netting agreements and/or other credit support (3) agreements that is eligible to be offset beyond what has been offset in the Consolidated Statements of Financial Condition.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 2014 (1)		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts				
Exchange-traded	\$2,450	67,437	\$1,400	87,008
Cleared OTC	1,425,375	2,160	1,481,329	2,124
Bilateral OTC	871,982	1,908	809,962	729
Foreign exchange contracts				
Exchange-traded	—	1,562	—	1,821
Bilateral OTC	1,514,881	11,299	1,519,349	10,931
Equity contracts				
Exchange-traded	1,011,101	2,269,044	987,531	2,049,513
Bilateral OTC	39,889	2,463	70,484	1,956
Commodity contracts				
Exchange-traded	62,091	1,027,542	51,145	1,015,894
Bilateral OTC	214,635	4,026	252,061	4,524
Credit contracts				
Cleared OTC	17,831	27	23,264	22
Bilateral OTC	5,378	18	23,608	27
Total gross derivative assets/ liabilities:				
Exchange-traded	1,075,642		1,040,076	
Cleared OTC	1,443,206		1,504,593	
Bilateral OTC	2,646,765		2,675,464	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(1,038,992 )		(1,038,992 )	
Cleared OTC	(1,416,613 )		(1,416,613 )	
Bilateral OTC	(2,303,740 )		(2,401,013 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$406,268		\$363,515	

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.

(1) Amounts netted include both netting by counterparty and for cash collateral paid or received.

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.

The following table presents unrealized and realized gains (losses) on derivative contracts for the three months ended February 28, 2015 and 2014 (in thousands):



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Three Months Ended	
	February 28, 2015	February 28, 2014
Gains (Losses)		
Interest rate contracts	\$(42,793	) \$(5,118
Foreign exchange contracts	15,172	6,067
Equity contracts	71,041	(96,236
Commodity contracts	14,491	16,186
Credit contracts	(6,042	) (3,878
Total	\$51,869	) \$(82,979

OTC Derivatives. The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities at February 28, 2015 (in thousands):

	OTC Derivative Assets (1) (2) (3)				Total	
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)		
Commodity swaps, options and forwards	\$57,079	\$2,674	\$23,599	\$ (2,915	) \$80,437	
Equity swaps and options	8,894	31,585	5,657	—	46,136	
Credit default swaps	—	—	7,442	(254	) 7,188	
Total return swaps	10,135	377	—	(299	) 10,213	
Foreign currency forwards, swaps and options	376,842	48,591	90	(23,179	) 402,344	
Interest rate swaps, options and forwards	45,809	178,897	125,598	(68,866	) 281,438	
Total	\$498,759	\$262,124	\$162,386	\$ (95,513	) 827,756	
Cross product counterparty netting					(21,605	)
Total OTC derivative assets included in Financial instruments owned					\$806,151	

(1) At February 28, 2015, we held exchange traded derivative assets and other credit agreements with a fair value of \$67.9 million, which are not included in this table.

OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of (2) collateral received on the Consolidated Statements of Financial Condition. At February 28, 2015, cash collateral received was \$377.0 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

	OTC Derivative Liabilities (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Commodity swaps, options and forwards	\$68,406	\$254	\$5,377	\$ (2,915	) \$71,122
Equity swaps and options	4,670	59,118	19,452	—	83,240
Credit default swaps	254	6,242	2,103	(254	) 8,345
Total return swaps	15,733	1,412	—	(299	) 16,846
Foreign currency forwards, swaps and options	326,435	60,213	—	(23,179	) 363,469
Fixed income forwards	431	—	—	—	431
Interest rate swaps, options and forwards	50,381	106,084	143,283	(68,866	) 230,882

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Total	\$466,310	\$233,323	\$170,215	\$ (95,513 )	774,335
Cross product counterparty netting					(21,605 )
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					\$752,730

(1) At February 28, 2015, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$28.0 million, which are not included in this table.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded (2) net of collateral pledged on the Consolidated Statements of Financial Condition. At February 28, 2015, cash collateral pledged was \$458.4 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

At February 28, 2015, 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	\$ 508,060
BBB- to BBB+	107,645
BB+ or lower	94,772
Unrated	95,674
Total	\$ 806,151

We utilize internal credit ratings determined by our Risk Management. Credit ratings determined by Risk

(1) 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, 2015 and November 30, 2014 is \$298.6 million and \$269.0 million, respectively, for which we have posted collateral of \$279.0 million and \$234.6 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on February 28, 2015 and November 30, 2014, we would have been required to post an additional \$36.5 million and \$55.1 million, respectively, of collateral to our counterparties.

Note 6. 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, 2015 and



November 30, 2014, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$23.1 billion and \$25.8 billion, respectively. At February 28, 2015 and November 30, 2014, a substantial portion of the securities received by us had been sold or repledged.

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,

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

2015 and November 30, 2014, \$4.8 million and \$5.4 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.

The following tables provide information regarding repurchase agreements and securities borrowing and lending arrangements that are recognized in the Consolidated Statements of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements 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 (in thousands). See Note 5, Derivative Financial Instruments, for information related to offsetting of derivatives.

February 28, 2015

	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)
Assets						
Securities borrowing arrangements	\$6,566,376	\$—	\$ 6,566,376	\$(526,142 )	\$(766,832 )	\$ 5,273,402

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Reverse repurchase agreements	11,109,009	(7,363,321 )	3,745,688	(236,325 )	(3,450,577 )	58,786
Liabilities						
Securities lending arrangements	\$3,173,512	\$—	\$ 3,173,512	\$(526,142 )	\$(2,616,154 )	\$ 31,216
Repurchase agreements	18,686,688	(7,363,321 )	11,323,367	(236,325 )	(10,039,131 )	1,047,911

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 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 (4)
<b>Assets</b>						
Securities borrowing arrangements	\$6,853,103	\$—	\$ 6,853,103	\$(680,222 )	\$(1,274,196 )	\$ 4,898,685
Reverse repurchase agreements	14,059,133	(10,132,275)	3,926,858	(634,568 )	(3,248,817 )	43,473
<b>Liabilities</b>						
Securities lending arrangements	\$2,598,487	\$—	\$ 2,598,487	\$(680,222 )	\$(1,883,140 )	\$ 35,125
Repurchase agreements	20,804,432	(10,132,275)	10,672,157	(634,568 )	(8,810,770 )	1,226,819

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 (1) 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.

Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in (2) 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.

Amounts include \$5,241.5 million of securities borrowing arrangements, for which we have received securities (3) collateral of \$5,093.8 million, and \$1,038.8 million of repurchase agreements, for which we have pledged securities collateral of \$1,073.4 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

Amounts include \$4,847.4 million of securities borrowing arrangements, for which we have received securities (4) collateral of \$4,694.0 million, and \$1,201.9 million of repurchase agreements, for which we have pledged securities collateral of \$1,238.4 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

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

Cash and securities deposited with clearing and depository organizations and segregated in accordance with regulatory regulations totaled \$3,186.3 million and \$3,444.7 million at February 28, 2015 and November 30, 2014, respectively. Segregated cash and securities consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker-dealer carrying customer accounts to requirements related to maintaining cash or qualified securities in segregated special reserve bank accounts for the exclusive benefit of its customers, and with the Commodity Exchange Act, which subjects Jefferies as an FCM to segregation requirements.

#### Note 7. 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 8, Variable Interest Entities for further discussion on variable interest entities and our determination of the primary beneficiary. 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. Subsequently, revenues recognized upon securitization are reflected as net underwriting revenues. 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 in the form of mortgage- and other-asset

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

backed securities or collateralized loan obligations), which are included within Financial instruments owned and are generally initially categorized as Level 2 within the fair value hierarchy. 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):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Transferred assets	\$1,562.9	\$1,626.9
Proceeds on new securitizations	1,564.5	1,628.1
Cash flows received on retained interests	2.4	8.5

We have no explicit or implicit arrangements to provide additional financial support to these SPEs, have no liabilities related to these SPEs and do not have any outstanding derivative contracts executed in connection with these securitization activities at February 28, 2015 and November 30, 2014.

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	February 28, 2015	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$11,742.9	\$ 403.7
U.S. government agency commercial mortgage-backed securities	3,519.5	97.9
Collateralized loan obligations	4,169.9	53.3

Securitization Type	November 30, 2014	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$19,196.9	\$ 226.9
U.S. government agency commercial mortgage-backed securities	5,848.5	204.7
Collateralized loan obligations	4,511.8	108.4

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 on our Consolidated Statements of Financial Condition.

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. To the extent we purchased securities through these market-making activities 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 section presented in Note 8, Variable Interest Entities.

If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding liability is recognized in Other secured financings. The carrying value of assets and liabilities resulting from transfers of financial assets treated as secured financings was \$5.6 million and \$5.6 million, respectively, at February 28, 2015 and \$7.8 million and \$7.8 million, respectively, at November 30, 2014.

The related liabilities do not have recourse to our general credit.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 8. Variable Interest Entities

Variable interest entities (“VIEs”) are entities in which equity investors lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (2) 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.

Our variable interests in VIEs include debt and equity interests, commitments, guarantees and certain fees. Our involvement with VIEs arises primarily from:

- Purchases of securities in connection with our trading and secondary market making activities,
- Retained interests held as a result of securitization activities, including the resecuritization of mortgage- and other asset-backed securities and the securitization of commercial mortgage and corporate loans,
- Acting as placement agent and/or underwriter in connection with client-sponsored securitizations,
- Financing of agency and non-agency mortgage- and other asset-backed securities,
- Warehousing funding arrangements for client-sponsored consumer loan vehicles and collateralized loan obligations (“CLOs”) through participation certificates and revolving loan commitments, and
- Loans to, investments in and fees from various investment fund vehicles.

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. Our considerations in determining the VIE’s most significant activities and whether we have power to direct those activities include, but are not limited to, the VIE’s purpose and design and the risks passed through to investors, the 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.

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.

## Consolidated VIEs

The following table presents information about our consolidated VIEs at February 28, 2015 and November 30, 2014 (in millions). 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.

	February 28, 2015		November 30, 2014	
	Securitization Vehicles	Other	Securitization Vehicles	Other
Cash	\$—	\$0.2	\$—	\$0.2
Financial instruments owned	65.6	0.3	62.7	0.3
Securities purchased under agreement to resell (1)	795.4	—	575.2	—



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Fees, interest and other receivables	0.4	—	0.4	—
	\$861.4	\$0.5	\$638.3	\$0.5
Other secured financings (2)	\$860.6	\$—	\$637.7	\$—
Other liabilities	0.8	0.2	0.6	0.2
	\$861.4	\$0.2	\$638.3	\$0.2

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

(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 \$5.6 million and \$39.7 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at February 28, 2015 and November 30, 2014, respectively.

Securitization Vehicles. We are the primary beneficiary of a securitization vehicle to which we transferred term loans backed by consumer installment receivables and retained a portion of the securities issued by the securitization vehicle. In the creation of the securitization vehicle, we were involved in the decisions made during the establishment and design of the entity and hold variable interests consisting of the securities retained that could potentially be significant. The assets of the VIE consist of the term loans backed by consumer installment receivables, which are available for the benefit of the vehicle's beneficial interest holders. The creditors of the VIE do not have recourse to our general credit and the assets of the VIE are not available to satisfy any other debt.

We are also 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 and each such VIE's assets are not available to satisfy any other debt.

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 and each such VIE's assets are not available to satisfy any other debt.

## Nonconsolidated VIEs

The following tables present information about our variable interests in nonconsolidated VIEs (in millions):

	February 28, 2015		Maximum	
	Carrying Amount		Exposure to loss	VIE Assets
	Assets	Liabilities		
Collateralized loan obligations	\$75.4	\$—	\$ 817.9	\$8,125.2
Consumer loan financing vehicles	175.3	—	758.8	411.6
Asset management vehicle (1)	6.0	—	6.0	199.6
Private equity vehicles (2)	23.7	—	48.3	70.8
Total	\$280.4	\$—	\$ 1,631.0	\$8,807.2
	November 30, 2014		Maximum	
	Carrying Amount		Exposure to loss	VIE Assets
	Assets	Liabilities		
Collateralized loan obligations	\$134.0	\$—	\$ 926.9	\$7,737.1
Consumer loan financing vehicles	170.6	—	797.8	485.2
Asset management vehicle (1)	11.3	—	11.3	432.3
Private equity vehicles (2)	44.3	—	59.2	92.8
Total	\$360.2	\$—	\$ 1,795.2	\$8,747.4

(1) Assets consist of equity interests, which are included within Investments in managed funds, and accrued management and performance fees, which are included within Receivables: Fees, interest and other.

(2) Assets consist of equity interests, which are included within Investments in managed funds.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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(Unaudited)

Our maximum exposure to loss often differs from the carrying value of the variable interests. The maximum exposure to loss is dependent on the nature of our variable interests in the VIEs and is limited to the notional amounts of certain loan commitments and guarantees. Our maximum exposure to loss does not include the offsetting benefit of any financial instruments that may be utilized to hedge the risks associated with our variable interests and is not reduced by the amount of collateral held as part of a transaction with a VIE.

**Collateralized Loan Obligations.** Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. We underwrite securities issued in CLO transactions on behalf of unaffiliated sponsors and provide advisory services to the unaffiliated sponsors. We may also sell corporate loans to the CLOs. Our variable interests in connection with collateralized loan obligations where we have been involved in providing underwriting and/or advisory services consist of the following:

- Forward sale agreements whereby we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to CLOs,
- Warehouse funding arrangements in the form of participation interests in corporate loans held by CLOs and commitments to fund such participation interests,
- Trading positions in securities issued in a CLO transaction,
- Investments in variable funding notes issued by CLOs,
- A guarantee to a CLO managed by Jefferies Finance, whereby we guarantee certain of the obligations of Jefferies Finance to the 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 incentive 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.

**Consumer Loan Financing Vehicles.** We provide financing and lending related services to certain client-sponsored VIEs in the form of revolving funding note agreements, revolving credit facilities and forward purchase agreements. The underlying assets, which are collateralizing the vehicles, are primarily comprised of unsecured consumer installment loans. In addition, we may provide structuring and advisory services and act as an underwriter or placement agent for securities issued by the vehicles. We do not control the activities of these entities.

**Asset Management Vehicles.** 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 U.S. GAAP 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 at February 28, 2015 and November 30, 2014 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees. See Note 3, Accounting Developments, for a discussion of ASU 2015-02, which will eliminate the deferral guidance upon adoption.

**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 L.P."). At February 28, 2015 and November 30, 2014, we funded approximately \$60.4 million and \$60.1 million, respectively, of our commitment. The carrying amount of our equity investment was \$22.7 million and \$43.1 million at February 28, 2015 and November 30, 2014, respectively. Our exposure to loss is limited to our equity commitment. The SBI USA Fund L.P. 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 \$1.0 million and \$1.2 million at February 28, 2015 and November 30, 2014, respectively. Our exposure to loss is limited to our equity investment. JEP IV has assets consisting primarily of private equity and equity related investments.

We have provided a guarantee of a portion of Energy Partners I, LP's obligations under a credit agreement. Energy Partners I, LP, is a private equity fund owned and managed by our employees. At February 28, 2015, the carrying value and maximum exposure

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(Unaudited)

to loss of the guarantee was \$0 and \$10.0 million, respectively. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

**Mortgage- and Other Asset-Backed Securitization Vehicles.** In connection with our secondary trading and market making activities, we buy and sell agency and nonagency mortgage- backed securities and other asset-backed securities, which are issued by third party securitization SPEs and are generally considered variable interests in VIEs. Securities issued by securitization SPEs are backed by residential mortgage loans, U.S. agency collateralized mortgage obligations, commercial mortgage loans, collateralized debt obligations and CLOs and other consumer loans, such as installment receivables, auto loans and student loans. These securities are accounted for at fair value and included in Financial instruments owned on our Consolidated Statements of Financial Condition. We have no other involvement with the related SPEs and therefore do not consolidate these entities.

We also engage in underwriting, placement and structuring activities for third-party-sponsored securitization trusts generally through agency (Fannie Mae, Freddie Mac and Ginnie Mae) or nonagency sponsored SPEs and may purchase loans or mortgage-backed securities from third parties that are subsequently transferred into the securitization trusts. The securitizations are backed by residential and commercial mortgage, home equity and auto loans. We do not consolidate agency sponsored securitizations as we do not have the power to direct the activities of the SPEs that most significantly impact their economic performance. Further, we are not the servicer of nonagency-sponsored securitizations and therefore do not have power to direct the most significant activities of the SPEs and accordingly, do not consolidate these entities. We may retain unsold senior and/or subordinated interests at the time of securitization in the form of securities issued by the SPEs.

We transfer existing securities, typically mortgage-backed securities, into resecuritization vehicles. These transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests occur in connection with both agency and nonagency sponsored VIEs. Our consolidation analysis is largely dependent on our role and interest in the resecuritization trusts. Most resecuritizations in which we are involved are in connection with investors seeking securities with specific risk and return characteristics. As such, we have concluded that the decision-making power is shared between us and the investor(s), considering the joint efforts involved in structuring the trust and selecting the underlying assets as well as the level of security interests the investor(s) hold in the SPE; therefore, we do not consolidate the resecuritization VIEs.

At February 28, 2015 and November 30, 2014, we held \$2,729.5 million and \$3,186.9 million of agency mortgage-backed securities, respectively, and \$930.1 million and \$1,120.0 million of nonagency mortgage- and other asset-backed securities, respectively, as a result of our secondary trading and market making activities, underwriting, placement and structuring activities and resecuritization activities. Our maximum exposure to loss on these securities is limited to the carrying value of our investments in these securities. Mortgage- and other asset-backed securitization vehicles discussed within this section are not included in the above table containing information about our variable interests in nonconsolidated VIEs.

**Note 9. Investments**

We have investments in Jefferies Finance, LLC (“Jefferies Finance”) and Jefferies LoanCore LLC (“Jefferies LoanCore”). 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. We have limited partnership interests of 11% and 50% in Jefferies Capital Partners V L.P. and the SBI USA Fund L.P. (together, “JCP Fund V”), respectively, which are private equity funds managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee.

**Jefferies Finance**

On October 7, 2004, we entered into an agreement with Massachusetts Mutual Life Insurance Company (“MassMutual”) and Babson Capital Management LLC (“Babson Capital”) 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 primarily through the investment banking efforts of Jefferies. Jefferies Finance may 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.

At February 28, 2015, we and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million for a combined total commitment of \$1.2 billion. At February 28, 2015, we have funded \$506.7 million of our \$600.0 million commitment, leaving

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

\$93.3 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 Secured Revolving Credit Facility is \$1.0 billion, comprised of committed and discretionary amounts totaling \$700.0 million and \$300.0 million, respectively, at February 28, 2015. Committed advances are shared equally between us and MassMutual, while discretionary advances may be funded disproportionately if so agreed between MassMutual and us. 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, 2015 and November 30, 2014, we have funded \$0 and \$0, respectively, of each of our \$350.0 million commitments. During the three months ended February 28, 2015 and 2014, \$0.5 million and \$0.5 million of interest income, respectively, and unfunded commitment fees and \$0.4 million and \$0.7 million, 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 (in millions):

	February 28, 2015	November 30, 2014
Total assets	\$5,983.8	\$5,954.0
Total liabilities	4,970.4	4,961.7
Total equity	1,013.4	992.3
Our total equity balance	506.7	496.0

The net earnings of Jefferies Finance were \$21.1 million and \$29.1 million for the three months ended February 28, 2015 and 2014, 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 fees of \$15.6 million and \$47.6 million during the three months ended February 28, 2015 and 2014, respectively, recognized in Investment banking revenues in the Consolidated Statements of Earnings. In addition, we paid fees to Jefferies Finance in respect of certain loans originated by Jefferies Finance of \$0.7 million and \$4.3 million during the three months ended February 28, 2015 and 2014, respectively, which are recognized as Business development expenses in the Consolidated Statements of Earnings.

During the three months ended February 28, 2014, we acted as placement agent in connection with a CLO managed by Jefferies Finance for which we recognized fees of \$0.4 million, which are included in Investment banking revenues on the Consolidated Statement of Earnings. At February 28, 2015 and November 30, 2014, we held securities issued by CLOs managed by JFIN, which are included within Financial instruments owned, and provided a guarantee whereby we are required to make certain payments to a CLO in the event that Jefferies Finance is unable to meet its obligations to the CLO. Additionally, we have entered into a derivative contract with Jefferies Finance whose underlying is based on certain securities issued by the CLO.

Under a service agreement, we charged Jefferies Finance \$27.8 million and \$21.7 million for services provided during the three months ended February 28, 2015 and 2014, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$15.5 million and \$41.5 million at February 28, 2015 and November 30, 2014, 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



LoanCore originates and purchases commercial real estate loans throughout the U.S. 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. At February 28, 2015 and November 30, 2014, we had funded \$237.0 million and \$200.9 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following is a summary of selected financial information for Jefferies LoanCore (in millions):

	February 28, 2015	November 30, 2014
Total assets	\$2,043.0	\$1,500.9
Total liabilities	1,417.2	962.7
Total equity	625.8	538.2
Our total equity balance	303.5	261.0

The net earnings of Jefferies LoanCore were \$20.0 million and \$5.0 million for the three months ended February 28, 2015 and 2014, respectively.

Under a service agreement, we charged Jefferies LoanCore \$47,400 and \$0.1 million for the three months ended February 28, 2015 and 2014, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$15,800 and \$8,900 at February 28, 2015 and November 30, 2014, respectively.

In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees of \$0.4 million and \$0.3 million, respectively, during the three months ended February 28, 2015 and 2014, respectively.

## JCP Fund V

The amount of our investments in JCP Fund V included within Investments in managed funds on the Consolidated Statements of Financial Condition was \$25.8 million and \$48.9 million at February 28, 2015 and November 30, 2014, respectively. We account for these investments at fair value (see Note 2, Summary of Significant Accounting Policies). Losses from these investments were \$23.5 million and \$1.4 million for the three months ended February 28, 2015 and 2014, respectively, and are included in Asset management fees and investment income (loss) from managed funds on the Consolidated Statements of Earnings.

At February 28, 2015, our outstanding commitment relating to JCP Fund V was \$16.5 million. At February 28, 2015 and November 30, 2014, we were committed to invest equity of up to \$85.0 million in JCP Fund V.

The following is a summary of selected financial information for 100% of JCP Fund V, in which we own effectively 35.2% of the combined equity interests (in thousands):

	December 31, 2014 (1)	
Total assets	73,261	
Total liabilities	66	
Total partners' capital	73,195	
	Three months ended December 31, 2014 (1)	Three months ended December 31, 2013 (1)
Net decrease in net assets resulting from operations	(65,700 )	(2,947 )

Financial information for JCP Fund V within our financial position and results of operations at February 28, 2015 (1) and November 30, 2014 and for three months ended February 28, 2015 and 2014 is included based on the presented periods.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 10. Goodwill and Other Intangible Assets

## Goodwill

Goodwill attributed to our reportable segments are as follows (in thousands):

	February 28, 2015	November 30, 2014
Capital Markets	\$1,658,384	\$1,659,636
Asset Management	3,000	3,000
Total goodwill	\$1,661,384	\$1,662,636

The following table is a summary of the changes to goodwill for the three months ended February 28, 2015 (in thousands):

Balance at November 30, 2014	\$1,662,636	
Add: Translation adjustments	(1,252	)
Balance at February 28, 2015	\$1,661,384	

## Intangible Assets

The following tables present the gross carrying amount, impairment losses, accumulated amortization, net carrying amount and weighted average amortization period of identifiable intangible assets at February 28, 2015 and November 30, 2014 (in thousands):

	February 28, 2015			Weighted average remaining lives (years)
	Gross cost	Accumulated amortization	Net carrying amount	
Customer relationships	\$128,171	\$(28,552 )	\$99,619	13.5
Trade name	131,779	(7,530 )	124,249	33.0
Exchange and clearing organization membership interests and registrations	14,501	—	14,501	N/A
	\$274,451	\$(36,082 )	\$238,369	

	November 30, 2014			Weighted average remaining lives (years)
	Gross cost	Accumulated amortization	Net carrying amount	
Customer relationships	\$128,323	\$(26,402 )	\$101,921	13.7
Trade name	132,009	(6,677 )	125,332	33.3
Exchange and clearing organization membership interests and registrations	14,528	—	14,528	N/A
	\$274,860	\$(33,079 )	\$241,781	

## Amortization Expense

For finite life intangible assets, aggregate amortization expense amounted to \$3.1 million and \$3.2 million for the three months ended February 28, 2015 and 2014, respectively, which is included in Other expenses on the Consolidated Statements of Earnings.

The estimated future amortization expense for the five succeeding fiscal years is as follows (in thousands):

Remainder of fiscal 2015	\$9,148
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Year ended November 30, 2016	12,198
Year ended November 30, 2017	12,198
Year ended November 30, 2018	12,198
Year ended November 30, 2019	12,198

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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## Note 11. Short-Term Borrowings

Short-term borrowings include bank loans that are payable on demand, as well as borrowings under revolving credit facilities which must be repaid within one year or less. 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 and generally bear interest at a spread over the federal funds rate. Short-term borrowings at February 28, 2015 and November 30, 2014 were \$412.0 million and \$12.0 million, respectively. At February 28, 2015, the interest rate on short-term borrowings outstanding is 1.34% per annum. Average daily short-term borrowings outstanding for the three months ended February 28, 2015 and February 28, 2014 were \$39.0 million, and \$12.0 million, respectively.

## Note 12. Long-Term Debt

The following summarizes our long-term debt carrying values (including unamortized discounts and premiums and valuation adjustment, where applicable) at February 28, 2015 and November 30, 2014 (in thousands):

	February 28, 2015	November 30, 2014
<b>Unsecured Long-Term Debt</b>		
3.875% Senior Notes, due November 9, 2015 (effective interest rate of 2.17%)	\$505,851	\$507,944
5.5% Senior Notes, due March 15, 2016 (effective interest rate of 2.52%)	360,702	363,229
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)	839,383	842,359
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)	826,229	832,797
2.375% Euro Medium Term Notes, due May 20, 2020 (effective rate of 2.42%)	558,601	620,725
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)	849,568	853,091
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)	3,956	4,379
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)	622,716	623,311
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)	381,073	381,515
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (1)	349,100	349,261
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)	512,969	513,046
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)	421,885	421,960
	<b>\$6,232,033</b>	<b>\$6,313,617</b>
<b>Secured Long-Term Debt</b>		
Credit facility (2)	205,000	170,000
	<b>\$6,437,033</b>	<b>\$6,483,617</b>

The value of the 3.875% Convertible Senior debentures at February 28, 2015 and November 30, 2014 includes the fair value of the conversion feature of \$0.8 million and \$0.7 million, respectively. The change in fair value of the (1) conversion feature is included within Principal transaction revenues in the Consolidated Statements of Earnings and amounted to a gain of \$0.1 million and \$2.0 million for the three months ended February 28, 2015 and 2014.

(2) On June 26, 2014, we amended and restated the Credit Facility to extend the terms until June 26, 2017.

Our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) remain issued and outstanding and are convertible into common shares of Leucadia. At March 12, 2015, each \$1,000 debenture is currently convertible into 22.2523 shares of Leucadia’s common stock (equivalent to a conversion price of approximately \$44.94 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 five trading days ending on and including the third trading day immediately preceding a six-month

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

interest period equals or exceed \$1,200 per \$1,000 debenture. At 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. Accordingly, 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 Statements 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 without a borrowing base requirement. On June 26, 2014, we amended and restated the Credit Facility for three years and reduced the committed amount to \$750.0 million. The borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, with a guarantee from Jefferies Group LLC. On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies. Jefferies is the surviving entity, and therefore, is a borrower under the Credit Facility. The Credit Facility contains certain financial covenants, including, but not limited to, restrictions on future indebtedness of our subsidiaries, minimum tangible net worth and liquidity requirements and minimum capital requirements. 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. The obligations of each borrower under the Credit Facility are secured by substantially all the assets of such borrower, but none of the borrowers is responsible for any obligations of any other borrower. At February 28, 2015 and November 30, 2014, borrowings under the Credit Facility were denominated in U.S. dollars and we were in compliance with debt covenants under the Credit Facility.

## Note 13. Noncontrolling Interests

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, 2015 and November 30, 2014 (in thousands):

	February 28, 2015	November 30, 2014
Global Equity Event Opportunity Fund, LLC (1)	\$34,021	\$33,303
Other	5,698	5,545
Noncontrolling interests	\$39,719	\$38,848

(1) At February 28, 2015, \$26.0 million of the noncontrolling interests are attributed to Leucadia. At November 30, 2014, \$25.4 million of the 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.

## Note 14. 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 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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

these insurance contracts are included in Financial Instruments owned in the Consolidated Statements of Financial Condition and has a fair value of \$16.0 million and \$18.1 million at February 28, 2015 and November 30, 2014, 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 our pension plans are as follows (in thousands):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
U.S. Pension Plan		
Components of net periodic pension (income) cost:		
Service cost	\$63	\$56
Interest cost on projected benefit obligation	585	607
Expected return on plan assets	(848)	(789)
Net amortization	—	(36)
Net periodic pension income	\$(200)	\$(162)
	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
German Pension Plan		
Components of net periodic pension cost:		
Service cost	\$—	\$11
Interest cost on projected benefit obligation	136	221
Net amortization	84	62
Net periodic pension cost	\$220	\$294

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 or the German Pension Plan during the three months ended February 28, 2015 and we do not expect to make any contributions to the plans during the remainder of the fiscal year.

## Note 15. Compensation Plans

Leucadia sponsors our following share-based compensation plans: incentive compensation plan, employee stock purchase plan and the deferred compensation plan. The outstanding and future share-based awards relating to these plans 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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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The components of total compensation cost associated with certain of our compensation plans are as follows (in millions):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Components of compensation cost:		
Restricted cash awards	\$55.3	\$43.2
Restricted stock and RSUs (1)	25.5	31.9
Profit sharing plan	3.3	3.4
Total compensation cost	\$84.1	\$78.5

(1) Total compensation cost associated with restricted stock and RSUs includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. 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 \$48,000 and \$38,000 for the three months ended February 28, 2015 and 2014, respectively.

Remaining unamortized amounts related to certain compensation plans at February 28, 2015 is as follows (in millions):

	Remaining Unamortized Amounts	Weighted Average Vesting Period (in Years)
Non-vested share-based awards	\$70.8	1.9
Restricted cash awards	354.1	3
Total	\$424.9	

The following are descriptions of the compensation plans.

**Incentive Compensation Plan.** The Incentive Compensation Plan (“Incentive Plan”) allows for 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. Awards issued and outstanding related to the Incentive Plan relate to shares of Leucadia.

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, and are amortized over the service period if we determine that it is probable that the performance condition will be achieved. Awards granted to senior executives related to the 2014 fiscal year did not meet performance targets, and as a result, compensation expense has been adjusted to reflect the reduced number of shares that will vest.

**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. 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, or by allocating among any combination of other investment funds available under the Deferred Compensation Plan. 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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.

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.

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. We amortize these awards to compensation expense over the relevant service period.

## Note 16. Income Taxes

At February 28, 2015 and November 30, 2014, we had approximately \$118.3 million and \$126.7 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 \$79.0 million and \$84.5 million at February 28, 2015 and November 30, 2014, respectively.

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. At February 28, 2015 and November 30, 2014, we had interest accrued of approximately \$30.4 million and \$30.6 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the three months ended February 28, 2015 and the year ended November 30, 2014.

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
California	2006
Connecticut	2006
New Jersey	2007
New York State	2001
New York City	2003
United Kingdom	2013

## Note 17. Commitments, Contingencies and Guarantees

## Commitments

The following table summarizes our commitments associated with our capital market and asset management business activities at February 28, 2015 (in millions):

	Expected Maturity Date					Maximum Payout
	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	
Equity commitments (1)	\$—	\$9.2	\$0.8	\$—	\$171.8	\$181.8
Loan commitments (1)	44.6	421.7	188.9	48.3	—	703.5
Mortgage-related and other purchase commitments	1,123.1	1,315.6	126.2	—	—	2,564.9
Forward starting reverse repos and repos	2,034.9	—	—	—	—	2,034.9
Other unfunded commitments (1)	30.0	—	—	—	21.9	51.9
	\$3,232.6	\$1,746.5	\$315.9	\$48.3	\$193.7	\$5,537.0



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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

The table below presents our credit exposure from our loan commitments, including funded amounts, summarized by period of expiration at February 28, 2015. 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	2015	2016-2020	2021 and Later	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Non-investment grade.	\$—	\$167.6	\$—	\$167.6	\$2.8	\$164.8
Unrated	128.0	643.0	—	771.0	232.3	538.7
Total	\$128.0	\$810.6	\$—	\$938.6	\$235.1	\$703.5

(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 \$262.0 million of funded loans included in Financial instruments owned—Loans and Loans to and investments in related parties, and a \$26.9 million net liability related to lending commitments recorded in Financial instruments sold, not yet purchased—Derivatives and Financial instruments owned—Derivatives in the Consolidated Statement of Financial Condition at February 28, 2015.

(3) Represents the notional amount of unfunded lending commitments.

Equity Commitments. Includes commitments to invest in our joint ventures, Jefferies Finance and Jefferies LoanCore, and commitments to invest in private equity funds and in Jefferies Capital Partners, LLC, the manager of the private equity funds, which consists of a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee. At

February 28, 2015, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$30.0 million.

See Note 10, Investments for additional information regarding our investments in Jefferies Finance and Jefferies LoanCore.

Additionally, at February 28, 2015, we had other outstanding equity commitments to invest up to \$4.5 million in various other investments.

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 funding of CLO and other asset-backed 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. At

February 28, 2015, we had \$353.5 million of outstanding loan commitments to clients.

Loan commitments outstanding at February 28, 2015, also include our portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance.

Mortgage-Related and Other Purchase Commitments. We enter into forward contracts to purchase mortgage participation certificates, mortgage-backed securities and consumer loans. 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 FNMA (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the GNMA (Ginnie Mae). We frequently securitize the mortgage participation certificates and

mortgage-backed securities. The fair value of mortgage-related and other purchase commitments recorded in the Consolidated Statements of Financial Condition was \$154.9 million at February 28, 2015.

**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.

**Other Unfunded Commitments.** Other unfunded commitments include obligations in the form of revolving notes to provide financing to asset-backed and CLO vehicles. Upon advancing funds, drawn amounts are collateralized by the assets of an entity.



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## Contingencies

Seven class-action lawsuits had been filed in New York and Delaware on behalf of a class consisting of Jefferies Group's stockholders concerning the transaction through which Jefferies Group Inc. became a wholly owned subsidiary of Leucadia National Corporation. The class actions named as defendants Leucadia, Jefferies Group, certain members of our board of directors, certain members of Leucadia's board of directors and, in certain of the actions, certain transaction-related subsidiaries. On October 31, 2014, the remaining defendants in the Delaware litigation entered into a settlement agreement with the plaintiffs in the Delaware litigation. The terms of that agreement provide for an aggregate payment of \$70.0 million by Leucadia, who will bear the costs of the settlement, to certain former equity holders of Jefferies Group Inc., other than the defendants and certain of their affiliates, along with attorneys' fees to be determined and approved by the court. The settlement resolves all of the class-action claims in Delaware, and releases the claims brought in New York.

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, relating to an investigation of 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 constituted payments to trading counterparties impacted by those activities, approximately \$10.0 million of which was a fine payable to the U.S. Attorney's Office, and approximately \$4.0 million of which is a fine payable to the SEC. At February 28, 2015, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately \$1.0 million. Additionally, in April 2014, pursuant to an undertaking required by the SEC settlement, Jefferies retained an Independent Compliance Consultant (ICC). The ICC's review concluded in January 2015 upon the submission of its final report to the SEC and our adoption of the recommendations contained therein.

## 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.

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, 2015 (in millions):

Guarantee Type:	Expected Maturity Date					Notional/ Maximum Payout
	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	
Derivative contracts—non-credit related	\$37,182.4	\$2,241.6	\$561.4	\$699.1	\$438.9	\$41,123.4
Written derivative contracts—credit related	2.0	—	—	2,762.2	84.0	2,848.2
Total derivative contracts	\$37,184.4	\$2,241.6	\$561.4	\$3,461.3	\$522.9	\$43,971.6

At February 28, 2015 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

External Credit Rating					Below Investment Grade	Unrated	Notional/ Maximum Payout
AAA/ Aaa	AA/Aa	A	BBB/ Baa				

Credit related derivative contracts:

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Index credit default swaps	\$2,772.2	\$—	\$—	\$—	\$—	\$—	\$2,772.2
Single name credit default swaps	\$—	\$—	\$—	\$12.0	\$ 64.0	\$—	\$76.0

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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, 2015, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$567.1 million.

**Loan Guarantee.** We have provided a guarantee to Jefferies Finance that matures in January 2021, 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 and a guarantee of a credit agreement with an indefinite term for a fund owned by employees. At February 28, 2015, the maximum amount payable under these guarantees is \$31.0 million.

**Standby Letters of Credit.** At February 28, 2015, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$45.9 million, which expire within one year. Standby 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.

**Note 18. 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 Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital, and have elected to calculate minimum capital requirements under the alternative method permitted by Rule 15c3-1 in calculating net capital. Jefferies is also registered as an FCM, and is also subject to Rule 1.17 of the CFTC, which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17.

At February 28, 2015, Jefferies and Jefferies Execution's net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$954,261	\$837,399
Jefferies Execution	7,132	6,882

FINRA is the designated self-regulatory organization ("DSRO") for our U.S. broker-dealers and the Chicago Mercantile Exchange is the DSRO for Jefferies as an FCM.

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 authorized and regulated by the Financial Conduct Authority in the U.K.

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



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## Note 19. 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.

Our net revenues and expenses by segment are summarized below (in millions):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Capital Markets:		
Net revenues	\$562.5	\$876.9
Expenses	\$572.3	\$705.7
Asset Management:		
Net revenues	\$29.2	\$22.1
Expenses	\$6.5	\$11.1
Total:		
Net revenues	\$591.7	\$899.0
Expenses	\$578.8	\$716.8

The following table summarizes our total assets by segment at February 28, 2015 and November 30, 2014 (in millions):

	February 28, 2015	November 30, 2014
Segment assets:		
Capital Markets	\$43,165.2	\$44,002.6
Asset Management	621.5	515.0
Total assets	\$43,786.7	\$44,517.6

## 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 were as follows (in thousands):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Americas (1)	\$436,786	\$693,055

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Europe (2)	139,206	186,791
Asia	15,680	19,182
Net revenues	\$591,672	\$899,028

(1) Substantially all relates to U.S. results.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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(2) Substantially all relates to U.K. results.

## Note 20. 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, 2015 and November 30, 2014, loans to and/or equity investments in Private Equity Related Funds were in aggregate \$35.9 million and \$60.7 million, respectively. The following table presents other revenues and investment income (loss) related to net gains and losses on our investment in Private Equity Related Funds (in thousands):

	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Other revenues and investment income (loss)	\$(25,159	) \$(2,491

For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 17, Commitments, Contingencies and Guarantees.

Berkadia Commercial Mortgage, LLC. At February 28, 2015 and November 30, 2014, we have commitments to purchase \$356.4 million and \$344.8 million, respectively, in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Harbinger Group Inc. As part of our loan secondary trading activities we have unsettled purchases and sales of loans pertaining to portfolio companies within funds managed by Harbinger of \$248.1 million and \$232.0 million at February 28, 2015 and November 30, 2014, respectively. Additionally, we recognized revenue of \$0.4 million during the three months ended February 28, 2015 in connection with a stock purchase transaction.

National Beef Packaging Company, LLC ("National Beef"). We act as an FCM for National Beef, which is partially owned by Leucadia. At February 28, 2015 and November 30, 2014, we had a customer payable to National Beef of \$5.7 million and \$4.1 million, respectively. During the three months ended February 28, 2015, we recognized commissions of \$0.2 million.

Officers, Directors and Employees. At February 28, 2015 and November 30, 2014, we had \$23.3 million and \$20.1 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. Receivables from and payables to customers include balances arising from officers, directors and employees individual security transactions. These transactions are subject to the same regulations as all customer transactions and are provided on substantially the same terms. At February 28, 2015 and November 30, 2014, we have provided a guarantee of a credit agreement for a private equity fund owned by our employees.

Leucadia. The following is a description of related party transactions with Leucadia:

Under a service agreement, we charge Leucadia for certain services which, for the three months ended February 28, 2015 and 2014 amounted to \$5.1 million and \$8.0 million, respectively. At February 28, 2015 and November 30, 2014, we had a receivable from Leucadia of \$14.2 million and \$10.9 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. At February 28, 2015 and November 30, 2014, we had a payable to Leucadia of \$1.2 million and \$41.5 million, respectively, related to stock compensation arrangements and senior executive benefits provided by Leucadia, which is included within Other liabilities on the Consolidated Statements of Financial Condition.

We have a tax sharing agreement with Leucadia, for which any amounts outstanding are included in Other assets in the Consolidated Statements of Financial Condition.

At February 28, 2015 and November 30, 2014, \$26.0 million and \$25.4 million, respectively, of the total noncontrolling interests in asset management entities that are consolidated by us are attributed to Leucadia.

We provide capital markets and asset management services to Leucadia and its affiliates. The following table presents the revenues earned by type of services provided (in thousands):

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	Three Months Ended February 28, 2015	Three Months Ended February 28, 2014
Investment banking and advisory	\$21,000	\$—
Asset management		